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Housing shortage will keep house prices rising in 2020 and 2021

Dutch Housing Market Quarterly
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- A strong upturn in house sales in the second half of the year meant that slightly more homes were sold throughout 2019 than in 2018
- For 2020 and 2021 we anticipate the number of sales to fall to around 210,000 and 200,000 house sales
- House prices rose in 2019 by 6.9 percent, more slowly than the 9 percent in 2018
- We expect house prices to rise by 5.5 percent in 2020, followed by 2.5 percent in 2021
- The shortage of homes for sale persists, while the number of households is still growing and buyers benefit from the low mortgage rates
- An economic downturn and policy changes could foil our expectations

Prices continue to rise due to limited supply

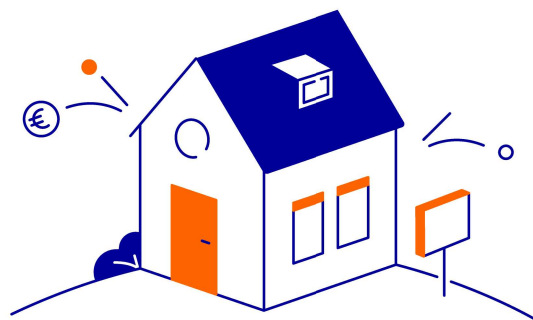
Dutch Housing Market Quarterly - February 2020

Price forecast

Expected price increase of owner-occupied homes (%)

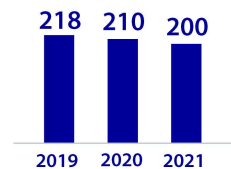


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Sales forecast

Expected number of transactions (x1,000)

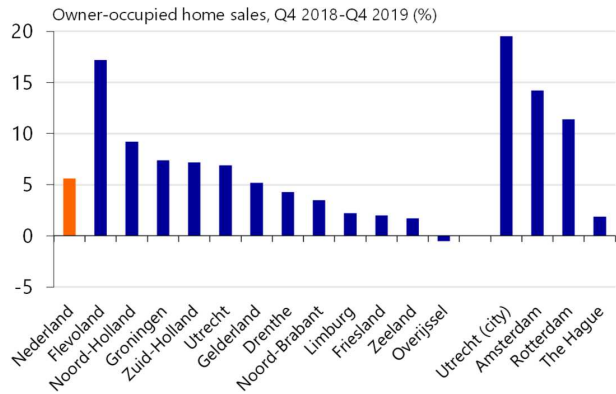


Source: RaboResearch

Just as many homes sold in 2019 as in 2018

The number of homes for sale has been falling for several years, bringing with it less choice for potential buyers. This was reflected in the fall in sales during the first half of 2019. But surprisingly enough, those looking to buy had greater success finding a house during the second half of the year. During the last quarter the number of sales even bounced back by 5.6 percent year-on-year, with a total of almost 60,000 transactions. Utrecht, Amsterdam, Rotterdam and the province of Flevoland even saw the number of sales rise by between 11.4 and 19.5 percent year-on-year (Figure 1). Only in Overijssel were slightly fewer homes sold than in the same quarter of the previous year.

Figure 1: More sales nearly everywhere in the fourth quarter



Source: Statistics Netherlands, Land Registry

A total of 218,595 existing owner-occupied homes were sold last year, virtually the same number as in 2018. However, there were considerable differences within the Netherlands: in Flevoland the number of sales shot up by 10.2 percent compared to the previous year, while in Noord-Brabant there was actually a fall of 3.3 percent in the number of homes sold in 2019 (Figure 2). Noteworthy is Amsterdam, where the number of sales had been falling for three years but rose in 2019 by 2.0 percent.

