House prices expected to rise, urbanites continue to buy homes in cities

Dutch Housing Market Quarterly
Nic Vrieselaar, Carola de Groot and Rogier Aalders

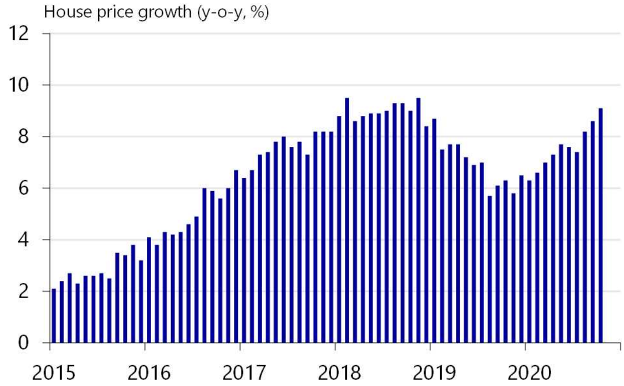
- **This year, existing homes in the Netherlands are likely to be on average 7.8 percent more expensive than in 2019, representing an increase of between 20,000 and 25,000 euros**
- **The coronavirus crisis appears to be causing homebuyers to focus their search more on larger homes, but official sales figures do not indicate an accelerating migration away from large cities**
- **Due to the more favorable economic outlook, ongoing and intense activity among housing investors and a relaxation of lending criteria, we no longer expect house prices to fall**
- **We do expect, however, that house prices will not rise as fast as in 2020: we anticipate +5.5 percent in 2021, and +2.5 percent in 2022**
- **With new housebuilding lagging behind and the limited supply of homes, we expect that the number of sales will fall from around 235,000 in 2020 to around 220,000 in 2021 and 210,000 in 2022**
- **The emotions of the bidding war combined with the sharply rising proportion of housing investors, are raising questions about the sustainability of the current house price boom**

Housing market continues to surge ahead

According to the Land Registry, house prices in October were more than 9 percent higher than a year earlier (Figure 1); sales in fact rose by 18 percent. Housing market figures therefore continue to surprise. We had expected the coronavirus crisis, through rising unemployment and uncertainty among potential buyers, to lead to fewer sales and ultimately to slower price rises and even price falls. After all, it quickly became apparent soon after the first coronavirus peak that economic activity had fallen, unemployment was rising and consumer confidence was plummeting.

Despite all this, by the end of this year some 235,000 transactions are likely to be recorded, 7.5 percent more than in 2018 and 2019. The price index for existing owner-occupied homes is expected to be 7.8 percent higher this year. That means that an average home in the Netherlands is around 20,000 to 25,000 euros more expensive than in 2019, the strongest price rise in absolute terms in almost 20 years. Tens of billions of euros in government support – which has kept down the rise in unemployment – a considerable lower mortgage rate compared to 2019, the home equity held by subsequent homebuyers moving house, the persistent housing shortage and high rents go some way to explain why the housing market continues to surge ahead this year. The presence too of investors and the intense bidding war for these scarce homes have contributed to the accelerating rise in house prices.

Figure 1: Highest price rises in 2 years



Source: Statistics Netherlands, Land Registry

Looking ahead

Fewer transactions

This year we expect more homes to be sold than in the previous two years. We assume that this is only a temporary upturn and the number of transactions in 2021 will fall by around 7 percent to around 220,000 sales, followed by 210,000 sales in 2022. The number of sales is expected to be limited as supply is low. One reason is that the 'first buy, then sell' approach still seems to be the norm, according to figures from the Funda.nl housing market website. There are no signs that this seller's strategy is shifting. Moreover, fewer new homes are expected to be delivered in the coming years as a result of the nitrogen crisis. This will put the brakes on homeowners' plans to move house, which will lead to a reduced supply of existing homes and in turn depress the number of house sales.

