Housing market quarterly: House prices continue to increase, but in lower gear

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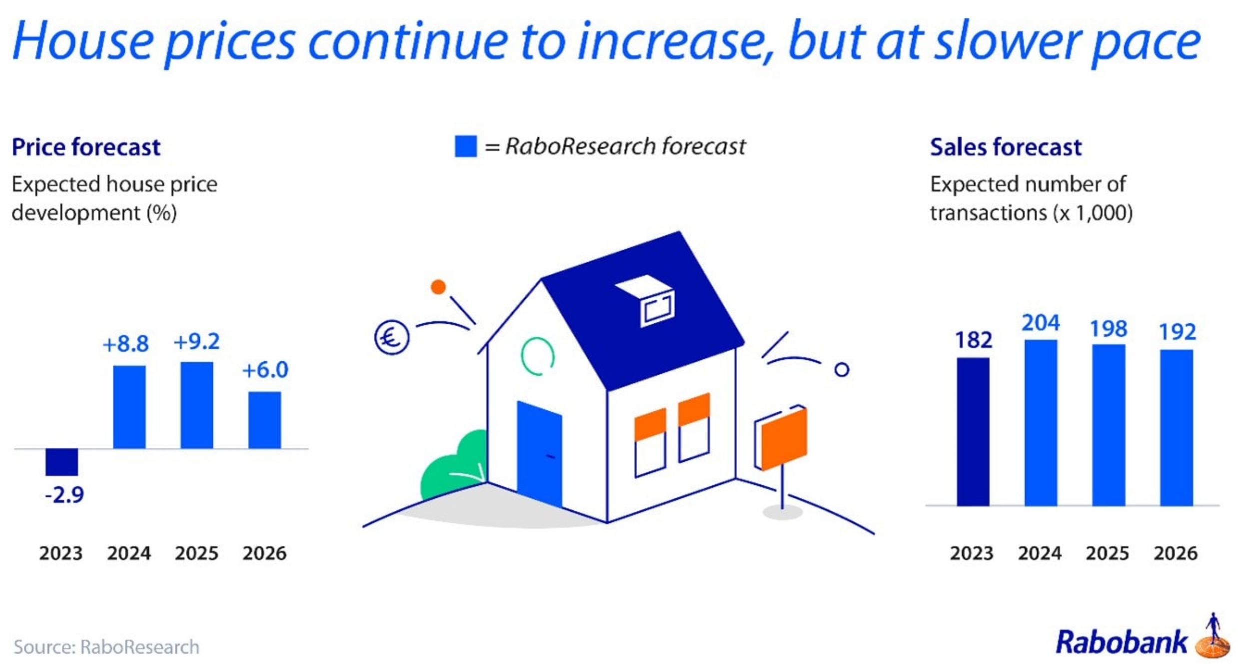
House prices are still rising fast. Existing owner-occupied houses are expected to become 8.8% more expensive in 2024. In 2025, prices are projected to rise another 9.2%, and by 6.0% in 2026. Due to this high price growth, owner-occupied houses are becoming less affordable, which inhibits further price increases. Home sales also showing a solid increase in 2024, mainly due to sales of rental properties. We foresee 204,000 transactions for 2024, 22,000 more than in 2023.

Summary

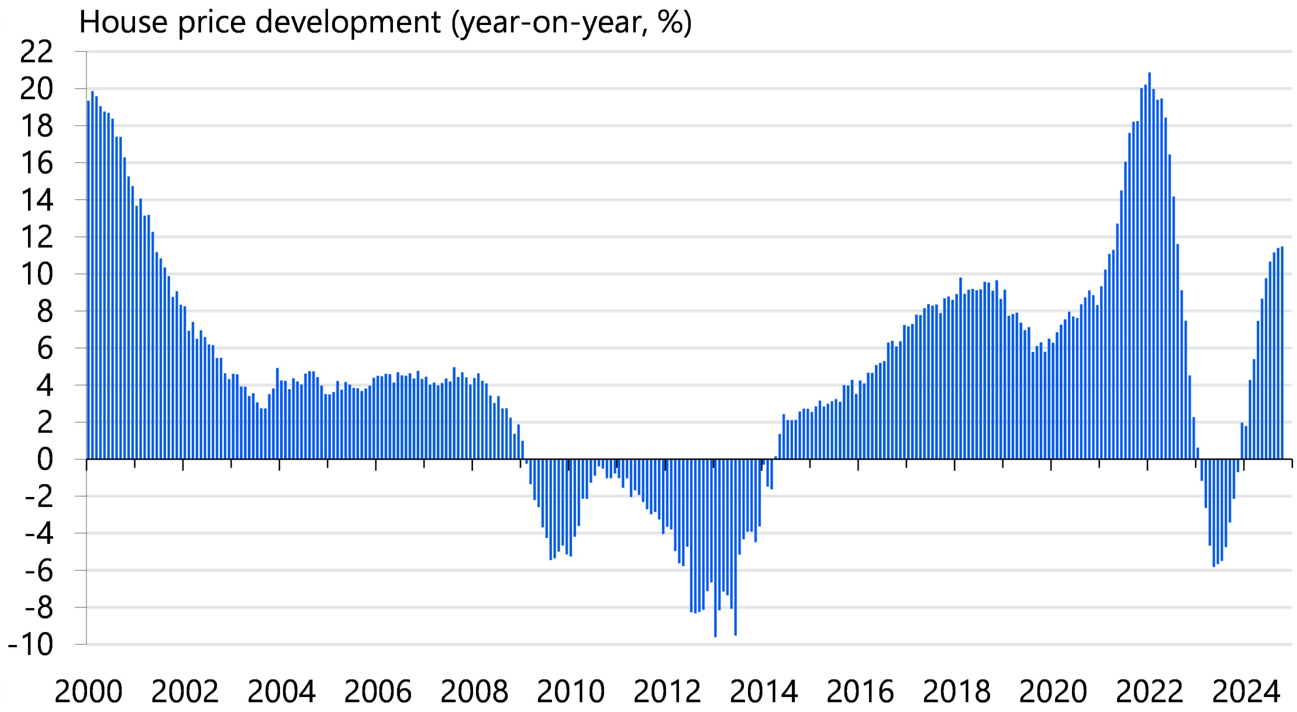
- House prices are still rising fast: In October, existing homes were 11.5% more expensive than in the same month a year earlier. However, the pace of growth has slowed somewhat since July.
- For 2024, we expect an average house price increase of 8.8%, followed by 9.2% in 2025 and 6.0% in 2026.
- We expect the pace of house price growth to continue to slow gradually over the next few years.
- House prices are now rising faster than wages and borrowing capacity, so affordability of homes for sale is declining.
- This ultimately inhibits demand for housing, causing lower upward price pressure.
- Although home ownership is falling steeply among younger generations, more than one in two homebuyers is under-35. Moreover, their share has rebounded somewhat since 2021.
- Young adults in particular are more likely to buy an apartment. This is likely related to the fact that buy-to-let landlords and professional real estate funds are increasingly selling their rental properties to owner-occupiers.
- This is the main reason that there were a lot more housing transactions in the first 10 months of 2024, particularly sales of apartments.
- For 2024, we anticipate 204,000 sales of existing homes (22,000 more than in 2023), followed by 198,000 transactions in 2025 and 192,000 in 2026. The expected decline in sales numbers is due to a lack of supply.
- New construction sales, building permits issued, and the number of homes under construction are on the rise. But the number of new homes completed is falling
- Consequently, housing production in 2024 has moved even further away from the targeted annual policy goal of 100,000 houses.



