Rabobank

# The divide between east and west is growing in the Dutch housing market

**Dutch Housing Market Quarterly**
**Christian Lennartz and Nic Vrieselaar**

- **A new record was reached in the third quarter of 2017 with over 61,000 houses sold**
- **House prices rose in those three months by an average of 7.5%**
- **In the past quarter not only the share, but also the number of young buyers has fallen**
- **For 2018 we expect the number of sales to drop to 225,000. Prices are expected to rise by 7%**
- **We expect that the new government's proposed policy on house-building and mortgage interest relief will not have a substantial impact on house prices in the short and medium term**

## Introduction

The Dutch economy is performing well with rising employment, increasing consumer spending and high confidence. This economic recovery can also be seen on the housing market where yet again more houses were sold in the third quarter, with buyers paying on average over 7.5% more than a year earlier. Even so, the third quarter appears to be heralding a turning point in the number of sales. Moreover, a new government has recently been formed which wants to reduce the fiscal deductibility of the mortgage interest rate.
This Housing Market Quarterly sets out the main trends and expectations for the Dutch housing market.

## The market for existing owner-occupied homes

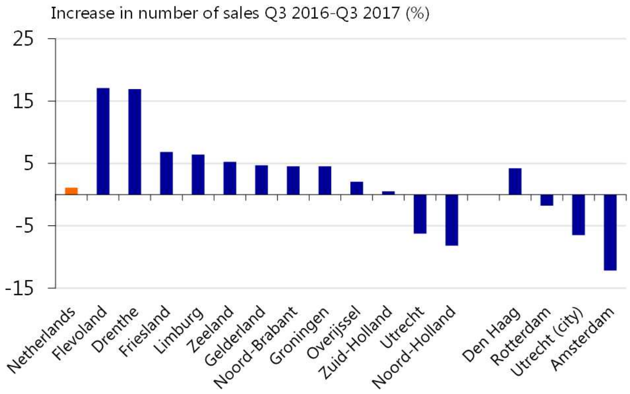
### Sales

Never before have so many houses been sold in a three-month period as in the third quarter of this year. No fewer than 61,391 homes changed hands, which is 1.1% more than in the same quarter of 2016. It is likely though, that for the time being this is the last sales record the Dutch housing market will set, as in the last month of the quarter, September, 1.8% fewer homes were sold than a year earlier. This probably is not due to dwindling demand for owner-occupied homes, which remains strong thanks to rising employment, high confidence levels and persistently low interest rates. It seems that the falling supply of affordable homes is the limiting factor. The figures published on the housing website HuizenZoeker, for example, show that the number of homes for sale during the past quarter was 30% lower than a year earlier, but it is good to note that in principle there is no direct correlation between the number of homes for sale and the number of transactions.

We have in fact seen the figures for the number of homes for sale falling for some time now, while the number of recorded sales is breaking record after record. This shows that the time it takes to sell a house has become important. In areas where homes are sold in no time, these homes do not even feature in the statistics of homes on the market. Nevertheless, in large parts of the Randstad the tide has indeed been turning in the owner-occupied housing market. In Zuid-Holland, for example, only 0.5% more homes were sold in the third quarter than a year earlier, and the number of transactions in Utrecht fell by 6.3% while in Noord-Holland the fall was 8.2%. This exposes yet again a sharp contrast in the housing market, as in the other nine provinces the average year-on-year rise in sales was around 6%. In Drenthe and Flevoland, the rise in the number of sales in the past quarter compared to a year earlier was as much as 17% (see figure 1).

Besides the regional differences, there is also a widening gulf between young and old in the housing market. In the previous Housing Market Quarterly we were already writing about the declining share of house buyers younger than 35 years. The figures for the third quarter also indicate that they are increasingly facing obstacles. Not only has the share of buyers under 35 years contracted even further in the third quarter, in contrast to the older generations they also bought 2.6% fewer houses than a year earlier (see figure 2). The shrinking supply and rising prices would therefore seem to be particularly affecting first-time buyers and young homeowners. Older homeowners are more likely to have their own resources when they want to buy a new home, while recovering house prices also mean they have surplus equity.