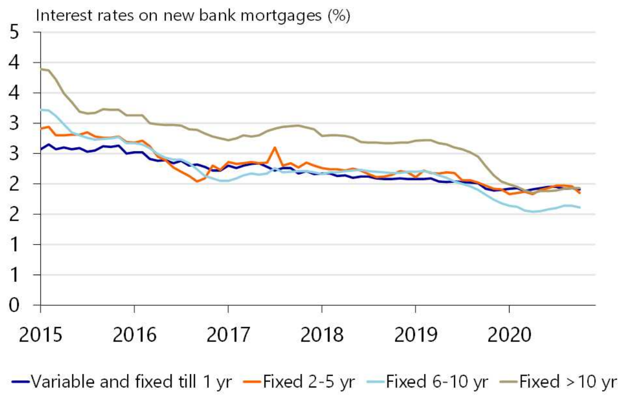
House prices rising more slowly

We expect house prices in 2021 to be an average of 5.5 percent more expensive than in 2020. More than half of this can be accounted for by a spillover from 2020. For 2022, we anticipate an average price rise of some 2.5 percent. Previously we had assumed a temporary dip in house prices, and although factors remain that will depress demand for owner-occupied homes, we now expect factors driving up prices to dominate, resulting in further upward pressure on prices. For example, the economic picture is more favorable and there are new developments propping up prices.

From 2021, house buyers younger than 35 years will no longer pay any transfer tax (from 1 April, this exemption will only apply to houses sold for 400,000 euros or less). The financial breathing space this will create will enable buyers to make higher offers, which will produce further upward pressure on prices in today's already tight housing market. Furthermore, the government has relaxed the mortgage criteria for double-income households and for those with student loans to repay. This will also enable house buyers to make higher offers from next year. The price-increasing effect of these policy measures is expected to be felt particularly in 2021.

On top of this, this year we have seen mortgage interest rates falling further year-on-year (Figure 2), meaning that house buyers with a certain level of income will be able to borrow more from now on and so will be able to make a higher offer, pushing up prices further in 2021. Finally, for some people the coronavirus crisis appears to have prompted them to actively focus their search on larger homes (see the theme 'Spotlight' in the box). This trend may still be felt in 2021, but in 2022 we expect the effect to be reduced.

Figure 2: Mortgage interest rates lower than in 2019



Source: DNB

Some factors suppress demand

Against these factors pushing up demand, however, there are a few factors suppressing this demand. For example, for the coming years the demand for owner-occupied homes is likely to be restrained by the coronavirus crisis and its aftershocks. Unemployment is expected to rise from an average of 3.9 percent in 2020 to 5.3 percent in 2022, especially among young people and those on flexible contracts, but reorganizations and bankruptcies will mean that those on permanent contracts – often homebuyers – will also feel the effects of the coronavirus crisis in the coming years. Furthermore, it remains to be seen how readily young people will be given a permanent employment contract in the coming years, while permanent employment is still often a determining factor in the desire and the opportunity to buy a house.

We also expect demand among investors to decline slightly next year. Looking ahead to the much higher rate of stamp duty they will have to pay from 2021 onwards (8 percent instead of 2 percent), some investors have brought forward their purchasing decisions so they can still take advantage of the lower tax rate. According to some, we are therefore currently seeing an 'autumn rally' among investors, which would imply that next year they will be buying fewer homes to let. Alongside this tax measure, there are other measures in the offing that could temper demand among investors.

Concern about jubilant sentiment

A certain level of optimism concerning house prices would appear to dominate among market parties and homeowners, and perhaps also a sense of relief that, for the time being, the housing market seems to be emerging unscathed from the coronavirus battle. Even so, the acceleration in house price rises is causing us some concern, as it has widened again significantly the gap between Dutch incomes and the price that has to be paid for a house, while the affordability and accessibility of a home in the Netherlands has already been worsening significantly in recent years. This has consequences too for homeownership amongst young adults on middle incomes, for example, which has already declined considerably in recent years. Furthermore, there are two factors of a more transitory nature that may contribute to the current increase.

