

View on the Dutch housing market

Structural and cyclical perspective



ING Research – Mirjam Bani

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Content

Structural perspective: discussion of housing market trends up to and including 2021	3
Housing stock: private rental segment relatively small	4
Housing wealth: home ownership more prevalent among top income households	5
Housing costs: much higher in unsubsidised, private rental segment	6
House prices: volatile compared to other countries	7
Housing policies: stricter lending norms, fewer subsidies limit debt growth	8
Mortgage rates: longer term fixed rates increasingly popular	9
Housing shortage: structural problem that got worse in recent years	10
Affordability: rising mortgage costs since 2015, but in 2021 still close to historic average	11
Purchasing budgets: important driver of past house price growth	12
Cyclical perspective: The Dutch housing market in 2022	13
Home sales & supply: signs of cooling down	14
House prices: from vast growth to price decline	15
Regional house price growth: Amsterdam still frontrunner	16
ING Research base case scenario: declining house prices in 2023	17
Driver 1: recent mortgage rate hike lowers purchasing budgets	18
Drivers 2 and 3: high energy costs and higher income growth	19
Driver 4: new regulation lowers private investor demand	20
Driver 5: forecast recession has increased pessimism	21
Drivers 6, 7 and 8: low unemployment, shortage and financial buffers support house prices	22

Structural perspective:

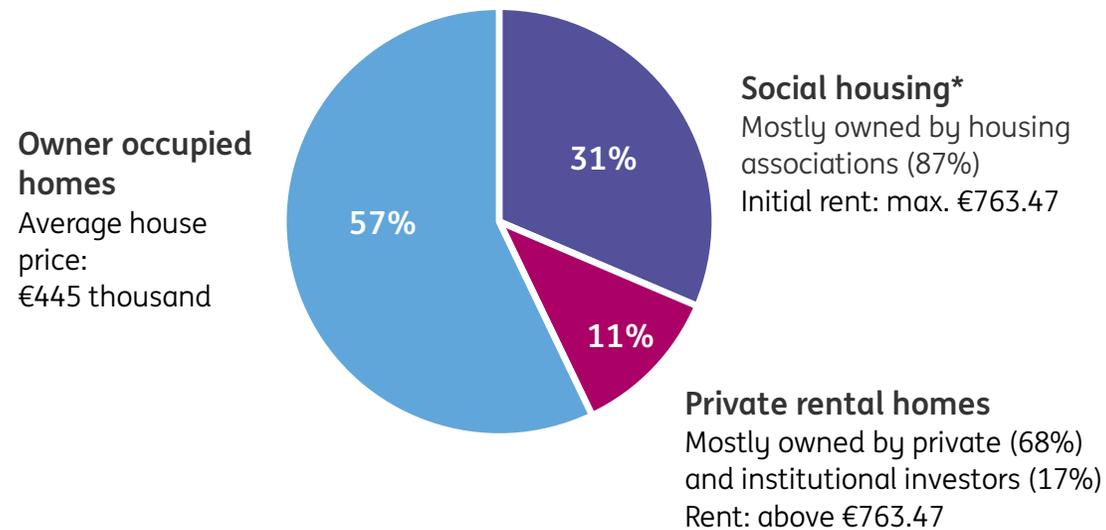
discussion of housing market trends

up to and including 2021

Housing stock: private rental segment relatively small

Over half of Dutch housing stock is owner-occupied

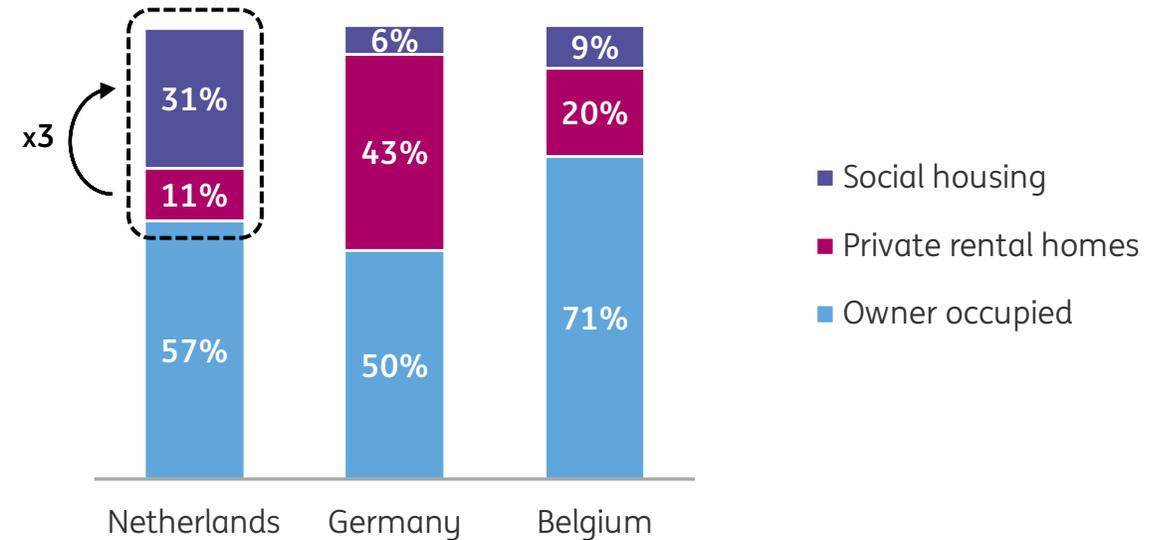
Breakdown of housing stock in the Netherlands, 2021



