



View on the Dutch housing market

Recovering after a year of price declines

ING Research – Sander Burgers

November 2023



do your thing

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Structural perspective:

long term housing market trends

Housing stock: private rental segment relatively small

Over half of Dutch housing stock is owner-occupied

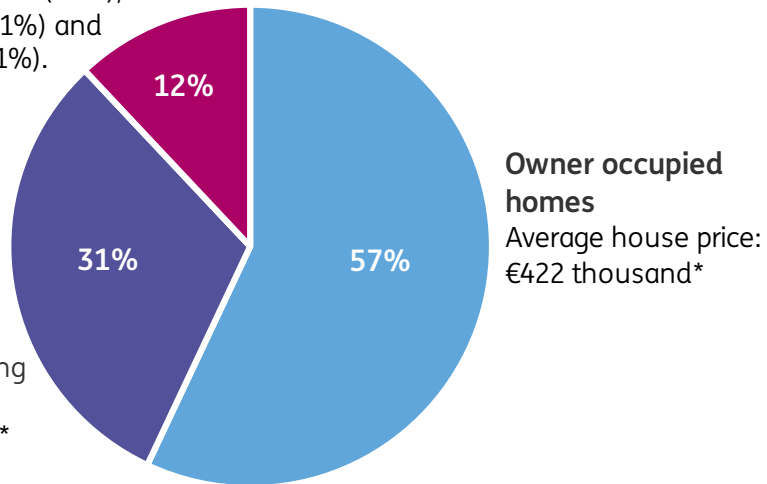
Breakdown of housing stock in the Netherlands, 2022

Private rental homes

Owned by private investors (78%), institutional investors (11%) and housing associations (11%). Rent above €808.06*

Social housing

Mostly owned by housing associations (95%) Initial rent max. €808.06*

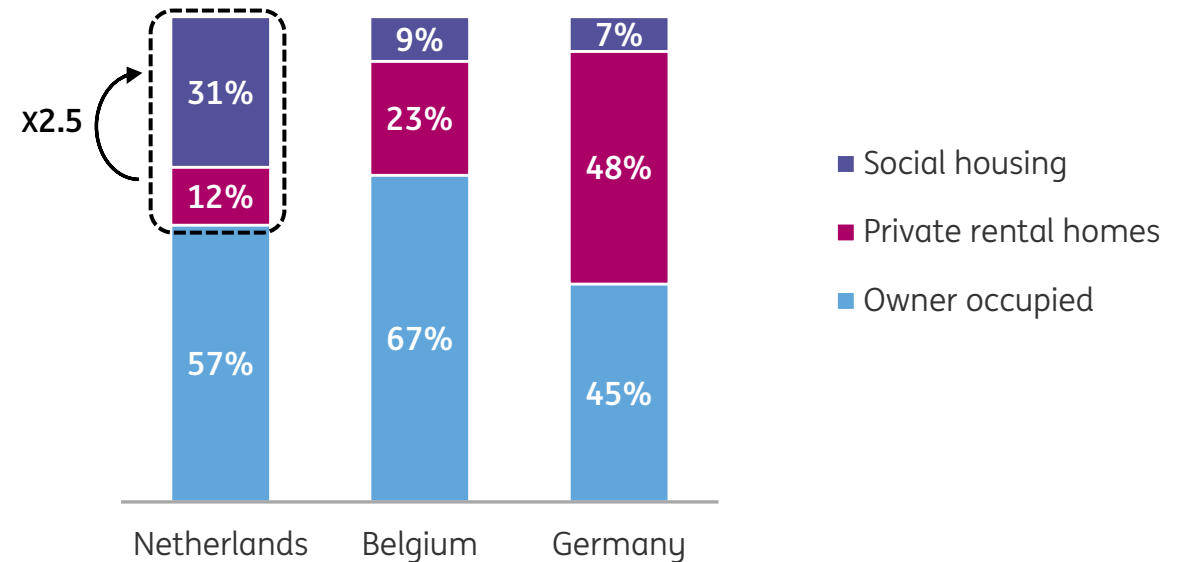


*In November 2023

Source: Capital Value, CBS

Dutch rental sector: relatively large social, small private segment

International comparison of the housing stock*



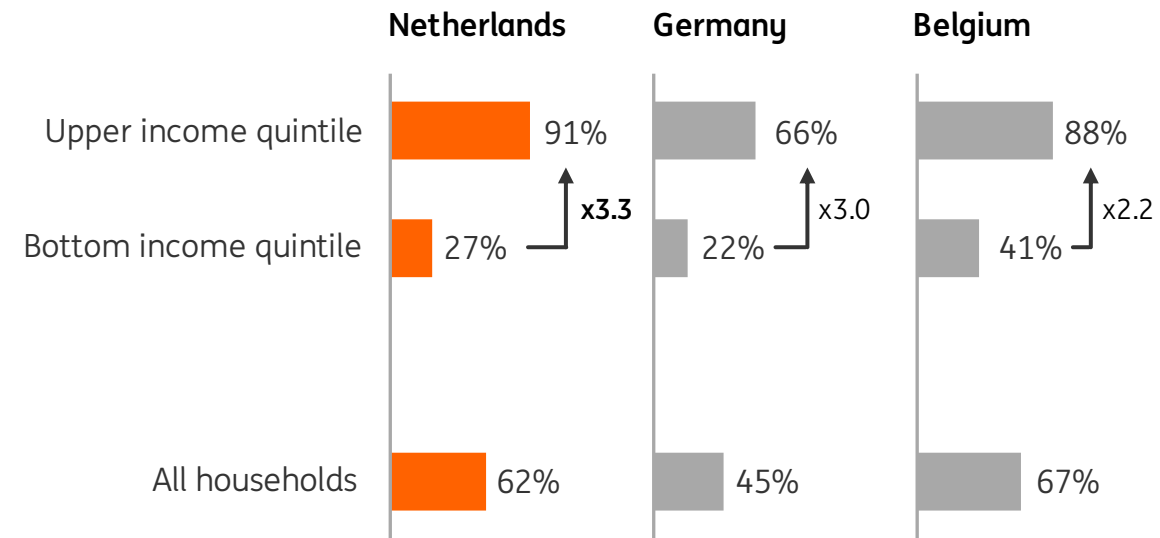
*The Netherlands: data from 2022. Belgium and Germany: data from 2020. Definition and regulation of social housing differs across countries.