Figure 2: Rises and falls in house sales

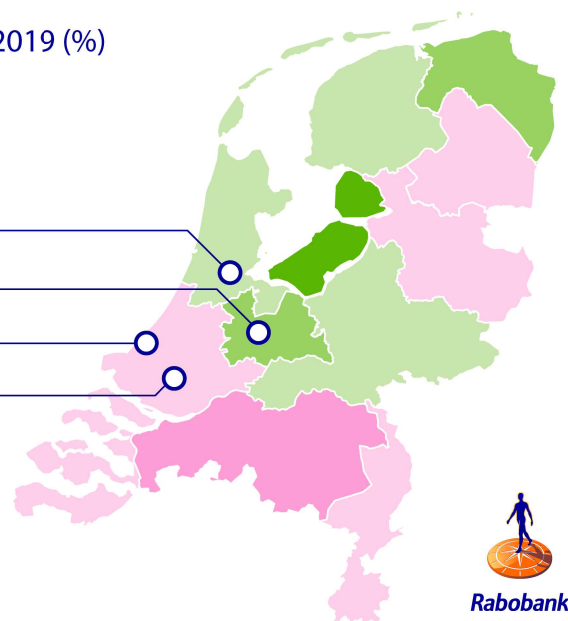
Trends in house sales between 2018 and 2019 (%)

Provinces

- -6% to -3%
- -3% to 0%
- 0% to 3%
- 3% to 6%
- 6% or more

Cities

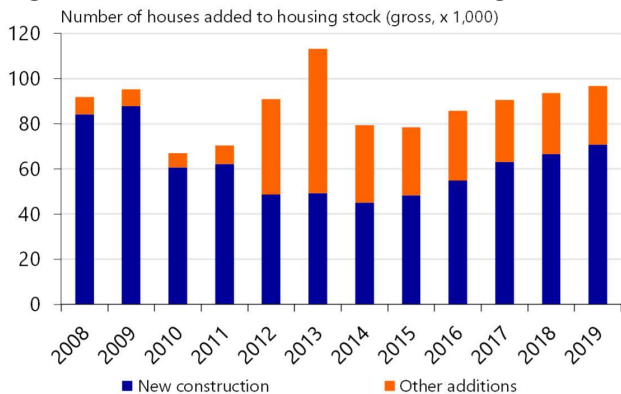
- Amsterdam + 2.0%
- Utrecht + 2.7%
- The Hague - 2.9%
- Rotterdam - 7.0%



Source: Statistics Netherlands, Land Registry

We had actually predicted a fall in sales in 2019 in the Netherlands as a whole, because we assumed that the continuing fall in supply and the squeeze on affordability would be reflected more sharply in the sales figures. That this did not happen can be explained partly by the fact that according to Statistics Netherlands (CBS) 71,000 new homes were built last year (67,000 in 2018, Figure 3). Although this has by no means solved [the housing shortage](#), these extra new homes are encouraging more movement in the housing market, as buyers of new homes generally put their current home up for sale. It was noticeable that the fall in supply of existing owner-occupied homes in 2019 was not as marked as in previous years, according to estimations of NVM Brainbay (Figure 4).

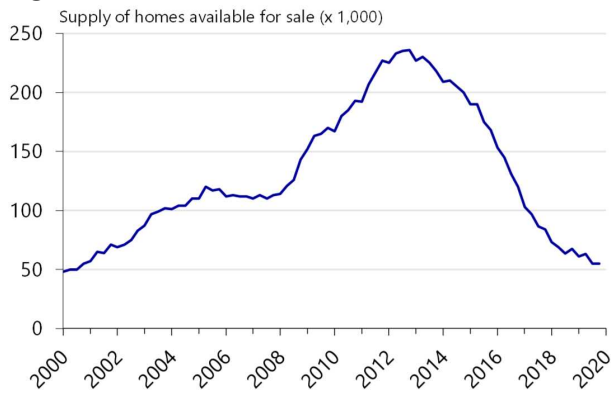
Figure 3: More houses added to housing stock



Note: excluding demolition, withdrawal from the market and (administrative) corrections