* In July 2022
Source: Capital Value

Dutch rental sector: relatively major social, small private segment

Share of households in housing stock

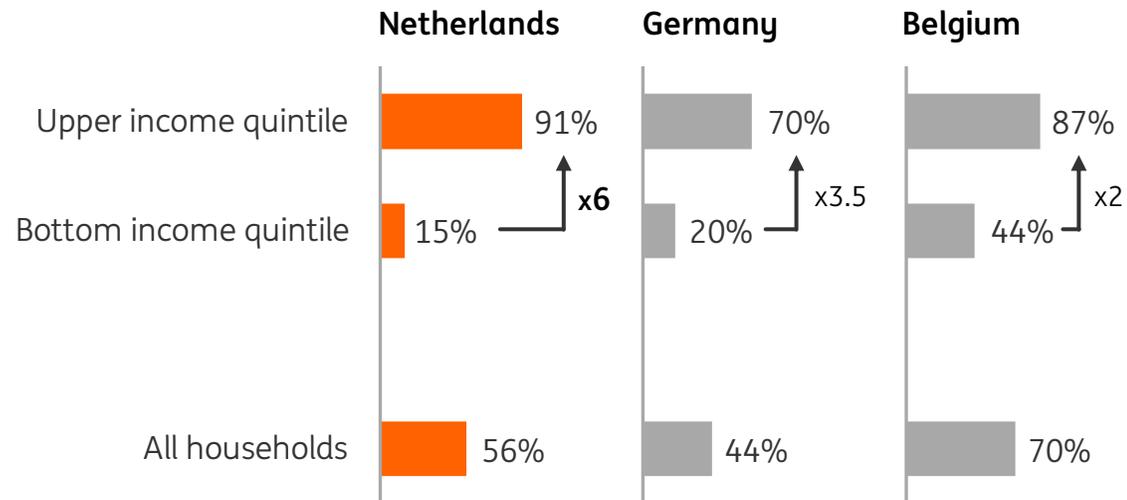


Source: Capital Value, CBS (National Statistics), Eurostat

Housing wealth: home ownership more prevalent among top income households

Inequality in home ownership relatively high in the Netherlands

Home ownership in 2015*



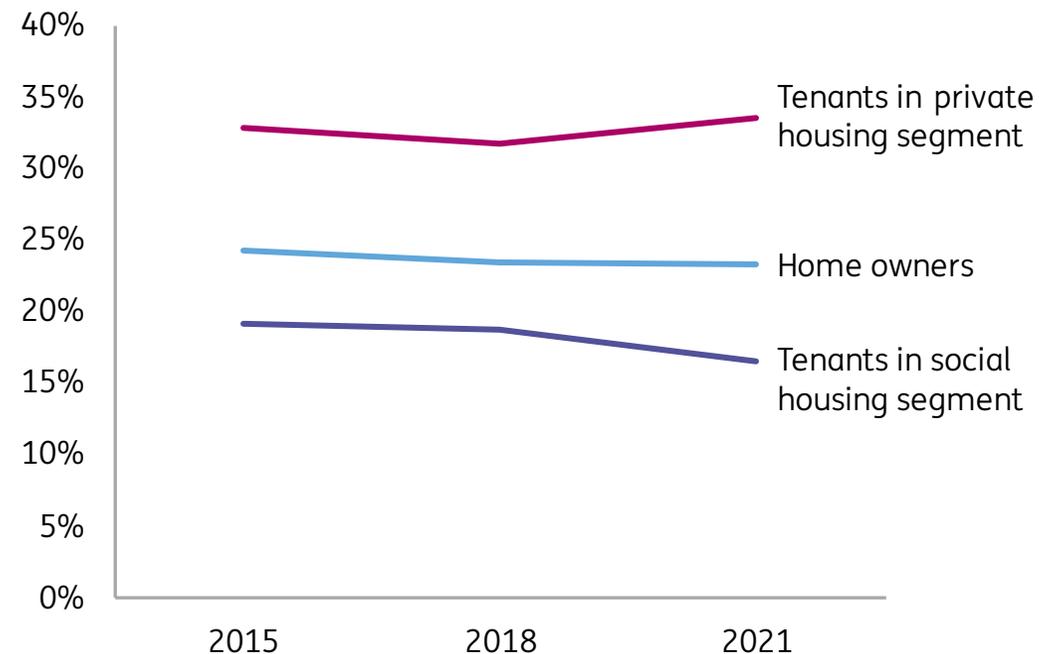
*Or latest available

Source: OECD

Housing costs: much higher in unsubsidised, private rental segment

Private sector tenants have relatively high housing costs

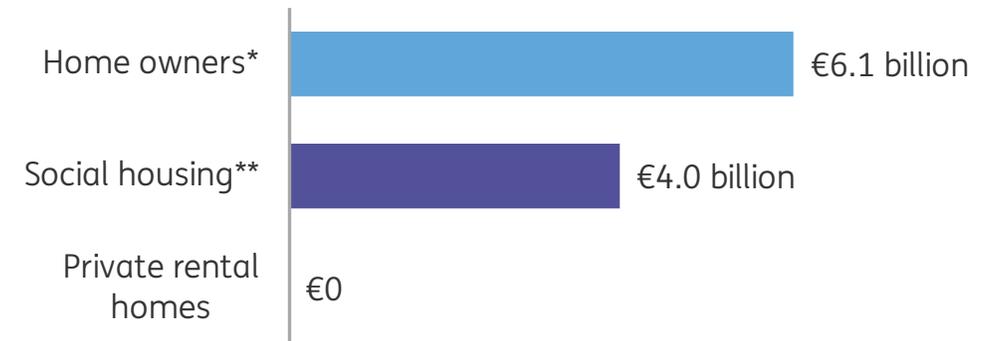
Average net housing costs as % of disposable income



Source: Woononderzoek 2021

Private rental segment only segment not subsidised

Total net subsidies for households per housing segment in 2022



* Mortgage interest rate deduction + "Wet Hillen" (subsidy for homeowners with low mortgage debt) - "Eigenwoningforfait" (tax on notional rental value)

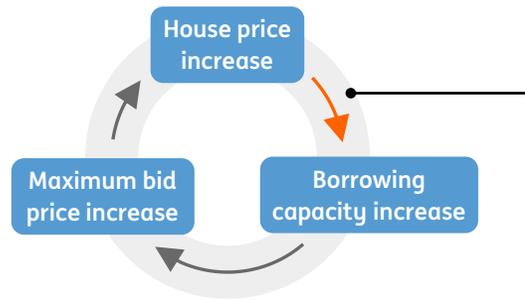
** huurtoeslag

Source: CEP 2022, overtoeslagen.nl

Dutch house prices: volatile compared to other countries

1. Reinforcing effect on house prices is relatively strong in the Netherlands

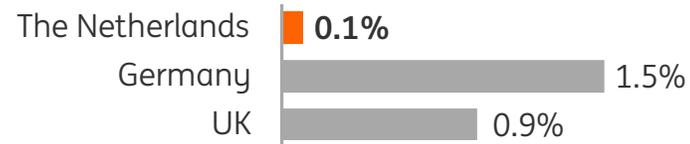
Dynamics of the reinforcing effect on house prices



When house prices increase, the borrowing capacity of homebuyers increases by the same amount in **the Netherlands**. This is due to the **maximum loan-to-value (LTV) of 100%**. Most other European countries apply a lower maximum of between 70% and 90%. A lower LTV mitigates this reinforcing effect.

2. Dutch housing supply responds little to higher demand

Elasticity of housing supply in high demand period*

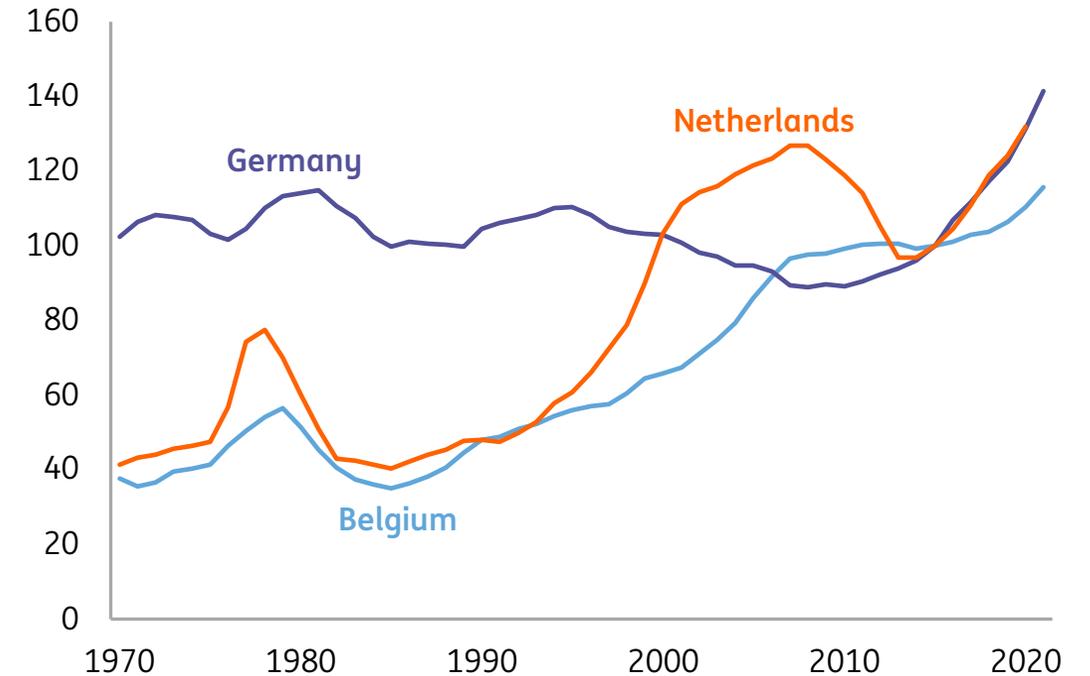


*NL: 1995 - 2008; DE: 2000 - 2008; UK: 1993 - 2008.

Source: CPB (2017)

Effect: relatively big swings in Dutch house prices

Real house price index (2015 = 100)



Source: OECD

Housing policies: stricter lending norms, fewer subsidies limit debt growth

Stricter lending rules and lower tax subsidies after 2008 crisis

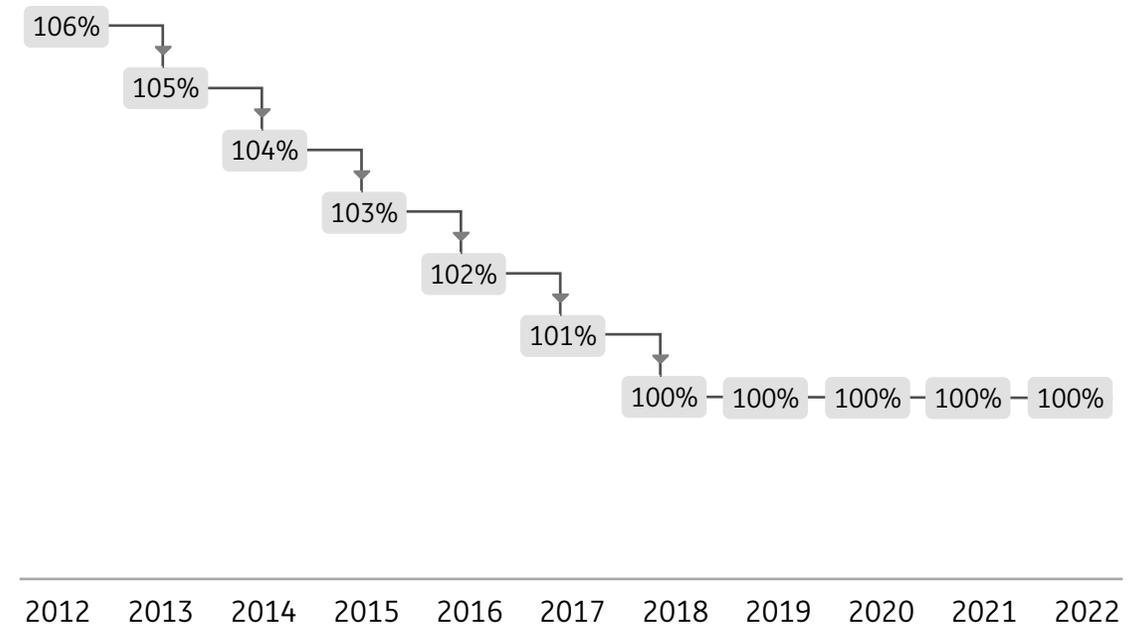
Policy measures aimed at lowering mortgage debt growth

- **2001** Households are only allowed to deduct interest payments on the mortgage up to a maximum period of 30 years.
- **2004** Interest payments resulting from mortgage equity withdrawal cannot be included in the tax deduction.
- **2007** Introduction of a code of conduct (cost of living ratios, reference rate for mortgage with interest rate <10yr).
- **2008** **Start of the financial crisis**
- **2011** Tightening code of conduct (max 50% interest-only).
- **2013**
 - For new contracts, interest is tax deductible for amortising mortgage loans only*.
 - Max loan-to-value gradually lowered from 106% to 100% in 2018.
- **2014** For the higher income tax bracket, tax deduction will be gradually reduced from 52% to 38% in 2041.
- **2020** Maximum mortgage interest deductibility will be reduced in steps of 3%-points from 49% in 2019 to 37.05% in 2023.