Source: Capital Value, OECD Affordable Housing Database

Home ownership: more prevalent among top income households

Inequality in home ownership relatively large in the Netherlands

Home ownership in 2020*

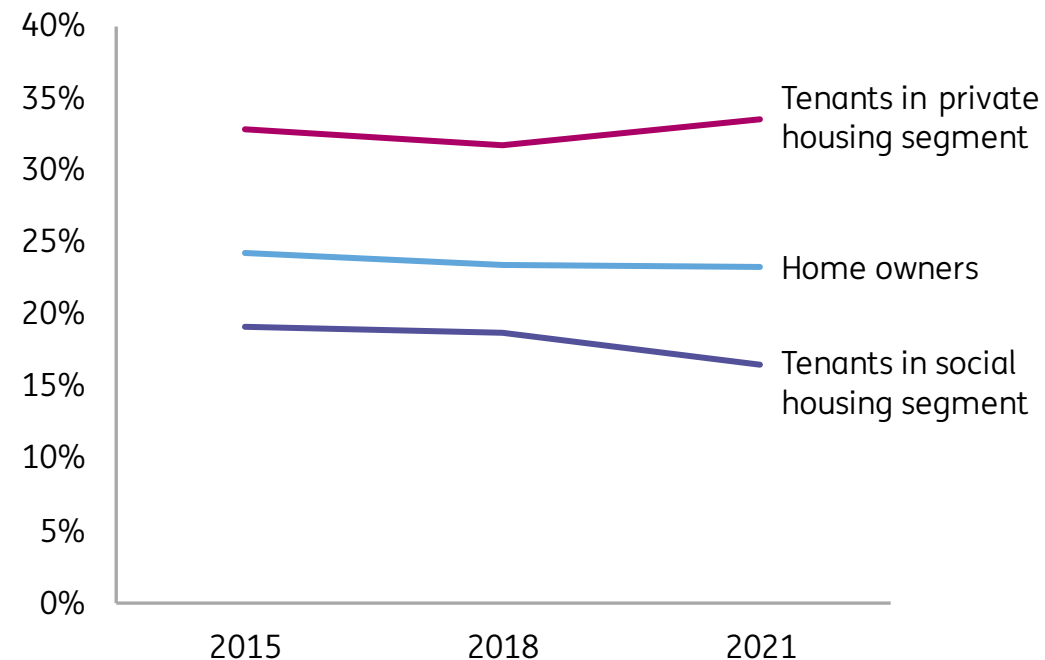


*Or latest available
Source: OECD

Housing costs: much higher in unsubsidised, private rental segment

Private sector tenants have relatively high housing costs

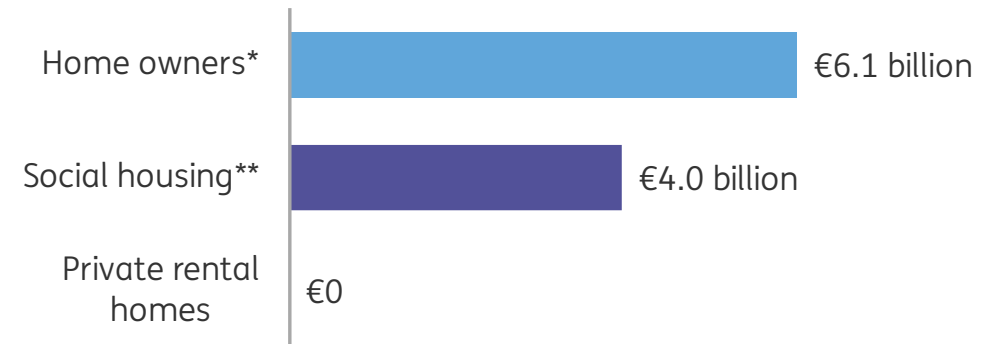
Average net housing costs as % of disposable income



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)

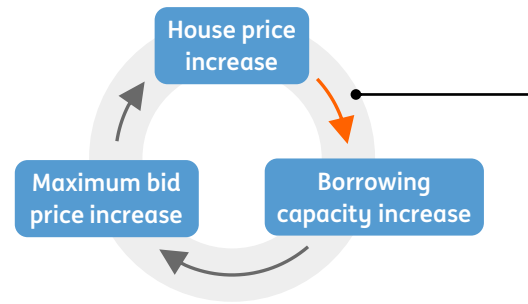
** huurtoeslag

Source: CEP 2022, overtoeslagen.nl

House prices: volatile compared to other countries

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

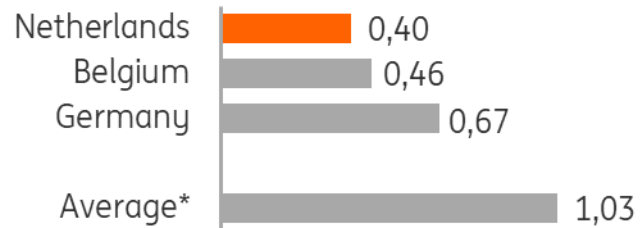
Dynamics of the reinforcing effect on house prices



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 weakly to price increases

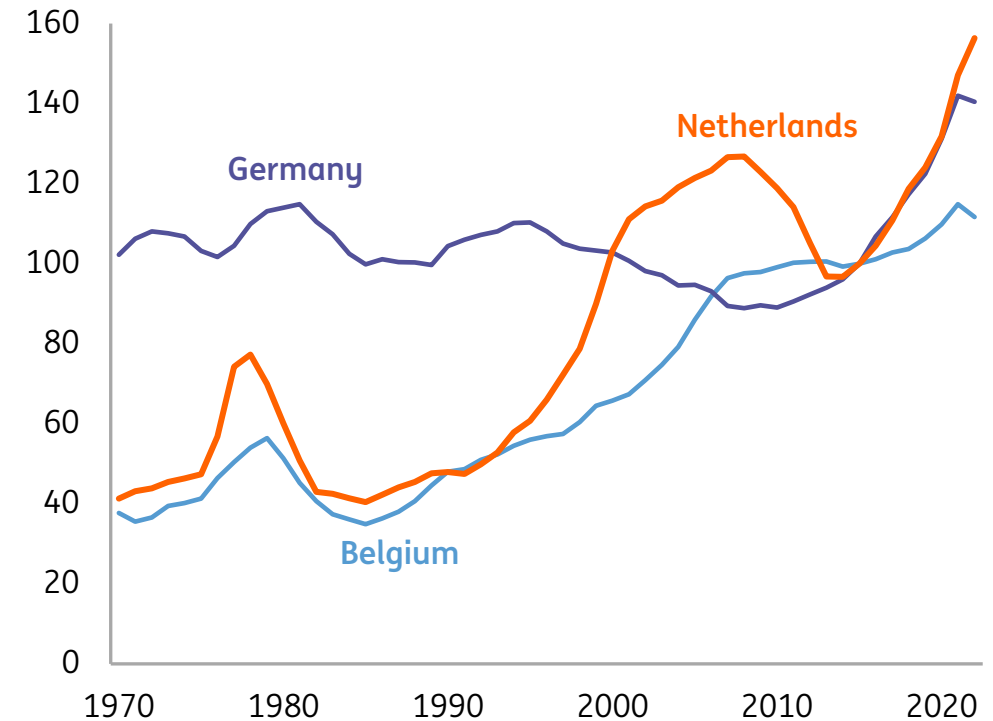
Elasticity of housing supply over the period 1980 - 2017



*Of 25 OECD countries
Source: Cavalleri et al. (2019)

Effect: relatively big swings in Dutch house prices

Real house price index (2015 = 100)



Source: OECD

Housing policies: energy efficiency will determine maximum borrowing capacity next year

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 global 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 37% in 2041.
- **2020** Maximum mortgage interest deductibility will be reduced in steps of 3%-points from 49% in 2019 to 37.05% in 2023.
- **2023** Mortgage providers can fully weight the second income of dual-income couples to determine the maximum mortgage
- **2024** Differentiated maximum mortgage amount across energy labels (see table at right)

* Annuity and linear mortgages.

From 2024 energy efficiency determines borrowing capacity

Additional amounts on top of maximum mortgage amount

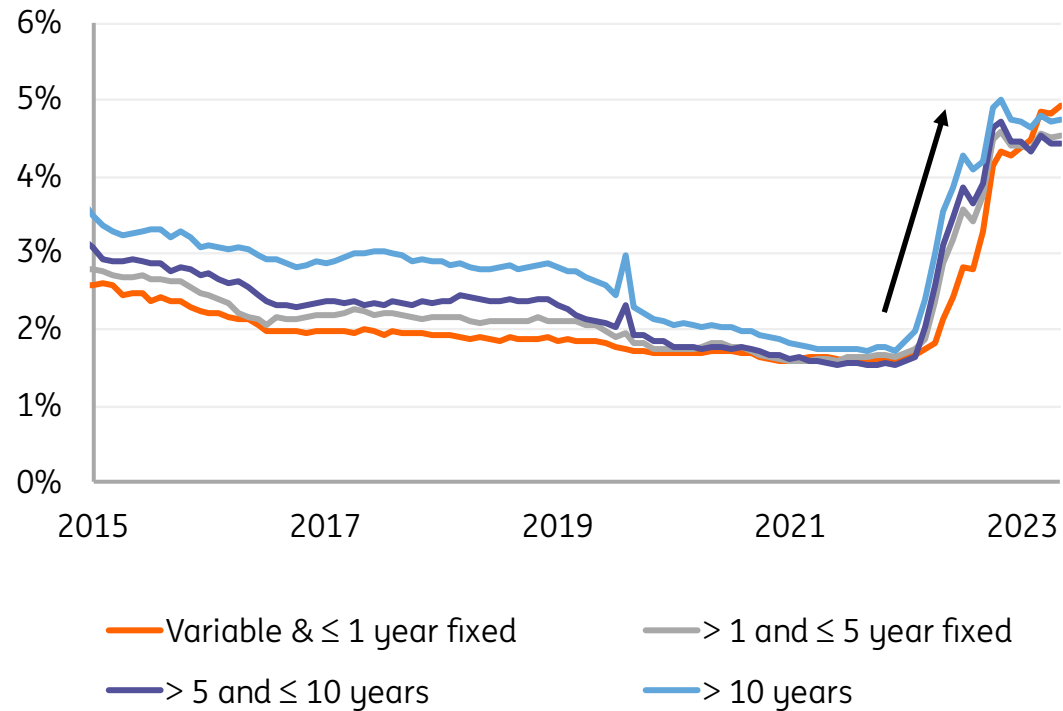
Label	For home purchase	If taking sustainability measures	Total
A++++ with guarantee	€ 50.000	€ -	€ 50.000
A++++	€ 40.000	€ -	€ 40.000
A+++	€ 30.000	€ 10.000	€ 40.000
A+ of A++	€ 20.000	€ 10.000	€ 30.000
A of B	€ 10.000	€ 10.000	€ 20.000
C of D	€ 5.000	€ 15.000	€ 20.000
E, F of G	€ -	€ 20.000	€ 20.000