Price trends might be more fragile

First, an intense bidding war is raging for owner-occupied homes. Although this is nothing unusual in view of the housing market shortages, registration procedures where several interested parties have to submit their final offers simultaneously are becoming more the norm. According to the Dutch Association of Real Estate Brokers (NVM), more than half of all houses are being sold above the asking price or the 'offers above' price. The tension of a bidding war has consequences for house price trends. Several bidders for a house not only push up transaction prices (Hungria Gunnelin 2019) but also increase the risk of being the victim of a 'winner's curse'. This is the risk that the bid is too high compared to other bids and that the winning bid is higher than the actual value of the property (Thaler, 1988).

Second, price trends may have become more fragile due to the large number of investors in the housing market, who according to the Land Registry are clearly making their mark especially in the large cities. Research by the Land Registry has shown that buy-to-let leads to more demand for homes, and in turn leads to extra upward pressure on prices. But if other investments become more lucrative in the future as a result of policy changes or higher interest rates, for example, there is the risk that demand from investors may decline, resulting in more volatile house prices.

Policy response more harmfull than good

Another cause for concern is that the response of policymakers to the current rising house prices is to abolish transfer tax for starters and relax the borrowing criteria. In this tight housing market, this will not make houses more achievable but only more expensive for starters and those moving up the property ladder. A relaxation of mortgage criteria does not in fact lead to extra homes, but may well lead to a vicious cycle of higher house prices, more relaxed borrowing standards, even higher prices, and even more relaxed criteria, while underlying housing costs just keep rising.

Spotlight: preferably a mid-terrace house than an apartment, but still in the city despite the coronavirus

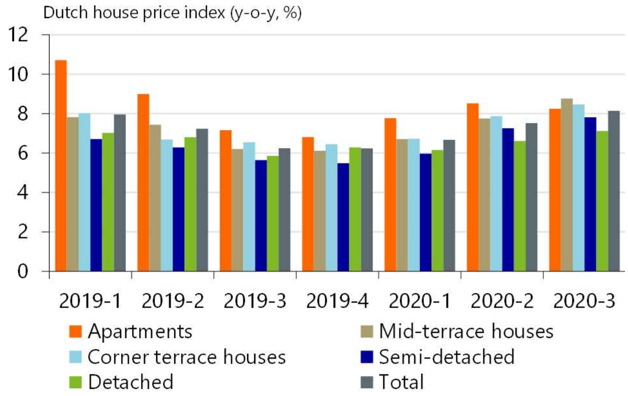
Since the coronavirus crisis we have seen growing interest in larger homes. But contrary to what we thought, there is hardly any rise in the number of city-dwellers in the four largest cities (G4) buying a house in the countryside. Their new house is most often in an urban residential environment.

House and garden gaining appeal

Since the first peak in the pandemic, with its intelligent lockdown, homeworking has become more and more the norm. Homeworking, and being confined to one's house, has increased the popularity of larger homes with a good workspace and outside space. This is apparent from searches on the Funda.nl housing market website. To illustrate, during the first two months of the coronavirus crisis the 'garden' filter was used around 34 percent more frequently by serious house hunters than in the preceding two months. Conversely, people are looking less for apartments (Funda.nl, May 2020; October 2020).

This would also seem to have consequences for price trends of apartments, as unlike the acceleration in house price rises nationally, price rises for apartments slowed somewhat during the third quarter (Figure 3). And for the first time since 2014, the price rises for mid-terrace houses are outclassing those for apartments. Changes too in selling times suggest a rising popularity of larger homes. Where, according to the NVM, selling times for semi-detached homes stood at 37 days before the coronavirus crisis, in the third quarter this had fallen to an average of 26 days. In the past eighteen months the selling time for apartments and mid-terrace homes has fluctuated around a very low level of around 27 and 25 days.

