

Dutch housing market

Amsterdam • 1 December 2015

thinkforward



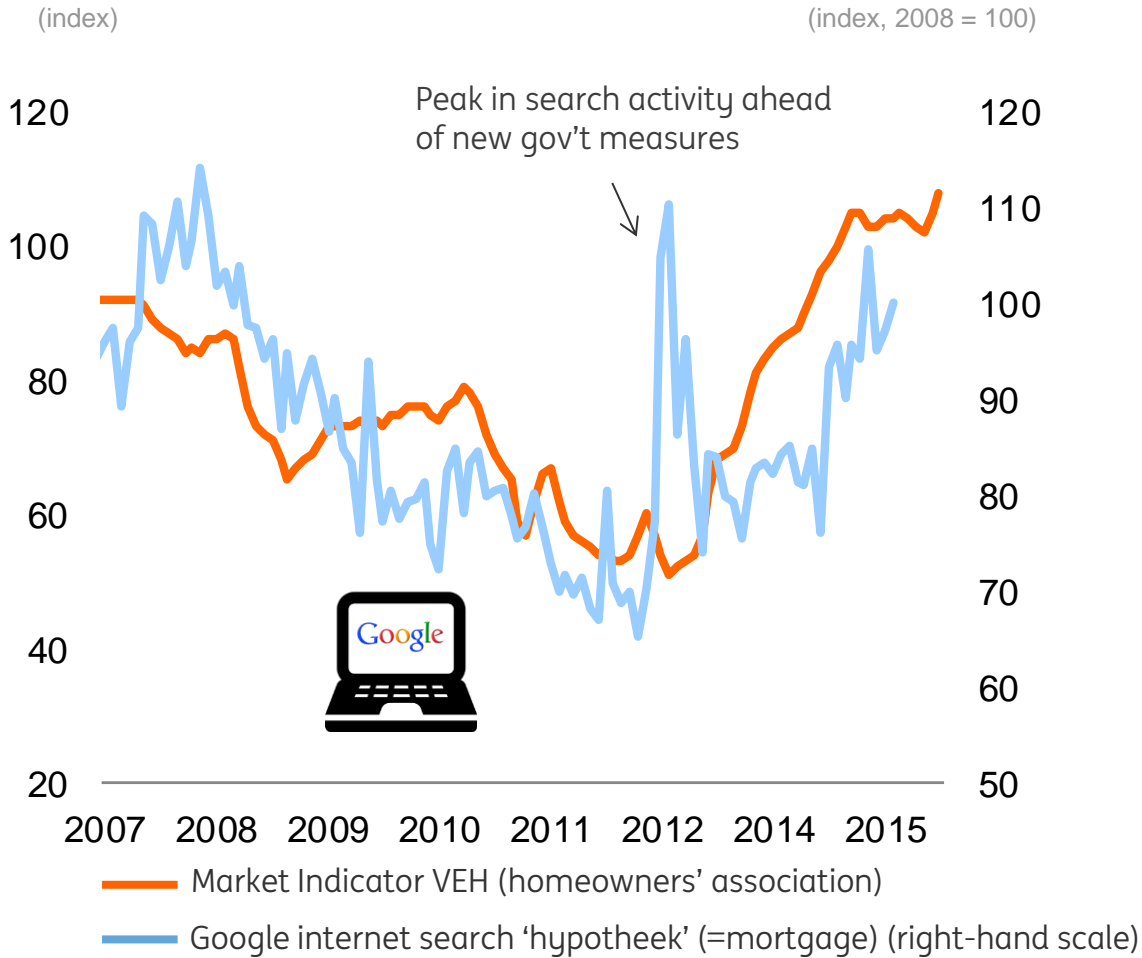
Forecast table

	2009	2010	2011	2012	2013	2014	2015	2016
Demand and output								
	per cent change unless otherwise noted							
Gross domestic product	0.0	0.5	-0.5	-1.4	-0.5	1.0	2.0	2.5
Private consumption	-2.1	0.0	0.2	-1.2	-1.4	0.0	1.7	2.0
Government spending	4.7	1.0	-0.2	-1.3	0.1	0.3	0.2	0.7
Investment	-9.2	-6.5	5.6	-6.3	-4.4	3.5	9.7	4.6
of which private	-12.0	-7.2	7.8	-6.2	-4.9	4.9	11.8	5.7
Net exports (%-point contribution to GDP)	-1.5	1.5	0.9	1.1	1.1	0.5	0.0	-0.1
Labour and housing market								
Employed labour force	0.0	-1.0	0.0	0.6	-0.8	-0.7	1.0	0.8
Unemployment (% of labour force)	4.4	5.0	5.0	5.8	7.3	7.4	6.9	6.5
House prices	-3.4	-2.3	-2.4	-6.5	-6.6	0.9	2.9	2.9
Existing home sales (in 000s)	128	126	121	117	110	154	178	190
Government finances								
Government budget (% of GDP)	-5.4	-5.0	-4.3	-3.9	-2.4	-2.4	-2.1	-1.8
Government debt (% of GDP)	56.5	59.0	61.3	66.1	67.6	67.9	66.2	64.3
Prices and rates								
Inflation (HICP)	1.0	0.9	2.5	2.8	2.6	0.3	0.2	1.0
Euribor, 3 month (% eop)	0.7	1.0	1.5	0.2	0.2	0.1	-0.1	-0.2
Dutch gov't bond yield, 10yr (% eop)	3.4	3.0	2.5	1.6	2.1	0.8	0.6	1.1

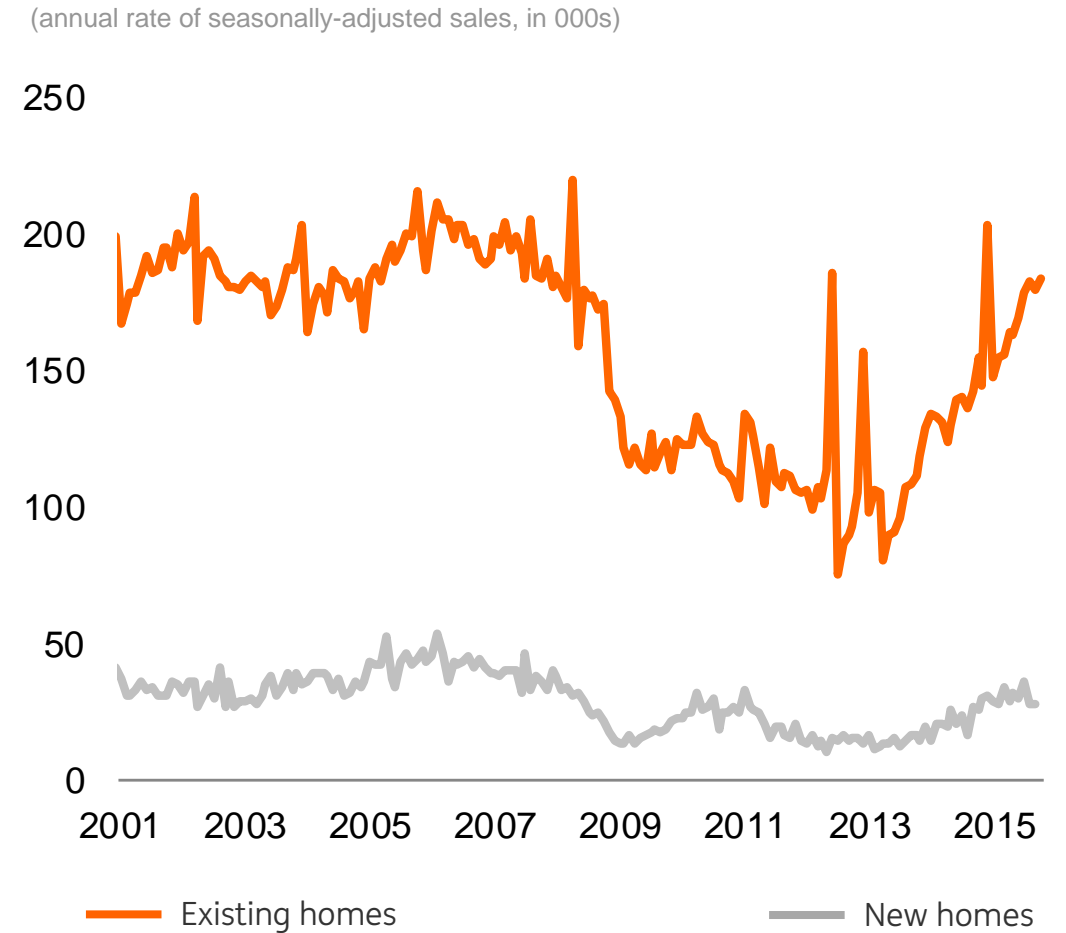
Housing market – current developments

Home buying activity is approaching pre-crisis levels

Home-buying sentiment is improving



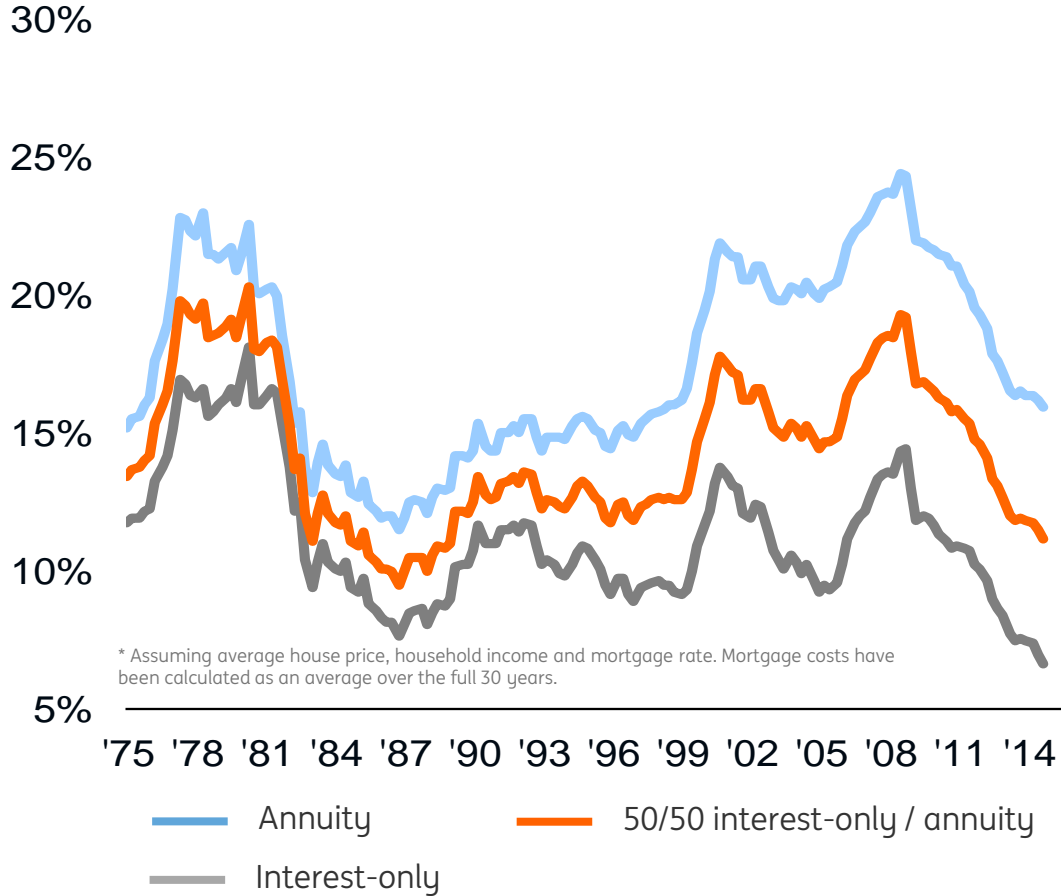
Sales of new and existing homes have surged