* Annuity and linear mortgages.

Maximum allowed loan-to-value has been lowered

Maximum mortgage amount allowed as share of purchase price

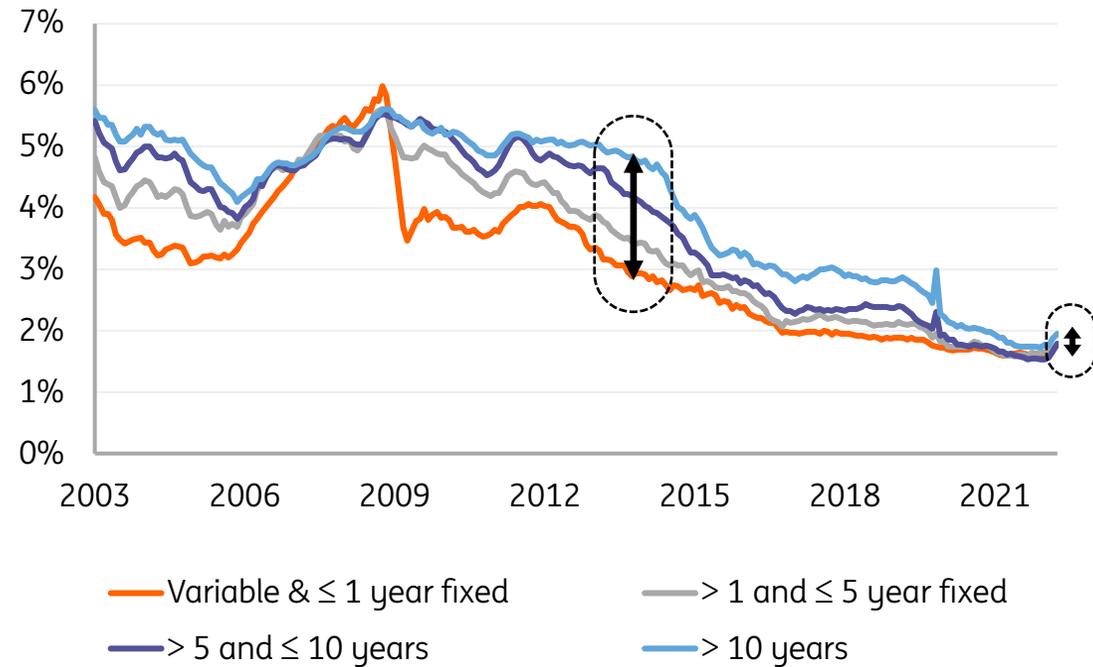


Source: Rijksoverheid.nl

Mortgage rates: longer term fixed rates increasingly popular

Spreads between variable and fixed rates have gone down...

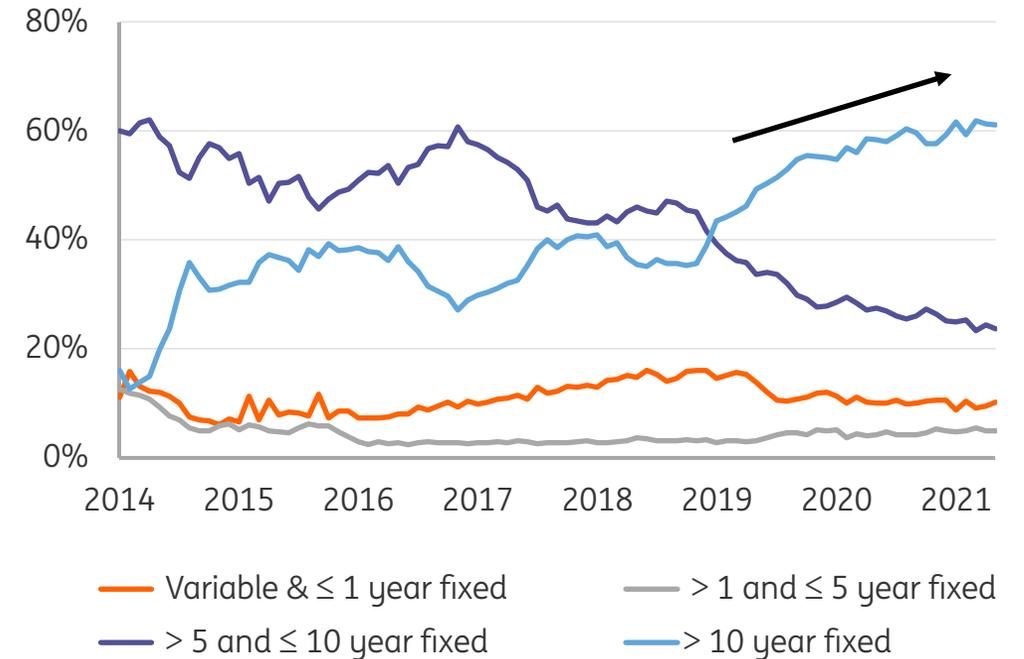
Mortgage interest rates by interest rate period



