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Netherlands: Declining home sales and falling house prices expected

Dutch Housing Market Quarterly
Nic Vrieselaar

- **Employment is expected to fall sharply due to the coronacrisis. Together with the fear of job loss, this is expected to drag down demand for owner-occupied homes**
- **We expect around 195,000 homes to be sold throughout 2020, some 24,000 less than in 2019; for 2021 we expect about 180,000 sales**
- **We also anticipate house prices will drop for some time starting in the second half of this year**
- **Due to the high price increases at the beginning of this year, prices in 2020 are expected to be on average 5.6 percent higher than in 2019**
- **For 2021, we expect prices to decrease on average 2.9 percent**

Employment had grown to record levels in recent years, with a convincing rise in the number of permanent employees for the first time in more than fifteen years. But the corona crisis brings an abrupt halt to these two trends. Loss of work and income, and uncertainty about it, is expected to have a strong effect on demand for owner-occupied homes. We therefore expect that the number of sales this year will be lower than in 2019, and that house prices will start falling at the end of this year.

Figure 1: Dutch housing market forecast

Declining sales and prices expected due to coronacrisis

Dutch Housing Market Quarterly - June 2020

Price forecast

Expected price increase of owner-occupied homes (%)

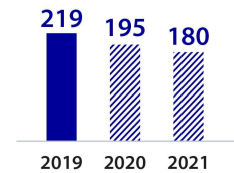


▨ = RaboResearch forecast



Sales forecast

Expected number of transactions (x1,000)



Source: RaboResearch

Source: Dutch Land Registry, forecasts by RaboResearch

Prospective first-time buyers more at risk of losing job

In our latest macroeconomic forecast, we predict that unemployment in the Netherlands will rise from 3.0 percent at the beginning of the year to 6.8 percent at the end of this year (see Figure 2). To illustrate: the group of Dutch people with paid work decreased by 160,000 people in April alone, the strongest decline in at least seventeen years. Job loss, or fear of it, will have a strong effect on the demand for owner-occupied homes.

First of all among young adults. Based on labour participation rates in the previous crisis, we believe that they are most likely to suffer the economic impact of the Covid-19 outbreak (see figure 3).^[1] Workers below the age 35 years have a shorter work history and work relatively often on a temporary contract. This increases the chances they'll lose their job. Because there are many potential first-time buyers in this age group, we expect more Dutch people will put their moving wishes on hold. This can also apply to those waiting to buy a house until they have a permanent labour contract, but are struggling to attain it due to the economy deteriorating.

Figure 2: Unemployment expected to rise quickly



Source: Statistics Netherlands (CBS), forecasts by RaboResearch

Figure 3: Loss of work highest among young adults in previous crisis



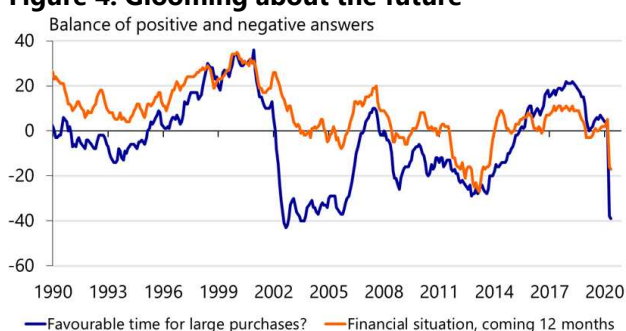
Source: Statistics Netherlands (CBS)

Subsequent-time buyers could change tactics

Loss of income, and the fear of it (figure 4) is expected to similarly affect second- and third-time buyers. But they could run into another problem as well, even when not personally affected by job loss: when interest among first-time buyers, other subsequent-time buyers and buy-to-let investors (see below) indeed declines, selling their current house could prove considerably more difficult.