Pace of house price growth is no longer accelerating

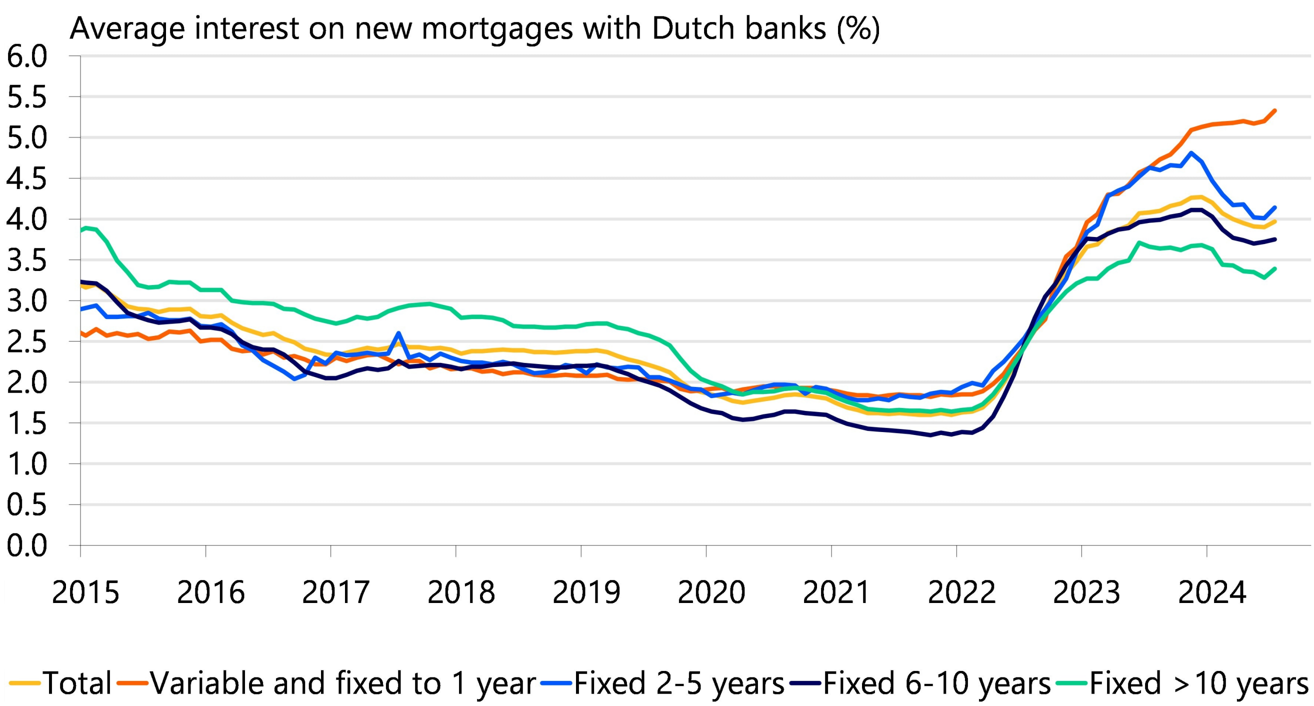
In October, existing homes were as much as 11.5% more expensive than in the same month last year; the fourth consecutive month of double-digit growth (see figure 1). And this compares with a year-on-year price growth of just 1.8% in January. The fact that existing owner-occupied homes are again rapidly becoming more expensive reflects the still mounting housing shortage. The demand for houses is still increasing rapidly due to population growth and high wage growth, while the supply of housing lags behind. Average collective labor agreement wage growth was a whopping 6.8% in the third quarter of 2024. Robust wage growth has allowed home buyers to borrow and bid more on a home. Moreover, borrowing capacity increased further due to a slight fall in many fixed mortgage rates in 2024 (see figure 2) and due to some changes in mortgage terms. For example, student debt weighs less heavily on the maximum mortgage amount and households are allowed to borrow an extra amount for an energy-efficient home. And are you single with an income of at least EUR 28,000? Then you may borrow an additional EUR 16,000 from 2024 onward according to the lending standards.

Figure 1: Existing homes for sale much more expensive, but pace of price increases slowing



Source: CBS, Kadaster 2024

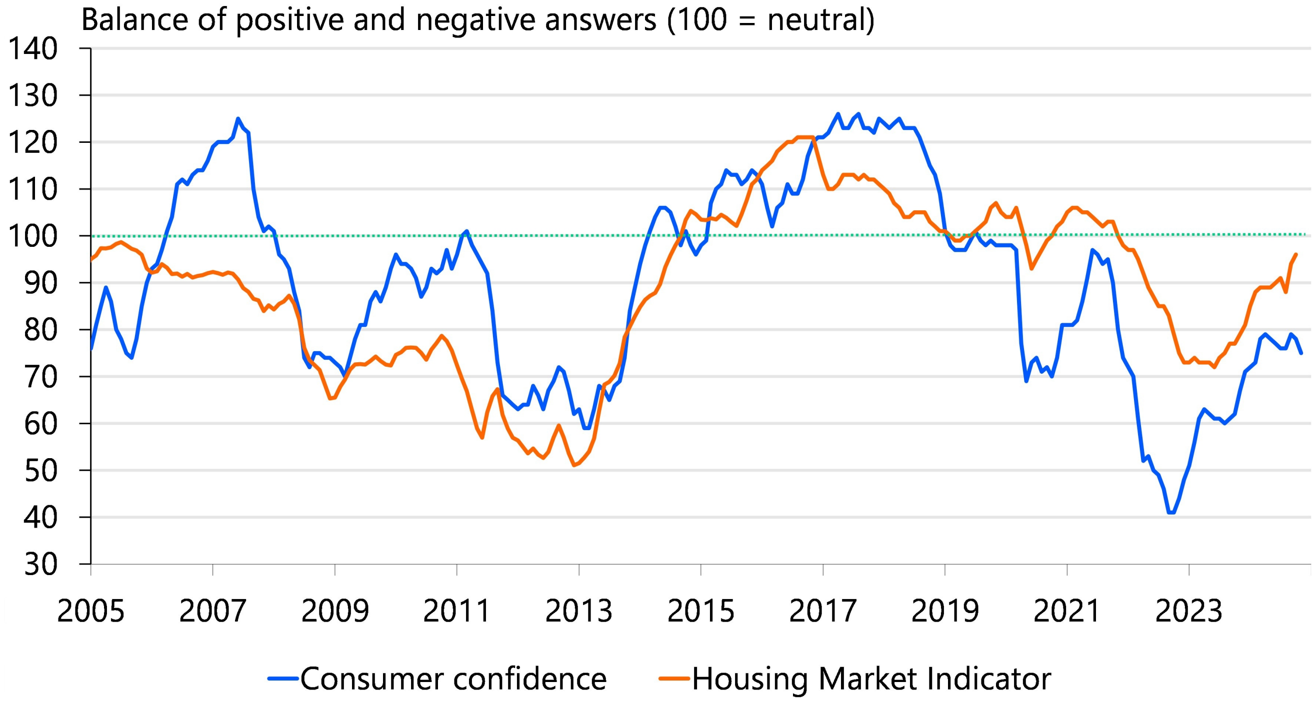
Figure 2: Mortgage rates markedly lower than last year



Source: DNB 2024

Borrowing capacity is a significant factor when it comes to house price trends, but it's not the only one. The housing market is a confidence market, where sentiment factors play a major role. Over the past two years, confidence in the Dutch housing market has picked up, according to the Market Indicator of Dutch homeowners association Vereniging Eigen Huis (see figure 3). Many housing consumers believe that house prices will continue to rise. Optimistic expectations may further increase demand for owner-occupied homes. However, slightly more people are still negative about housing market conditions than positive. Moreover, more and more people think it is an unfavorable time to buy a house: The buying mood is depressed by the fact that houses are less affordable and by the limited choice of houses for sale