Source: NIBUD

Mortgage rates: surge in rates made long-term fixed rates less popular

Mortgage rates have surged

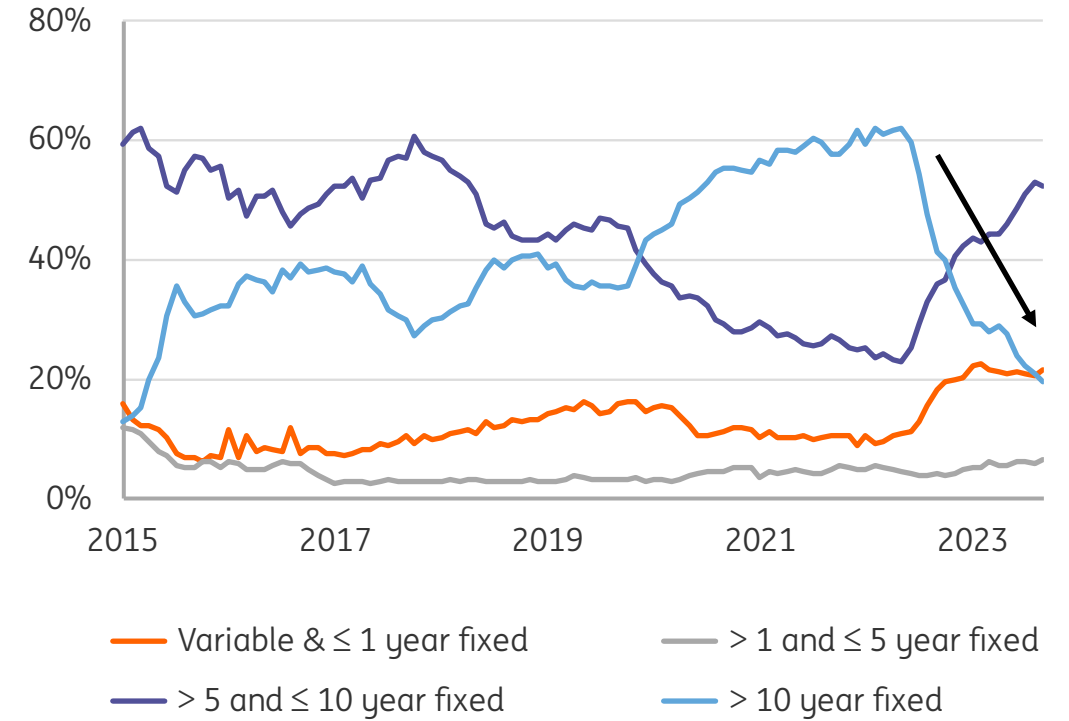
Mortgage interest rates by fixed interest rate period



Source: Dutch Central Bank, ING

Long-term fixed rates less popular

New mortgage production by fixed interest rate period

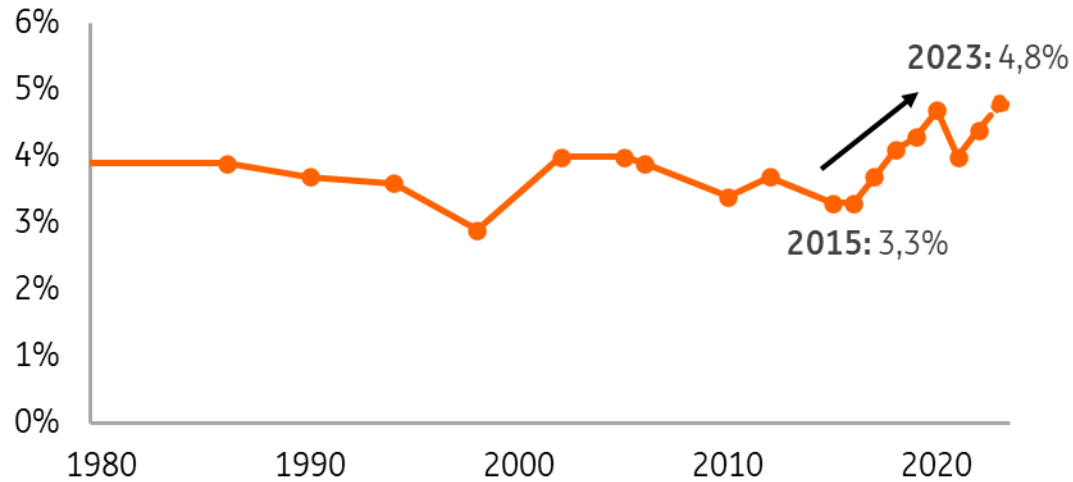


Source: Dutch Central Bank

Housing shortage: structural problem that got worse in recent years

Housing shortage increased strongly between 2015-2023

Housing shortage* as % of total housing stock



Main drivers of lower home production between 2015-2023: 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.

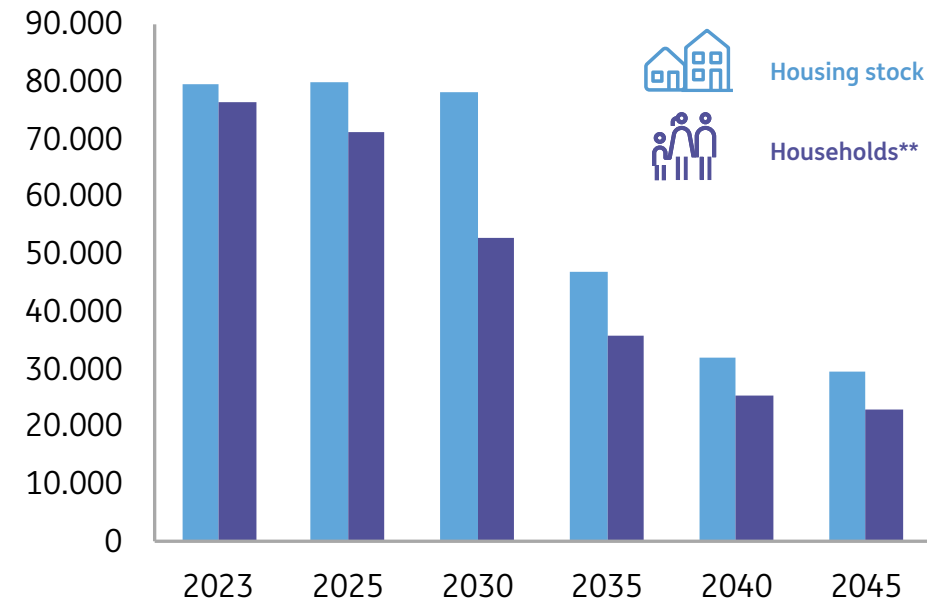
Main drivers of increased demand for homes between 2015-2023: Growth of number of households as a result of population growth and decline of average household size. Strong growth of active group on housing market (group between 25-34 years old).

* Difference between the amount of households wishing to have an own home and the housing stock. Series has been adjusted for methodology changes over time.

Source: ABF Research, ING Research

Housing stock growth projected to exceed household growth

Expected annual increase of new homes and households‡



*Average of five years

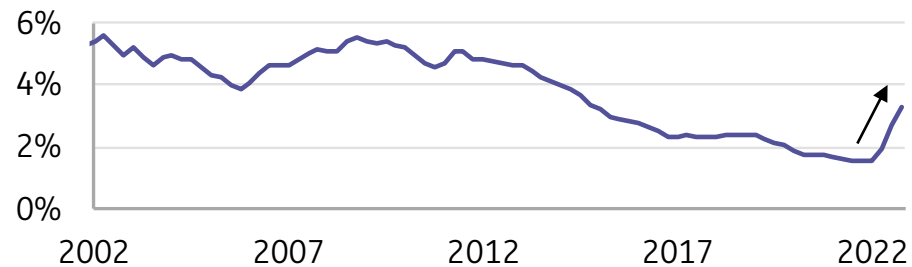
**Estimated number of households wishing to have an own home.

