Housing shortage and low interest rates are driving up house prices

Dutch Housing Market Quarterly
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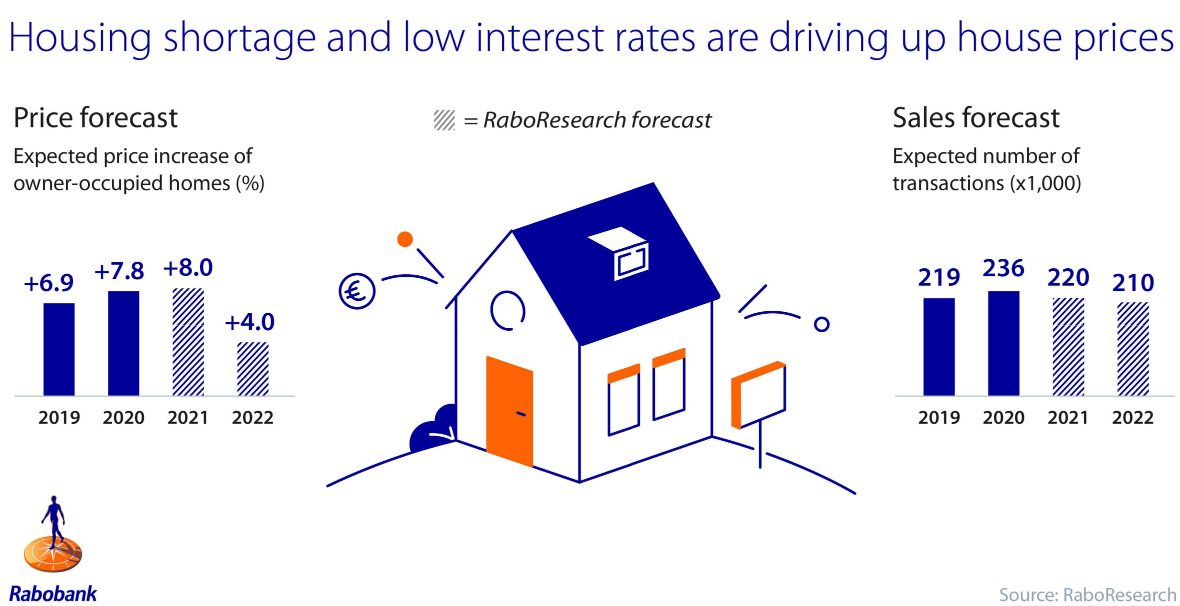
- **We expect continuing supply shortages and the low interest rate environment to keep driving up house prices. For this year we forecast robust house price growth of +8.0 percent**
- **House prices will rise even faster than last year's average of +7.8 percent**
- **For 2022, we predict that house price growth will slow to +4.0 percent due in part to rising unemployment**
- **Investor demand is an uncertain factor. If demand from investors largely disappears due to higher stamp duty, it could put downward pressure on prices**
- **For this year and next year, we expect sales volumes to fall due to the supply shortage. We anticipate that 220,000 homes will be sold in 2021, and 210,000 in 2022**



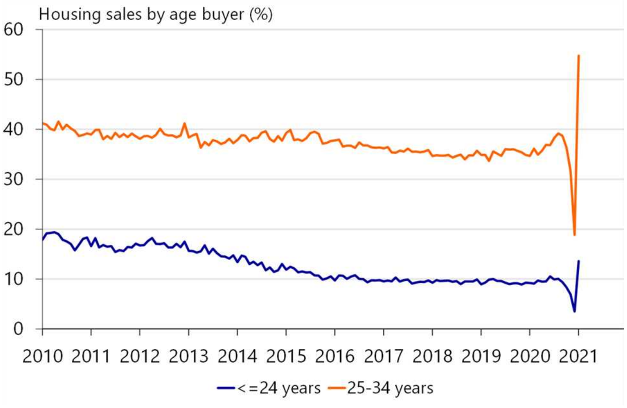
Strong start to 2021

In early 2021, the Dutch housing market is still moving full speed ahead. In late 2020 house price inflation slowed slightly, only to rebound in January 2021 (Figure 1). The price of existing homes was 9.3 percent higher than in January 2020, which is the biggest price rise in over two years.