Figure 3: Confidence in housing market climbed further

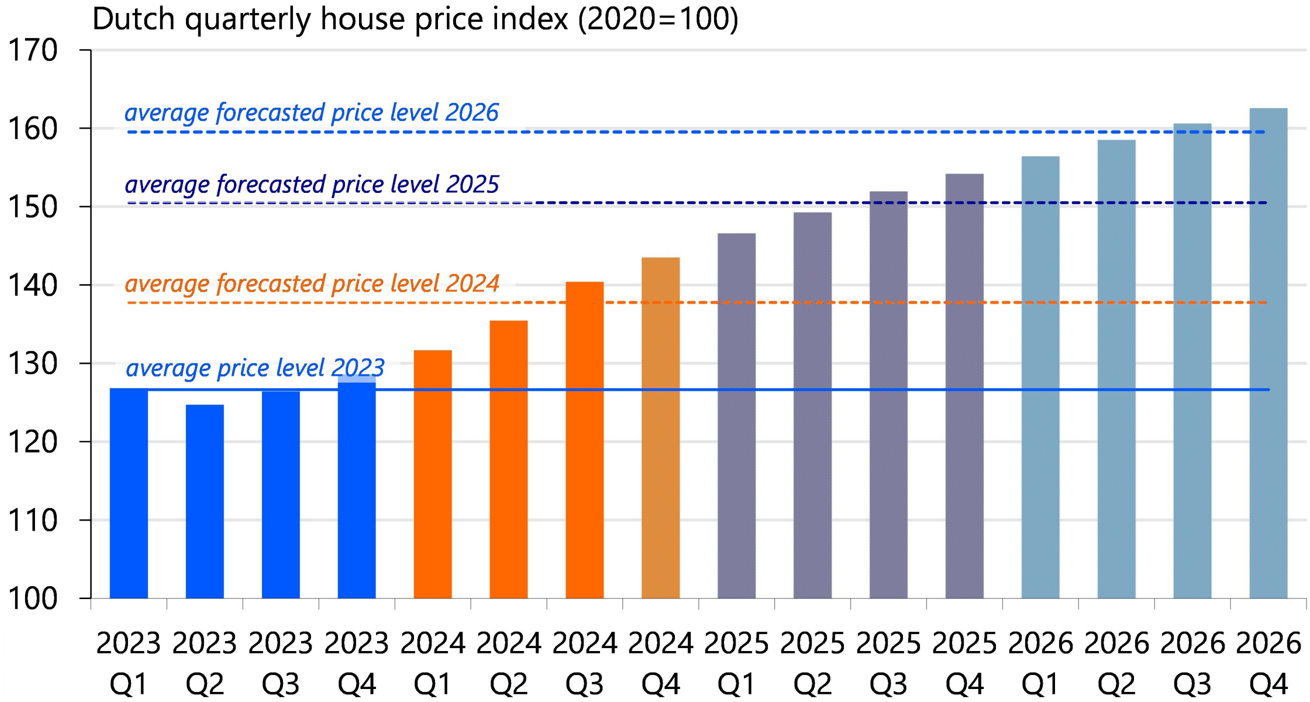


Source: CBS, Vereniging Eigen Huis/MBE, TU Delft 2024

Expectations: House prices will continue to rise, but pace will gradually slow

We anticipate continuing robust rises in house prices for the foreseeable future. For 2024, we assume an average house price increase of 8.8%, followed by 9.2% in 2025 and 6.0% in 2026 (see figure 4). In our estimate, the pace of house price growth will gradually slow after reaching a peak at the end of 2024. This is because currently house prices are clearly rising faster than wage growth and increases in borrowing capacity. As a result, the affordability of owner-occupied housing is deteriorating. And that causes supply and demand to gradually become more balanced, thus reducing price growth. We assume that the rate of house price growth will gradually move toward the rate of wage growth in the coming years.

Figure 4: For now, house prices will continue their rapid rise



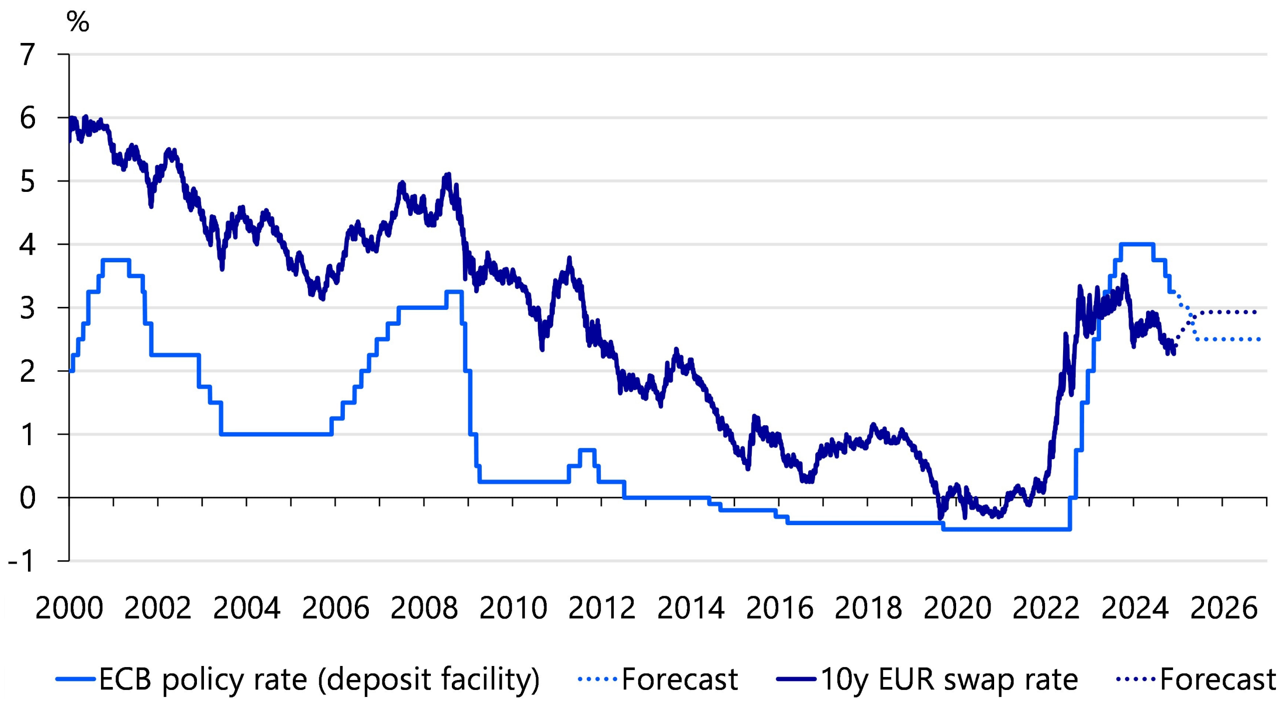
Source: CBS, Kadaster, RaboResearch 2024

Slight downward revision to house price estimate

Compared to our previous house price estimate, our expectations have been tempered slightly. In September we were still assuming average price increases of 9.1% in 2024 and 10.7% in 2025. The economic picture has become somewhat more positive since our last estimate: The size of the economy is expected to grow slightly faster and unemployment remains lower than previously anticipated (in Dutch), according to our economic estimates. We now assume a slight increase in unemployment from an average of 3.7% in 2024 to 4.0% in 2026, mainly due to the rising number of bankruptcies. On the other hand, collective bargaining wages, are rising somewhat faster, influenced by the continuing high inflation rate.

But the expectation that capital market interest rates will remain fairly stable has given way to an expectation of slightly rising interest rates (see figure 5). Financial markets think the ECB will cut policy rates. We too expect this, but we assume a slightly more gradual pace of tapering and a slightly earlier end to the reduction cycle than the financial markets are anticipating. If our forecast comes true, then capital market interest rates will rise as soon as market participants adjust their expectations. Our forecast should be seen against the backdrop of higher inflationary pressures in the US due to Trump's expected import tariffs and spillover effects on Europe via – among other things – European retaliatory measures. Finally, house price realizations have also caused us to revise our estimates for the housing market: Although year-on-year growth in house prices has continued to pick up in recent months, their underlying month-on-month growth already declined somewhat after the summer. As a result, it looks as if the declining affordability of owner-occupied housing is a stronger brake on demand than we had previously assumed.