Affordability has improved significantly

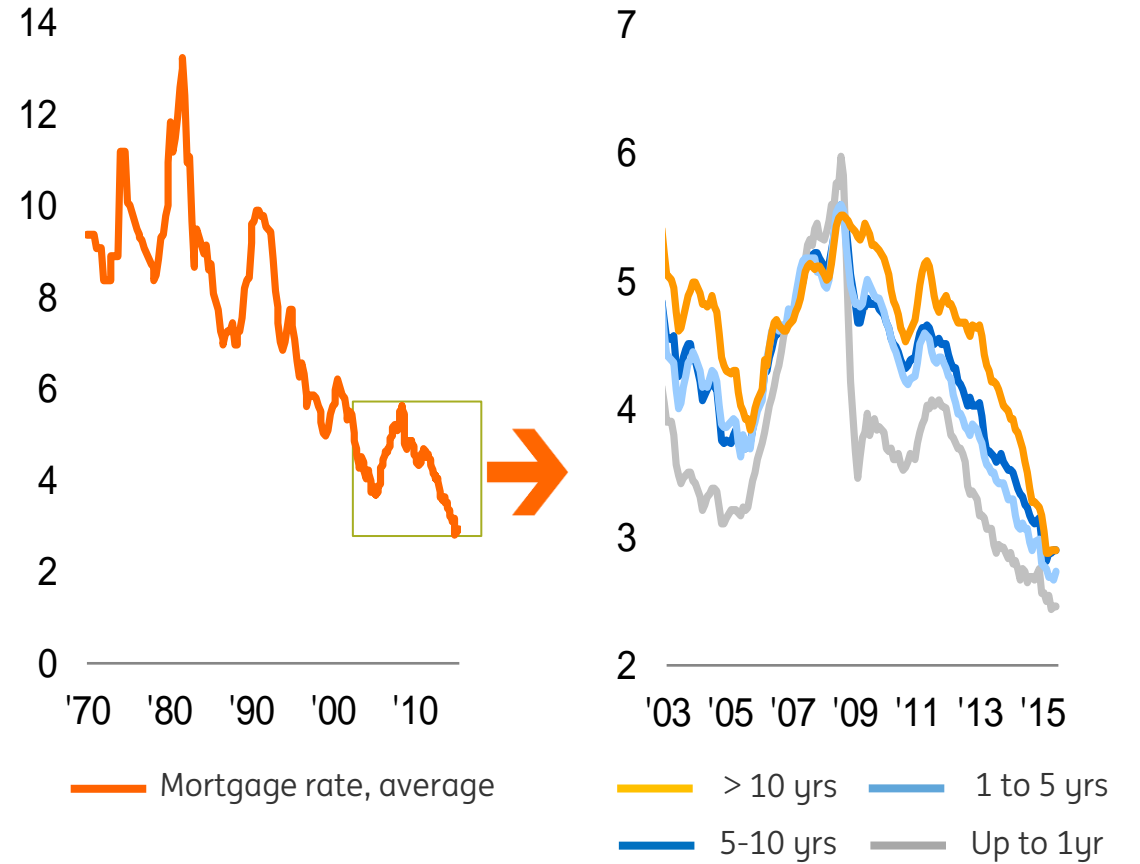
Dutch homes have become much more affordable...

(average after-tax mortgage costs* as % of income, different mortgage types)



...as mortgage rates have dropped to historically low levels

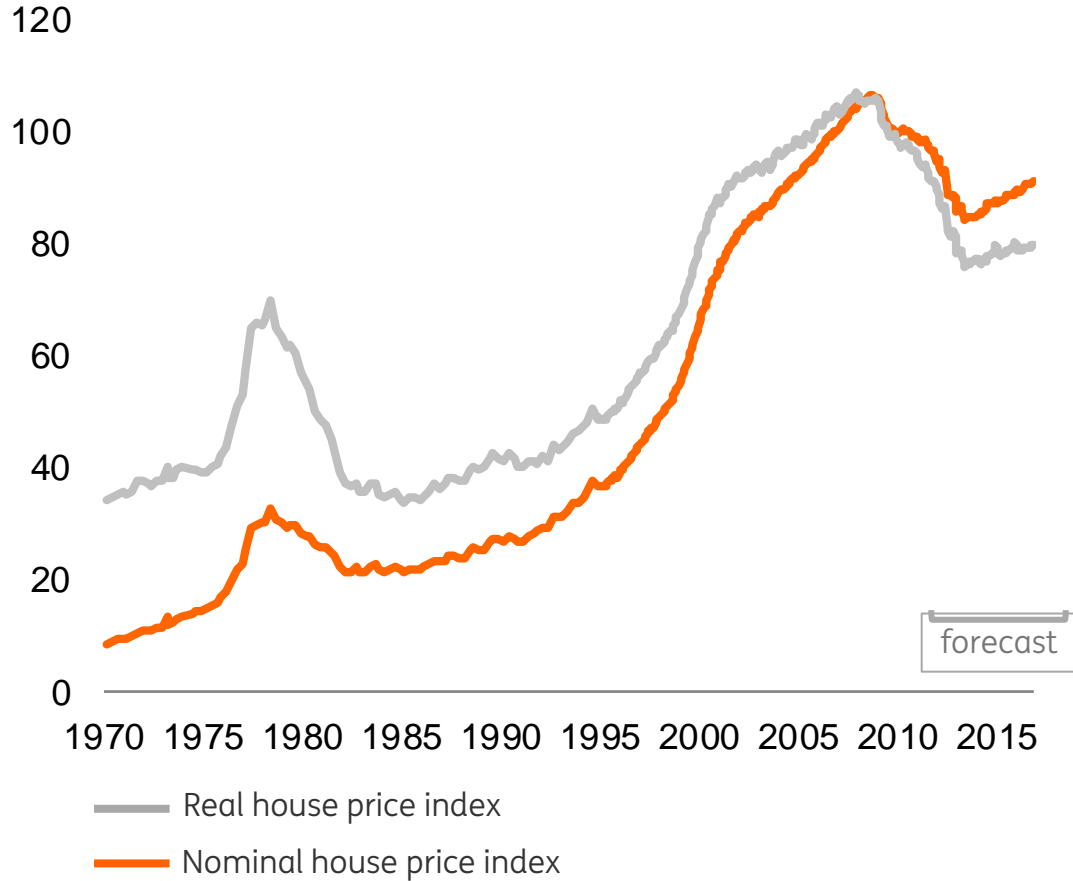
(mortgage rates, by fixed interest duration, in %)



House prices on the mend

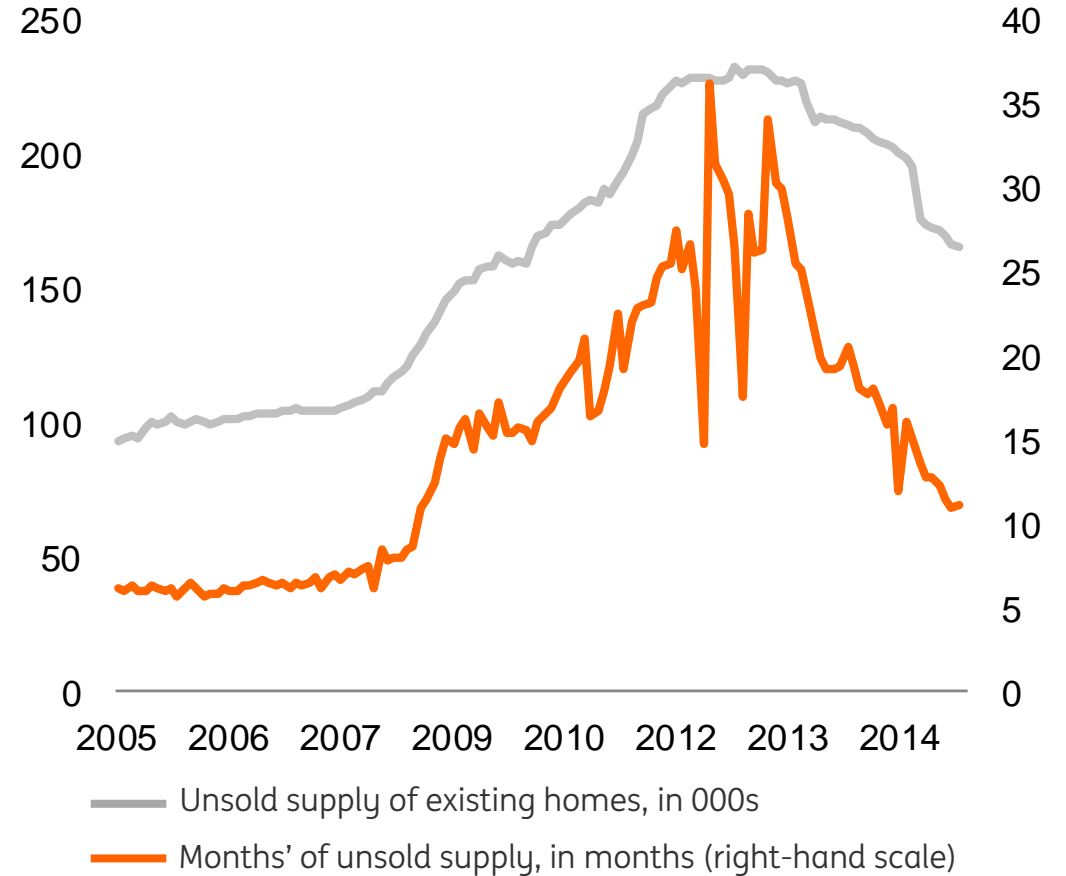
House prices up 6% from trough, but still 16% below 2008 peak

(house price index, 2008 = 100)



Supply conditions are normalizing

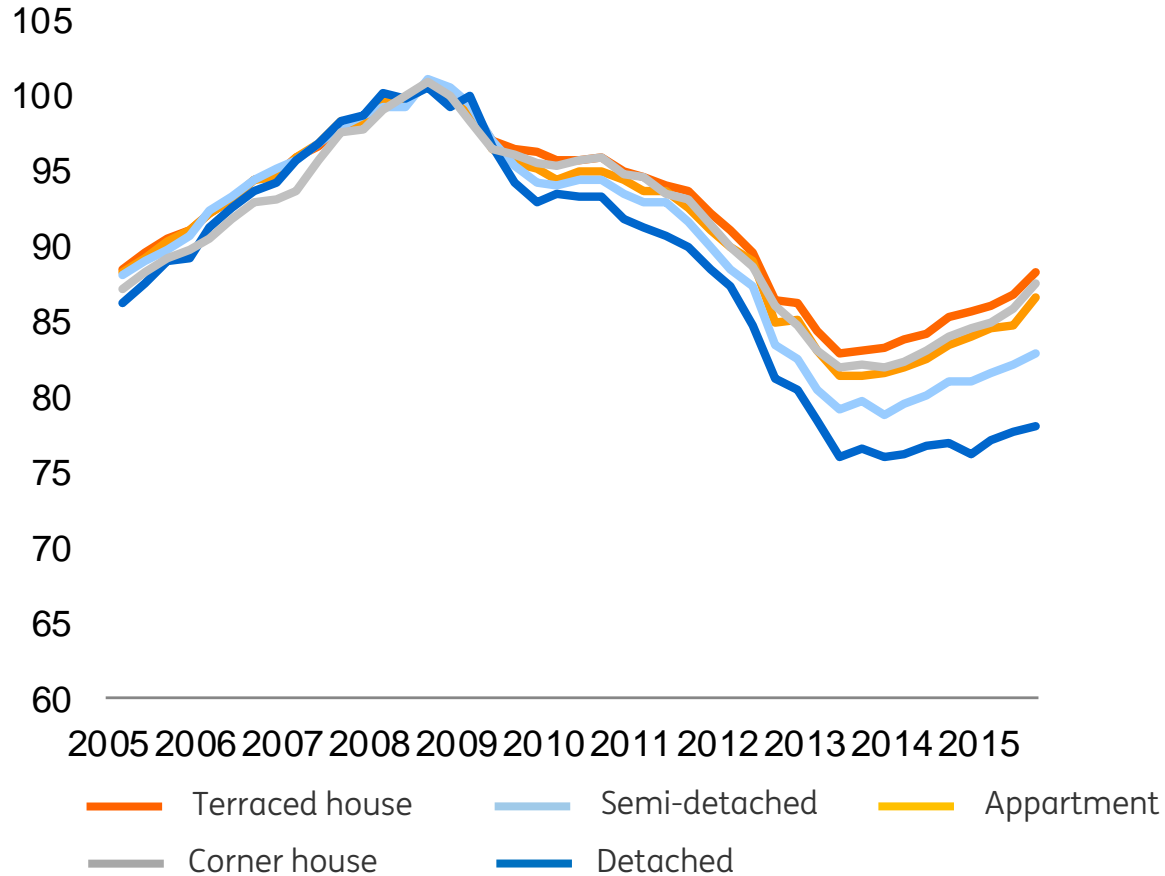
(sales in 000s, seasonally-adjusted)