Source: ABF Research

Affordability: strong house price growth and the recent interest rate hike have worsened affordability

1. Mortgage rates have departed from historically low levels

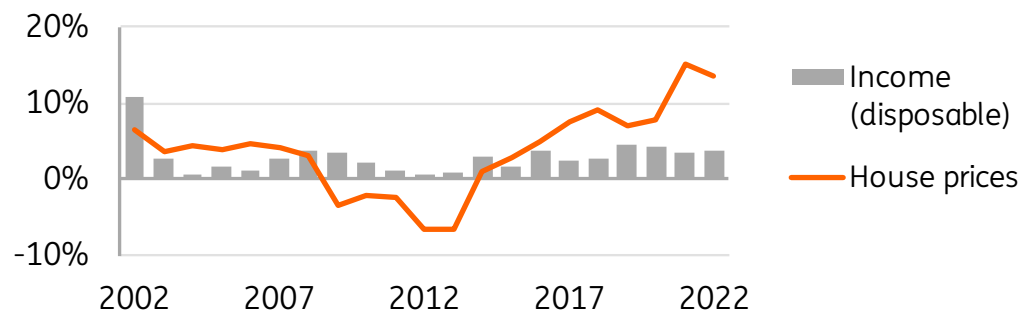
Average mortgage rate in new contracts on 5 to 10yr fixed rates



Source: Macrobond, CBS (National Statistics)

2. House price growth has outpaced income growth since 2015

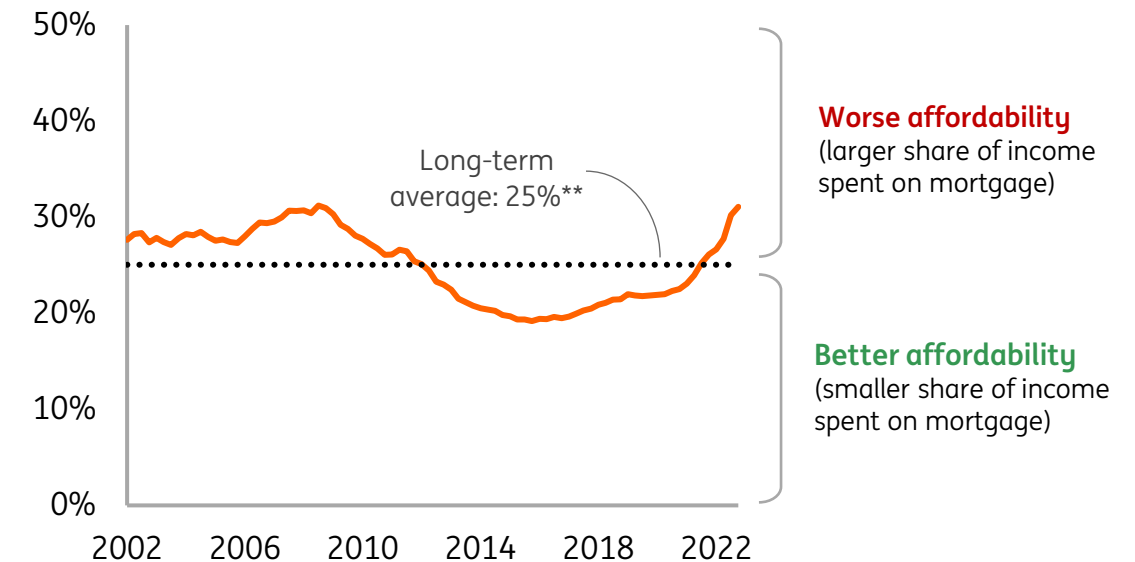
Annual average growth of income and house prices



Source: Macrobond, CBS (National Statistics)

3. As a result, affordability has worsened

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



*Average estimated in the first year after home purchase

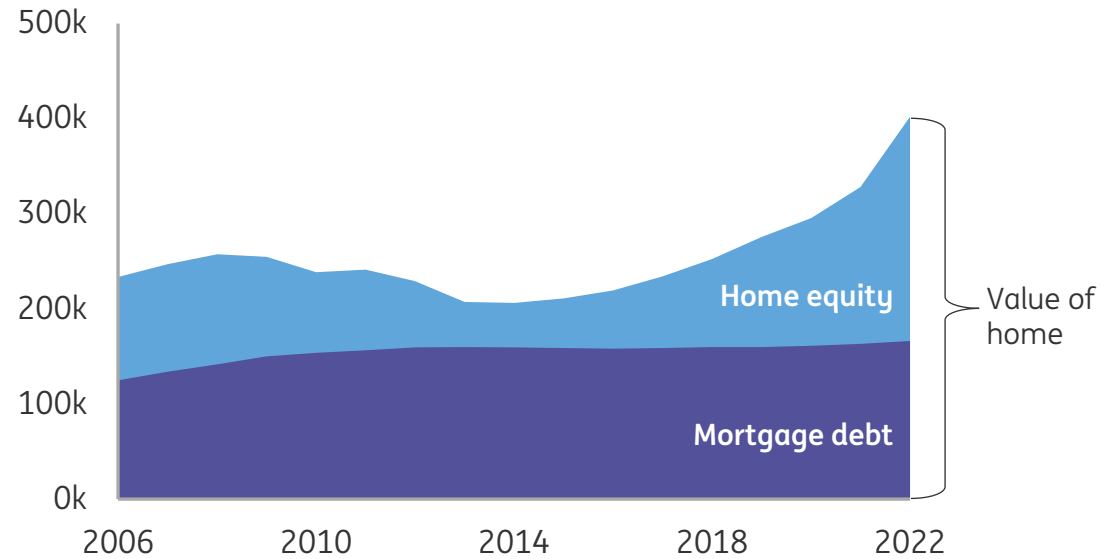
**Long-term average of the past twenty years

Source: CBS, DNB, ING Research

Housing wealth: home equity is largest among older homeowners

Home equity increased significantly over time

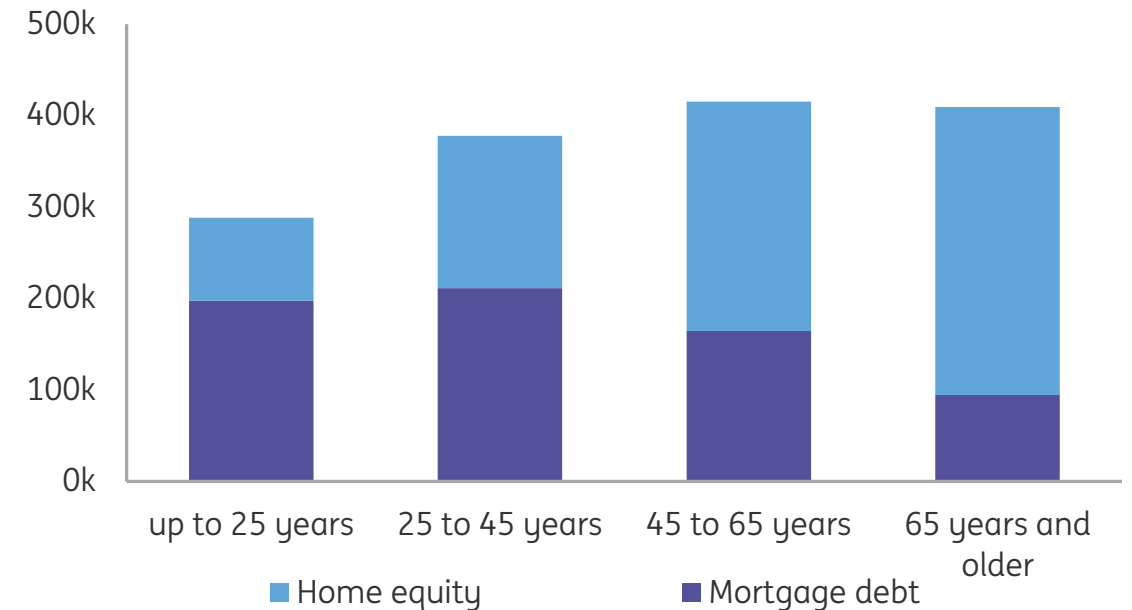
Median home equity and mortgage debt of home owners, in euro's