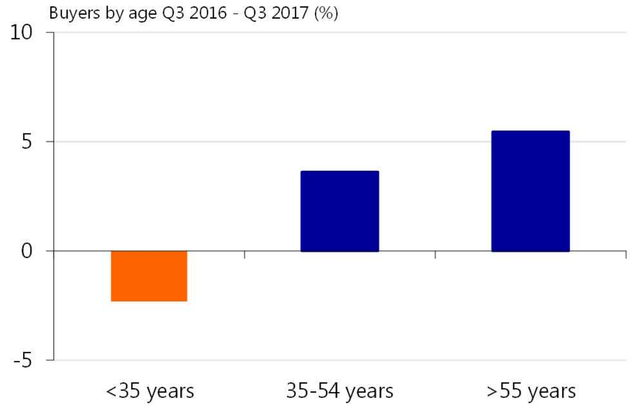
**Figure 1: Fewer sales in the western provinces**




Source: Statistics Netherlands (CBS), Rabobank

We therefore expect the share of first-time buyers on the housing market to contract further in the coming quarters, and since they remain the largest 'target group' for owner-occupied homes the number of transactions will also fall further in 2018. Almost 176,000 houses have been sold during the year so far and we anticipate a total of around 240,000 sales for 2017 as a whole (see figure 3). This is expected to fall back to 225,000 in 2018 (see 'Other factors influencing the market' for a further explanation). This effect will be felt above all in the Randstad, because provinces where shortages on the market are less severe, such as outside the larger towns and cities and in the north, east and south of the country, are likely to see the number of sales continue to rise for a few more quarters.

**Figure 2: Younger people buy fewer homes**

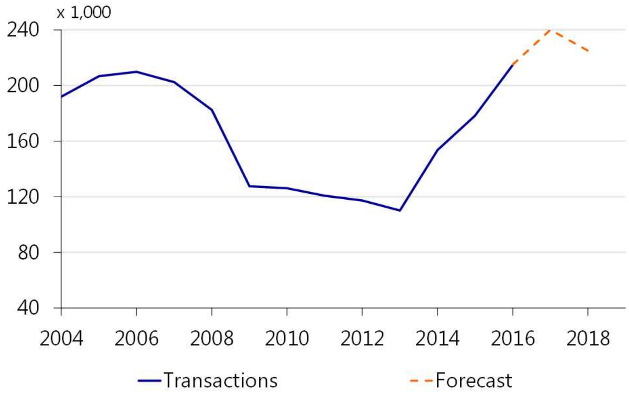



Source: Statistiscs Netherlands (CBS), Rabobank

## Prices

House prices in the Netherlands rose sharply again in July, August and September. A house was on average 2.3% more expensive in the third quarter than in the second quarter, and cost over 7.5% more than a year earlier. Just as with the number of transactions, there was considerable variation between the provinces, where homes in the west of the country are already almost as expensive as in the peak year of 2008 or have even exceeded that year's average prices, as is the case in Noord-Holland and the four largest cities (see figure 4).

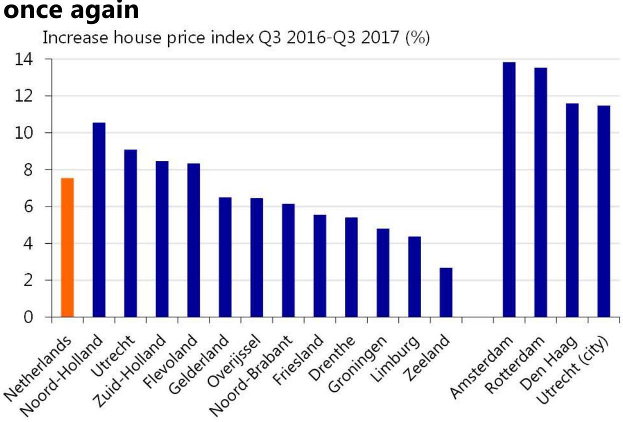
**Figure 3: Sales of owner-occupied homes on the Dutch market**