Source: Dutch Central Bank

Home buyers mainly choose longer term fixed rates

New mortgage production by interest rate period

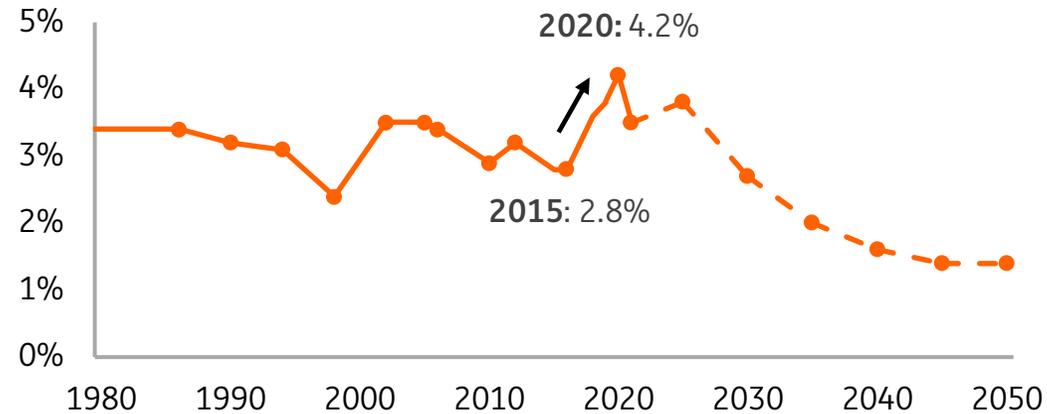


Source: Dutch Central Bank

Housing shortage: structural problem that got worse in recent years

Housing shortage increased strongly between 2015-2020

Housing shortage* as % of total housing stock



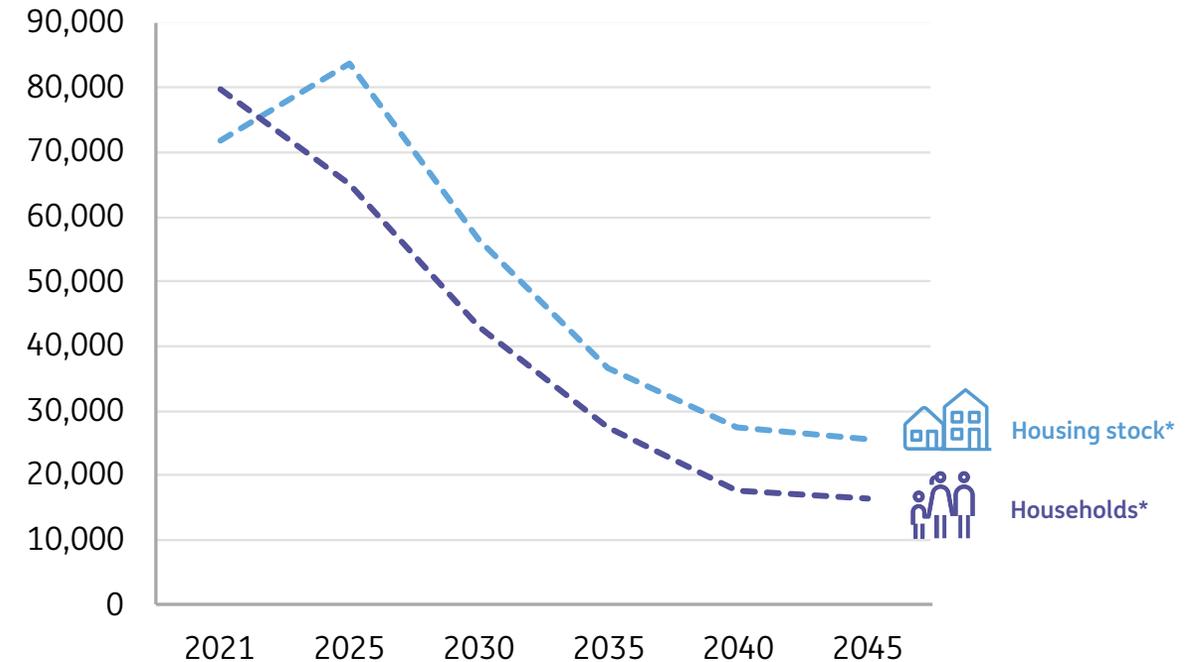
Main drivers of lower home production between 2015-2020: Introduction of procyclical policies during 2008 crisis (landlord levy, lowering of interest rate deduction, VAT increase). Slow process of permit procedures due to municipal capacity constraints. Increased focus on inner city construction.

Main drivers of increased demand for homes between 2015-2020: Increase of foreign migration. Strong growth of active group on housing market (group between 25-34 years old).

* Difference between the expected amount of households wishing to have an own home and the expected housing stock
Source: ABF Research, ING Research

Housing stock growth projected to exceed household growth before 2025

Expected growth per year

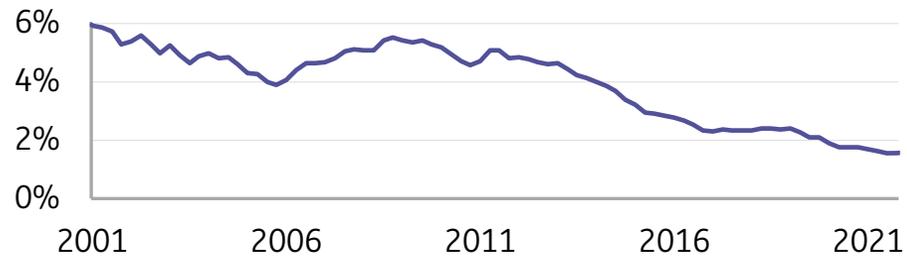


* Estimated number of households wishing to have an own home.
Source: ABF Research

Affordability: rising mortgage costs since 2015, but in 2021 still close to historic average

1. Mortgage rates declined to historically low levels

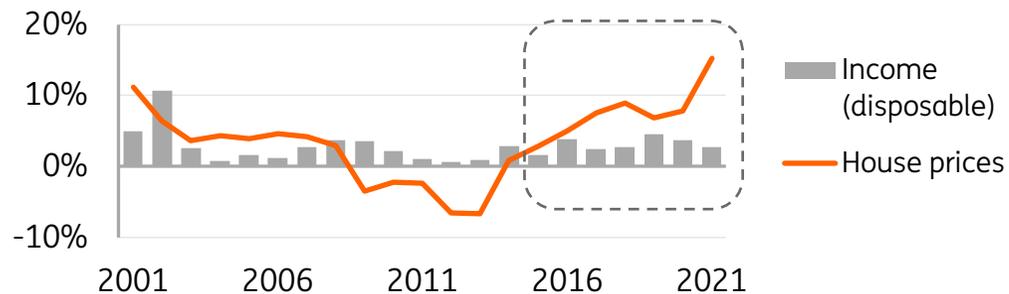
Avg interest rate on 5 to 10yr fixed mortgages



Source: Macrobond, CBS (National Statistics)

2. House price growth has outpaced income growth since 2015

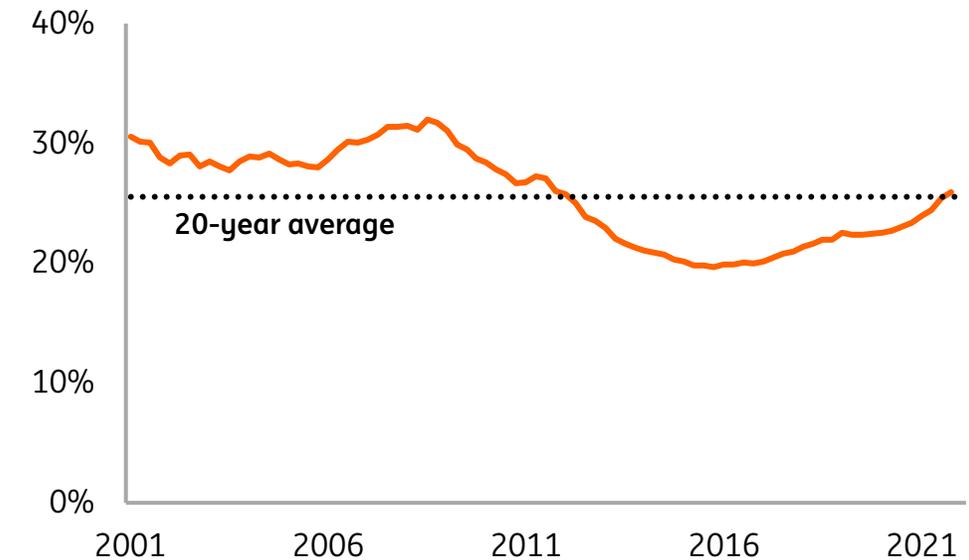
Annual average growth



Source: Macrobond, CBS (National Statistics)

3. Mortgage costs have just last year crossed long-term average

Net mortgage costs of first-time buyers as % of disposable income*

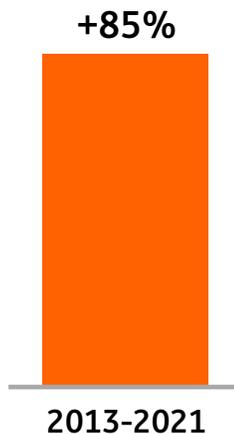


* 100% loan-to-value, annuity mortgage, net costs in 1st year after purchase. It takes time before market rate developments work through in the affordability index, because of the lag between the date a mortgage contract is signed and the starting date of the contract (on average over three months).

Source: CBS (National Statistics), Macrobond, ING Research

Purchasing budgets: important driver of past house price growth

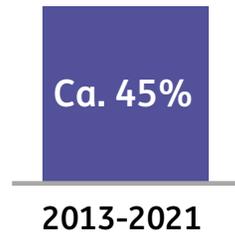
**Vast price increase
between 2013 and 2021...**
House price development



...which can be largely explained by higher purchasing budgets...

Estimated contribution of **higher purchasing budgets** on house price increase

Lower mortgage rates and higher income have increased purchasing budgets



1. It made buying a home more affordable

Around 60% of home buyers are not constrained by lending rules. This group of home buyers could between 2013-2021 bid **50%** for a home without increasing their net mortgage costs as a share of their income.

2. It increased homebuyers' maximum borrowing capacity

Around 40% of home buyers are constrained by their maximum borrowing capacity. Their lending capacity has increased by around **35%**.

...while multiple other relevant explanations exists

Estimated contribution of other factors on house price increase (2013-2021)



Other **drivers** that have added **upward pressure**:

- Higher expected returns for private investors
- Subsidies for first-time buyers (such as "Starterslening")
- Doubling of gift tax exemption for owner-occupied housing in 2013
- Tightening of the housing market
- Higher inflow of foreign knowledge workers
- Sentiment: adaptive expectations

Drivers that have added **downward pressure**:

- Stricter policies (such as lower maximum LTV)
- **Correction of previous overshooting**: it may be that house prices dropped below their fundamental value during the 2008 financial crisis. Part of the 85% price increase is then a price correction.