Source: Statistics Netherlands

Figure 4: Still fewer houses for sale

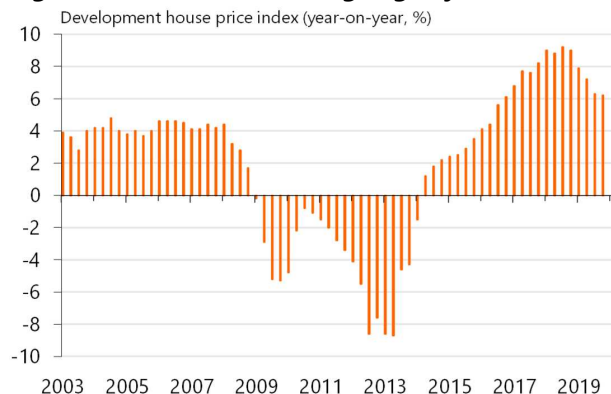


Source: NVM Brainbay

Higher price rises

According to the price index for existing owner-occupied homes by Statistics Netherlands and the Land Registry, during the last quarter of 2019 homes were on average 6.2 percent more expensive than a year earlier (Figure 5). Prices rose fastest in Groningen: 8.4 percent year-on-year. Noord-Holland, already the most expensive region, saw the lowest price rises of 5.4 percent. In Amsterdam, the growth in price rises even fell to 3.4 percent.

Figure 5: Price rises slowing slightly



Source: Statistics Netherlands, Land Registry

Due to the relatively robust rises in the fourth quarter, for 2019 as a whole prices were 6.9 percent higher than a year earlier (Figure 6). This is a stronger increase than we had expected. One reason would appear to be a further fall in mortgage interest rates in 2019. This makes buying a more attractive option, because it means that housing expenses for an owner-occupied house will usually fall compared to renting. What's more, in many cases lower mortgage rates enable potential buyers to borrow more as monthly mortgage payments remain the same. This certainly exerts upward pressure on prices in the current tight market (Figure 7).

Figure 6: Prices rising faster than expected

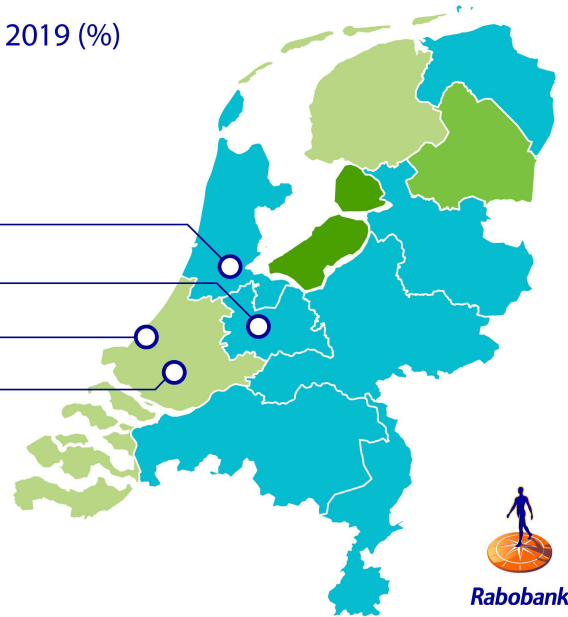
Trends in house prices between 2018 and 2019 (%)

Provinces

- 6% to 7%
- 7% to 8%
- 8% to 9%
- 9% or more

Cities

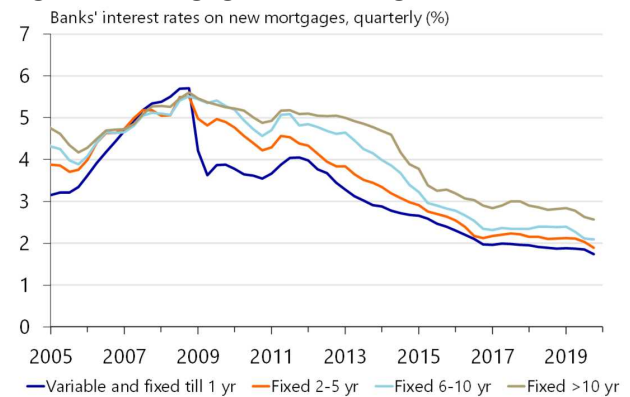
- Amsterdam + 5.7%
- Utrecht + 9.2%
- The Hague + 8.0%
- Rotterdam + 8.2%