Source: CBS

More home equity among older homeowners

Median home equity and mortgage debt of home owners among age groups, in euro's, 2022



Source: CBS

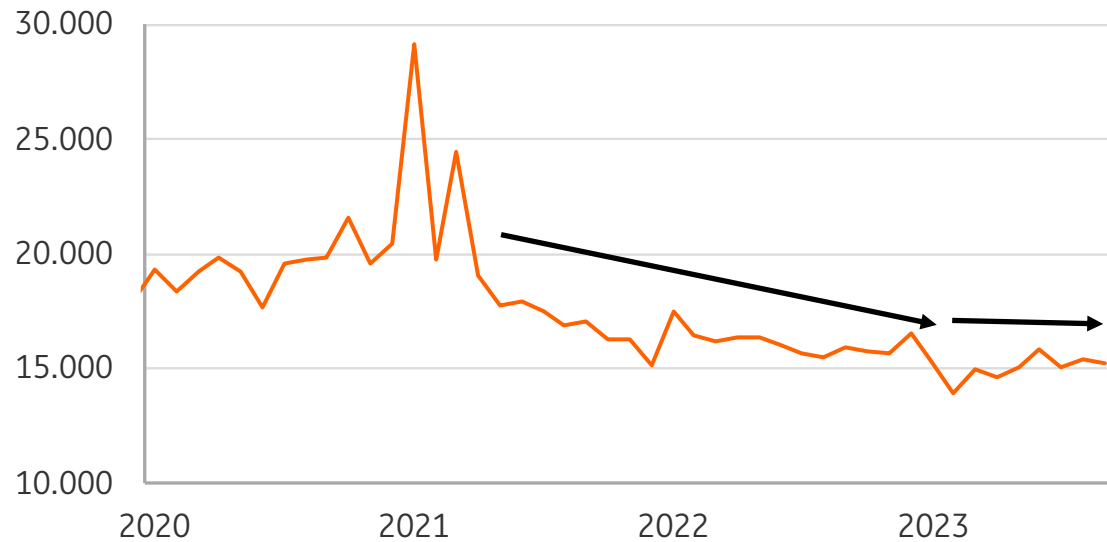
Cyclical perspective:

the recent developments

Home sales: lower levels of transactions, especially older households buy less

Transaction volume stabilizes at lower levels

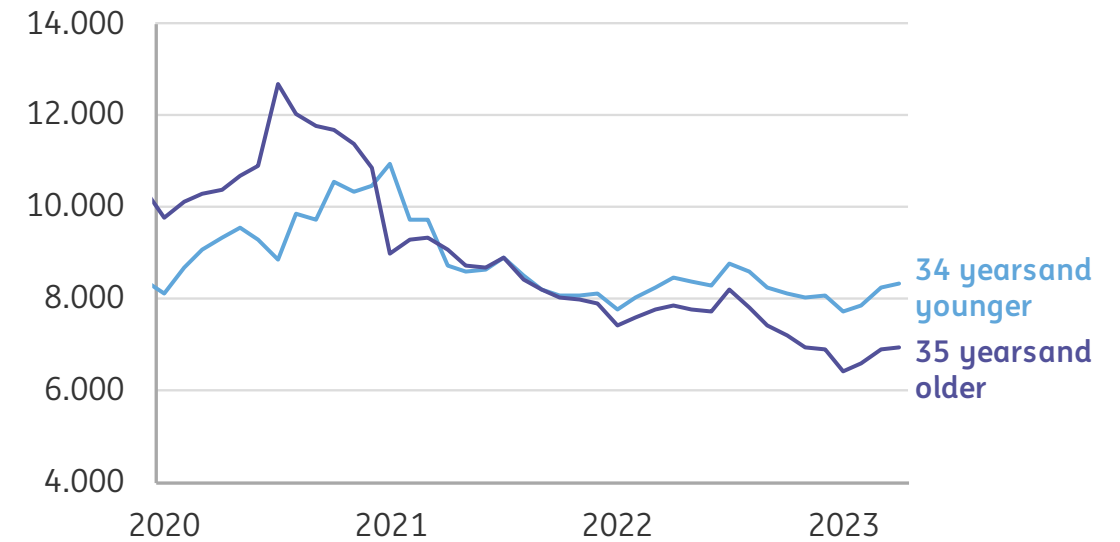
Homes sales per month, seasonally corrected



Source: CBS

Younger households now purchase more than older households

Purchases of existing homes by age group, monthly*



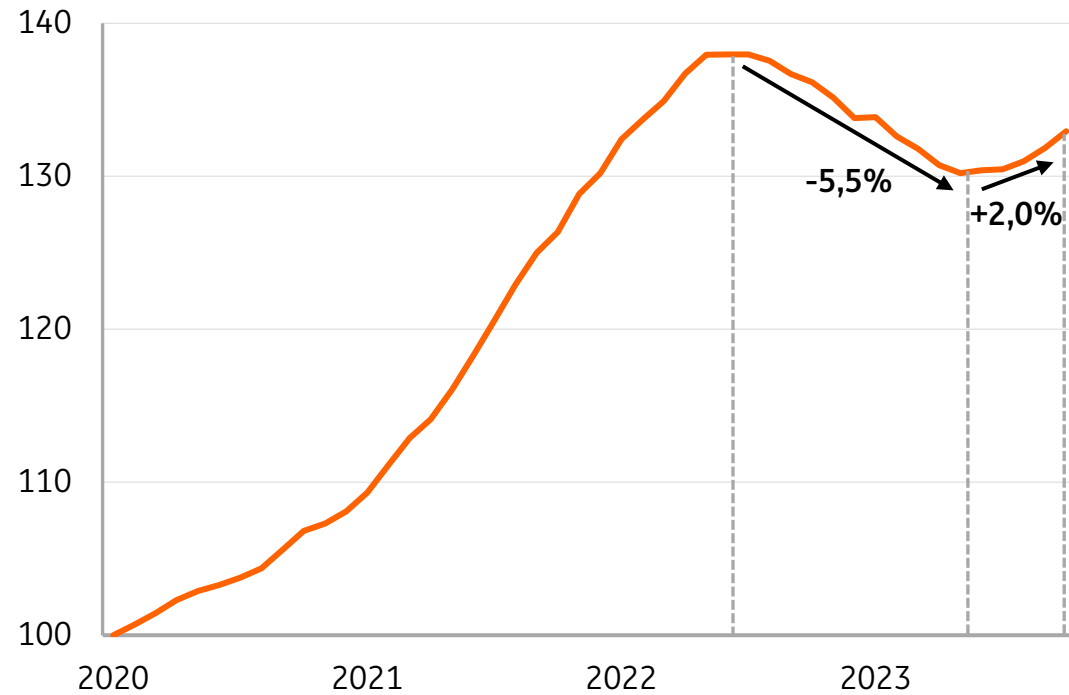
*Moving average of past six months

Source: Kadaster

House prices: recovery in progress after year of price declines

House price decline has come to an end

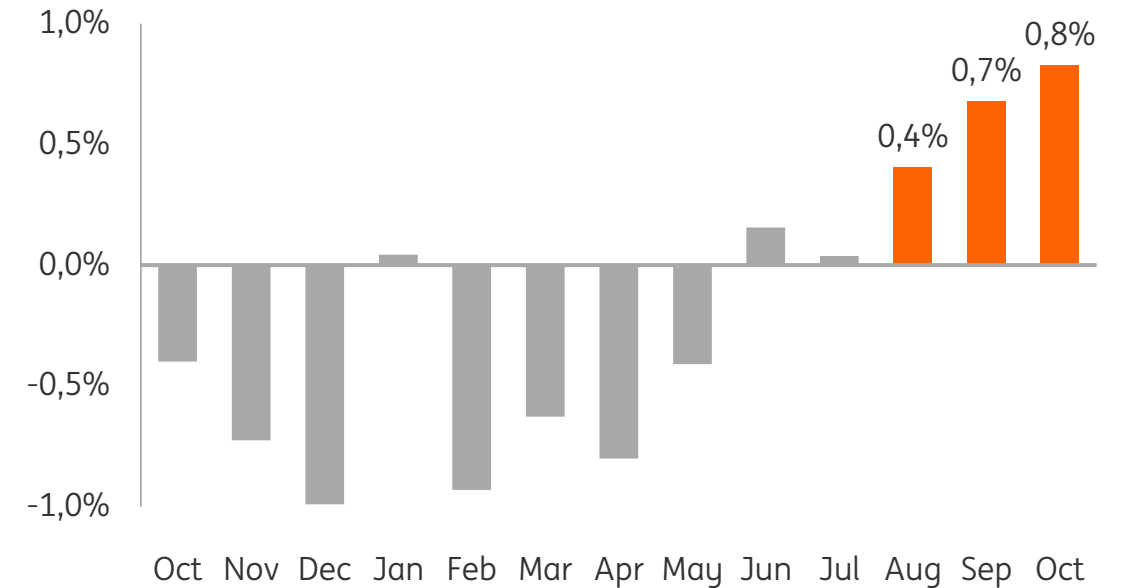
Price index of existing homes, seasonally adjusted (Jan 2020 = 100)