Figure 1: House price growth picking up again

Source: Statistics Netherlands (CBS), Dutch Land Registry

Figure 2: Unprecedented behavioural response of under-35s to sales tax abolition



Source: Statistics Netherlands (CBS), Dutch Land Registry

Sales volumes rising

The new year also brought a robust rise in the number of homes sold. In January, 24,516 homes changed hands, a rise of almost 40 percent compared to January 2020.

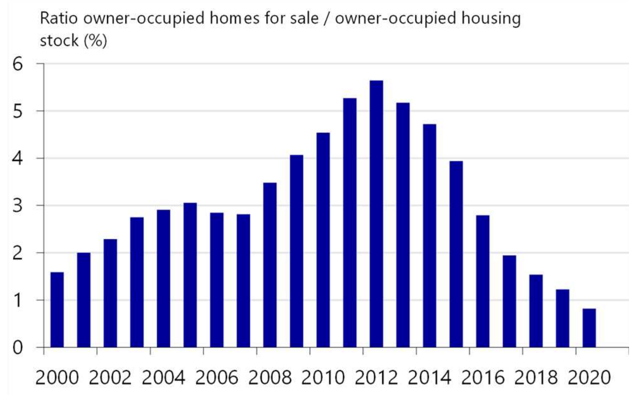
This uptick is most likely the result of the abolition of stamp duty for buyers under-35. It appears that many young adults who exchanged contracts on a property in the second half of 2020 probably decided to delay completion until the new year to avoid having to pay stamp duty. After the announcement that stamp duty would be abolished for the under-35s with effect from 2021, their share in total sales dropped sharply and then rose strongly again in January. In January 2021 68 percent of all property sales transactions were to under-35s (Figure 2), confirming our expectation that under-35s would be strongly represented in the sales figures for the early months of 2021.

Housing Market Outlook

Sales will fall slightly

We expect a slight fall in residential property sales in the near future. Last year just short of 236,000 residential property transactions took place. For 2021 we expect to see around 220,000 transactions (-6.6% y-o-y), with a further dip to 210,000 transactions in 2022. The reduction in transactions has more to do with a shortage of supply than with falling demand from homebuyers. At mid-November 2020, only 37,000 owner-occupied homes were for sale according to estimates by the NVM (Dutch Association of Real Estate Brokers). Never before have there been so few properties for sale at a single time. This number becomes even starker when compared to the total number of owner-occupied homes in the Netherlands (Figure 3).

Figure 3: Unprecedented shortage on the housing market



Note: The number of owner-occupied homes for sale (mid November) compared to the total owner-occupied housing stock in the same year. Source: NVM, Statistics Netherlands (CBS), modified by RaboResearch

Not enough new build homes

The pressure on the housing stock is being exacerbated by the fact that not enough additional new homes are being built to meet housing needs. The shortage of new build homes means that people are less inclined to put their house on the market and move to a new build home.

According to figures from the government department responsible for housing, the housing stock rose by around 79,000 properties in 2020, including 69,300 new build homes. Construction of new build homes is likely to be lower in 2021 (In Dutch). The lag in new build construction is partly a hangover from the nitrogen crisis which developed in 2019, prompting a sharp fall in the volume of building permits granted at that time. Assuming that on top of the new build forecast for 2021 some 10,000 to 12,000 homes will be added to the housing stock through repurposing of vacant buildings, that still leaves us a long way off the government's recently declared intention to raise the number of homes created through new build or transformation to 90,000 per year.