This could even spur subsequent-time buyers to change tactics, and stay on the safe side: waiting for their current home to be sold before bidding on another. That change of tactics could lead to a quick increase in the average selling time and the supply of homes for sale. [Calcasa recently reported](#) an increase in the number of homes for sale from around 73,000 at the beginning of this year to 93,000 last May. [Figures from Huizenzoeker.nl](#) also point to an increase in supply, although small (see figure 5).^[2] At this moment it is too soon to tell whether this is a temporary upturn or indeed the beginning of a longer trend upwards.

Figure 4: Gloominess about the future



Source: Statistics Netherlands (CBS)

Figure 5: Increase in the number of homes for sale



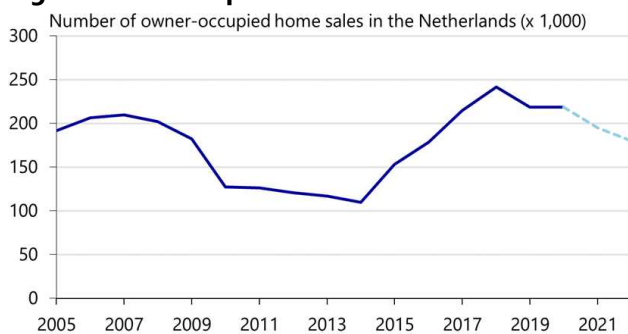
Source: Statistics Netherlands (CBS), Huizenzoeker.nl

Fewer students, fewer tourists: Fewer buy-to-let investors?

What is clear though, is that the growth in the number of houses offered is not limited to the owner-occupied segment: supply has also risen sharply on rental websites such as Pararius.nl and Kamernet.nl, including in Amsterdam. With tourists, expats and (international) students absent, demand for student rooms, apartments and Airbnb's appears to have fallen sharply. This could lead to buy-to-let investors buying fewer houses in the near future, or even putting properties up for sale due to loss of rental income. Especially because they already have to take into account new regulations that can put their profitability under pressure, such as limits to the annual rent increase and a possible tightening of the points system that determines rents. According to research from the Dutch Land Registry, there are relatively many investors active in student cities. The dynamics on those local housing markets could change considerably when investors stay away. The fact that the number of homes for sale is increasing faster in the ten largest student cities than in the rest of the Netherlands could be a first sign of this (see figure 5).

Declining sales, falling house prices

Figure 6: Sales expected to decline

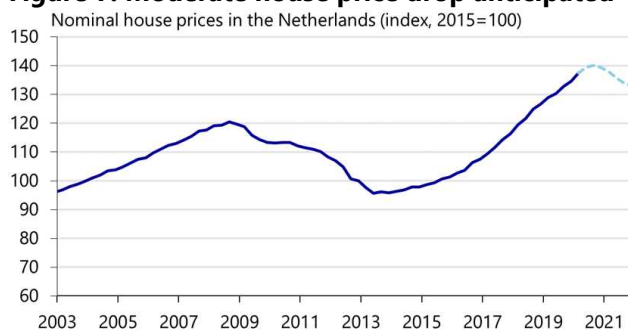


Source: Dutch Land Registry, forecasts by RaboResearch

Loss in employment, hesitant buyers and fewer buy-to-let investors: these are the main reasons why we expect the number of existing owner-occupied home sales to decline, despite a strong start of the year. We expect a total of 195,000 transactions, compared to 216,000 last year. Because we expect employment to recover only slowly, we expect the number of sales to fall further in 2021 to around 180,000 existing owner-occupied homes (see figure 6).

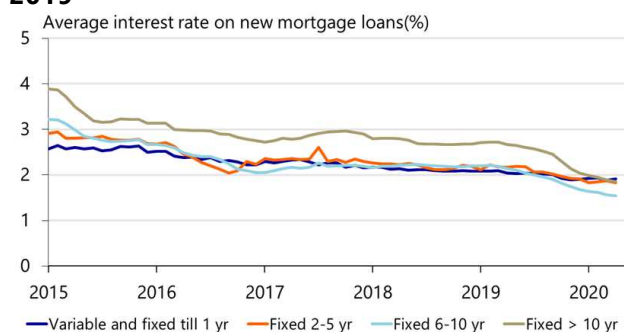
Less demand is also expected to lead to downward price pressure, as fewer bidders means less pressure to pay the asking price, let alone bid above asking. We expect house prices to decline q/q by the end of this year. On average the Dutch house price index is expected to be 5.6 percent higher this year than in 2019, partly because prices rose sharply in the first months of the year – before the coronacrisis. For 2021 we expect house prices to drop 2.9 percent on average.