Cyclical perspective:

The Dutch housing market in 2022

Home sales & supply: signs of cooling down

Less home sales compared to previous years

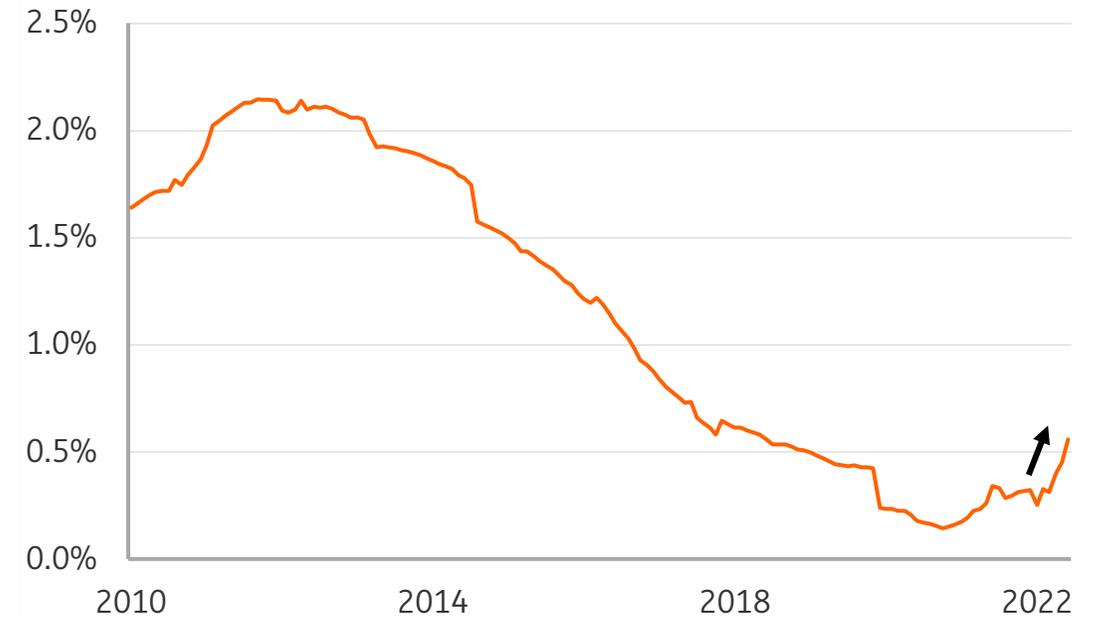
Homes sales per month, seasonally corrected



Source: CBS (National Statistics)

Share of homes for sale increasing recently

Share of total housing stock put for sale

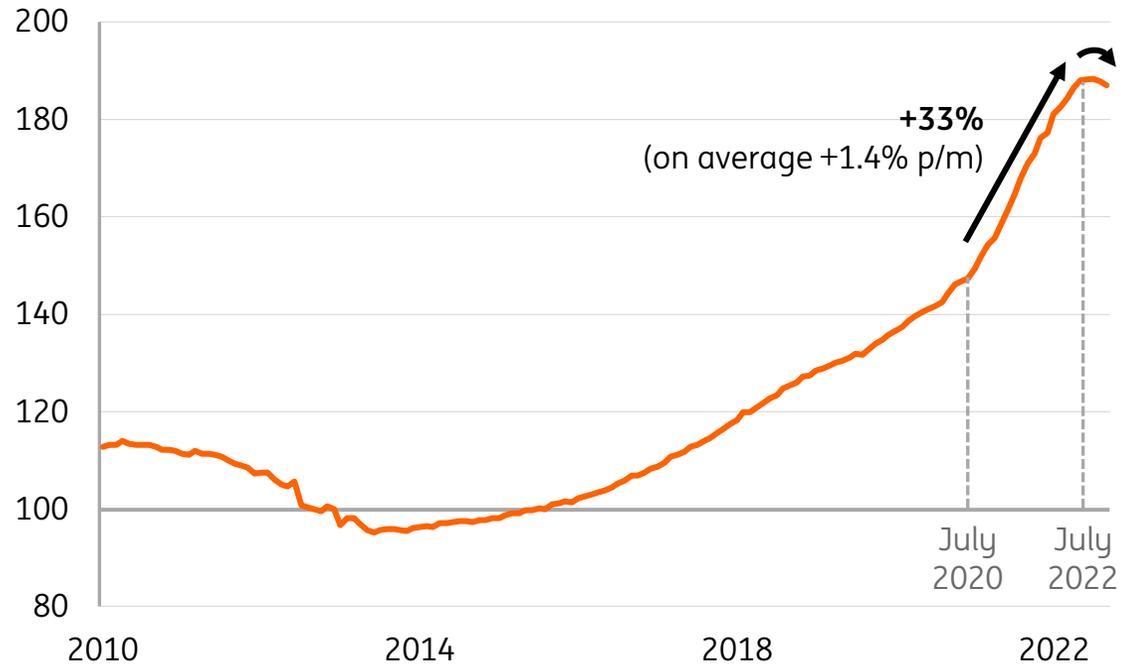


Source: Macrobond, CBS (National Statistics), ING Research

House prices: from vast growth to price decline

Price decline after period of strong price increases

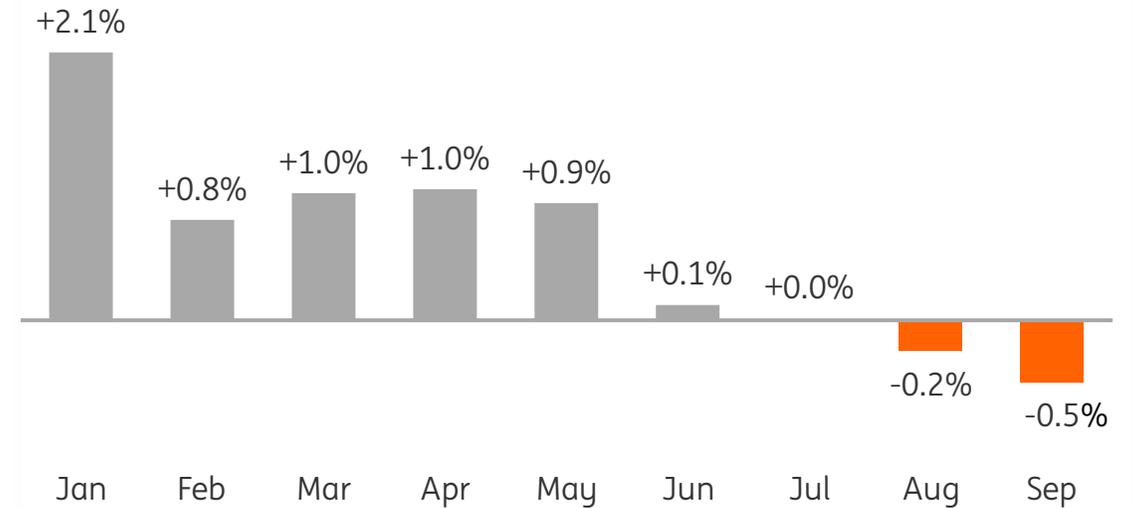
Price index of existing owner-occupied dwellings (2015 = 100)



Source: CBS (National Statistics)

Two months of falling house prices

Price development of existing owner-occupied dwellings compared to previous month, seasonally adjusted

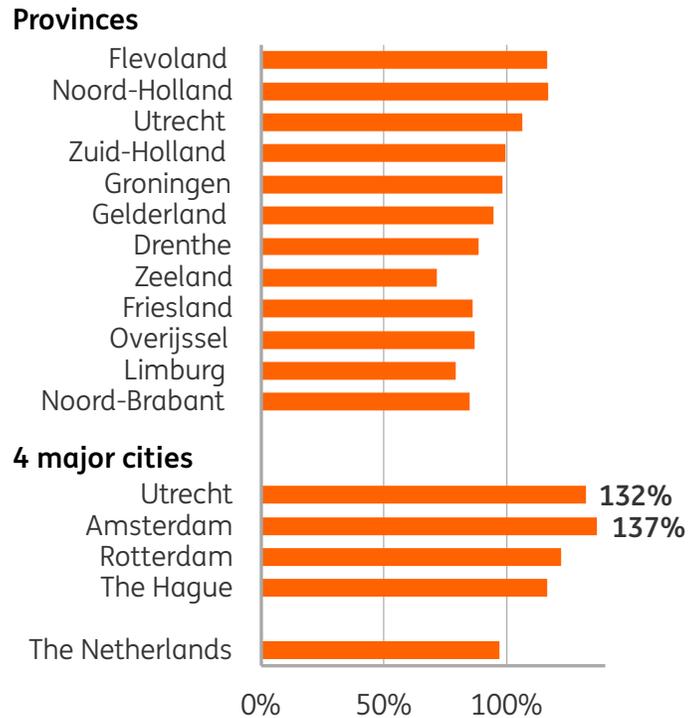


Source: CBS (National Statistics), ING Research

Regional house price growth: Amsterdam still frontrunner

Steepest house price growth since 2013 in Amsterdam and Utrecht...