Source: Statistics Netherlands, Land Registry

Just as with the number of sales, last year Flevoland led the field as regards price rises: the province saw prices shoot up by as much as 9 percent. Noord-Brabant brought up the rear, with a rise of 6.4 percent. Compared to previous years, Drenthe and Zeeland would seem to be catching up: the two provinces experienced relatively modest price rises in the years following the financial crisis, but last year prices rose faster than in 2018. Precisely the reverse appears to be the case in Amsterdam, where prices shot up quickly after the crisis, but the rate has now slowed considerably.

Figure 7: Mortgage rates falling further



Source: Dutch Central Bank (DNB)

The large price rises of the past year are reflected in the average prices paid by homebuyers: with an average sale price of over 308,000 euros, around 21,000 euros more was paid for a house than in 2018. Furthermore, [the difference between the least expensive and most expensive province](#) last year continued to widen, to an average of 177,000 euros. Noord-Holland remained the most expensive province in 2019 too: an average house there cost only slightly less than 400,000 euros in 2019 (Figure 8). In the province of Groningen, the least expensive region, house prices did rise a little faster than in Noord-Holland, but no more than 219,000 euros on average was paid in the province in 2019.

Figure 8: Buyer in Amsterdam pays almost half a million

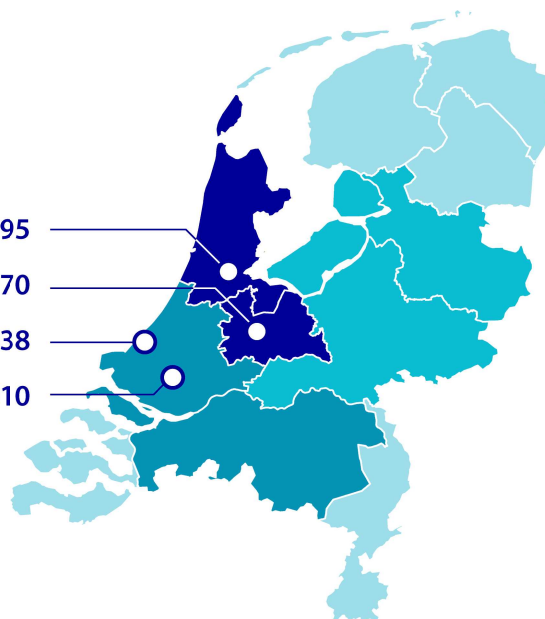
Average sales price (€) in 2019

Provinces

- 250,000 or less
- 250,000 - 300,000
- 300,000 - 350,000
- 350,000 or more

Cities

- Amsterdam € 484,995
- Utrecht € 379,770
- The Hague € 324,838
- Rotterdam € 282,910



Source; Statistics Netherlands, Land Registry

Factors affecting house prices and sales in 2020 and 2021

We expect the strongest price rises to be behind us, because house prices are now so high that [fewer and fewer people](#) can afford to buy their own house. Even so, we believe that house prices will not level off very fast this year, as there still remain other factors that exert an upward pressure on prices. These include the low mortgage rates and problems in the construction industry due to the nitrogen problems and the lack of sites available for building. We have therefore adjusted our price expectations upwards for 2020: we now assume that houses in the Netherlands will be on average 5.5 percent more expensive. For 2021 we expect house prices to rise by 2.5 percent. Taken together, these price rises mean that roughly 25,000 euros more will be paid for an average owner-occupied home in 2021 compared to 2019.

For this year and next year we also expect fewer people to buy a house. We anticipate that around 210,000 existing owner-occupied homes will have new owners in 2020, followed by around 200,000 sales in 2021. The supply of existing homes has fallen further; what's more, we expect to see a fall in the number of new-builds from the second half of this year onwards, and especially in 2021. We will discuss below the factors we expect will have the greatest influence on the housing market in the coming years (Table 1).