Large cities lead house price recovery

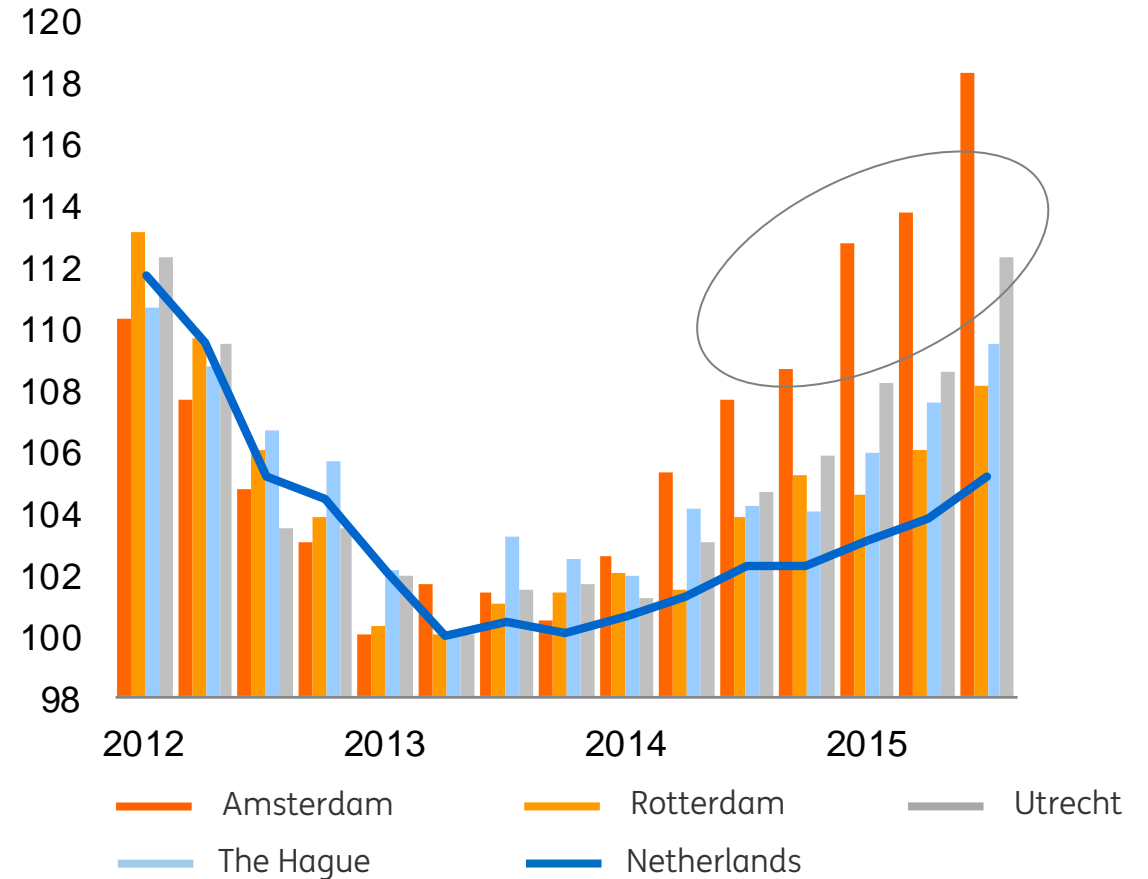
At the higher end of the market, house prices have dropped the most

(house price index, 2008=100)



House prices have picked up much faster in larger cities

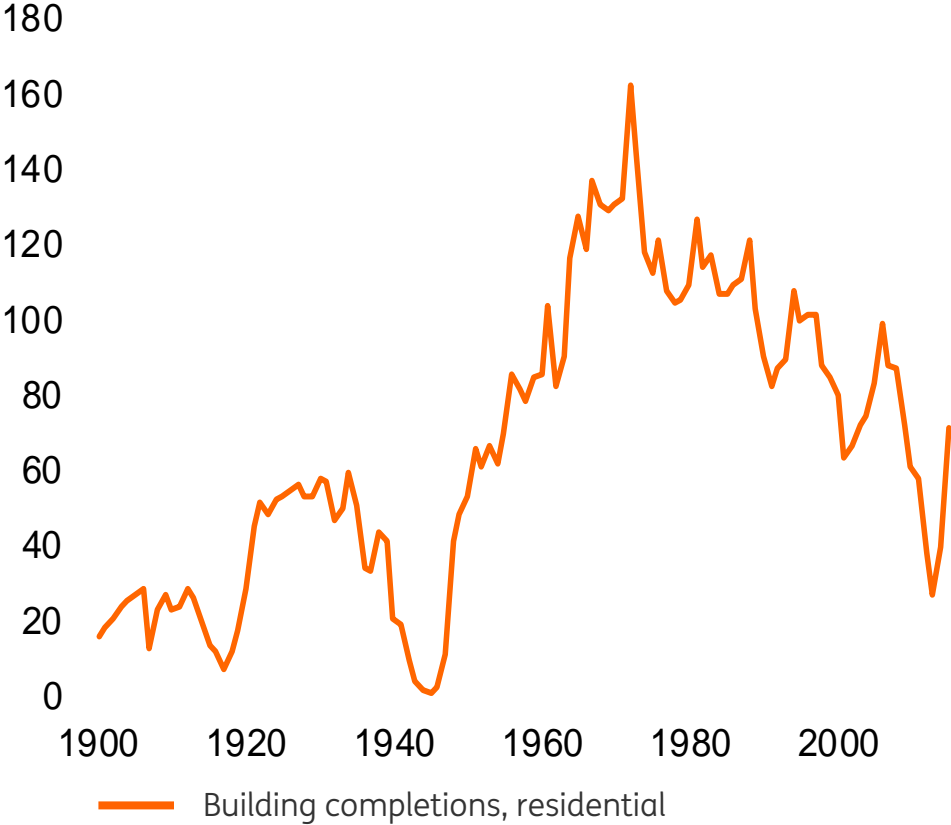
(house price index, trough = 100)



Risk of tight supply if demand recovers strongly

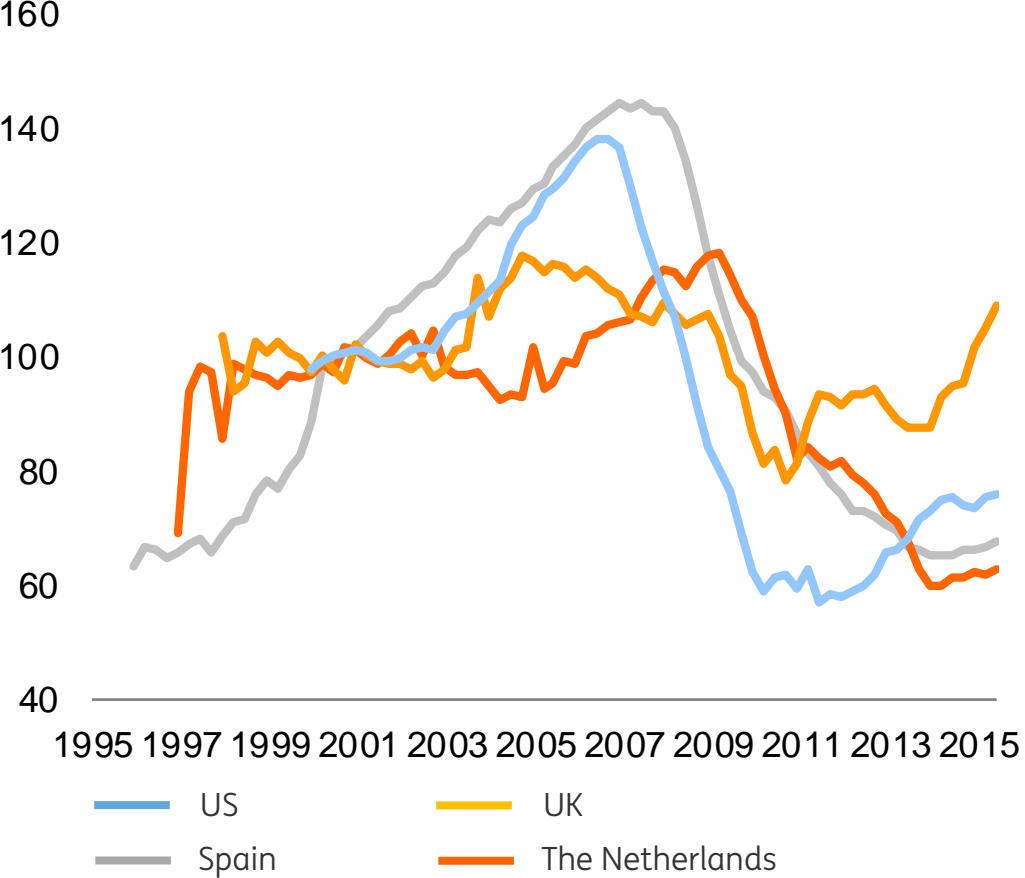
Residential construction has surged from a post-war low

(in 000s per year)

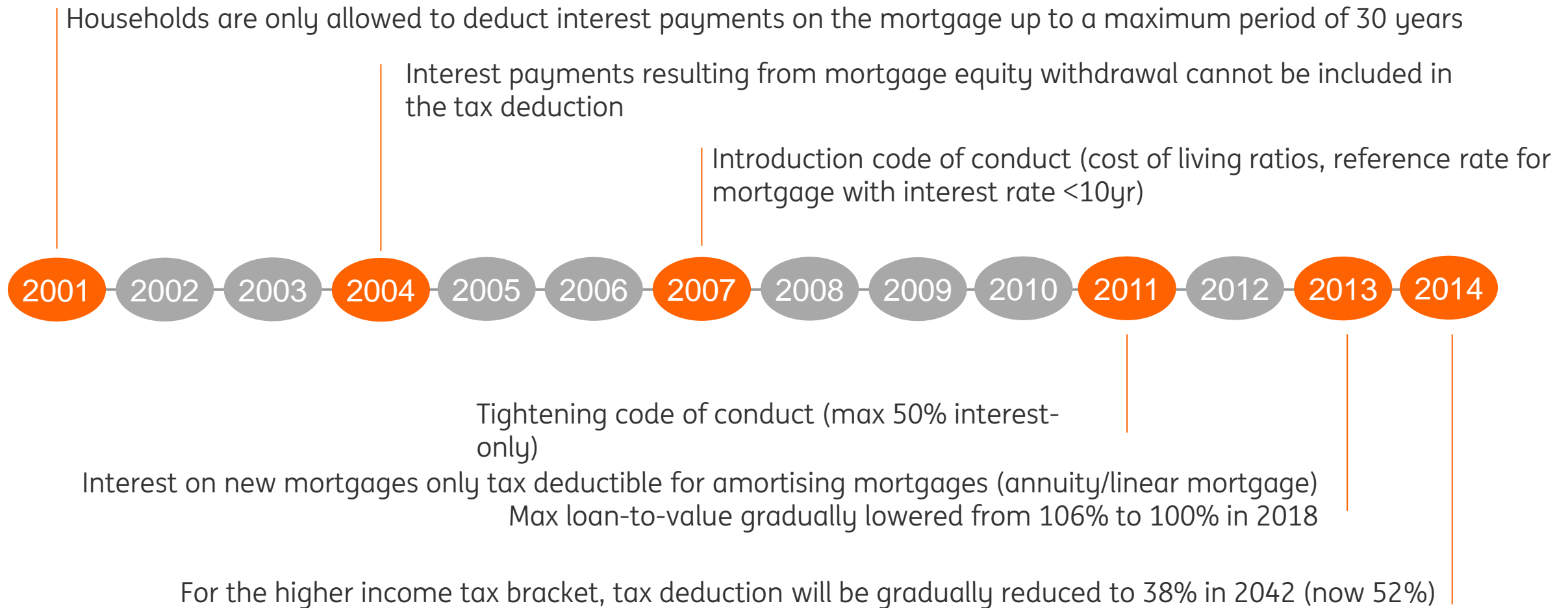


Unlike other countries, no pre-crisis construction boom in NL

(residential construction, constant prices, 2000 = 100)