House prices will continue to rise

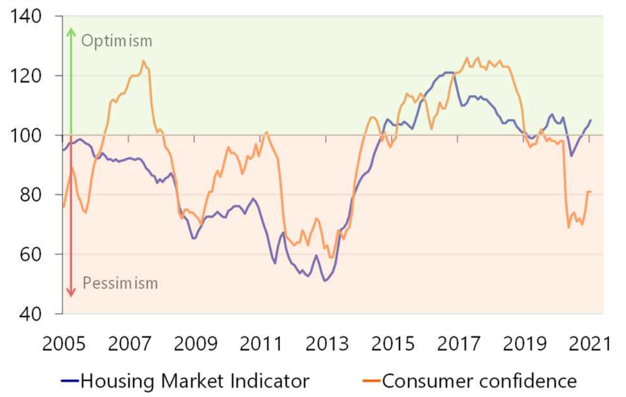
We expect that, on average, house prices will rise by around 8.0 percent in 2021 compared to 2020. The projected rise will be slightly higher than the 7.8 percent increase seen last year. We expect house price growth to slow to an average of 4 percent in 2022. This represents a sharp upward revision to our house-price growth forecasts for the coming two years published in late 2020. At that time we predicted growth of 5.5 percent and 2.5 percent respectively for 2021 and 2022. Our expectation that house prices will continue to rise is based on three factors: 1) the improved economic outlook, 2) the housing shortage and 3) favourable mortgage conditions. We discuss each factor in more detail below.

Improved Economic Outlook

The main factor underlying our upward revision is the improvement in the macroeconomic outlook since our previous estimate. We are seeing a faster than expected upswing in the Dutch economy. Unemployment rates are also levelling off, which tempers the fall in demand for owner-occupied properties that we predicted earlier. According to Statistics Netherlands (CBS), in January 2021 3.6 percent of the labour force in the Netherlands was unemployed. For 2021 and 2022 we expect to see a gradual rise in unemployment with a peak of 4.7 percent in Q2 2022, but this is still relatively limited in historical terms.

Surveys of consumer confidence and the Market Indicator survey by the Dutch home owners interest group 'Vereniging Eigen Huis' (VEH) give no indications of falling demand for owner-occupied properties, at least not from people wanting to buy a property to live in themselves. Consumer confidence is slowly recovering from the major shock it suffered at the start of the Covid-19 pandemic. And people are once again optimistic about the housing market (Figure 4). Reflecting growing confidence, there was a slight uplift in the share of respondents in the Netherlands who consider this a (very) good time to buy a home (to 19 percent in Q3 2020). However, the group of people who consider this a (very) bad time to buy a property is still substantially higher (37 percent in Q3 2020). The poor economic climate and the difficult housing market (limited supply and reduced affordability) are reasons given by people who do not want to buy a home at this point in time.

Figure 4: Housing market sentiment slightly sunnier



Source: OTB TU Delft/Vereniging Eigen Huis, Statistics Netherlands (CBS)

Housing shortage will remain an issue

The continuing housing shortage is also a factor in upward price pressures. The shortage is driving the trend towards outbidding: according to NVM, currently 58 percent of all homes sold go for more than the asking price. It is worth noting that in the past years the rise in house prices in regions with a substantial housing shortage substantially outpaced the rises in regions with smaller shortages. In mid-2020 the government housing department reported that there was a shortage of 331,000 homes, equal to 4.2 percent of the total housing stock. This shortage of housing is expected to increase further in the years ahead due to the rising number of households, which in turn will drive up demand faster than the capacity to build new homes. The shortage in 2025 is expected to be 419,000 homes (5.1 percent).