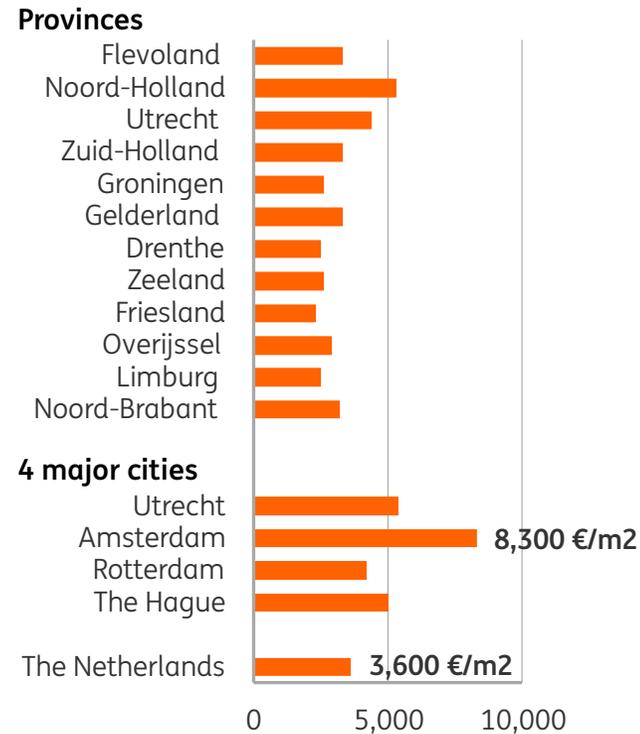
House price development between 2013 and Q3 2022



Source: CBS (National Statistics)

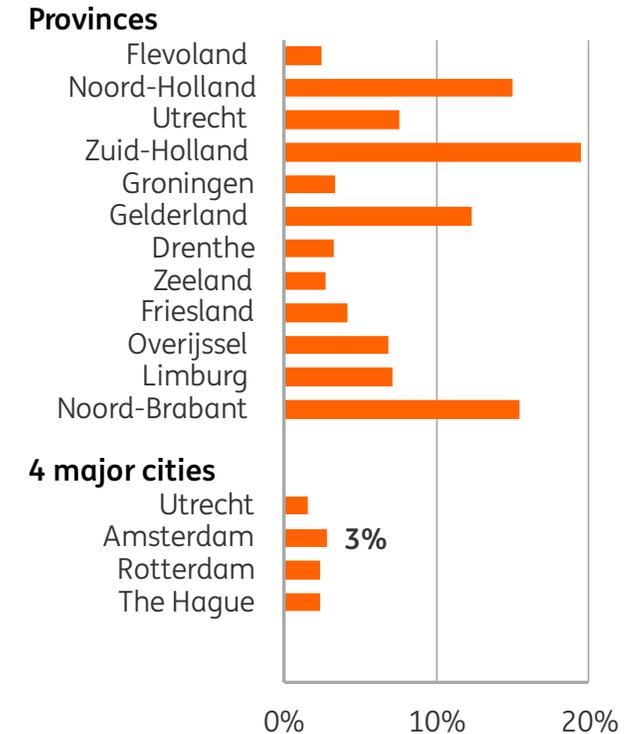
...Amsterdam remains most expensive by far...

Average house price (€/m²), Q3 2022



...but accounts for only 3% of all owner-occupied homes

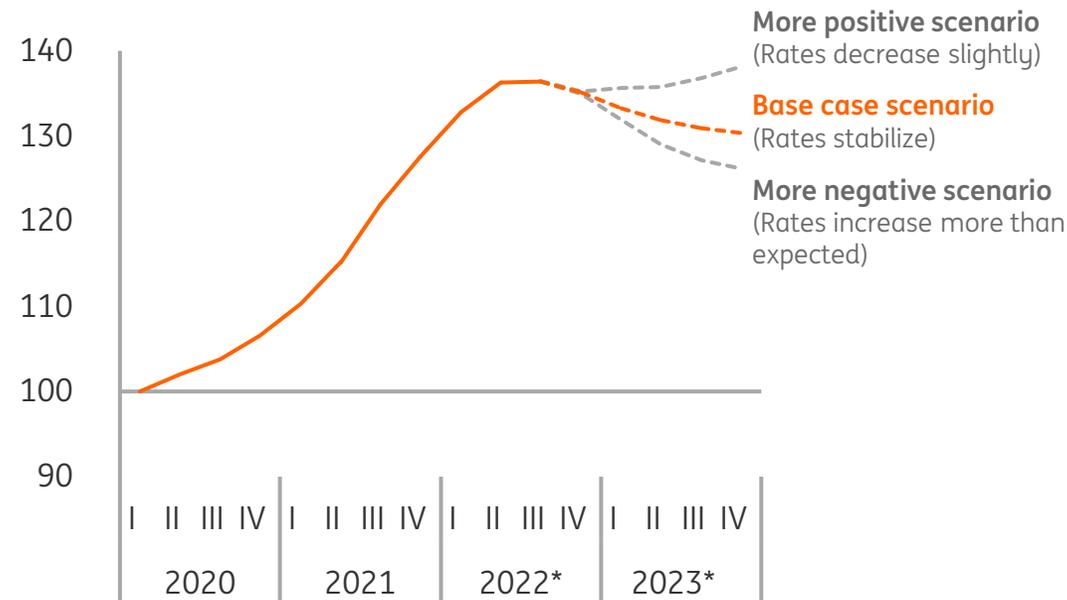
Share of total owner occupied housing stock, 2021



ING Research base case scenario: declining house prices in 2023

Persisting house price declines in 2023...

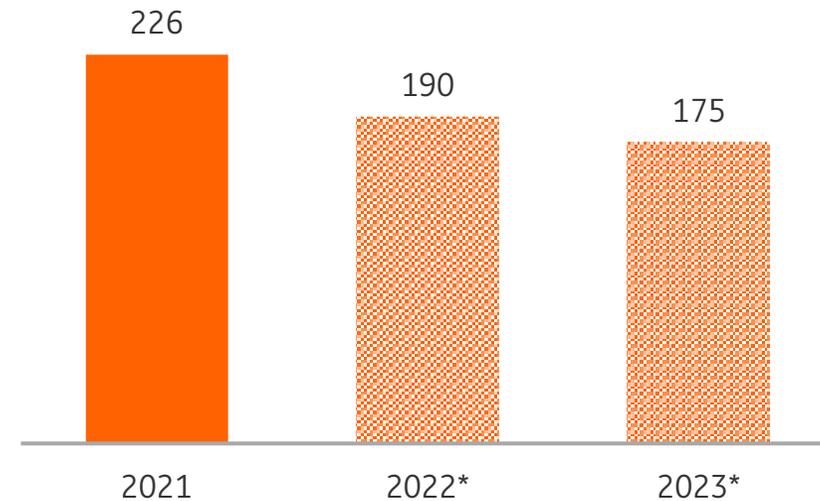
Price index of existing owner-occupied dwellings, seasonally corrected
(Q1 2020 = 100)



* Forecast ING Research
Source: CBS (National Statistics)

... and home sales expected to decline further

Homes sales per year, in thousands

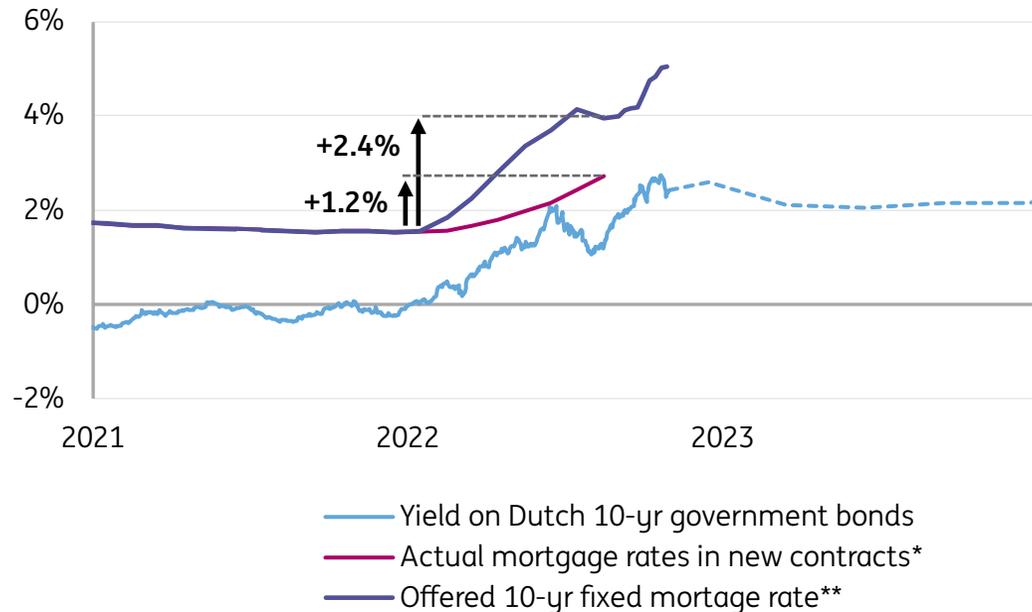


* ING base case scenario
Source: CBS (National Statistics), ING Research

Driver 1: recent mortgage rate hike lowers purchasing budgets

Mortgage rates have surged recently, expected to stabilize

Average interest rates



* Contract rates are on average lower due to the 'meeneemregeling' for 2nd time buyers, the recent shift to shorter fixed rate periods and because the offered rate is unweighted – in practice, home buyers will choose most attractive rates.