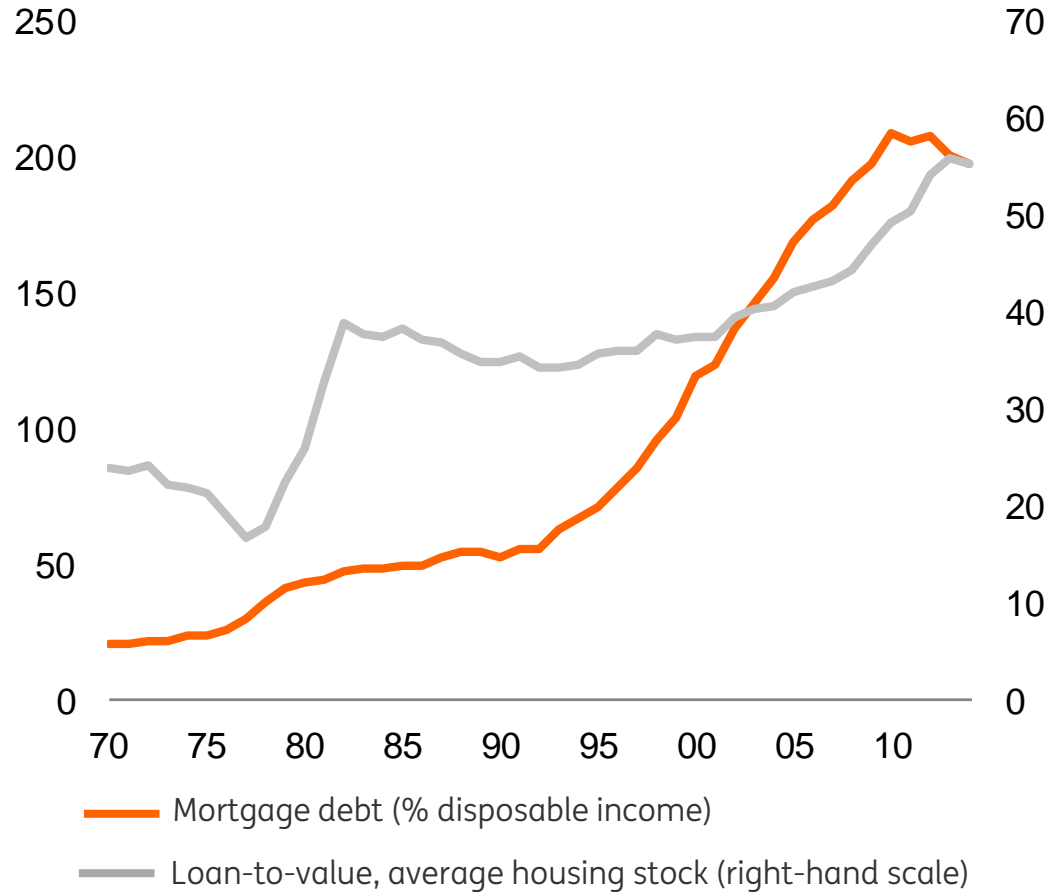
Measures have been taken to curtail debt growth



Mortgage debt has started to fall

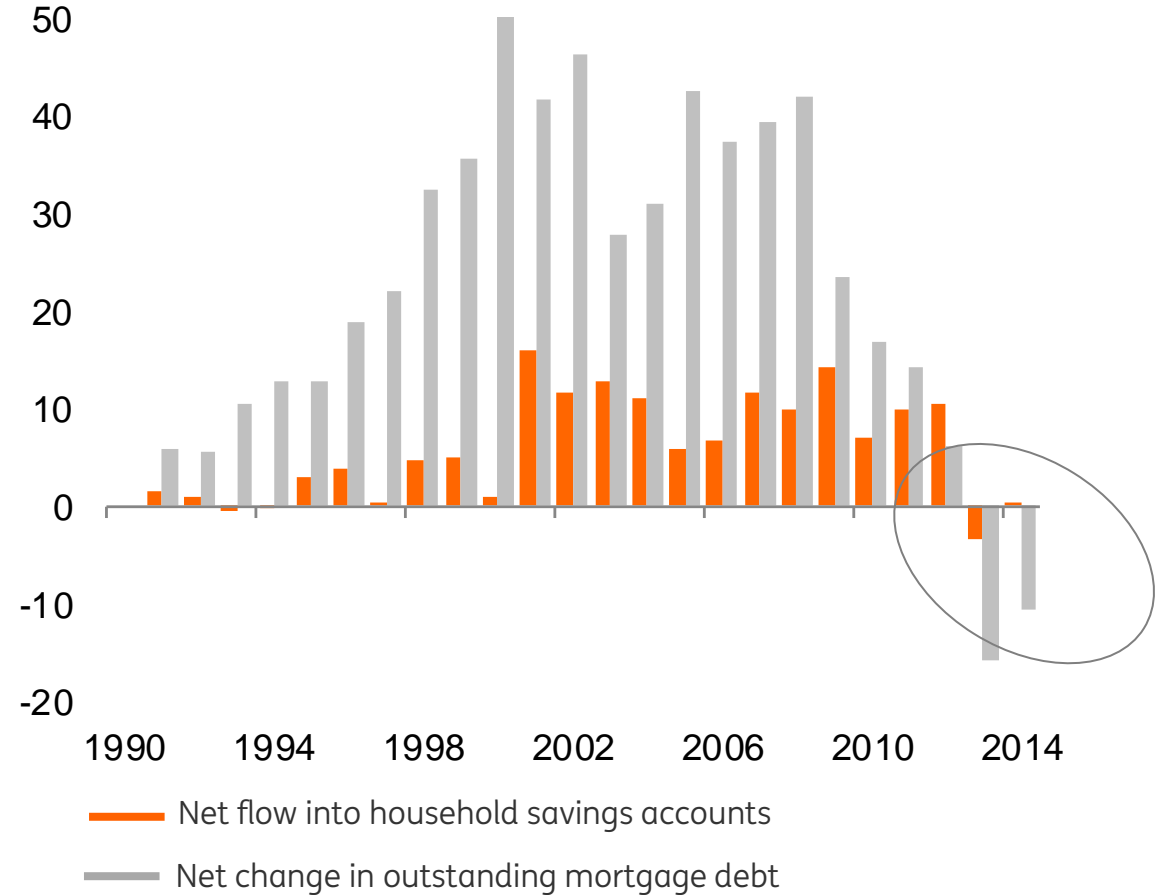
For the first time in decades, mortgage debt has decreased

(debt as % of income)



Households restructure balance sheets by debt redemptions

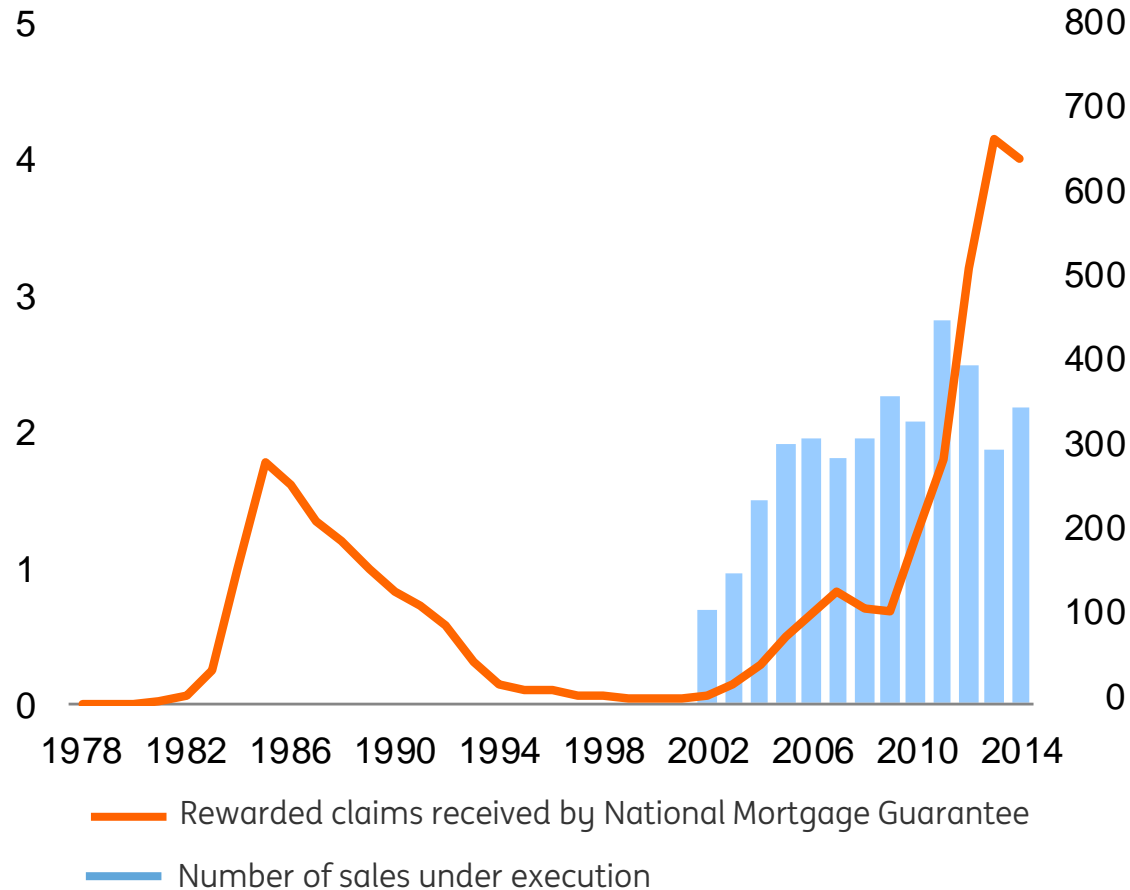
(in euro billions)



Despite high mortgage debt, relatively few payment problems

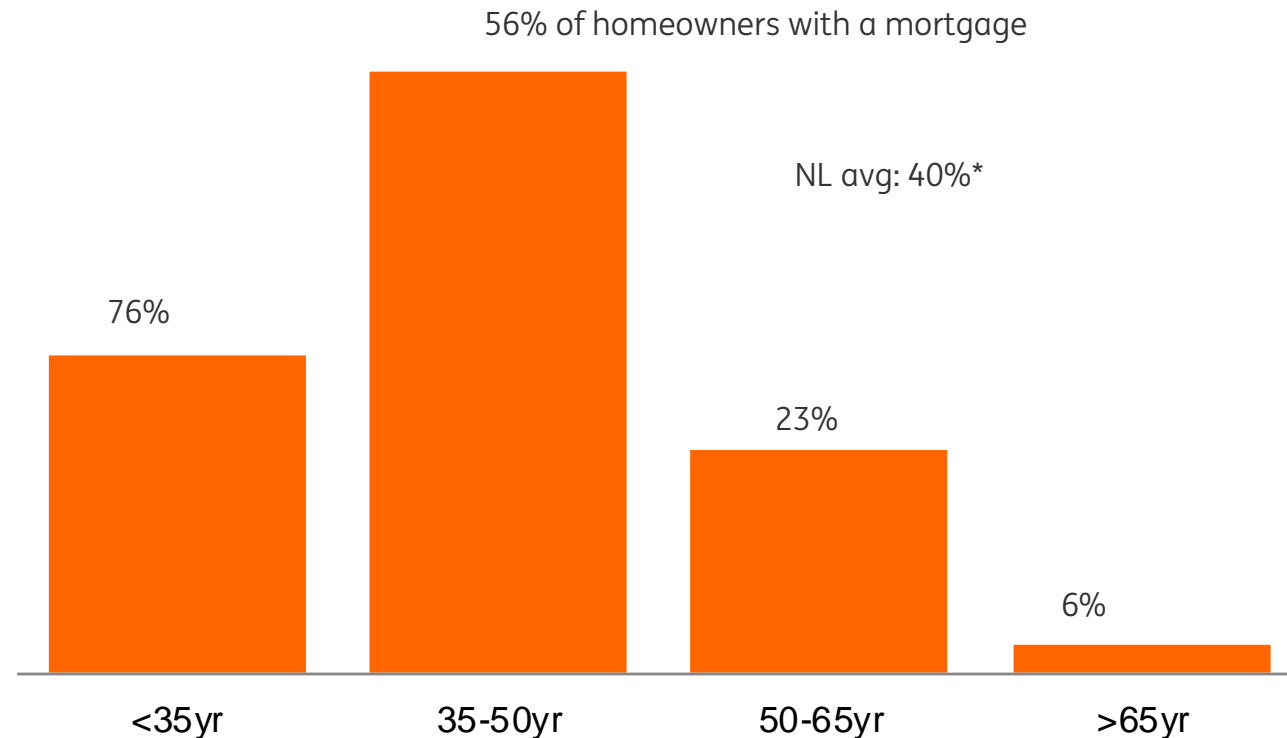
Defaults and foreclosures: still relatively low...

(in 000s)



...despite many homeowners with 'under water' mortgage

(number of households, by age group, in 000s, per Jan 1 2014)



* Actual share currently closer to 25%, because:

- numbers are based on gross mortgage debt and do not take into account accumulated wealth
- the indicator to track home values (WOZ) lags actual market conditions by a year
- since 2014, the average house prices has increased by 3%.