Figure 5: Capital market interest rates expected to rise slightly

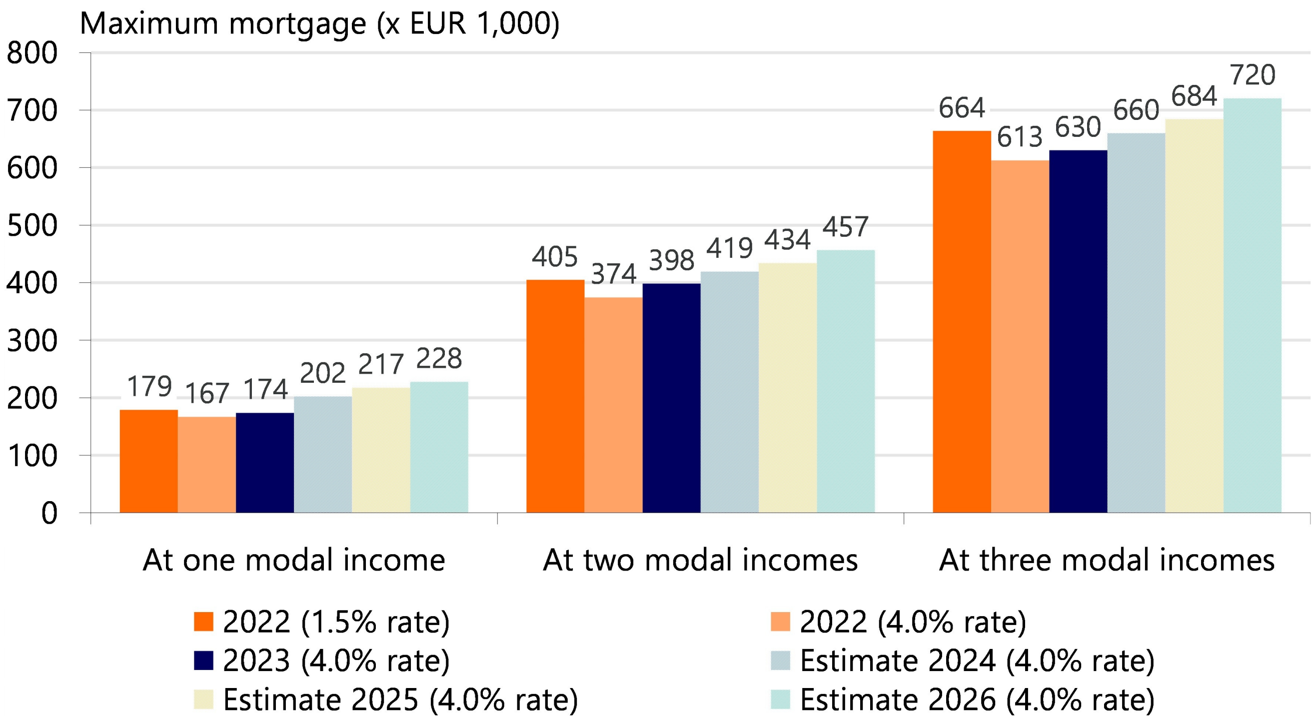


Source: Macrobond, RaboResearch 2024

More borrowing capacity in 2025 and 2026, mainly due to rising wages

Because the cost of living has increased, the maximum borrowing capacity for the same income level in euros will decrease slightly in the coming years. This is because Nibud (the institute which advises the Dutch government on mortgage standards) takes into account the cost of households' main expenses when determining mortgage standards. But the expected wage increases more than compensate for this tightening of lending standards. For 2025, we expect (in Dutch) an average collective bargaining wage increase of 5.9%, and another 4.8% in 2026. In 2024, wages are rising even faster, and we expect an increase of as much as 6.6%. Based on the mortgage standards for 2025 (in Dutch), households with incomes around the modal income will see the strongest increase in maximum borrowing capacity in 2025, relative to what they were allowed to borrow in 2024 (see figure 6).

Figure 6: Borrowing capacity up again



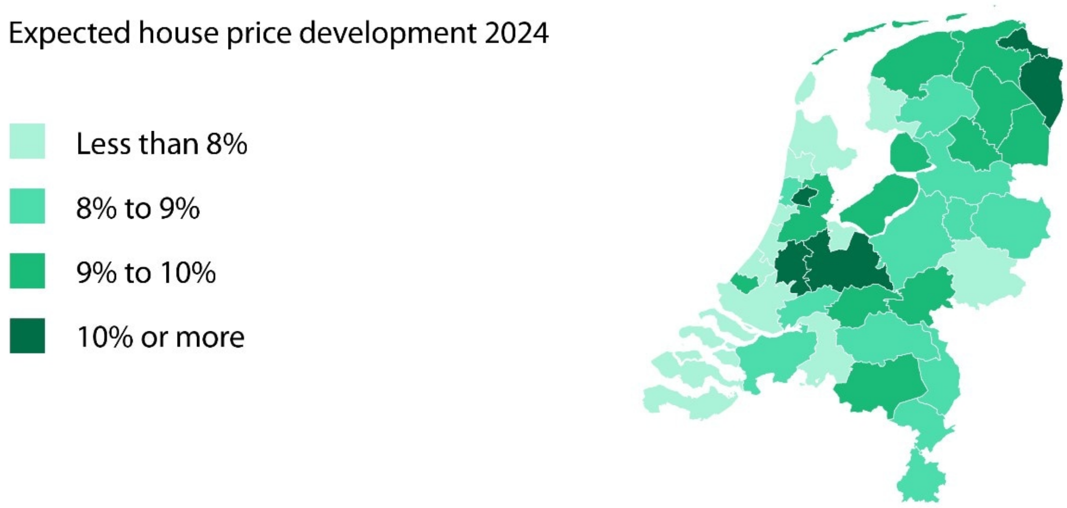
Note: For one modal income, we apply the mortgage rules for single-earners. Starting in 2024, they can borrow an additional amount in most cases. In 2024, this amount was EUR 16,000, and in 2025, it will be EUR 17,000. When calculating the borrowing capacity, we assumed a modal income of EUR 44,500 in 2024, EUR 47,000 in 2025, and EUR 49,500 in 2026. The income threshholds for determining the borrowing capacity for 2026 have been indexed based on the average inflation rate from 2022, 2023, 2024, and our expectation for 2025, to account for the gradual weighting in of inflation in accordance with the Nibud methodology. Source: CPB, Nibud, RaboResearch 2024

Regional outlook

In virtually all regions, existing homes for sale are now (a lot) more expensive than at the time of the previous house price spike around mid-2022. And with the year almost at its end, there is already a clear picture of the regional house price developments we can expect in 2024 (see figure 7). These vary considerably between regions: Expected price growth in 2024 ranges from 4% in Zeeuws-Vlaanderen to 12% in both Delfzijl and surrounding areas, and in the province of Utrecht. Regions with either high or low-price growth are scattered across the country: No clear regional pattern is apparent.

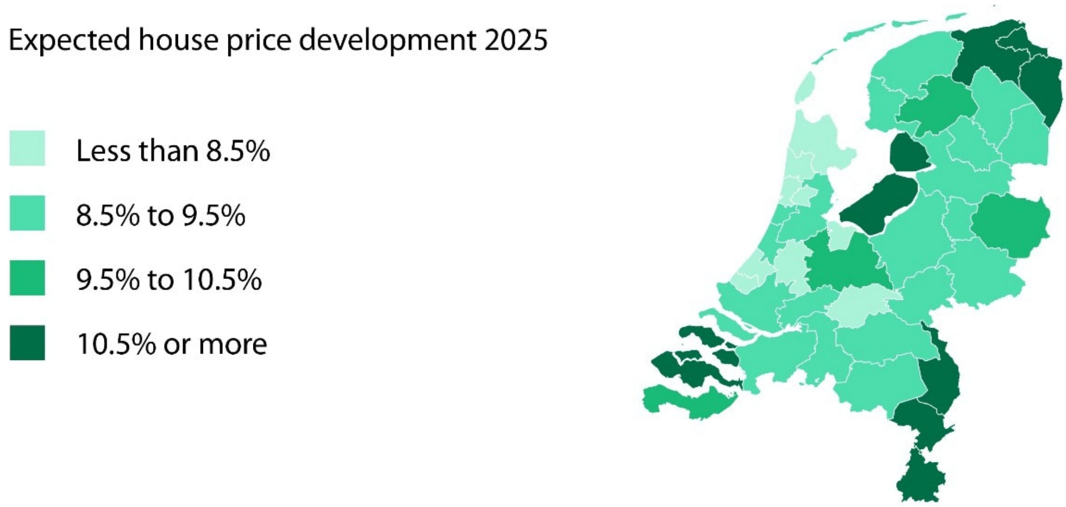
For 2025, we foresee the highest price growth in the peripheral areas of the country as well as in the province of Flevoland (see figure 8). With affordability of owner-occupied houses rapidly deteriorating again, cheaper housing market regions are likely to regain their appeal. We foresee the lowest price increases in 2025 in the western part of the country, but even there house prices are still rising briskly with an anticipated price growth of 8%. In Limburg, Groningen, and Zeeland, we expect price increases of 11% to 12%. In Zeeuws-Vlaanderen, price growth has lagged somewhat behind other regions in recent decades, but there, too, we foresee firm price increases in 2025. From January 1, 2025, the Westerscheldetunnel will be toll-free, which is expected to lead to higher demand for housing in this region.

Figure 7: Highest price increases in 2024 in Utrecht province and East Groningen



Source: RaboResearch 2024

Figure 8: Highest price growth in 2025 expected in peripheral areas of the country