** Unweighted average of IO and annuity mortgages, without National Mortgage Guarantee.

Source: DNB via Macrobond, ING, forecast ING Research

...resulting in lower purchasing budgets

Effects mortgage rate hike on purchasing budget

Effect 1: Buying a home less affordable

Decline of purchasing budgets in order to keep mortgage costs in 1st year as high as the level beginning of 2022.

	Amount in euros	% of house price*
With a rate increase of 2.4%-point**	around €60,000	-15%
With a rate increase of 1.2%-point**	around €30,000	-7%

Effect 2: Lower borrowing capacity

Decline of purchasing budgets due to lower maximum borrowing capacity

	Amount in euros	% of house price
With a rate increase of 2.4%-point	€55,000 to €60,000	-14 to -15%
With a rate increase of 1.2%-point	around €30,000	-7%

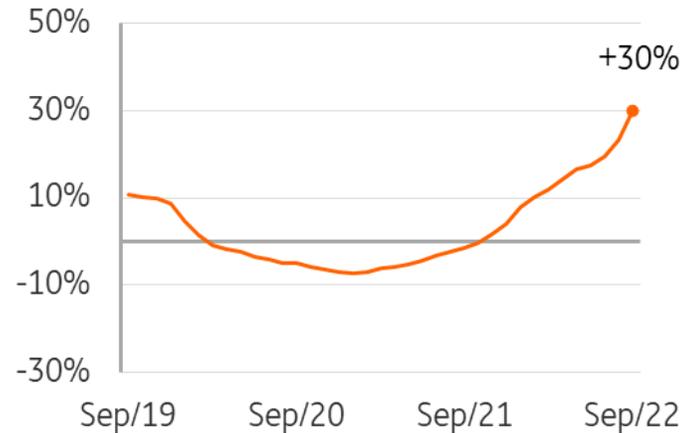
* Based on average house price of €402,726 in Q4 2022.

** Increase of avg. offered 10-yr rate between January and August 2022.

Drivers 2 and 3: high energy costs and higher income growth

Energy costs are increasing...

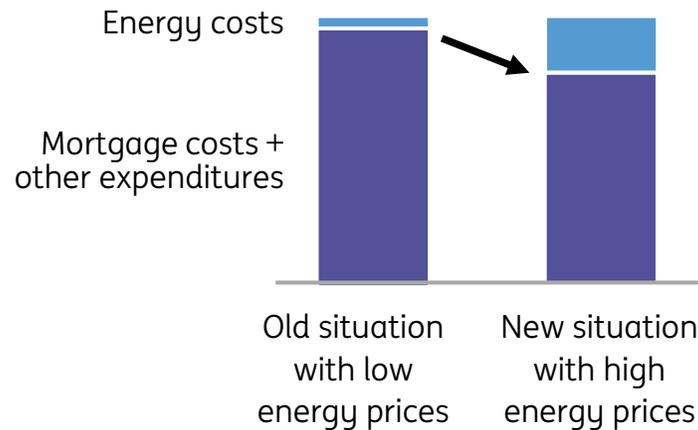
Average advance payment of ING consumers to energy suppliers, year-on-year change



* Consumer price index of gas, electricity and heating energy
Source: CBS and Macrobond, ING data, calculations
ING Research

...this is lowering purchasing budgets...

Household expenditures (conceptual)

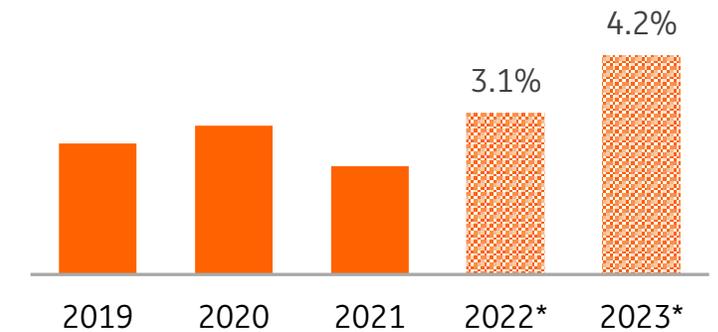


Government compensation mitigates effect on purchasing budgets:

- **2022: lower energy tax, 9% VAT** (instead of 21%) and **€190 compensation** in both November and December 2022, to all households.
- **2023: energy price cap** to be implemented.

...however higher inflation also leads to stronger wage growth

Annual average CLA income growth



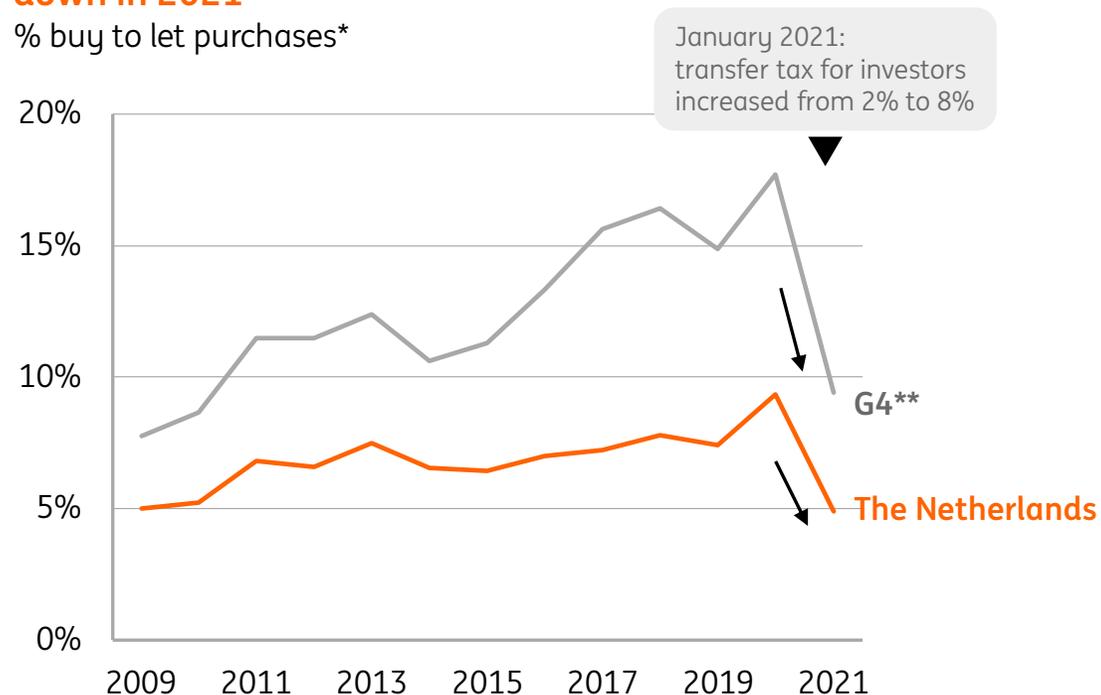
* Forecast ING Research
Source: Macrobond, CBS (National Statistics)

A mark-up of 1.5%-point on top of CLA income growth appears to be a reasonable estimate in periods with tight labor markets For higher educated, young home buyers. For them, this translates into wage growth of 4-6% per year in 2022 and 2023.

Driver 4: new regulation lowers private investor demand

Higher transfer tax for investors has pushed share of buy-to-let down in 2021

% buy to let purchases*



* Transactions of owner-occupied homes to private investors

** Amsterdam, Rotterdam, The Hague and Utrecht

Source: Kadaster (National Land Registry)

Regulatory changes expected to further discourage buy-to-let

Recently implemented

- **Higher transfer tax for investors** (2021): from 2% to 8% in January 2021, and a further increase to 10.4% in 2023.
- **Maximum rental price increase of 1% plus inflation in the previous year** (3.3% in 2022) for existing contracts in the unregulated segment up to at least May 2023 (2021).
- **“Opkoopbescherming”** (2022): in several major cities (incl. Amsterdam, Rotterdam, The Hague and Utrecht), a **ban on buy-to-let purchases** has been implemented, for homes with a property value up to a certain value.
- **Role of “WOZ” value on rental price limited** (May 2022): the maximum rental price of regulated rental homes is determined based on a **points system** (WWS). Points are provided based on various quality characteristics, including the property value. The share of points that can be assigned based on the property value is now capped at 33% for homes in the regulated segment.