Housing market – longer-term outlook

A home is no longer a cash machine

Outlook for the Dutch housing market 2015-2025

Marieke Blom, chief economist ING NL
Amsterdam • 09 November 2015



This is a translation of ING's report '[Eigen huis verliest gouden glans](#)' (in Dutch)'

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What homebuyers need to realize

A home is no longer always a cash machine

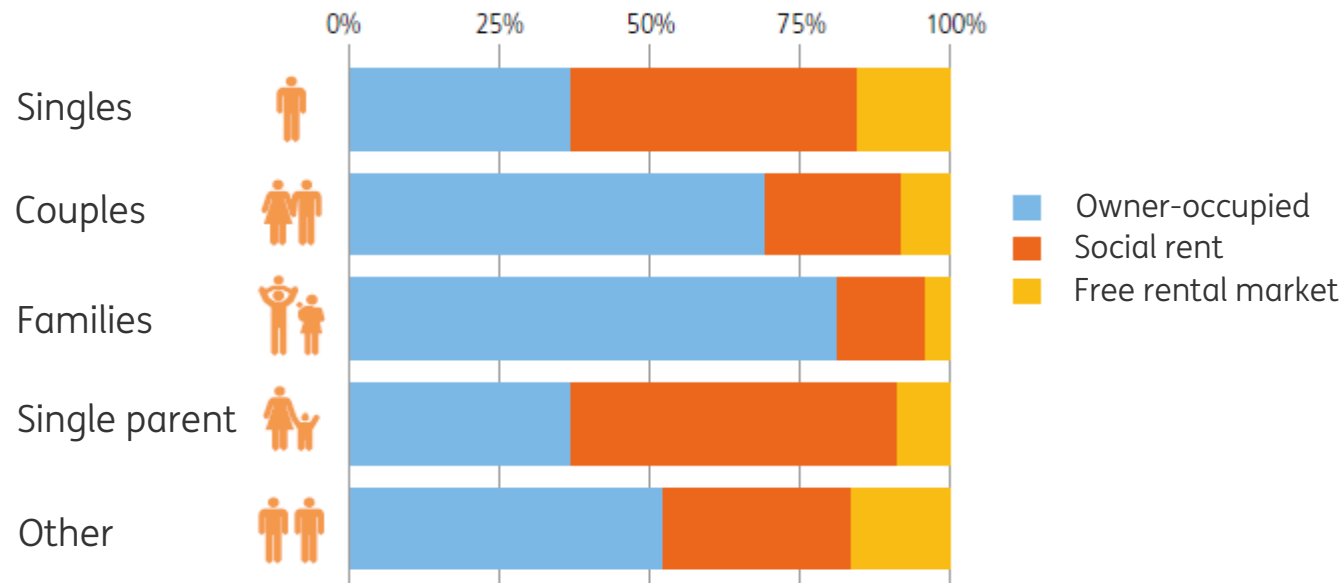
- Price are expected to rise, on average, by 2%, which is much slower than in the past
- Positive for prices:
 - Continued growth in number of households
 - Higher rents and low construction levels
 - Income growth, though slower pace than in previous decades
- Negative for prices:
 - As a result of ageing the number of mortgage-free homes increases
 - New regulations: bring more own money, sobering down mortgage interest deductibility
 - More volatile household income, increasing chance of payment problems
- In short term, price rise to be stronger as positive effects gradually wane
- Increased debt redemption and lower LTV at start lowers the risk of residual debt

Regional differences between urban and rural areas likely to become greater

- Ageing weighs on prices in peripheral areas
- Popularity, rising rents and building costs push up urban house prices
- Less appetite for larger and more expensive homes
- Ageing leads to more older households living in houses that are 'too large', which eventually have to be sold.
- Lower mortgage interest deductibility weighs mainly on prices of homes at the higher end of the market, especially in rural areas (in border areas)
- In those regions, buying activity is already relatively low and it takes longer to sell.
- Local businesses (notary, retail) will suffer from fewer transactions

Dutch housing market in 2015

- 17 million people live in 7.5 million homes
- Home ownership is 55%
- Families often own their home, while singles, young people and single-parent families are usually tenants.



Main questions

- How will house prices develop?
- Will there be regional differences?
- How dynamic is the Dutch housing market?

What's driving the housing market?

Needs

- How much will the population and the number of households grow?
- What kind of households?
- Are people living in the *right* home? Not too large or too small?
- *Where* do people want to live?



Supply

- How much will the housing stock grow?
- What kind of homes will be built?



Affordability

- How high are the costs of owning a home relative to renting?
- How will household income develop?
- How much of mortgage interest is tax deductible?
- How much money are people allowed to borrow?
- How high is the mortgage rate?
- How high are costs linked to buying a home?



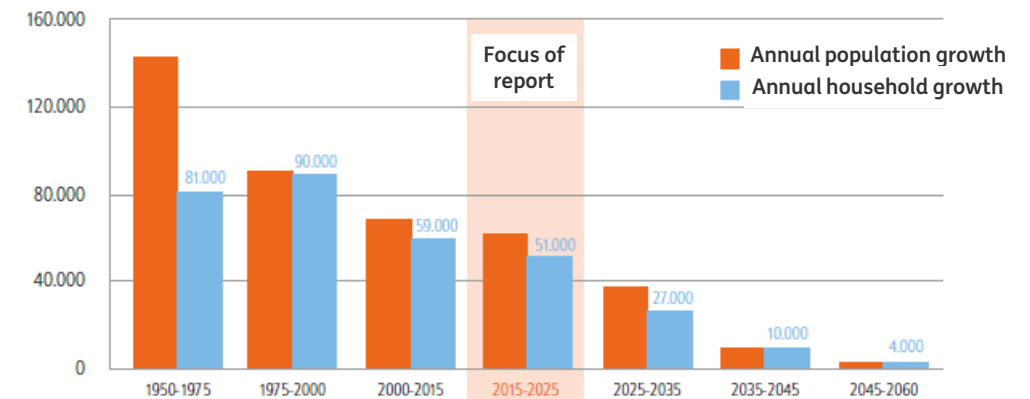
Part I: moderate house price increase

Number of households continues to grow

Needs

- Number of households continues to grow, albeit at a slower rate than in previous decades
- Up till 2025, 50,000 additional households per year
- Slight upward pressure on prices, which will ease over time as household growth slows
- After 2035 household growth will stagnate
- Up till then, there will be 800,000 new households, of which 500,000 will be created in the first ten years

Number of households continues to expand up to 2025, despite population growth slowing

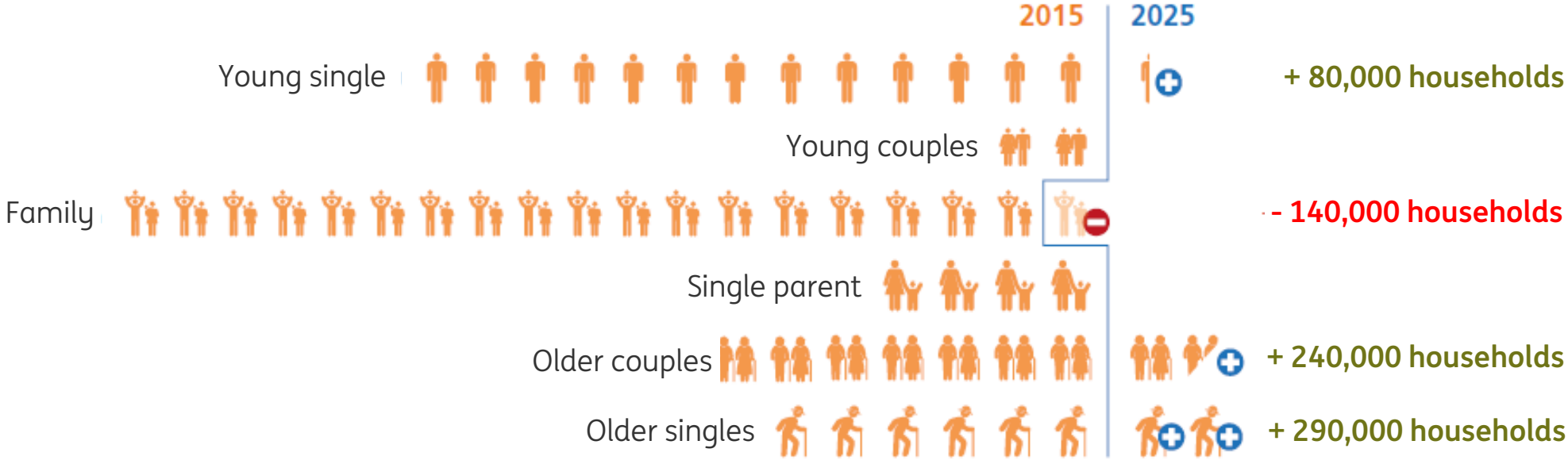


Appetite for smaller homes increases

Needs

75% of the growth in the number of households caused by singles

More singles and 65+ households, fewer families



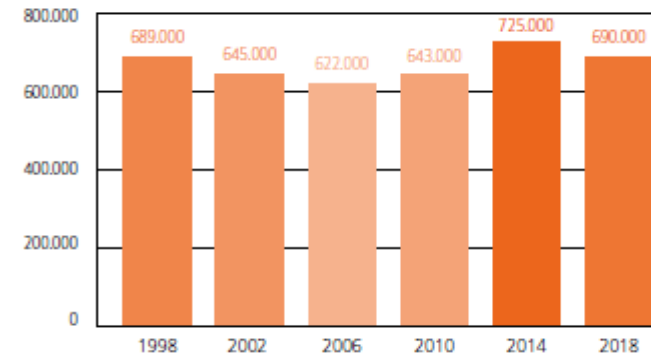
1 icon represents 150,000 households

Younger people are re-entering the market

Needs

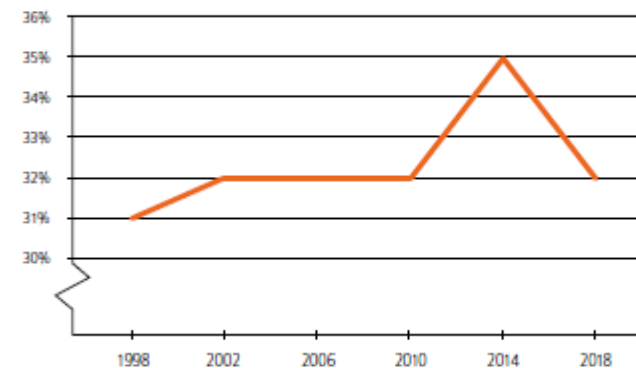
- During the recent crisis, living at home became more popular amongst young people.
- With the economy picking up, they are now starting to leave home and find a place of their own.

Number of young people (20-30yr) living at home



Bron: CBS, ING Economisch Bureau

Share living at home expected to 'normalize'



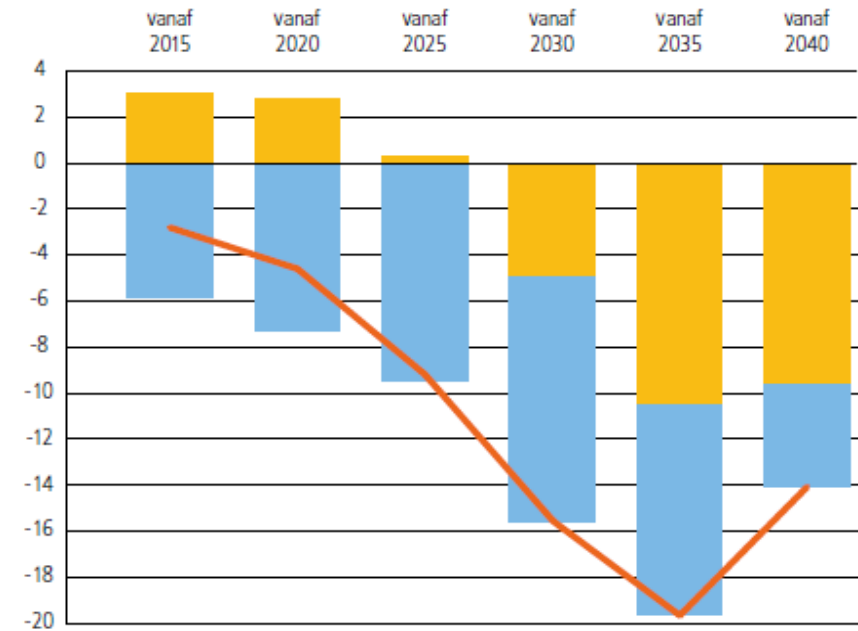
Outflow of baby boomers is growing only slowly

Needs

- Ageing will first lead to (single) people living in houses that are 'too large'.
- Death of partner does not mean household disappears, but type of household changes
- The number of large, mortgage-free houses is expected to rise. This is likely to put downward pressure on prices, though this effect will increase only after 2025 (when the first baby boomers pass 80).