Source: CBS, ING Research

Strong price increase in last three months

Price development of existing homes compared to previous month, seasonally adjusted

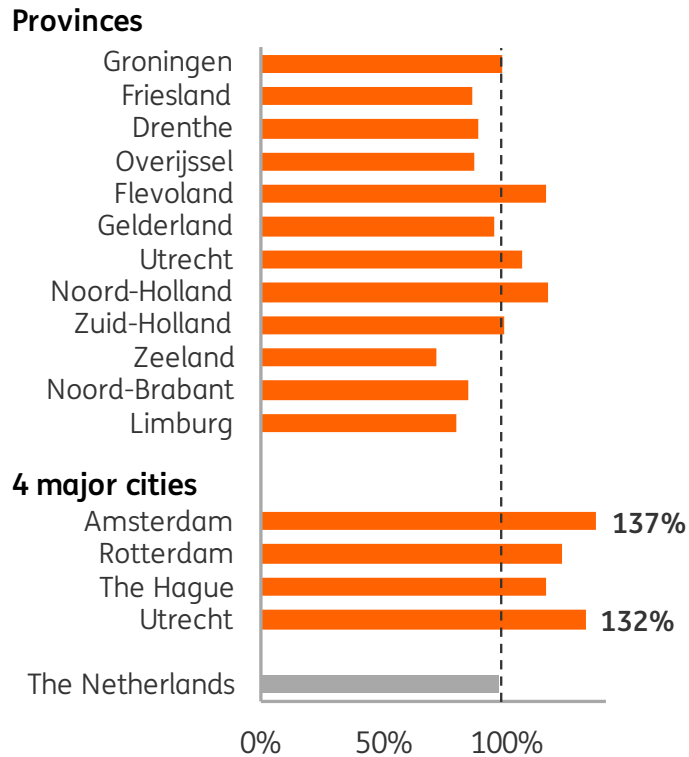


Source: CBS

Regional house prices: Amsterdam and Utrecht most volatile

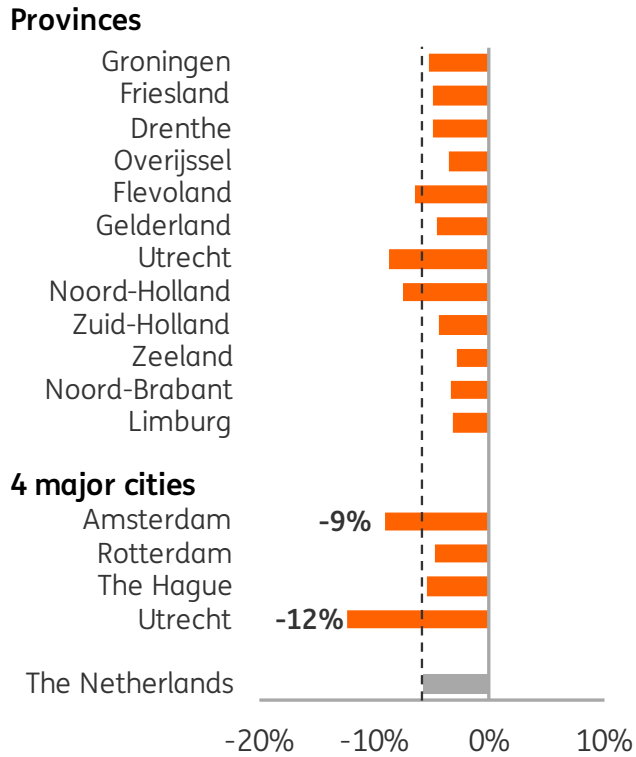
A'dam and Utrecht showed strongest growth...

House price development between Q4 2013 and Q3 2022



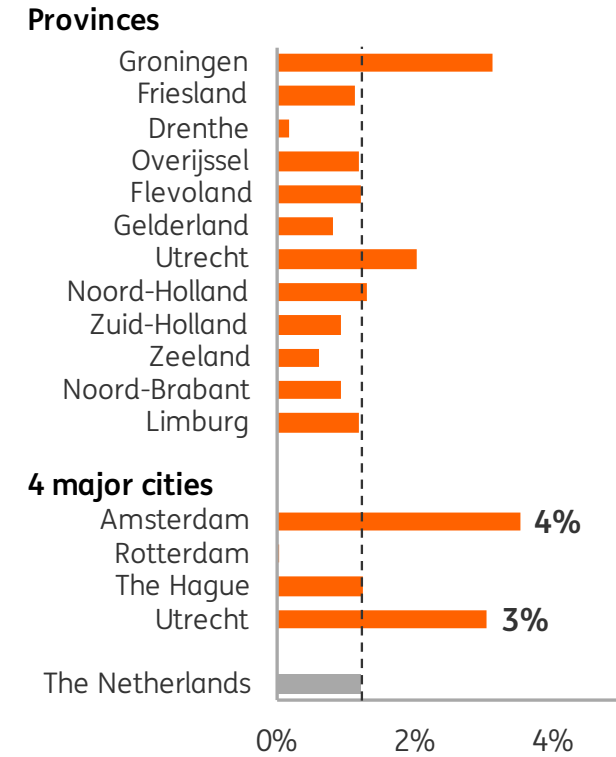
...then dropped sharply last year...

House price development between Q3 2022 and Q2 2023



...and are recently taking off again

House price development between Q2 2023 and Q3 2023

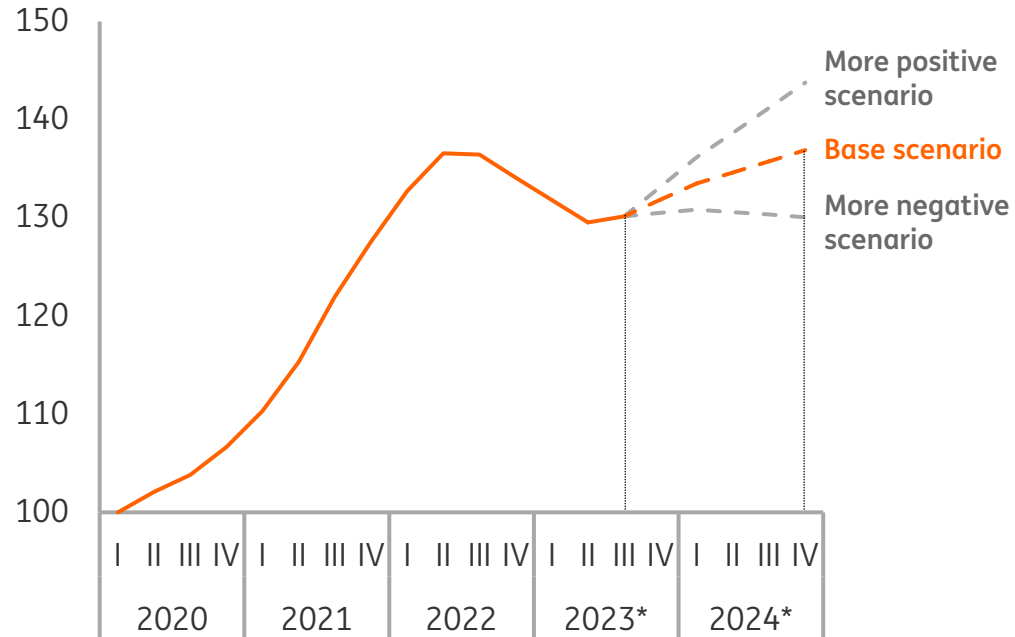


Source: CBS (National Statistics)