Table 1: Effect on price and sales movements

Factors

- ▲ — positive effect
- 0 — ambiguous
- ▼ — negative effect



	Effect on sales	Effect on prices
Declining supply of homes	▼	▲
Lower mortgage rates	▲	▲
Stricter lending standards	▼	▼
Rising income	▲	▲
(Local) government intervention	▼	▼
Rising unemployment	▼	▼
Stable confidence	0	0

Source: RaboResearch

Scant supply pushing up prices; pushing down sales

The Netherlands has a shortage of around 315,000 homes, as reported in February by [Capital Value and ABF Research](#). That equates to just as many homes as there are in a city such as Rotterdam.

Furthermore, this shortage will only intensify in the coming years as [the plummeting number of building permits](#) will lead to fewer new-builds (Figure 9). On top of this, the supply of existing homes for sale had already fallen further last year (Figure 4). The scant supply of homes generates upward pressure on prices, because the number of households will grow in the coming years and demand for homes remains high. We believe that the severe housing shortage and fall in new-builds will leave its mark on sales figures, because fewer new homes also means that fewer homeowners will move house and put their current homes up for sale.

Figure 9: Even fewer building permits granted



Source: CBS

Falling mortgage rates increase demand for homes

Demand is expected to be driven not only by the growth in the number of households, but also by low mortgage rates. As already mentioned, lower rates generally mean that potential buyers can borrow more without increasing their monthly mortgage payments. This can certainly put extra upward pressure on prices this year, because increased competition between mortgage providers appears to be pushing down mortgage interest rates. These rates have in fact fallen further in recent months, despite rising capital market interest rates. Now that the capital market rates have recently started to fall again, mortgage rates are likely to remain low during the coming months. And if [our prediction](#) of further interest rate cuts by the European Central Bank materializes, a further cut in mortgage rates during the course of this year cannot be ruled out, which could again lead to higher house prices in 2021. Low mortgage rates could also lead to more sales. By moving

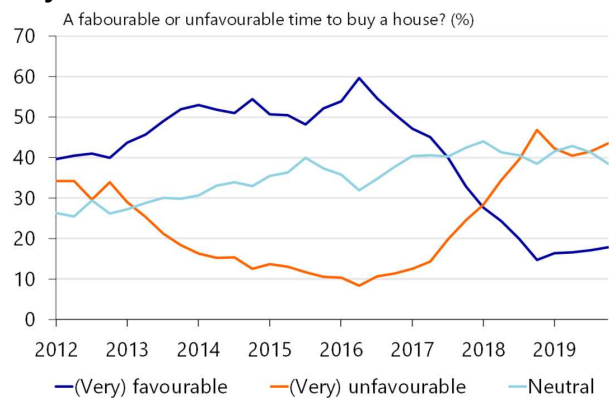
house, homeowners who a few years ago fixed their mortgages at a higher rate for a longer period of time can take out a new mortgage with lower monthly mortgage payments without incurring penalties. This may encourage more movement in the housing market, and partly for this reason we feel that the number of sales will not fall very fast.

Higher income pushing up borrowing capacity

Besides interest rates, income also plays a role in the amount that buyers can borrow. The budget institute Nibud, which sets the mortgage standards each year, has tightened up the borrowing capacity slightly for households for 2020 to take account of high inflation last year and the phasing out of mortgage interest relief. Against this, a higher percentage of a second income will be taken into account (80%, compared to 70% in 2019) and collectively negotiated wages rose last year by an average of 2.6 percent. Below the line, this means that most potential homebuyers will be able to borrow more this year and therefore offer more, which will push up prices.

For 2021 too, we expect that rising incomes will help increase the borrowing capacity of most households. This expectation could be foiled, however, if the Dutch economy weakens faster than anticipated, due to a worsening of trade relations with the United Kingdom, for example. We are already expecting unemployment to [rise slightly in the coming years](#). This will not only affect the income of households, and with it their borrowing capacity, but could also severely dampen their willingness to buy. Consumer confidence has been bumping along below zero for some time, and respondents in the [Eigen Huis Market Indicator](#) are less positive about the economic situation. Moreover, the number of people in the Netherlands who feel it is a bad or very bad time to buy a house rose again slightly during the past few quarters (Figure 10). We believe that this will contribute to house price rises levelling off faster in 2021.