Flow of baby boomers (born in 1945-'50) out of housing market

(in 000s)



Bron: CBS, ING Economisch Bureau

■ Single
■ Couples
— Total

Renting a house becomes more expensive

Needs

- Rising rents is making homeownership more attractive, thereby pushing up prices.
- Increased sales of rental houses could weigh on house prices. Housing corporations are, however, not expecting to ramp up the number of sales in the coming years.



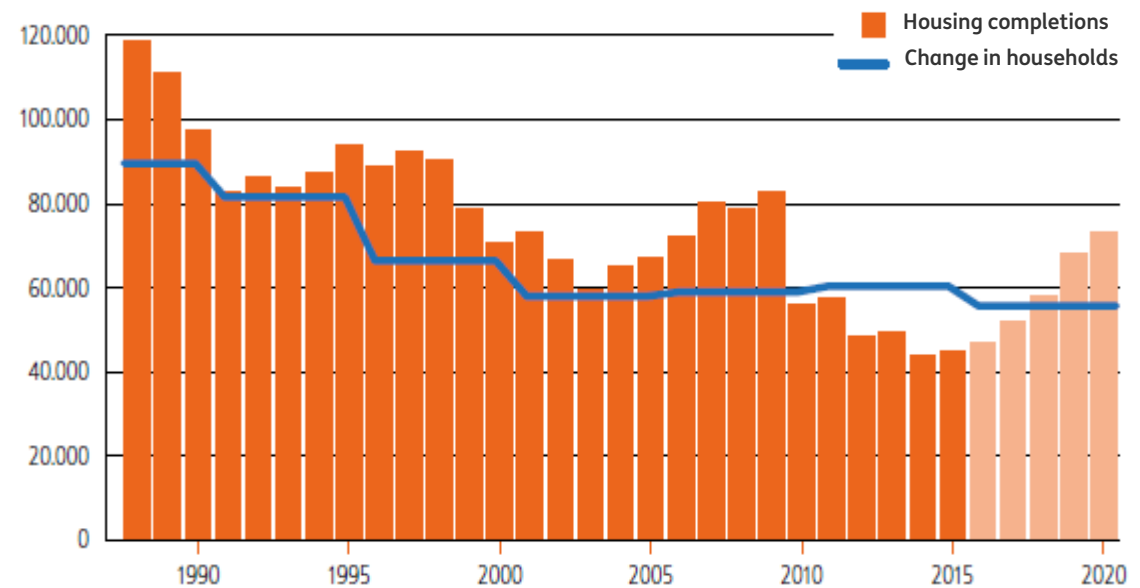
In short term, construction likely to trail demand

Supply

- Residential construction has been hovering around post-war lows in recent years
- Although the economy is recovering swiftly and issuance of building permits is rising, long lead times mean housing completions will pick up only very slowly
- Only when construction catches up with demand will upward pressure on prices ease

Up to 2018, number of households expected to outpace construction

in 000s



Moderate income growth

- In theory (assuming no sticky supply and financing costs), household income is the main driver of house prices
- Drivers of long-term income growth:
 - Labour productivity
 - Inflation
 - Hours worked

Next ten years

+1.2%

+1.5%

-0.2%

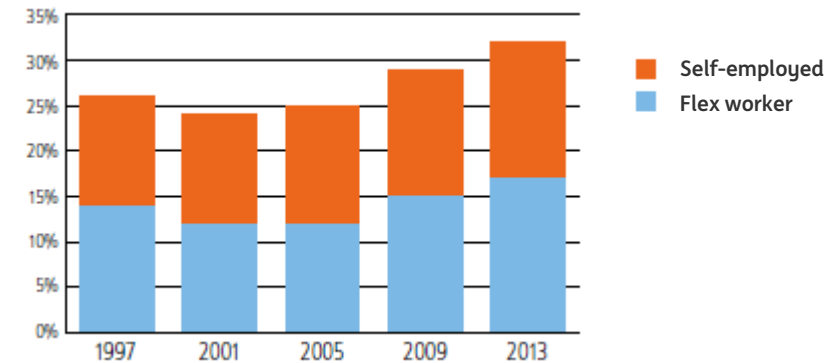
+2.5%

**Expected income growth
in next ten years**

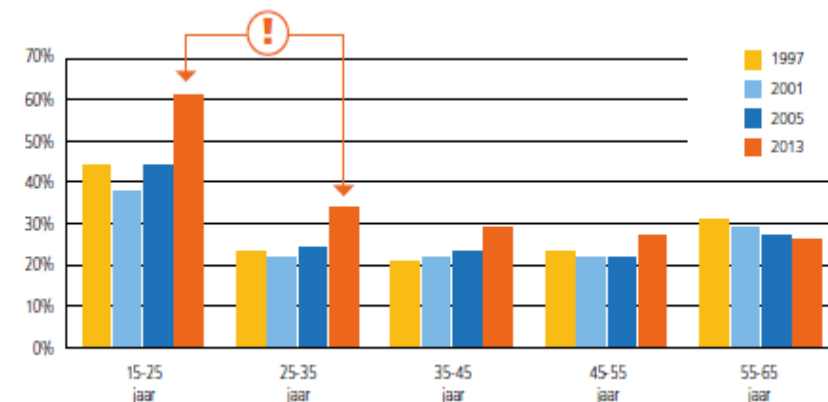
Increasingly flexible labour market to weigh on prices

- Labour income is expected to become more volatile in the future.
- Already one-third of labour force is currently self-employed, temp worker, etc. This is expected to rise to 37% in 2025.
- More volatile incomes will make it more difficult for first-time homebuyers to take out a mortgage. In addition, homeowners confronted by a sharp fall in income are more likely to be forced to sell.

Increasing share of 'flexible' workers...



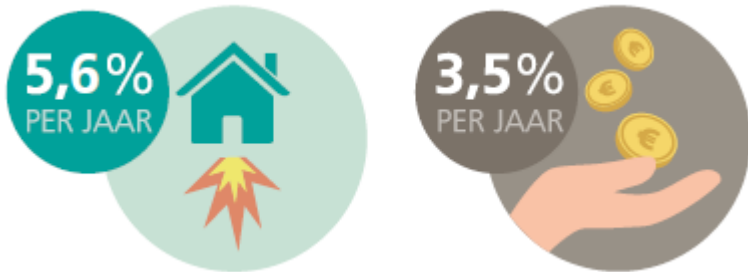
...primarily younger people



Past experience: regulation and low rates pushed prices up

Affordability

- 1970-2014: house price growth averaged 5.6% per year vs. 3.5% income growth

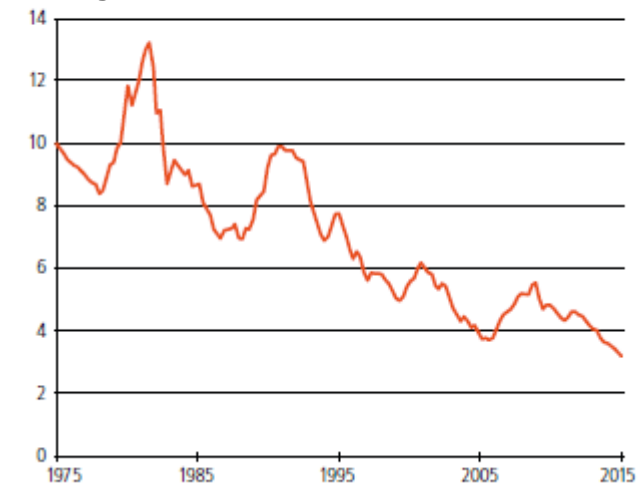


Triggers for strong price increase:

- **Early 1990s:** relaxation of mortgage rules (possible to take 2nd income into account when applying)
- **Mid-1990s:** rise of interest-only, savings/investment mortgages
- **Since 2011:** transfer tax reduced from 6% to 2%

Structural decline in mortgage rate

Average all maturities



Measures have been taken to curtail debt growth

Affordability

Households are only allowed to deduct interest payments on a mortgage up to a **maximum period of 30 years**

Interest payments resulting from **mortgage equity withdrawal** cannot be included in the tax deduction

Introduction **code of conduct** (cost of living ratios, reference rate for mortgage with interest rate <10yr)



Tightening code of conduct (**max 50% interest-only**)

Interest on new mortgages only tax deductible for **amortising mortgages** (annuity/linear mortgage)
Max **loan-to-value** to be gradually lowered from 106% to 100% by 2018

For the higher income tax bracket, **tax deduction** to be gradually reduced to 38% by 2042 (now 52%)

Temporary easing of **tax-free donation/granting** ended on Jan 1st

Only way is up for mortgage rate

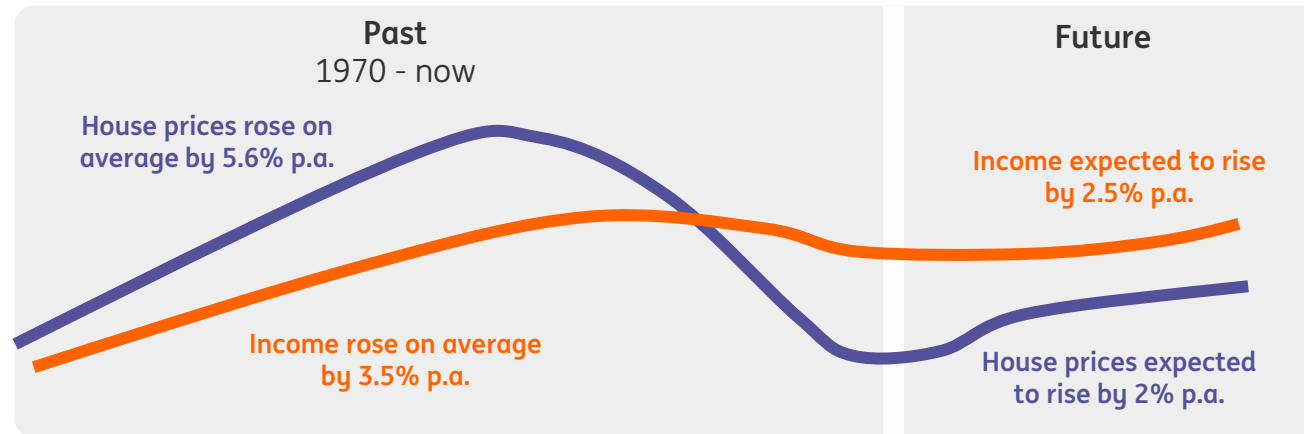
- Mortgage rate is historically low. Room for further decline is limited.
- Higher interest rate is likely to coincide with more favourable economic conditions. Higher employment and income growth makes it easier to meet higher mortgage payments.