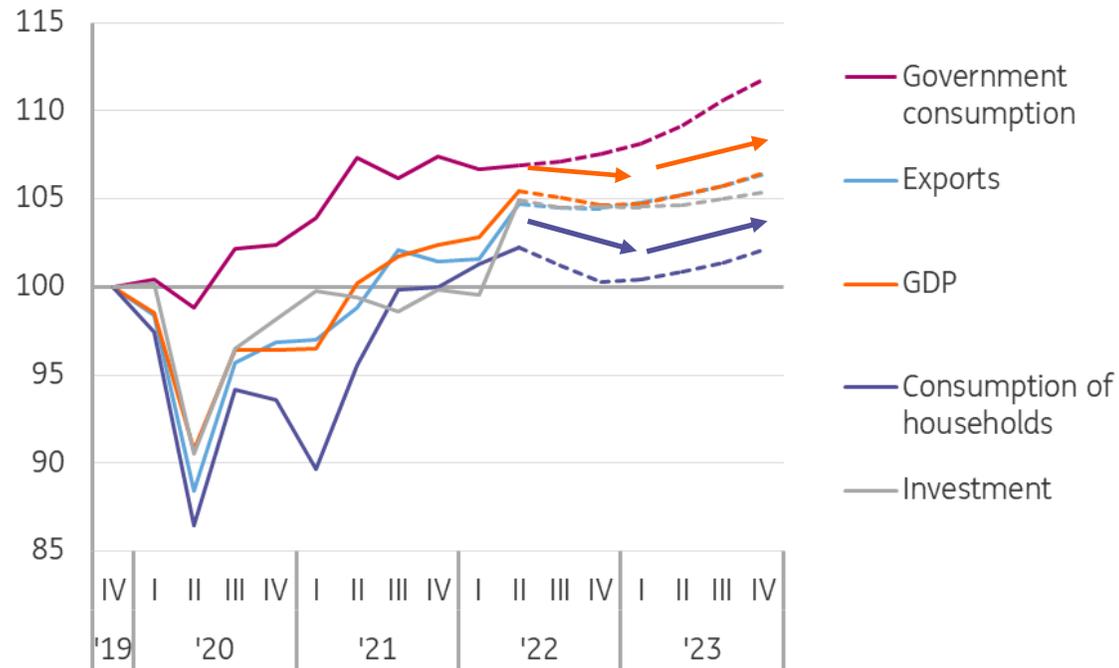
Planned regulation

- **Reform of capital income tax** (2025): capital income –including rents– will be based on actual income. The current system based on fictitious returns has structurally underestimated capital returns.
- **Expansion of regulated rental segment** (2024): currently, homes with rents up to €763.47 are regulated. This rent limit will be extended to a value between €1,000 and €1,250.
- **Agreement between housing associations and the government: decoupling of rent increases of existing contracts from inflation.** Instead, rent growth will be based on income developments in Collective Labour Agreements for at least three years (2023).

Driver 5: forecast recession has increased pessimism on the housing market

Mild decline of GDP forecasted, driven by lower consumption of households, but a bit more positive about 2023

Expenditures* as index where 4th quarter of 2019 = 100

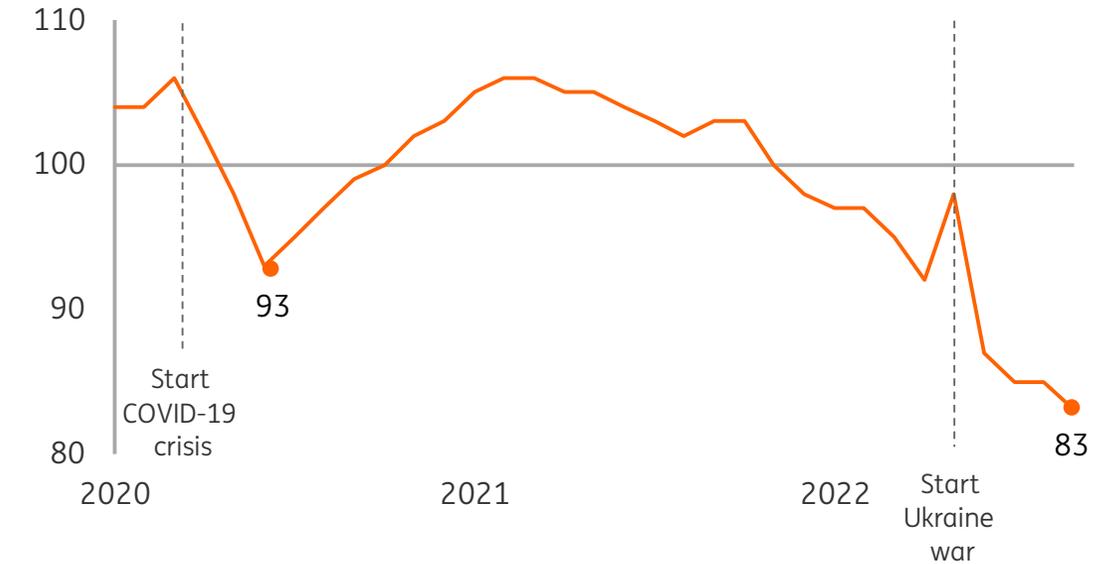


*seasonally adjusted and in constant prices

Source: CBS via Macrobond, ING Research forecasts as of 3Q22

Increased pessimism since outbreak of Ukraine war

Confidence in the housing market (100 = neutral)



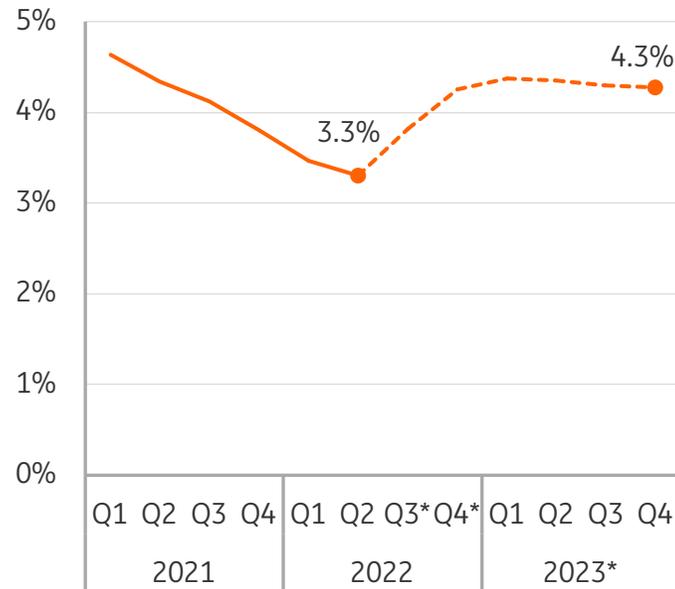
Source: Vereniging Eigen Huis (Association of home owners in the Netherlands)

Drivers 6, 7 and 8: low unemployment, shortage and financial buffers support house prices

Drivers that support house prices

6. Unemployment is expected to remain low

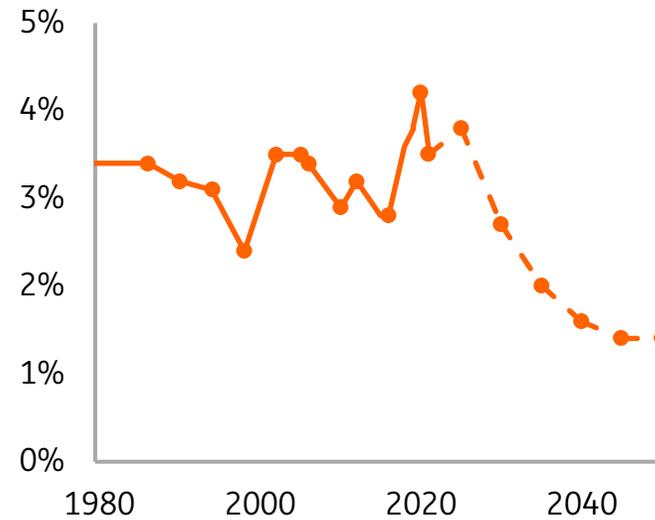
Unemployment rate over time



Source: CBS (National Statistics), ING Research

7. Housing shortage is relatively high

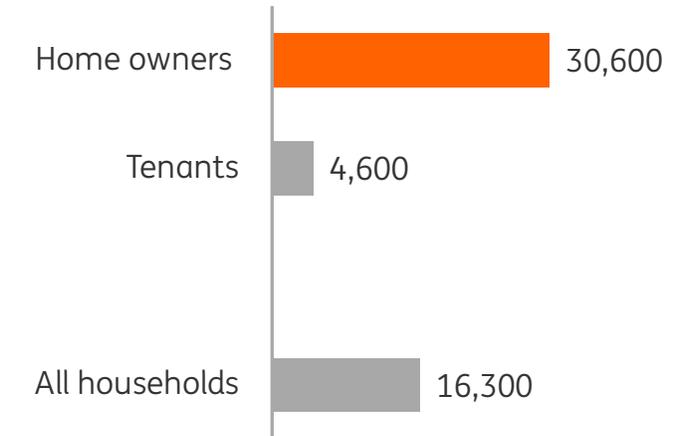
Housing shortage* as % of total housing stock



* Difference between the expected amount of households wishing to have an own home and the expected housing stock.
Source: ABF Research, ING Research

8. Homebuyers' financial buffer far above average

Median value of financial assets*



*Sum of bank and savings deposits and securities.
Source: CBS (National Statistics)

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