Figure 7: Moderate house price drop anticipated



Source: Dutch Land Registry, forecasts by RaboResearch

Figure 8: Longer-term rates have dropped in 2019



Note: Mortgages taken out with banks

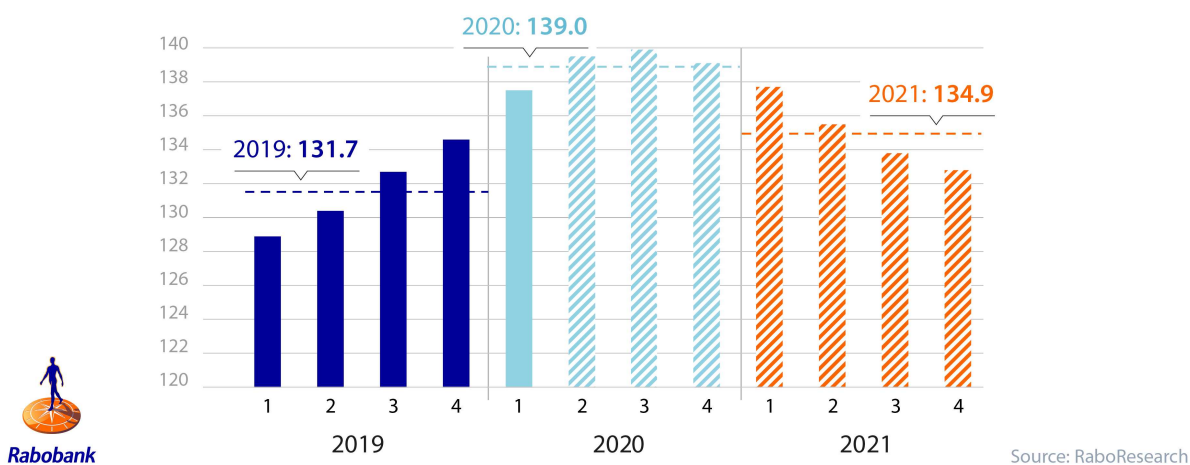
Source: Dutch Central Bank (DNB) Note: mortgages taken out with banks.

More than is normally the case, these expectations are surrounded by uncertainties. We are, for example, currently assuming that the virus remains under control through social distancing. That way, going forward the restrictions will become less and less stringent and the economy can slowly but gradually recover. Should restrictions be lifted sooner, the economic impact and resulting drop in demand for owner-occupied housing could be smaller. In that case low interest rates (see figure 8) and the current large housing shortage will likely be the predominant factors again on the housing market, with rising prices as a result. On the other hand, a second large wave of corona infections will push the Dutch economy into an even deeper recession, with a larger drop in sales and house prices than we currently expect.

Figuur 9: 2020 more expensive, despite price drop in last quarter

Prices higher on average in 2020

Dutch house prices per quarter (index, 2015 = 100) ▨ = RaboResearch forecast - - - = yearly average



Source: Dutch Land Registry, forecasts by RaboResearch

Footnotes

[1] Unemployment also rose for those aged 55 and above, but labour participation rose quickly. This is among other due to the phasing out of early retirement schemes

[2] The ten municipalities with the largest number of student households are: Amsterdam, Groningen, Utrecht, Rotterdam, Nijmegen, Leiden, Delft, Tilburg, Den Haag and Eindhoven.

Author(s)

Nic Vrieselaar

RaboResearch Netherlands

+31 6 2216 2257

Nic.Vrieselaar@rabobank.nl