Conclusion: moderate house price growth of about 2%

Affordability

- + Higher incomes
- + More households
- + Rising rents
- Tighter regulation
- Ageing population (weighs mainly on value of large/more expensive homes)



- In short term, price rise to be stronger as positive effects gradually wane, while ageing effect slowly gets stronger

Part II: large regional differences

There is no *national* housing market

- House prices largely driven by regional trends
- Most people move within own region

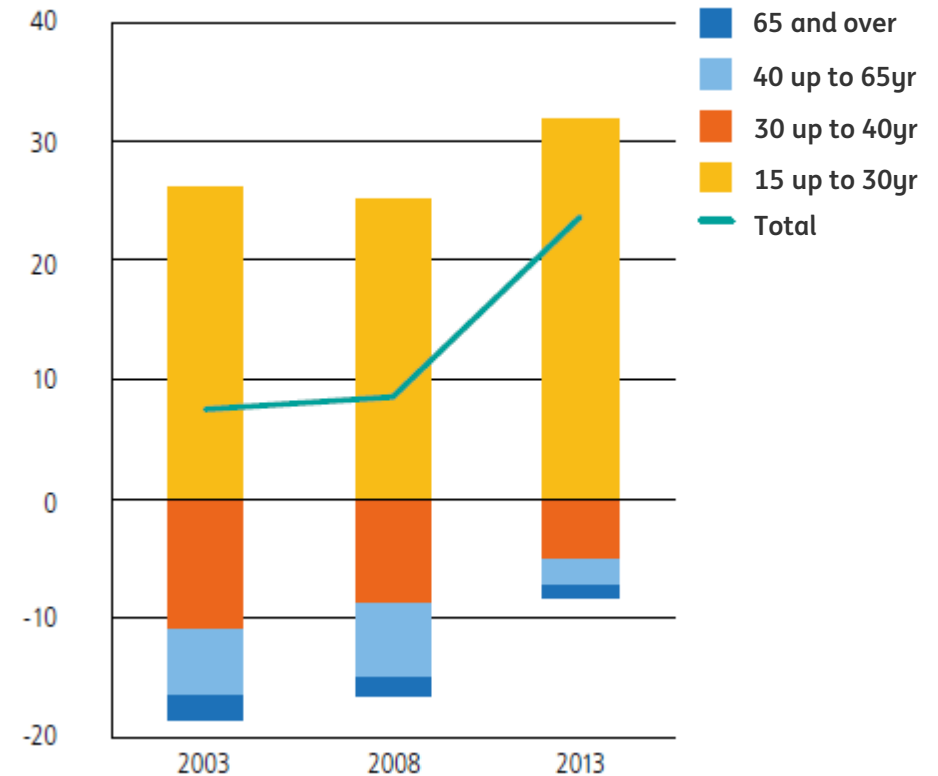


Past: strong appetite for living in a city

- Young people move to urban areas for job opportunities, college and network effects. The number has increased in recent years.
- At the same time, fewer families have moved away from the city as a result of:
 - new construction within city limits
 - policy aimed at encouraging people to stay

Net flow of people to the city

22 largest Dutch cities, in 000s



Past: stronger price increases in urban areas, esp. Amsterdam

Average house prices in 1995

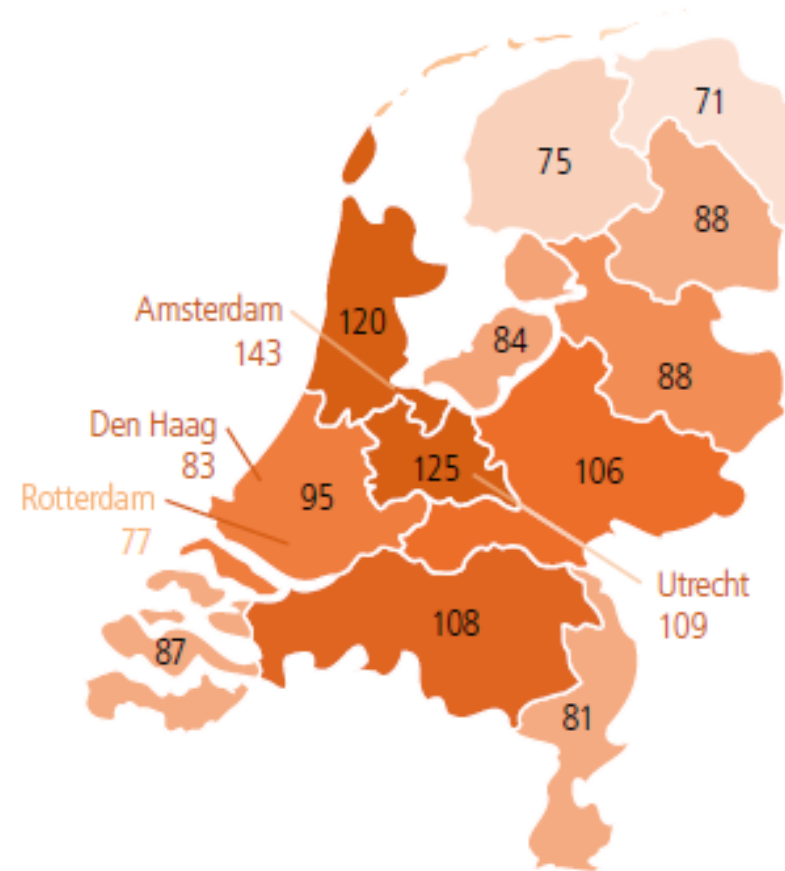
Index, national level = 100



Bron: CBS, ING Economisch Bureau

Average house prices in 2014

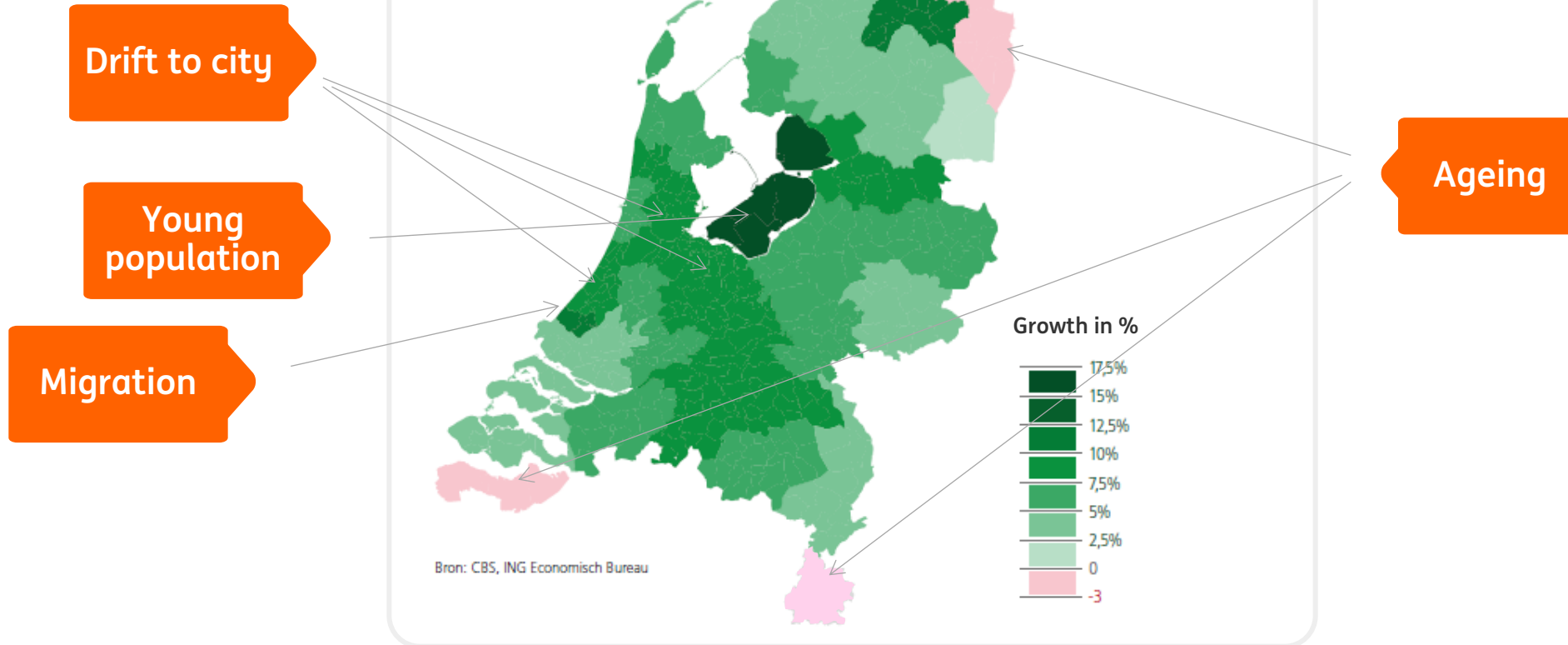
Index, national level = 100



Future: drift to the city expected to continue

More households in western regions of the Netherlands, fewer in the periphery

Cumulative growth of number of households, 2015-2025, in %

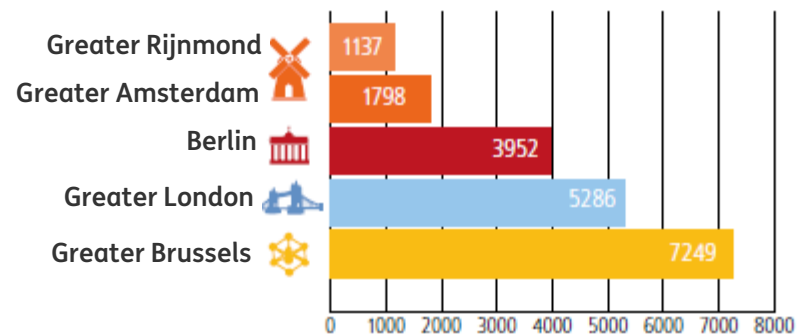


Buyers willing to accept cost of living in city

- Economies of agglomeration, commuter time, job supply and communal facilities compensate for higher house prices in urban areas
- Technology could reduce benefits in (distant) future.

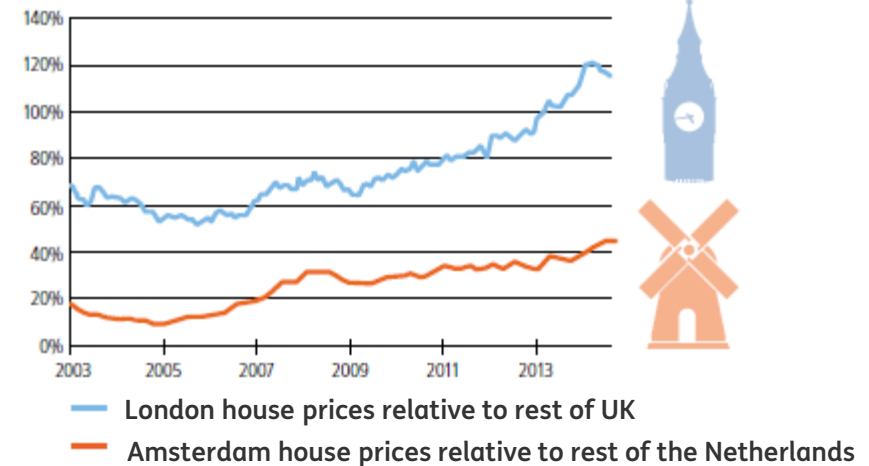
Still plenty of space in Amsterdam

Inhabitants per square km



Bron: Eurostat, ING Economisch Bureau

Prices in Amsterdam/London relative to rest of country



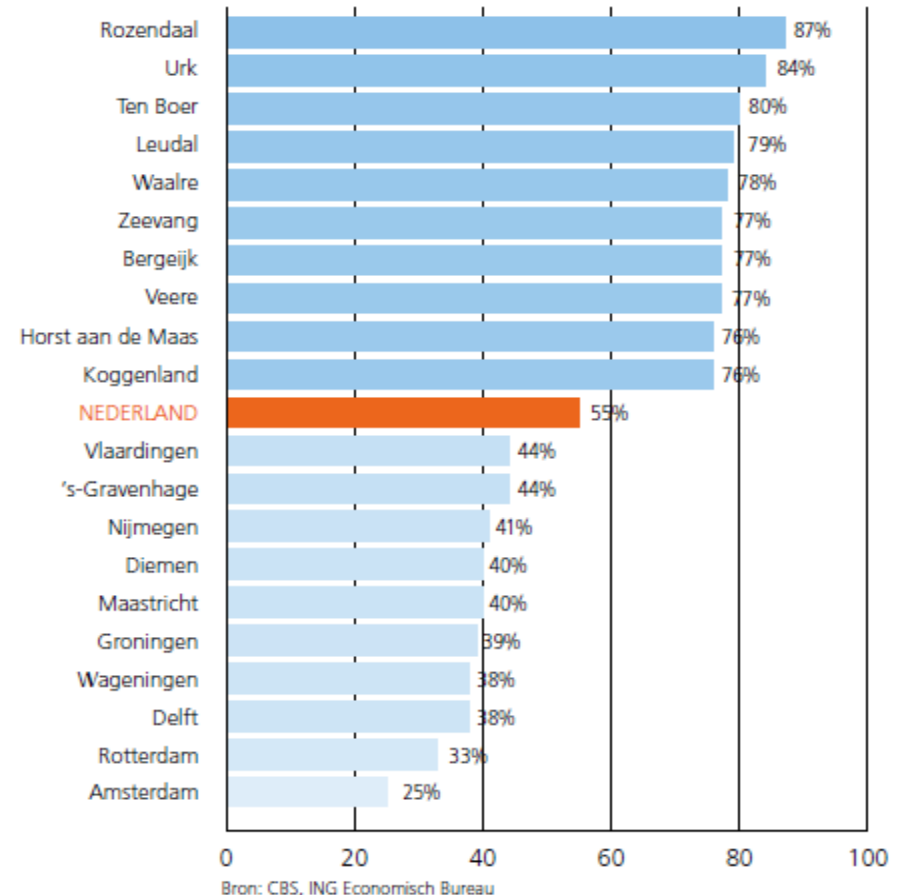
Bron: CBS, ONS, ING Economisch Bureau

Higher rents are particularly being felt in cities

- In the largest Dutch cities, often less than 40% of housing stock is owner-occupied (national average is 55%). In Amsterdam, as much as 75% is rental.
- High share of *scheefwoners* (high income households living in social rent) in city adds to the higher rental effect.
- That said, in cities, social housing corporations are more likely to sell homes. More supply weighs on prices, though the effect of this is likely to be small.