ING Research base scenario: rising prices and increase in sales volumes in 2024

Price increase in 2024 will offset last years' decline

Price index of existing homes, seasonally adjusted (Q1 2020 = 100)

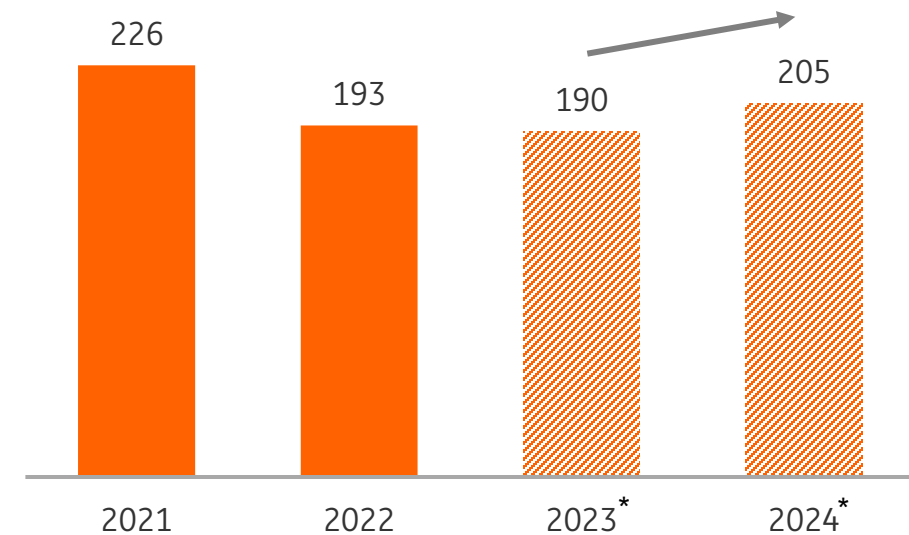


*Forecast ING Research

Source: CBS

...and home sales expected to increase

Transaction volume existing homes, in thousands



*Forecast ING Research

Source: CBS

Housing market drivers: the factors we analyze to forecast prices and transactions

1. Borrowing capacity



2. Affordability



3. Wealth



4. Demographics and supply



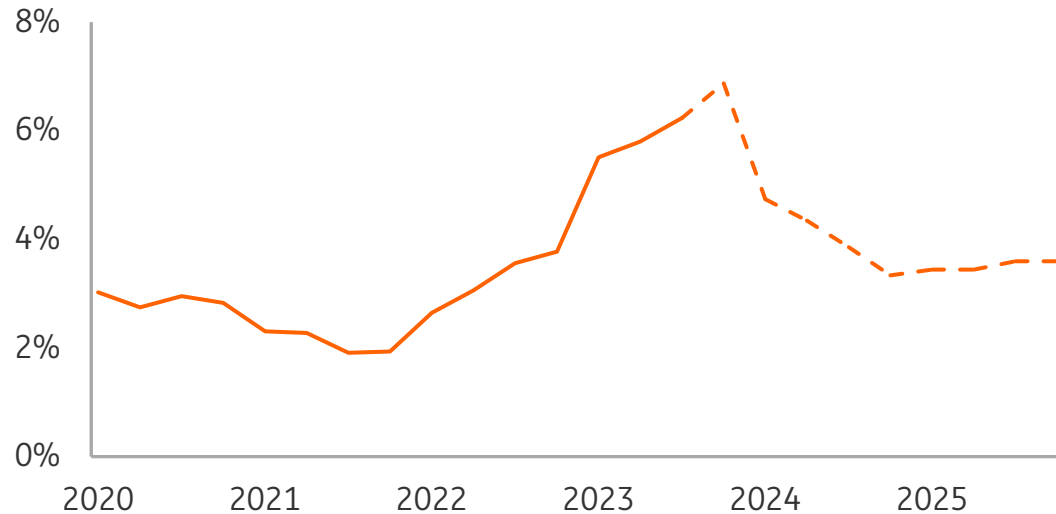
5. Sentiment



Drivers 1 and 2: significant wage growth will continue while interest rates will remain high

Significant wage growth will continue

CLA-wages*, development year-on-year



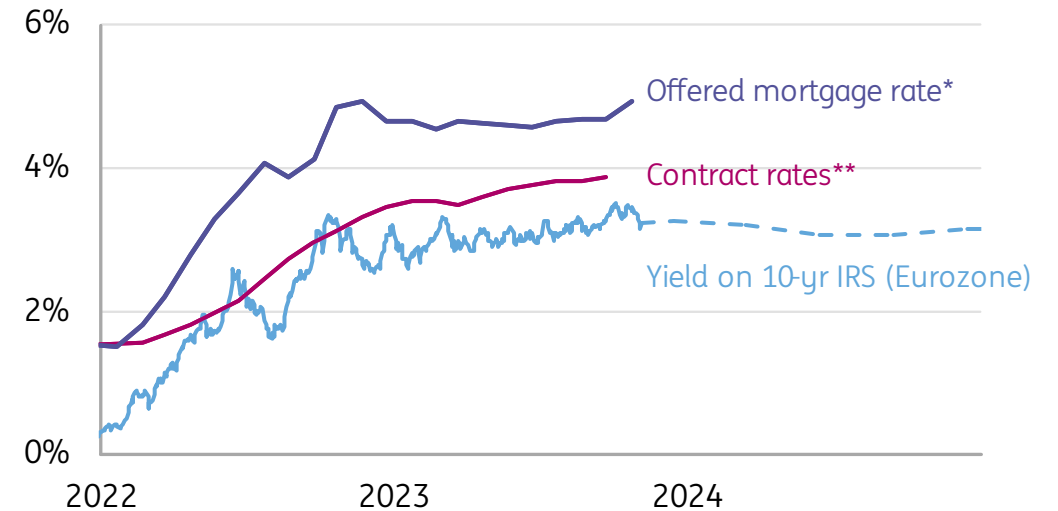
*Average per hour worked including special rewards

**ING Research estimate from 3rd quarter 2023

Source: CBS

Interest rates are expected to remain high

Average interest rates



* Unweighted average of annuity mortgages, without National Mortgage Guarantee (indication of mortgage costs for firsttime buyers).

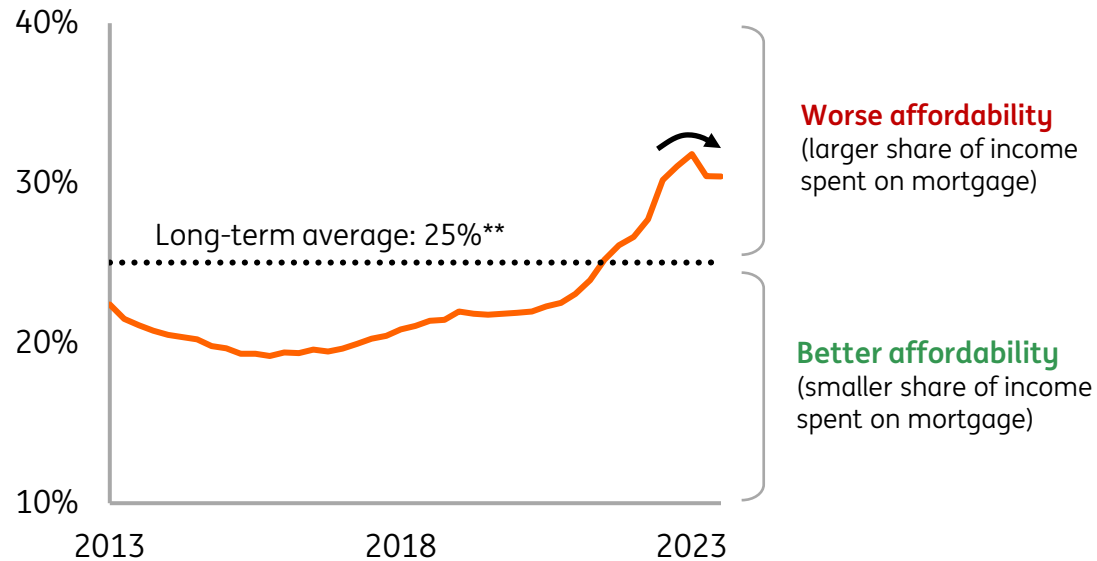
** New mortgage loans for house purchases (all home buyers).