Source: Statistics Netherlands (CBS), computations by Rabobank

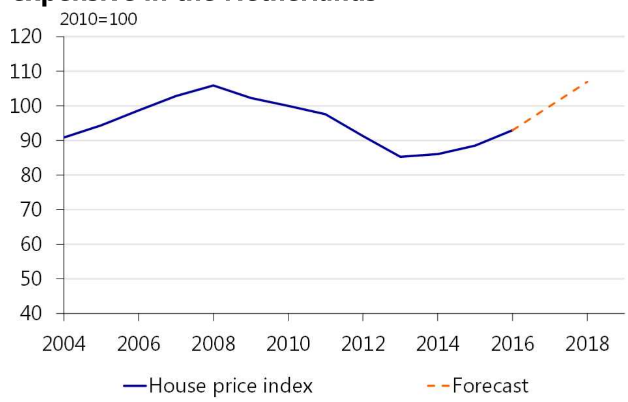
We expect further price rises too on the Dutch housing market in the fourth quarter. Interest rates are low and are expected to remain so in 2018. At the same time, the Dutch economy grew more strongly than expected in the first half of the year and everything is pointing to a positive second half as well. Employment is growing, leading to rising disposable household incomes. For this reason, just as in the previous Housing Market Quarterly we predict average price rises of 7.6% for this year and 7% for the coming year (see figure 5).

**Figure 4: Noord-Hollands leads the price hike once again**




Source: Statistics Netherlands (CBS), Rabobank

**Figure 5: Houses expected to become more expensive in the Netherlands**




Source: Statistics Netherlands (CBS), computation by Rabobank

# Other factors influencing the market

Besides factors such as the number of households, their income and mortgage rates, which we include in the model of house prices, of course other factors too are playing an important role in the Dutch housing market (see table 1).

**Table 1: Other factors influencing the market**

| *Factors* | *Influence on sales* | *Influence on prices* |
|---|---|---|
| Affordability | ↓ | ↓ |
| Financing standards | 0 | 0 |
| NHG limit | ↑ | ↑ |
| Politics | 0 | 0 |
| Confidence | ↑ | ↑ |

Source: Rabobank

## Consumer confidence

Confidence among buyers is one such factor. Consumer confidence in the economy and in the owner-occupied housing market has been at a historic high for some time.[1] During the past two years this high confidence has kept up demand for houses, with the result that in many regions potential buyers even put in offers above the asking price. For the time being there are no indications that potential buyers expect anything to change in the housing market and the demand for owner-occupied homes and the prices that buyers are prepared to pay will remain high.

## Affordability

Although average prices on the Dutch housing market are only a few percentage points below their peak in 2008, in most provinces they are still clearly lower than in that year. In contrast to purchase prices, though, rents in the private rental sector in particular have risen in the intervening years. In combination with mortgage rates that have also remained low in the third quarter and interest rates on the money markets that are not expected to rise in 2018, renting will remain an expensive alternative to buying. As far as affordability is concerned, the demand for owner-occupied homes will therefore be maintained.

## Shortages

The combination of record sales and a falling supply of houses for sale has intensified the shortage on the Dutch housing market in the past quarter. Whoever wants to buy a house today has to compete more often with other buyers and is therefore forced to make a fast decision to buy. Here we do not anticipate any significant change in the short term (in the coming year) either, because the number of planning consents granted two to three years ago is not producing a much needed rise in the number of new homes.

## New financing standards of the Nibud and the NHG

Whoever wants to buy a house from 2018 onwards will only be able to borrow 100% of the house value. This year the figure is still 101%. This may have a small effect on price trends, but is likely to be negligible. This loan-to-value ratio had already been reduced last year, but even so prices rose even faster. It could have an effect on demand among first-time buyers and their position since they must now finance all the purchasing costs themselves, which given the fast-rising prices is a difficult task at present.