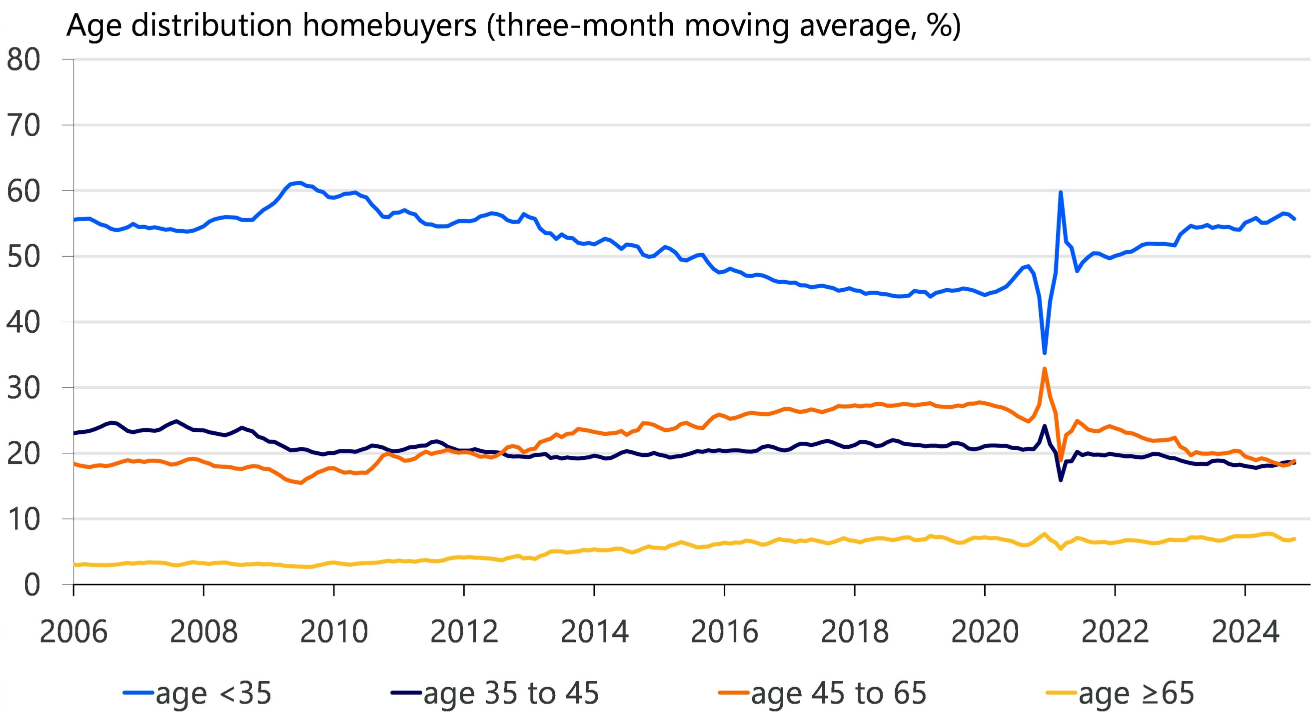
Source: RaboResearch 2024

Featured: Declining home ownership among young adults, despite signs of recovery

Half of all homebuyers are under-35...

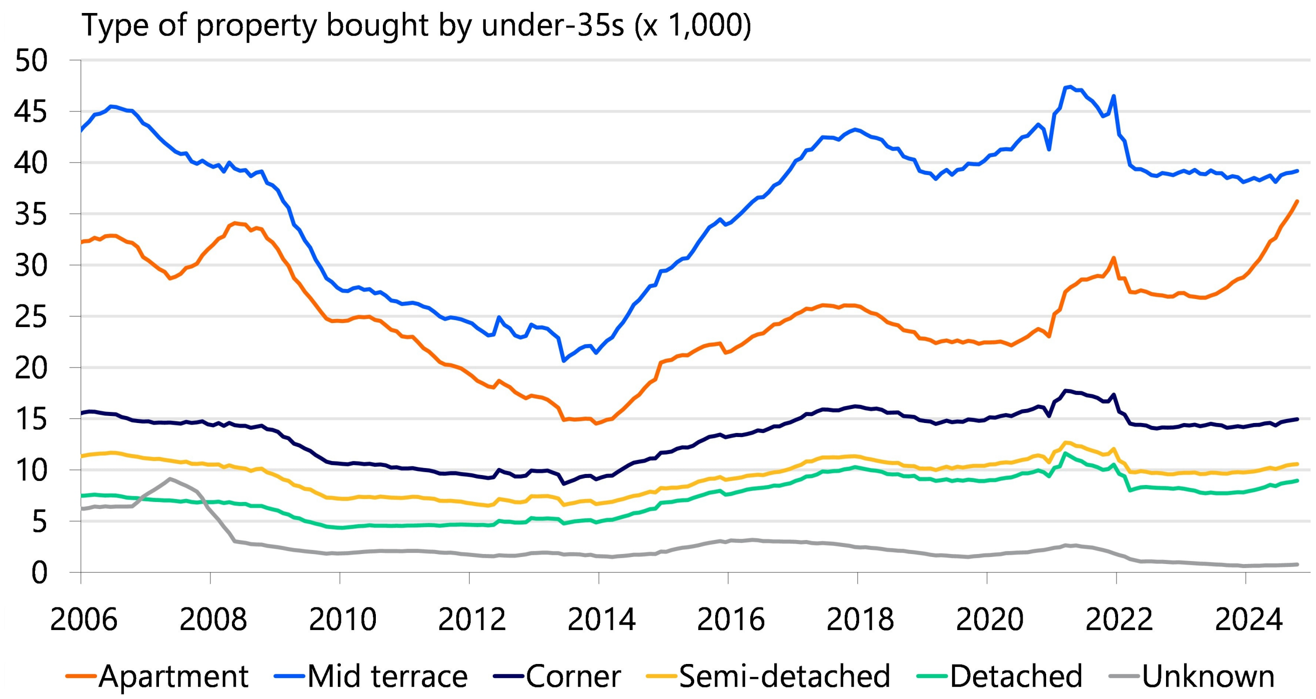
Despite major concerns about the position of young adults in the owner-occupied housing market, more than half of all homebuyers are still under-35 (see figure 9). Since 2021, moreover, their share has been recovering. One possible explanation lies in the various policies that give young adults a leg up, such as the transfer tax exemption and policies that discourage housing market investors. As a result, we have seen landlords drop out in recent years. Increasingly, private and institutional landlords are selling their rental properties (Kadaster, 2024 (in Dutch)). In the first three quarters of 2024, they sold nearly 15,000 rental properties. This is more than one and a half times as many as in the same period last year. It is likely that mainly rental apartments will go to the owner-occupied sector (see also NVM, 2024). After all, about two-thirds of all rental houses owned by these landlords are apartments (microdata WoonOnderzoek Nederland (Netherlands housing survey), 2021). The decision of more and more landlords to sell their properties rather than re-let them, appears to be a major cause of the increase in transactions among young adults. Indeed, the increase in home purchases by young adults is particularly noticeable in apartments (see figure 10).

Figure 9: Rise of young adults among homebuyers



Source: Kadaster 2024

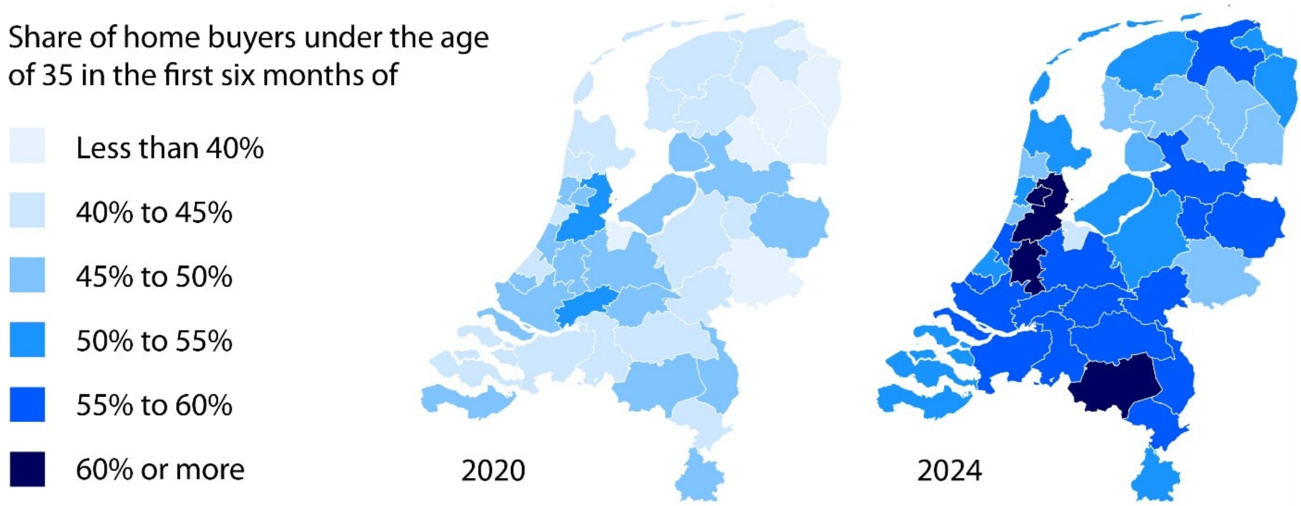
Figure 10: Young adults are particularly buying apartments



Source: Kadaster 2024

The increasing proportion of young adults among homebuyers is seen in all regions (see figure 11). In the recent past, investors bought relatively many houses from owner-occupiers especially in the four major cities and in some university cities (such as Groningen, Enschede, and Maastricht). At its peak – just before the introduction of the higher transfer tax for investors – the share of private buy-to-let investors in some neighborhoods was as high as 30% up to almost 75% in the most extreme cases (see, for example, Kadaster, 2021 (in Dutch)). In these cities, the share of young homebuyers in the first half of 2024 was well above the level of the first six months of 2020. In more expensive cities like Amsterdam and Utrecht, the share was about 11 percentage points higher. In the mostly cheaper university cities like Groningen and Maastricht, it was up more than 16 percentage points.