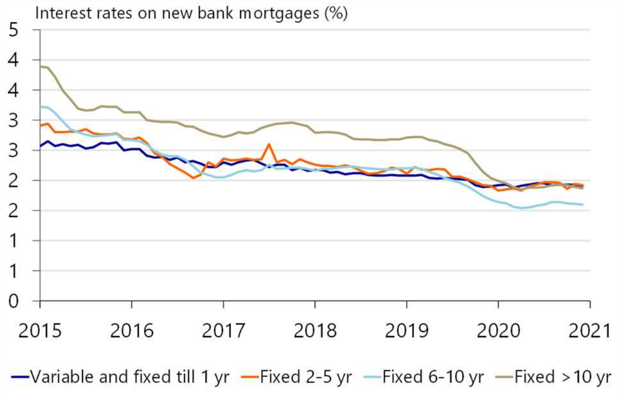
With general elections scheduled in the Netherlands in mid-March, many political parties are backing proposals to boost the targets for new build homes to 100,000 per year, in an effort to speed up a solution to the housing shortage. These proposals were put forward recently by a broad coalition of 34 stakeholders with an action agenda on housing, known in Dutch as 'Actieagenda Wonen'. They are calling for 100,000 homes to be created each year through new build, restructuring and transformation. But, like Rome, those houses won't get built in a day. In fact, when PBL (Netherlands Environmental Assessment Agency analysed the budget and financial impacts of each party's manifesto commitments, it concluded that it was far from certain that the proposed plans would in fact achieve the rapid growth in new homes that they envisage. Consequently, we assume that there will be a substantial housing shortage for years to come.

Access to cheaper finance will further boost prices

In 2020 the Dutch central bank (DNB) published an article stating that house prices are more closely related to borrowing capacity than to a shortage of housing. At this time many homebuyers have access to cheap(er) finance.

Firstly, mortgage rates are extremely low (Figure 5). When mortgage interest rates are low, provided they meet the income requirements, people can take out higher loans and can therefore bid more for a property. Mortgage interest rates are partly driven by capital market rates. The expectation is that capital market rates will remain extremely low in 2021 and 2022 (in Dutch), despite a recent resurgence. In turn, this could mean that mortgage interest rates will remain at very low levels for some time to come.

Figure 5: Mortgage interest rates very low



Source: Statistics Netherlands (CBS), Dutch Land Registry, DNB

Secondly, lending criteria are being relaxed this year. Dual-income households and people paying off student loans will be able to borrow more to buy a home. If they use the higher mortgage loan to put in a higher bid, prices will be subject to even more pressure. Which could be exacerbated by the fact that young buyers are now exempt from stamp duty, as mentioned above.

Investors and corona are uncertain factors

Investors are an element of uncertainty in our house price forecasts. We expect a slight collapse in demand from investors this year because, in anticipation of a substantial rise in stamp duty this year, they brought forward their acquisitions to 2020. While this could subdue price developments, it's not clear to what extent. What is clear is that there is a relationship between housing market demand from investors and house price trends. Dutch Land Registry data show that in previous years this demand caused house prices to rise. A possible contributing factor is that the maximum price that investors are willing to pay (as a function of their return-on-investment requirement) is generally higher than the maximum mortgage amount available to first-time-buyers, according to the Amsterdam School of Real Estate Management. This effect played out mainly in the period from 2014 to 2018 in Amsterdam, where private investors with a portfolio of 10 or more properties paid significantly more than first-time-buyers for an identical property (Dutch Land Registry data 2019).

Finally, the corona crisis has increased uncertainty about what to expect from house price growth. Last year we had to make many and regular adjustments to both our macroeconomic and housing market forecasts. For instance, government support measures proved more successful in keeping the lid on unemployment than we had originally expected and the rise in unemployment was not as steep as first feared. This was one reason why demand for owner-occupied properties remained stable. The latest macroeconomic forecast (in Dutch) - which underpins our house price model - is based on the assumption that the government will gradually and increasingly relax the corona containment measures with effect from the second quarter. We expect that the Dutch government will have lifted all restrictions by the end of the year i.e. once (almost) everyone has been vaccinated. If it does take longer to vaccinate the entire population, or if the consequences or hangovers from the crisis are more serious than can be foreseen at this time, that could have a knock-on effect on our housing market forecast.

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