Counterbalancing the tighter loan-to-value ratio is the second income, more of which can be taken into account from 2018 onwards (see Box 1). This could drive up prices, but the effect is expected to be less than may appear at first sight. More than three-quarters of Dutch women still only work part-time, even at a young age, and therefore have a relatively low income. The extra amount that can be borrowed by including more of the second income is therefore not very significant. What's more, those on lower incomes are expected to be able to borrow less under the new standards, so the net effect will be limited. However, the threshold at which new buyers can take out a National Mortgage Guarantee (NHG) will be higher because house prices in the Netherlands have risen so fast.

For the large towns and cities and many other parts of the Randstad this is not likely to have much effect – homes there are often already much more expensive than the NHG threshold (see Box 1). But in regions where this is not yet the case, such as in the north of the country, there are still more houses for sale at the lower mortgage rates that buyers are offered by the banks thanks to the guarantee. This may create upward pressure on prices in these regions.

**Box 1: NHG threshold and lending standards in 2018**

- From 1 January 2018 the threshold of the National Mortgage Guarantee (*Nationale Hypotheek Garantie* - NHG) will be raised from 245,000 to 265,000 euros (plus 8 %)
- In addition, the NHG threshold for homes which have had investment in energy-saving facilities will rise to a maximum of 280,900 euros. The mandate of the Homeownership Guarantee Fund (*Waarborgfonds Eigen Woningen*) will therefore be extended in order to help achieve the climate targets within the existing housing stock
- On Thursday 19 October, the budget information institute Nibud announced its proposal for the new debt-to-income limits from 2018. These are virtually the same next year as the lending standards in 2017
- The main reasons for this are that the predicted trends in purchasing power and mortgage rates will hardly change and the debt-to-income limit will be averaged over four years
- However, more of the second income can be taken into account, namely 70% instead of 60%
- Households with a higher income, from around 45,000 euros, will have a higher debt-to-income limit due to an expected average rise in wages of 2.2%, while households with a relatively low income, non-working households or households whose income does not rise so much will probably not be able to borrow as much

## The coalition agreement of the Rutte III government

A final point is the question whether the plans of the new governing coalition of VVD, CDA, D66 and ChristenUnie (see Box 2) will have an effect on house prices and the number of transactions in the short term. We suspect it will not, because the changes relating to income tax, mortgage interest relief and the notional rental value (*eigenwoningforfait*) will only come into force after 2018. We do not expect any major effects in the medium term either, because the lower mortgage interest relief will be compensated by a lower notional rental value and lower income tax, for example. The government's plans therefore maintain the tax incentives that make owner-occupied homes more attractive than homes in the private rental sector. However, it is possible that the proposed changes will have an effect on sentiment among buyers. For example, they may become more cautious as mortgage interest relief is reduced more quickly, but it may also cause a minor run on housing among those still wanting to make use of the higher mortgage interest relief while it lasts.

**Box 2: The housing market in the coalition agreement**

***Financing standards for owner-occupied homes***

- The new governing coalition of VVD, CDA, D66 and ChristenUnie does not want to reduce the maximum loan-to-value ratio any further. This will therefore remain at 100% from 2018 onwards.
- From 2020, mortgage interest relief will be reduced more quickly, by 3% a year, so that by 2023 it will have reached the lowest rate (36.93%) of the two-band tax system proposed by the government.
- Following a reform of the pension system in the coming government term of office, the government will study the options for tackling the division between capital accumulation in pensions and that in owner-occupied homes.