Figure 3: Mid-terrace homes in particular becoming more expensive



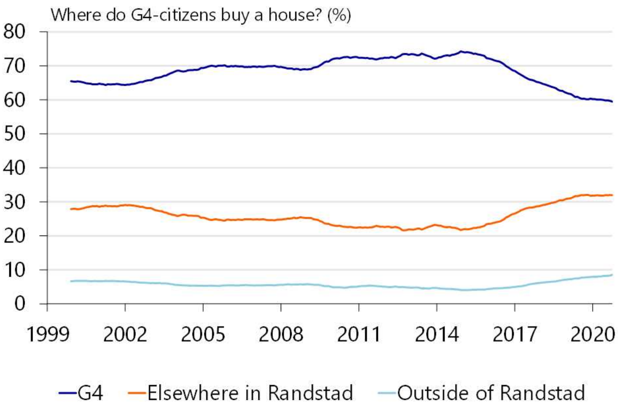
Source: Land Registry

Former G4 residents still living in the city

According to recent Land Registry figures, the rising popularity of larger homes to buy has not yet led to an accelerated migration from the four largest cities (G4).[1] During the housing market crisis from 2008 to 2013, those living in one of these cities were more likely to choose a home in their own city or one of the other G4 cities. This trend was reversed in 2015 (see Figure 4).

Since then, those living in the large urban areas have tended to move to a house elsewhere in the Randstad (that proportion rose from 22 to 32 percent) or outside the Randstad (that proportion rose from 4 to 9 percent). Strikingly enough, this rise has not yet accelerated because of the coronavirus crisis, but has in fact flattened off recently. It would therefore seem that the trend to move from cities to the country has tended to stabilize rather than change.

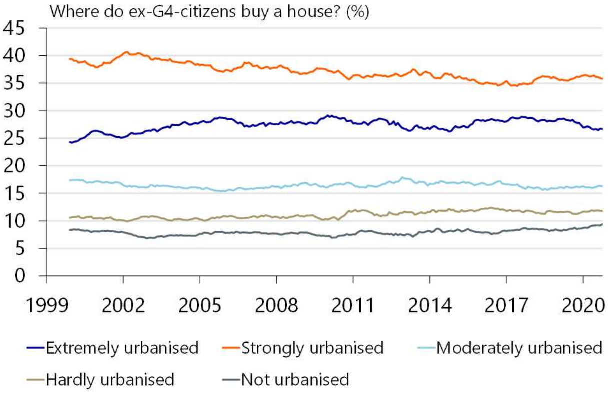
Figure 4: Coronavirus seems not to drive city-dwellers out of the city



Source: Land Registry, RaboResearch

What is striking is that Dutch residents moving away from the four largest cities frequently choose to buy a house in a highly urbanized neighborhood(Figure 5), and this has not changed since the coronavirus crisis. In other words: for the time being, living in an urban environment remains consistently popular. Since 2010, non-urban (i.e. rural) districts have gained slightly in popularity, but there is no sign yet of a coronavirus-related acceleration.

Figure 5: G4 city-dwellers buy homes outside the four biggest cities mainly in highly urbanized neighborhoods



Source: Land Registry, RaboResearch

Things can change

Despite the discussion surrounding the migration from the city prompted by the coronavirus crisis, we are not yet seeing any acceleration in the number of city-dwellers buying homes in less urban environments. It may be too early to see this reflected in the figures. It is extremely uncertain, for example, how homeworking will take shape in the future and whether towns and cities will regain their bustling character after the crisis. So it is only logical for those who perhaps would like to move out of the city to wait and see how the post-coronavirus world will turn out.

Furthermore, it is quite possible that a mass migration of city-dwellers to the country will not happen at all. After all, proximity to work is not the only reason why people have ties with cities. Think, for example, of friends and family living in the neighborhood, and amenities such as shops, museums, restaurants and bars, and schools for the children. Choosing to live somewhere else therefore often involves a decision to break those ties. And that suppresses the migration from the city to the country.

Footnote

[1] The data used runs until the end of October and relates to the moment when the Land Registry receives the deed of transfer from the civil-law notary. This is on average three months after signing the contract of sale.

Author(s)

Nic Vrieselaar

RaboResearch Netherlands

+31 6 2216 2257

Nic.Vrieselaar@rabobank.nl

Carola de Groot

RaboResearch Netherlands

+31 6 8317 6813

Carola.de.Groot@rabobank.nl

Rogier Aalders

RaboResearch Netherlands

+31 6 1096 6790

Rogier.Aalders@rabobank.nl