Few owner-occupied houses in large cities

% of total housing stock



Conclusion: regional house prices set to diverge further

Biggest risk of weaker house price trend for large houses in periphery

Expected relative house prices development per type of house and region



- Popularity, rising rents and building costs push up urban house prices
- More downward pressure on prices on peripheral areas
- Regional policy (for example, construction) will play major role in determining regional house price differences

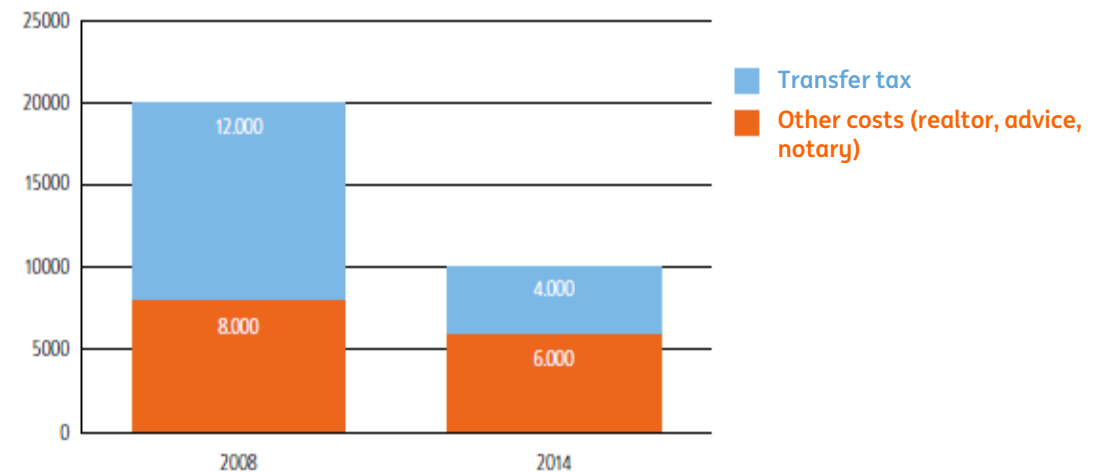
Part III: tranquil versus active markets

Lower transaction costs stimulate moving

- In recent years, transaction costs have declined from about 10% of the purchase price to 5%.
- Lowering of tax from 6% to 2% has been the main driver, but fees for notary, realtor and mortgage advisor have fallen too. Technology is likely to push fees down further.
- Younger people are more likely to have flexible working careers, involving more moving. They benefit most from lower transaction costs.

Transaction costs have been reduced

Typical costs when buying house of 200,000 euro



Bron: CBS, ING Economisch Bureau

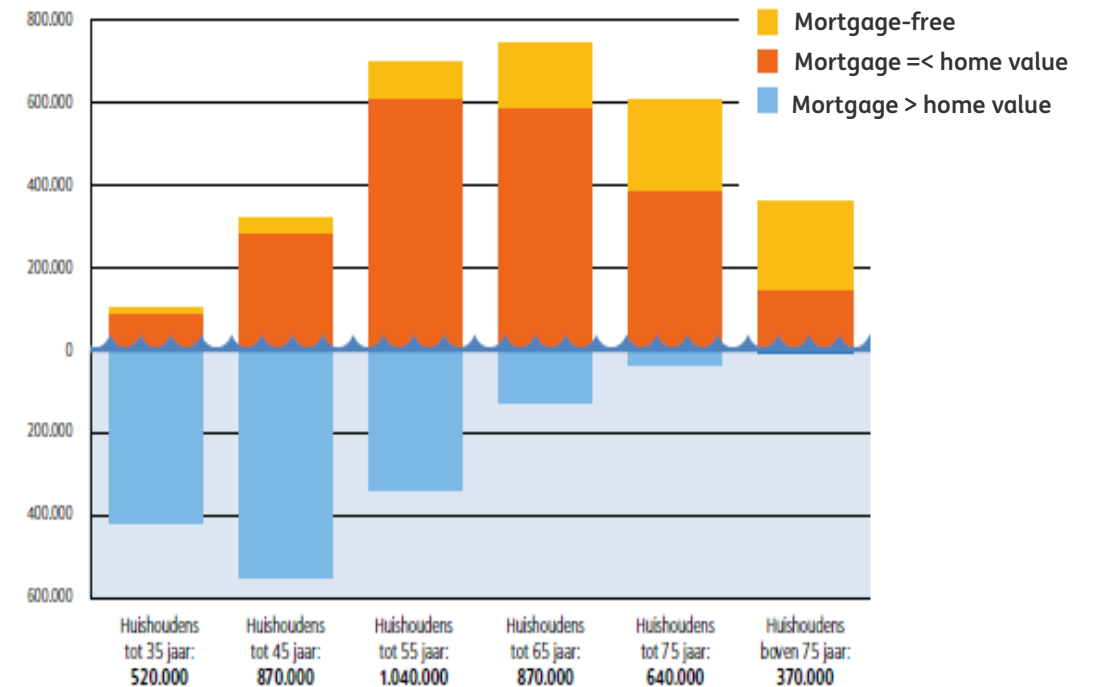
Negative equity in home limits buying activity

- According to official statistics, in early 2014 1.5 million households had negative equity in their home ('under water'). That is 1 in 3 households with a mortgage.
- The real number is more likely to be around 800,000*. That is about 1 in 5 households.
- Financing residual debt when selling a house is possible, but unattractive since it leads to a higher debt service burden.
- Solutions: saving (or receiving a grant) or waiting for prices to recover

* Home values used for calculations lag one year behind current market values. Accumulated wealth in mortgage not taken into account

Predominantly younger households are 'under water'

Number of households above or under water



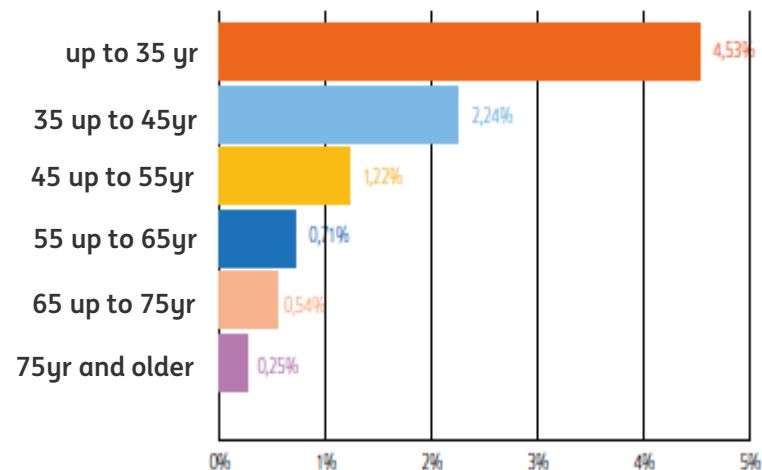
Bron: CBS, ING Economisch Bureau

With ageing the housing market becomes less dynamic

- Older people move less
- The new 'old' appear a bit more prone to moving

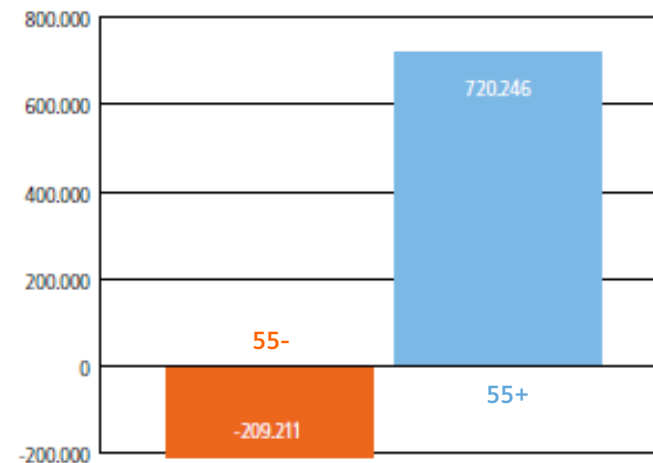
Mainly younger people move house...

% of group that buys a house, per year (2010 and 2011)



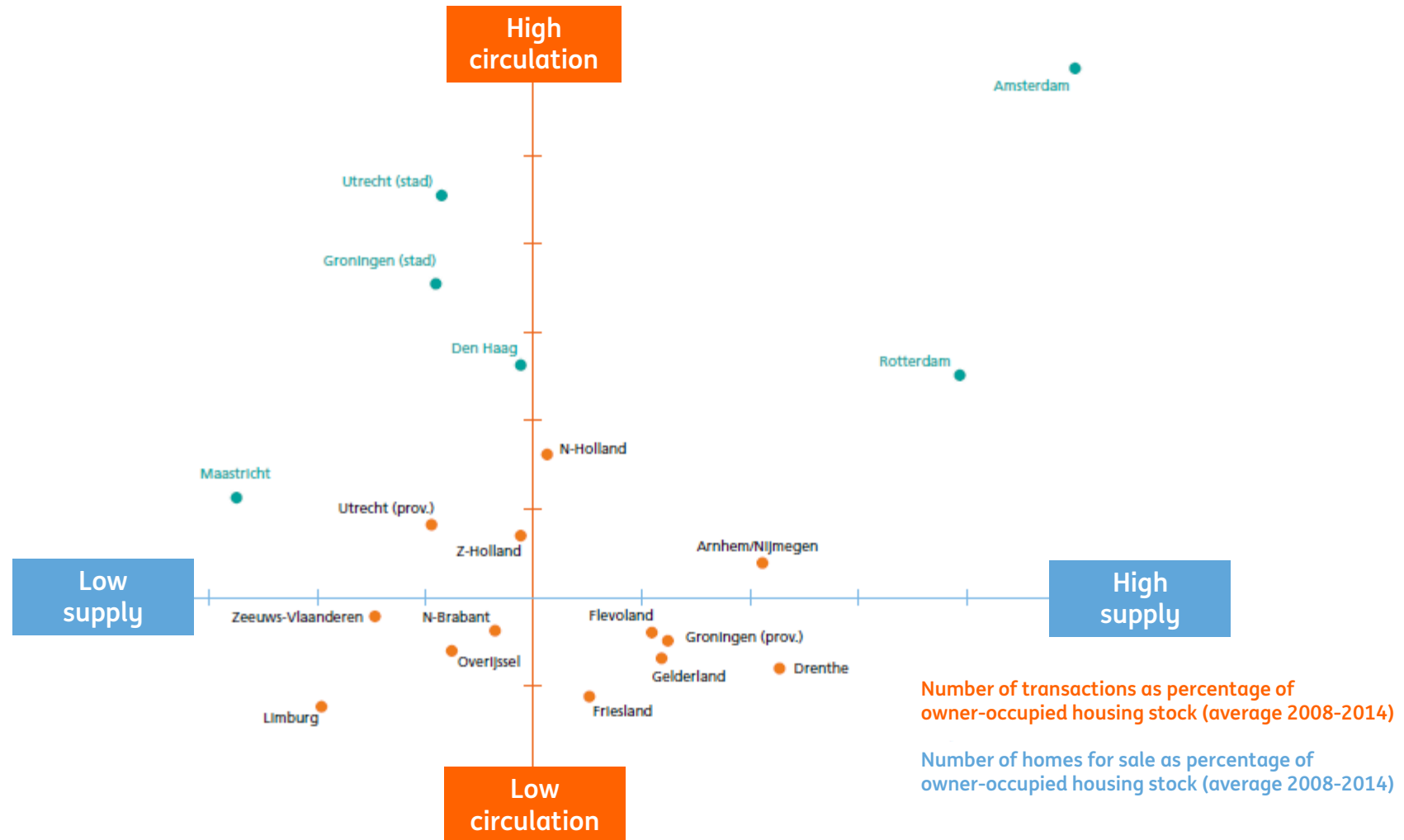
...but their share in population is declining

Increase in number of households, 2015-2025



Bron: CBS, ING Economisch Bureau

Tranquil versus active



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