***Rental market***

- The new government aims to create a larger supply of affordable homes in the private rental sector. This must be achieved, in its view, by enabling municipalities to manage rents and by deregulating social rental housing.
- The tasks of housing associations remain largely focused on what are known as the DAEB activities (letting and management of social housing), where commercial non-DAEB activities will still be permitted if market parties are not willing to invest in a medium-priced rent. The market test for this must be simplified.
- The basic rent, that part of the rent on which no housing benefit is received, will rise in the future only by the average rent increase. As a result, the basic rent for many recipients will be higher than under the old system. On the other hand, the government will be scrapping the fixed income threshold. Instead, the housing allowance will be gradually phased out for higher incomes. This measure will lead to a rise in the number of potential recipients.

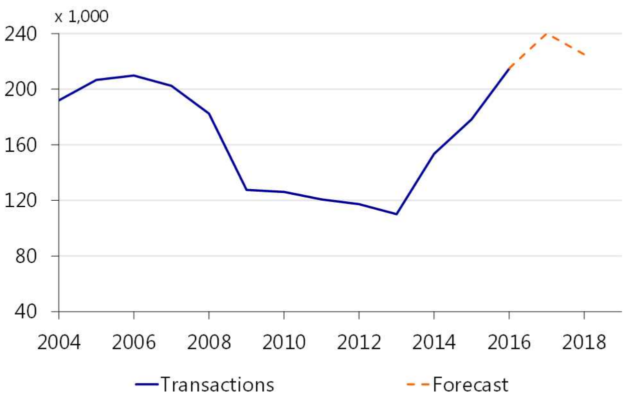
***House-building***

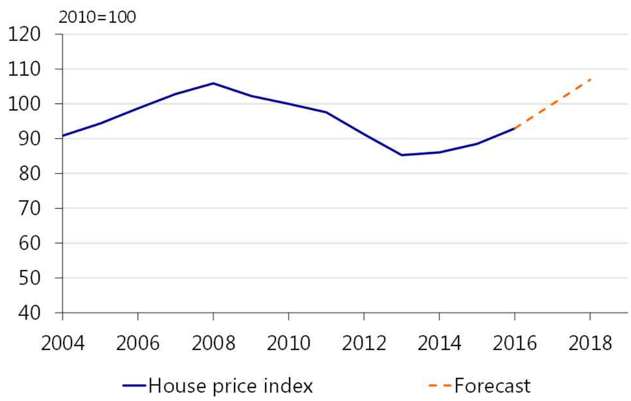
- In consultation between government bodies, housing associations and stakeholders, the number of new homes being built must be increased. The government sees its role above all in removing obstacles.
- More attention in the building process should be given to the needs of the various groups such as older people, single people and residence permit holders.

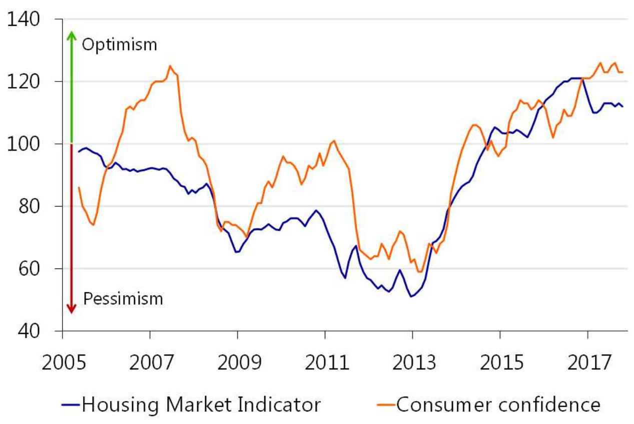
**Footnote**

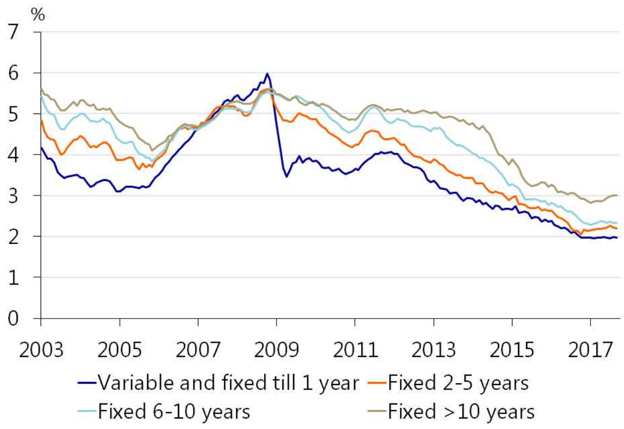
[1] A survey by Rabobank and Kantar TNS among 1,560 Dutch people also shows that most people in the Netherlands expect house prices to rise further over the coming two and ten years.