Figure 11: Share of young adult homebuyers shows solid plus



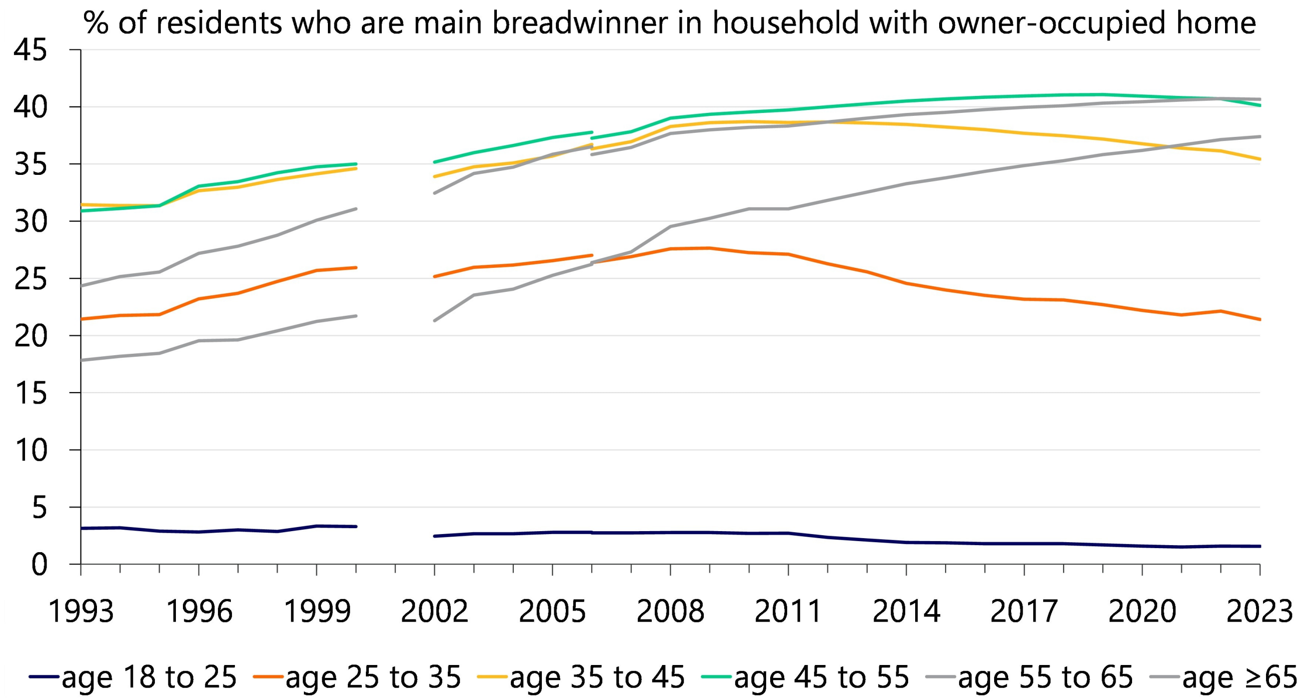
Source: Kadaster, RaboResearch 2024

Yet home ownership among young adults is declining

Despite the rebounding share of young homebuyers, homeownership among younger generations is still falling sharply (see figure 12). In this figure, homeownership is expressed as the percentage of adult residents who are main breadwinners of a household in an owner-occupied home. Indeed, because more and more young adults are unable to form households at all due to the tight housing market, the percentage of households living in owner-occupied housing in fact underestimates the decline in home ownership.

As recently as 2008, 28% of residents aged 25 to 35 were main breadwinners in households with owner-occupied homes. That share had dropped to 21% by 2023. Home ownership is also declining among people aged 35 to 45 and 45 to 65. Only among the group aged 65 and older is home ownership still rising, which is mainly due to cohort effects. In the past, seniors often lived in rented homes, but the current generation of over-65s increasingly owns owner-occupied homes. Home ownership within that group has more than doubled over the past three decades.

Figure 12. Home ownership among younger generations falling fast



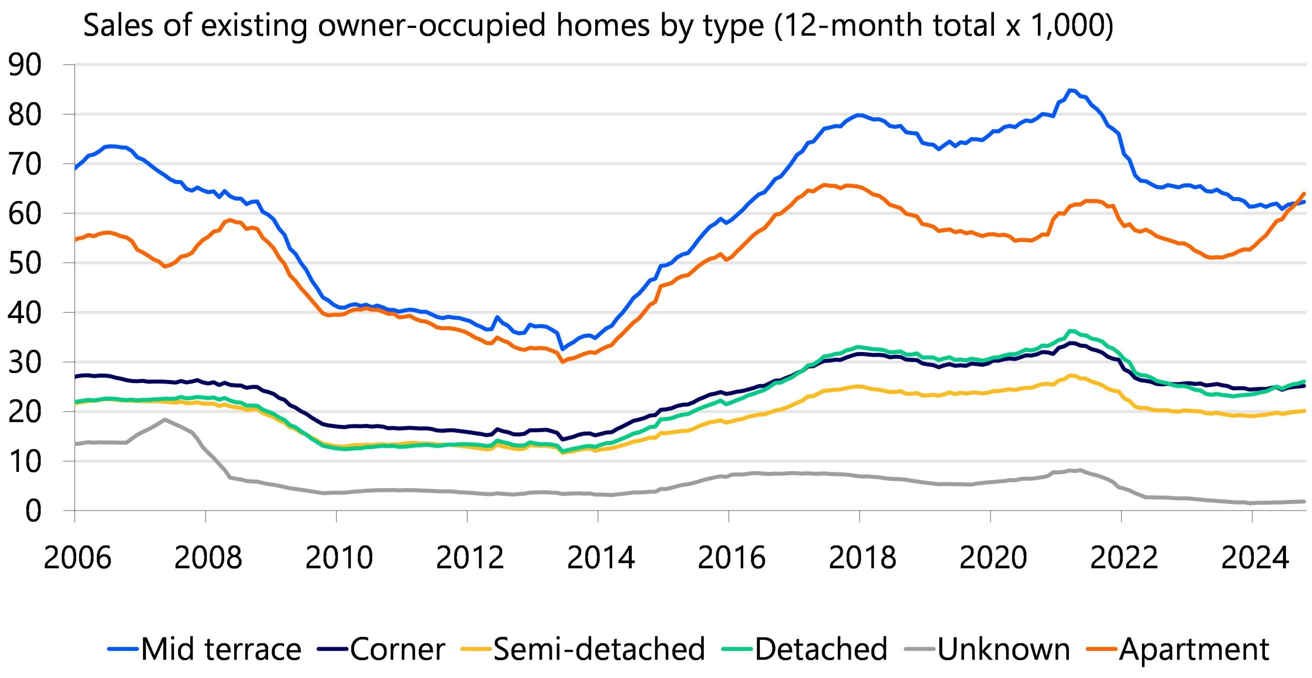
Note: Figures for 1993-2000, 2002-2006, and 2006-2023 are from different sources. Due to methodological differences, these sources are not fully comparable. Source: CBS, RaboResearch 2024

Housing transactions up sharply in 2024, but turning point in sight

Sell-off of rental homes appears to be partly driving sales surplus

In the first 10 months of 2024, nearly 165,000 existing homes for sale changed hands. This is 11.6% more than in the same period last year. The higher number of housing transactions is mainly due to many more apartments being sold (see figure 13). For other house types, such as mid-terrace houses, or semi-detached houses, the number of sales was stable or showed only a very limited rise. This development seems to be a direct result of the sale of buy-to-rent properties by both private and corporate landlords as mentioned earlier.