Figure 10: More people feel it is a bad time to buy



Source: TU Delft/OTB, (Prospective) Homeowners' Association (Vereniging Eigen Huis)

Government policy could deter investors

A final reason why we are more cautious with our price and sales forecasts for 2020, and particularly 2021, is to do with potential policy changes in the housing market. Discussions are currently ongoing, particularly at a local level, on how to put a brake on high price and rent rises. These measures vary from a possible duty of owners to occupy new homes, to an ['emergency button'](#) for the medium-priced rental segment to combat rent rises. At a national level, higher transfer tax for buy-to-let investors is being considered.

Another important development for the housing market is [the new investment yield tax](#). As from 2022, tax on savings will be reduced, but as the government wants to make this measure budget-neutral, investors will in fact be taxed more heavily. For example, in the new system they will be taxed on a higher notional return. Investors in particular who invest with borrowed funds will pay more. This means that from 2022 onwards, Dutch residents who have financed an investment property with borrowed funds may no longer cancel out the mortgage debt against the value of the house. [Research by the PBL](#) suggests that many private landlords put their houses in box 3 of their tax returns, rather than in a separate legal entity, and will therefore be affected by this reform.

Together with other policy options currently under discussion, this could lead to uncertainty among investors concerning their future rental yields. Not only could this result in a drop in demand among buy-to-let investors, but in some cases could also mean that they put all or some of their houses up for sale. For example, they might anticipate this measure by not reletting the house when the tenant moves out, but selling it instead. Particularly in the markets in which, according to the Land Registry, a relatively large number of [buy-to-let investors](#) are active, generally the cities with institutions of higher education or universities, this may slow down house price rises. Since these are often the larger municipalities serving their surrounding areas, a downturn could [filter through](#) to surrounding municipalities. Furthermore, a downturn in a city such as Amsterdam or Utrecht could have a signaling effect on sentiment at a national level.

Key data

Economic indicators for the Netherlands

	2018	2019	2020 ^P	2021 ^P
GDP (growth, %)	2.6	1.7	1.3	0.8
Inflation (%)	1.6	2.7	1.7	1.7
Unemployment (% of labour force)	3.8	3.4	3.7	4.0

^PRabobank forecasts

House prices

<i>Quarter-on-quarter (%)</i>	2019Q1	2019Q2	2019Q3	2019Q4
Mean sales price (Land Registry)	2.8	0.4	3.5	-0.1
Housing Price Index (Statistics Netherlands/Land Registry)	1.7	1.1	1.8	1.4
WOX (Calcasa)	2.2	0.6	0.3	0.9

Sales of existing owner-occupied houses

	2019Q1	2019Q2	2019Q3	2019Q4
Houses sold (Land Registry)	47,431	52,506	58,935	59,723
Forced auctions (Land Registry)	0.4	0.3	0.1	0.3

Building permits issued (twelve-month rolling total)

	2019Q1	2019Q2	2019Q3	2019Q4
Houses (Statistics Netherlands)	66,125	64,523	60,388	-

Mortgage interest rates on new loans (Dutch Central Bank)

<i>Quarter averages (%)</i>	2019Q1	2019Q2	2019Q3	2019Q4
Maturity <= 1 year	1.88	1.87	1.85	1.74
2-5 year	2.12	2.11	2.03	1.89
6-10 year	2.39	2.27	2.11	2.09
> 10 year	2.84	2.78	2.63	2.57

Colophon

The Dutch Housing Market Quarterly is a publication of RaboResearch Rabobank. The view presented in this publication has been based on data from sources we consider to be reliable. Among others, these include Macrobond, Land Registry, NVM, DNB, CPB and Statistics Netherlands.

The date of completion is February 17, 2020.

This data has been carefully incorporated into our analyses. Rabobank accepts, however, no liability whatsoever should the data or prognoses presented in this publication contain any errors. The information concerned is of a general nature and is subject to change.

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