## Charts






# Key data

| *Economic indicators for the Netherlands* | | | | |
|---|---|---|---|---|
| | *2015* | *2016* | *2017a* | *2018a* |
| GDP (growth, %) | 2.0 | 2.2 | 3.3 | 2.4 |
| Inflation (%) | 0.2 | 0.1 | 1.4 | 1.5 |
| Unemployment (% of labour force) | 6.9 | 6.0 | 5.0 | 4.5 |

[a]Rabobank forecasts

| *House prices* | | | | |
|---|---|---|---|---|
| *Quarter-on-quarter (%)* | *2016Q4* | *2017Q1* | *2017Q2* | *2017Q3* |
| NVM (mean sales price) | -1.0 | 4.1 | 1.5 | 2.6 |
| Land Registry (mean sales price) | 1.1 | 2.0 | 1.9 | 2.4 |
| Statistics Netherlands/Land Registry (housing price index) | 1.6 | 1.8 | 2.2 | - |
| Calcasa WOX | | | | |

| *Sales of existing owner-occupied houses* | | | | |
|---|---|---|---|---|
| | *2016* | *2016Q2* | *2017Q2* | *2017Q3* |
| Houses sold (Statistics Netherlands/Land Registry) | 214,793 | 55,911 | 58,370 | 61,319 |
| Forced auction (Statistics Netherlands/Land Registry) | 2,114 (1.0%) | 532 (1.1%) | 335 (0.6%) | 244 (0.4%) |

| *Building permits issued* | | | | |
|---|---|---|---|---|
| | *2016* | *2017Q1* | *2017Q2* | *2017Q3* |
| Total (Statistics Netherlands) | 53,567 | 16,428 | 15,690 | - |

| *Mortgage interest rates* | | | | |
|---|---|---|---|---|
| *Quarter averages (%)* | *2016Q4* | *2017Q1* | *2017Q2* | *2017Q3* |
| *Outstanding mortgages (Dutch Central Bank)* | *3.62* | *3.55* | *3.47* | *3.39* |
| Maturity <= 1 year | 2.29 | 2.25 | 2.21 | 2.18 |
| 2-5 year | 2.60 | 2.59 | 2.53 | 2.48 |
| > 5 year | 3.62 | 3.56 | 3.47 | 3.39 |
| | | | | |
| *New mortgages (Dutch Central Bank)* | *2.40* | *2.39* | *2.41* | *2.42* |
| Maturity <= 1 year | 1.97 | 1.96 | 1.98 | 1.98 |
| 2-5 year | 2.13 | 2.17 | 2.20 | 2.23 |
| 6-10 year | 2.32 | 2.31 | 2.36 | 2.34 |
| > 10 year | 2.87 | 2.85 | 2.89 | 3.00 |

# 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 November 10th, 2017.

For more information. please call the RaboResearch secretariat on tel. +31 (0)30 – 216 6666 or send an email to 'raboresearch@rabobank.nl'.

Text contributors:
Christian Lennartz and Nic Vrieselaar

Editor-in-chief:
Menno Middeldorp, Head of RaboResearch Netherlands, Rabobank

Production coordinator:
Christel Frentz



Author(s)

**Christian Lennartz**
RaboResearch Netherlands
+31 6 2001 6607
Christian.Lennartz@rabobank.nl

**Nic Vrieselaar**
RaboResearch Netherlands
+31 6 2216 2257
Nic.Vrieselaar@rabobank.nl