Figure 13: Significant increase in apartment sales



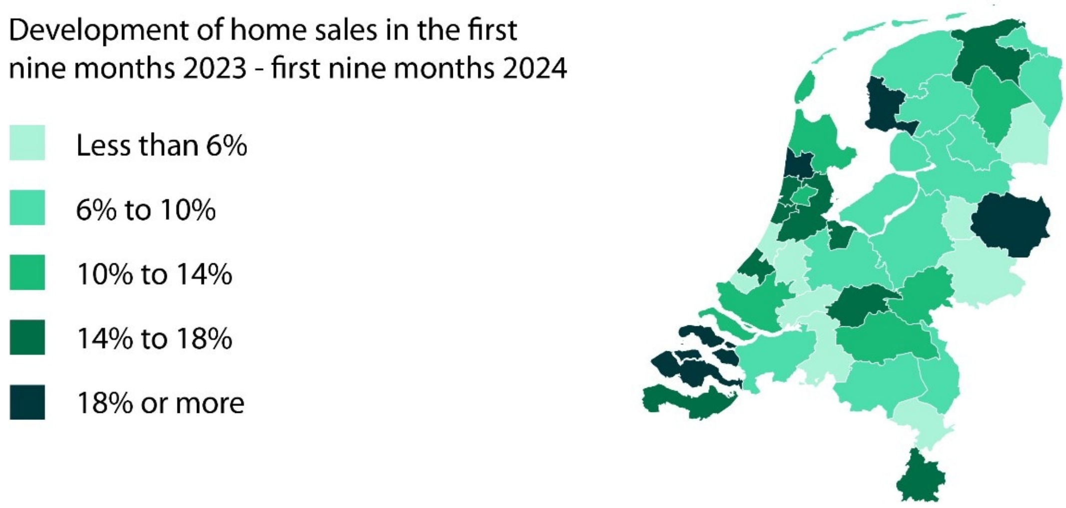
Source: Kadaster 2024

Home sales are on the rise in all regions

The upward trend in the number of homes sold can be seen in all regions (see figure 14). Zooming in further, what's particularly striking is the big differences between very highly urban municipalities and less urban municipalities. In very highly urban municipalities, sales increased significantly faster than in rural municipalities (11.2% versus 3.7%). And whether we look at highly urban municipalities or rural municipalities, in all cases apartment sales in particular are on the rise. Despite the seemingly diffuse regional picture, this again suggests that "uitpond" practices are a major explanation for the uptick in home sales.

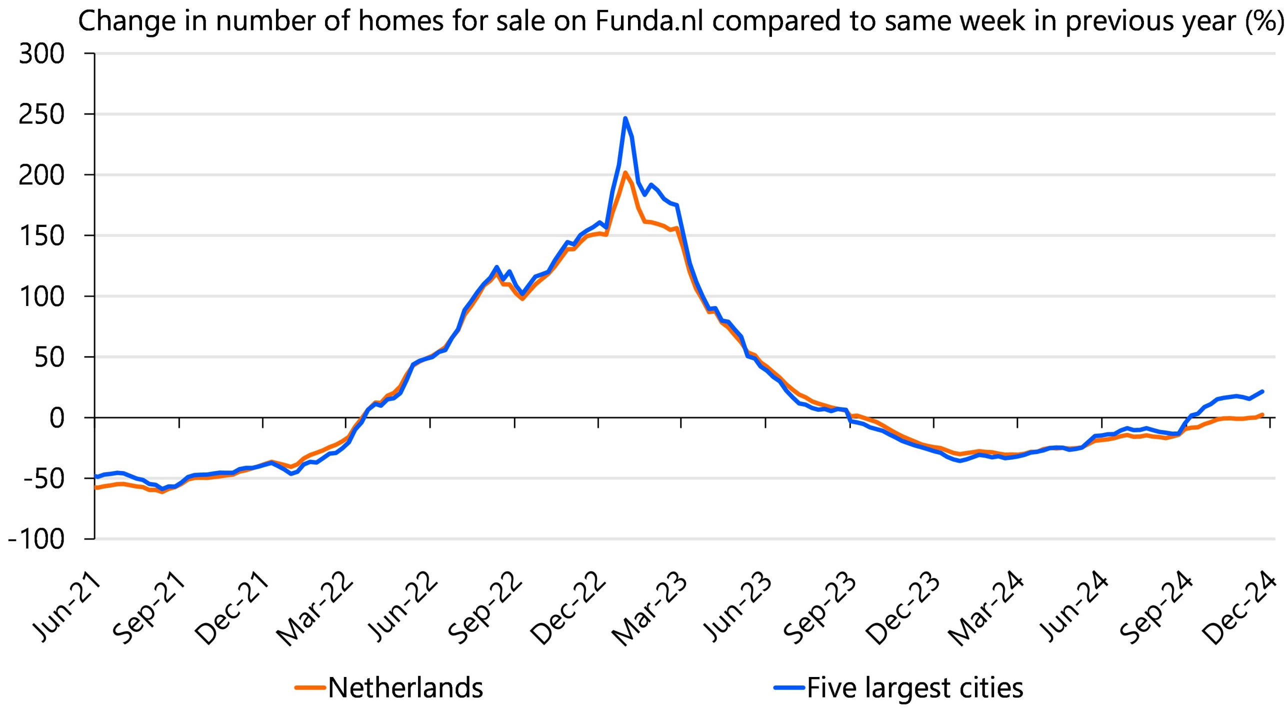
That probably also explains why there are slightly more houses for sale today than a year ago (see figure 15), which is misleading since the stagnation in new construction projects is continuing to depress supply. After all, less new construction means that fewer homes become vacant and there's less movement in the market for existing owner-occupied homes. Ultimately that depresses the number of housing transactions.

Figure 14: A solid sales plus everywhere



Source: CBS, Kadaster, RaboResearch 2024

Figure 15: Slight increase in "for-sale signs" in the five largest Dutch cities compared to last year



Source: Funda 2024

Expectations: Sharply higher sales expected for 2024 and 2025

For 2024, we anticipate 204,000 home sales; that's 22,000 more than in 2023. For 2025, we expect 198,000 existing owner-occupied homes to change hands, and in 2026 that number will be 192,000. Our estimate has been significantly revised upward, as in September we were still assuming 197,000 home sales for 2024 and 186,000 sales in 2025, respectively. The upward revision is related to the sell-off of rental properties. The peak in the related additional supply does not seem to have been reached yet. At the same time, we expect it to be a temporary phenomenon. Therefore, combined with the lagging housing production, the number of sales in 2026 will be somewhat lower.

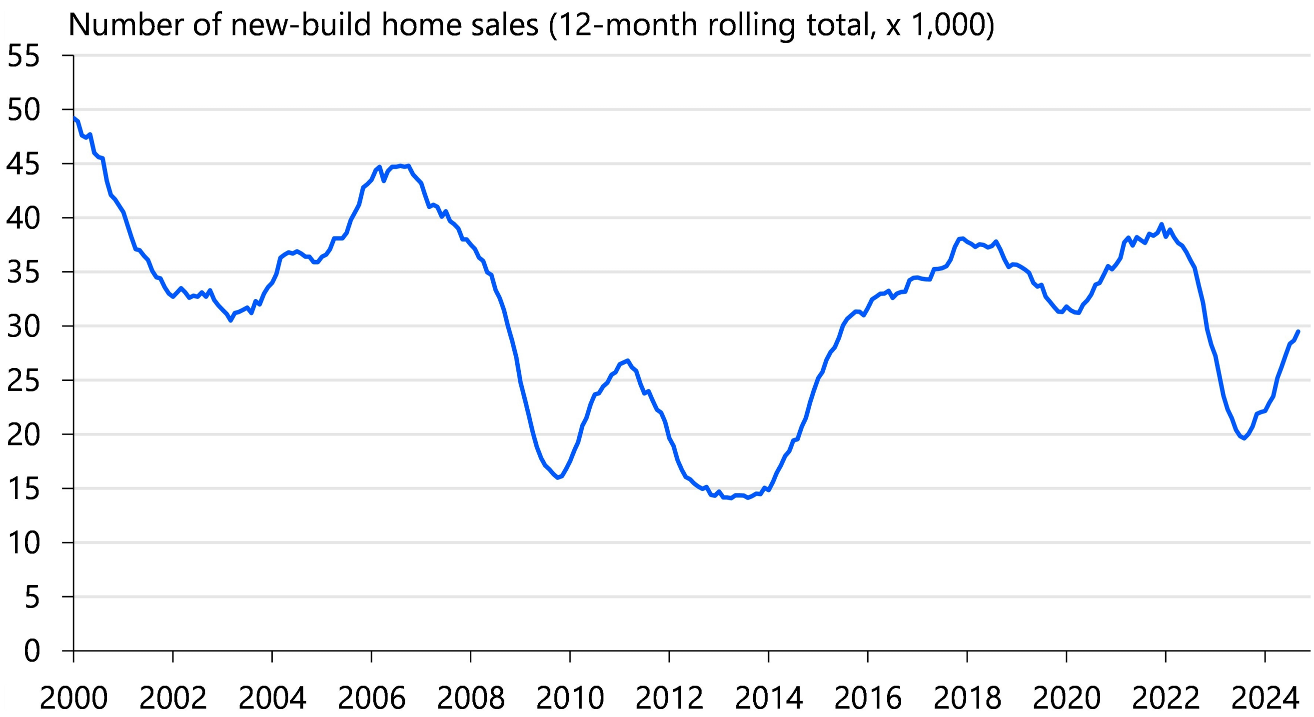
New construction

The recovering market for existing homes for sale offers prospects for new construction. When the housing market cooled down temporarily from 2022 onward, many construction projects ran into trouble. Now that house prices are rising again at a rapid pace, project revenues are increasing, and housing construction – at a given level of ambition – is more likely to be financially viable again. We see this reflected in the new construction sales (see figure 16). The 12-month moving average of new construction sales was 38% higher in October than in the same month in 2023. But a full recovery is not yet underway: In the past 12 months, sales of new construction homes were still 23% lower than in 2021 and 14% lower than in 2020.

Expectations: Steady – but not full – recovery in new construction sector

We expect a further recovery of the new construction market, but 2021 levels are not yet in sight. In 2021, new construction had the wind in its sails due to exceptionally low interest rates and sharply rising house prices. The impact of the cooling housing market on the new construction market was reflected primarily by falling sales rather than falling prices. While existing homes for sale fell in price, the prices of new homes for sale continued to rise steadily. The reversal in this trend that started some time ago, increases the attractiveness of a new-build home.

Figure 16: New home sales on the rise, but full recovery not yet in sight

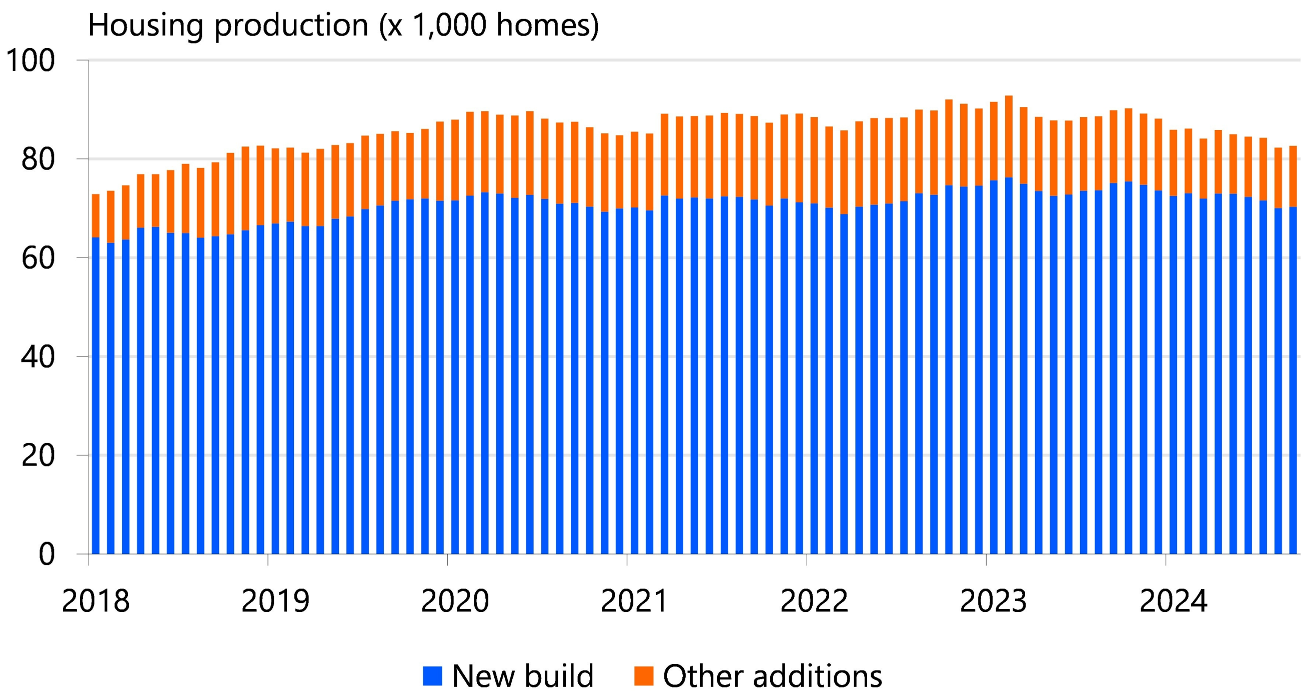


Source: WoningBouwersNL, based on completion guarantees issued by Woningborg, SWK and Bouwgarant

The number of new homes completed lags, but pipeline is promising

Due to the long lead times of construction projects, rebounding sales of new homes do not immediately lead to more completed homes. In fact, the number of completed homes has recently declined (the blue bars in figure 17). The figure shows new construction and other additions (not taking into account demolition) in all housing market segments (owner-occupied and social and private rental), according to the policy definition on which the government's target of 100,000 extra homes per year is based. Since 2023, the gap between this target and actual housing production growth has widened even further.

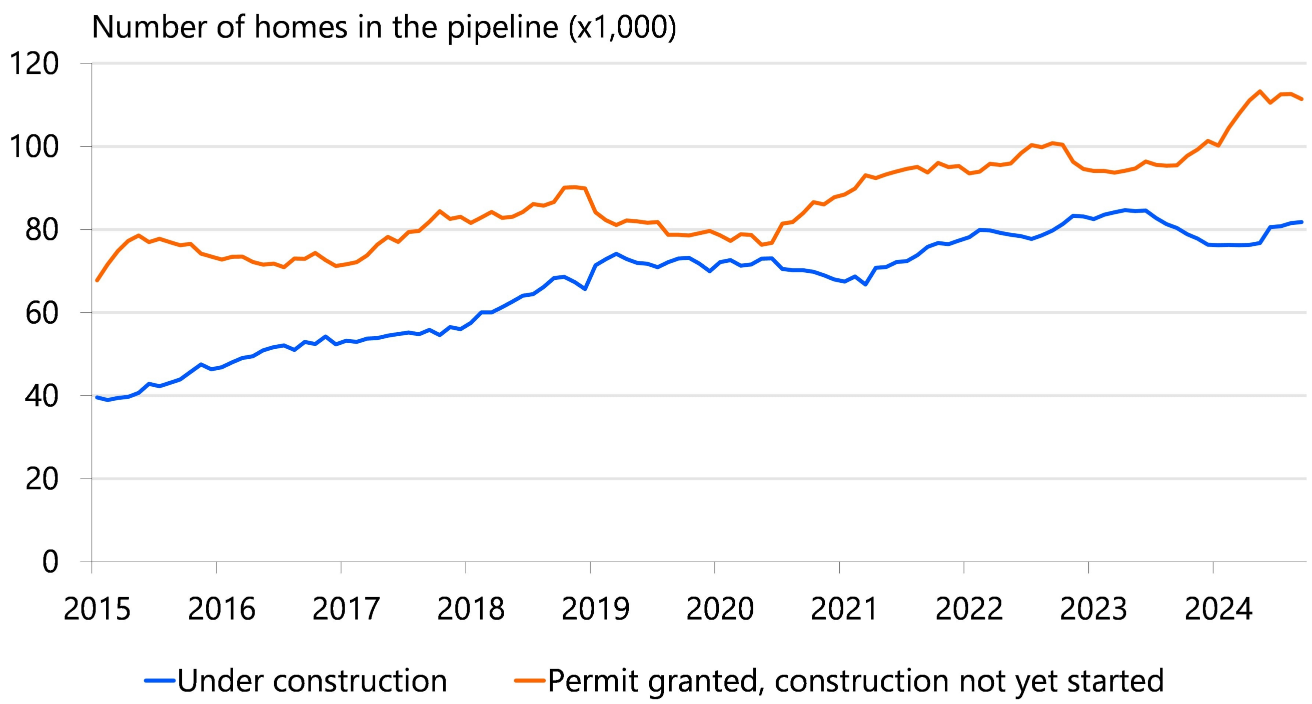
Figure 17: Slower growth in housing stock anticipated in 2024



Note: In accordance with the most recent policy definition, total housing production is the sum of new construction plus the balance of the "other additions and withdrawals" category distinguished by CBS. This includes transformation and administrative corrections but excludes demolition. Source: CBS 2024

Since the beginning of 2024, the number of building permits issued has also been on the rise again. In the past 12 months, nearly 62,000 permits have been granted. Although considerably more than in 2023 (55,000 permits), the numbers fall far short of 2021 levels (76,000). We should note that part of the adverse shock to housing construction has likely been absorbed within the housing production pipeline by slowing down or delaying the start of construction rather than completely terminating projects (see figure 18). Despite the sharp fall in permitting, the number of homes for which construction has not yet started but for which a building permit has already been granted, is now much higher than in 2021. This means that during the cooling of the housing market, the number of construction starts fell even more sharply than the number of permits issued. Now that new construction is picking up, construction can still get underway on these projects. Therefore, we assume that the low number of recently granted building permits does not necessarily stand in the way of a further increase in housing construction in the short term.

Figure 18: More housing units in pipeline



Source: CBS 2024

Source

https://www.rabobank.com/knowledge/d011461540-housing-market-quarterly-house-prices-continue-to-increase-but-in-lower-gear