Source: DNB, ING, forecast ING Research

Drivers 1 and 2: as a result, affordability has improved recently and borrowing capacity will increase

Affordability has recently improved, stimulating demand

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



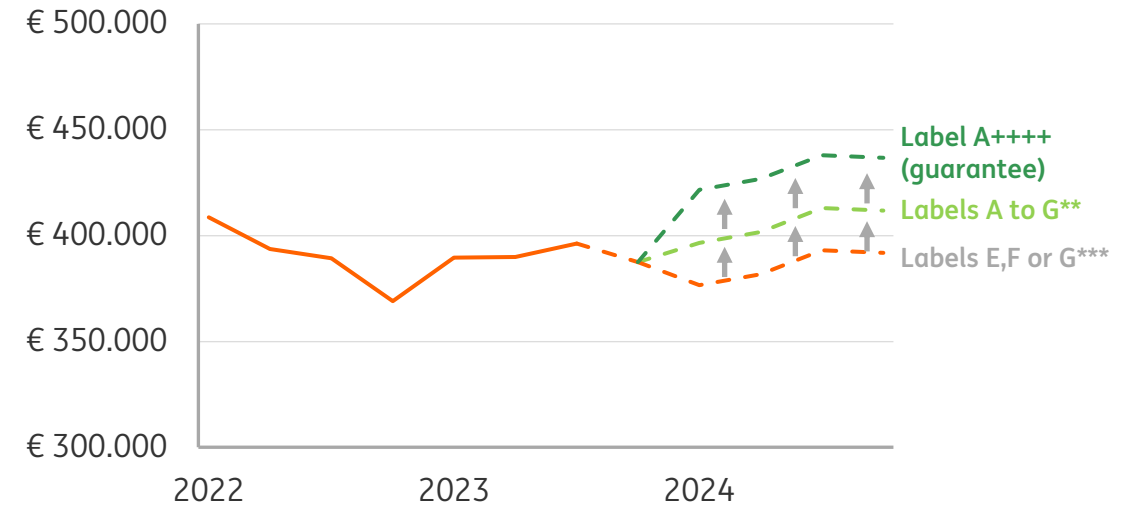
*Average estimated in the first year after home purchase

**Long-term average of the past twenty years

Source: CBS, DNB, ING Research

Borrowing capacity will increase for sustainable homes

Maximum borrowing capacity based on NIBUD-norms*



*Household income 2x modal, assuming development of CLA-wages. Median offered mortgage rates, FIRP is 10-years, LTV <= 100%

**If taking sustainable renovation measures

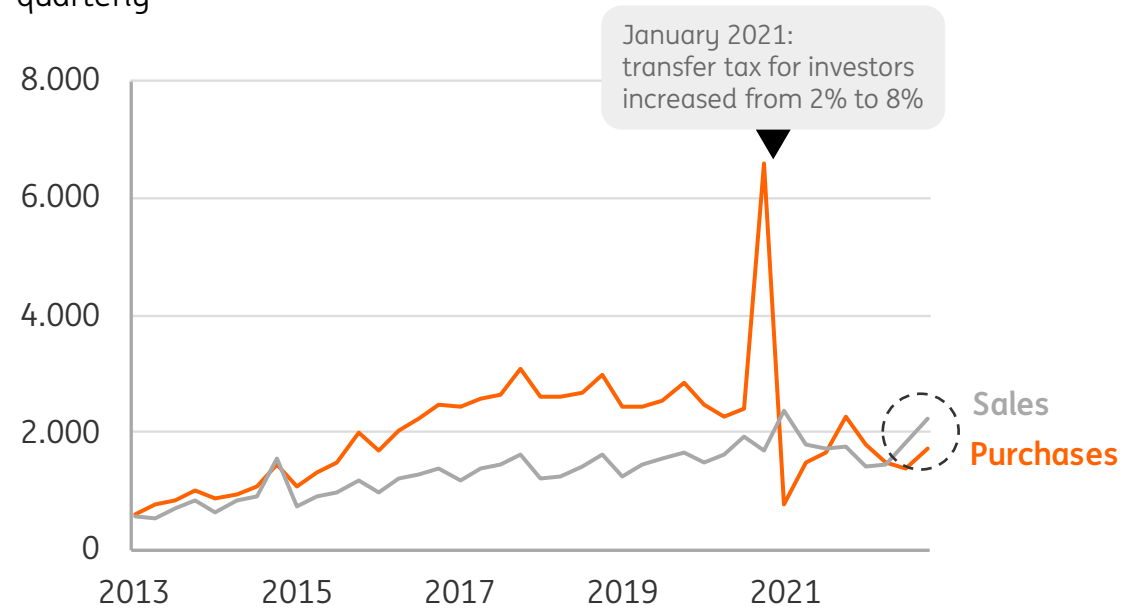
***Without taking sustainable renovation measures

Source: CBS, DNB, NIBUD, ING Research

Driver 3: lower private investor demand as a result of regulatory changes and uncertainty

Private investors currently sell more homes than they buy

Purchases and sales of (former) rental properties by private investors, quarterly



Source: Kasaster, De Vries and Hans (2023)

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 inflation in the previous year plus 1%**. 4.1% (3.1% + 1%) for existing contracts in the unregulated segment until May 2024
- **“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.
- **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. Maximum rent increase for social housing is 3.1% as of July 1st 2023.

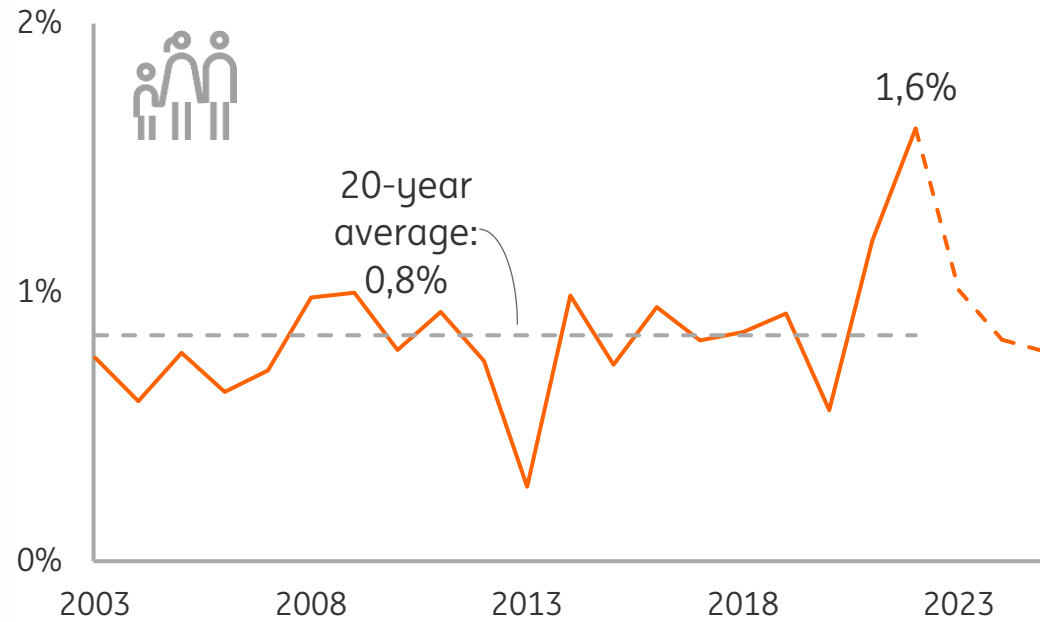
Planned regulation

- **Expansion of regulated rental segment** (mid 2024): currently, homes with rents up to €808.06 are regulated. This rent limit might be extended to a value around €1,123 (price level July 2023) to cover the mid rental market. The Dutch Council of State recently advised to revise the proposed regulation.
- **Reform of capital income tax** (2026): capital income –including rents– will be based on actual income. The current system based on fictitious returns has structurally underestimated capital returns.

Driver 4: more demand as a result of historic household growth

Household growth is exceeding the long term average

Annual growth of households

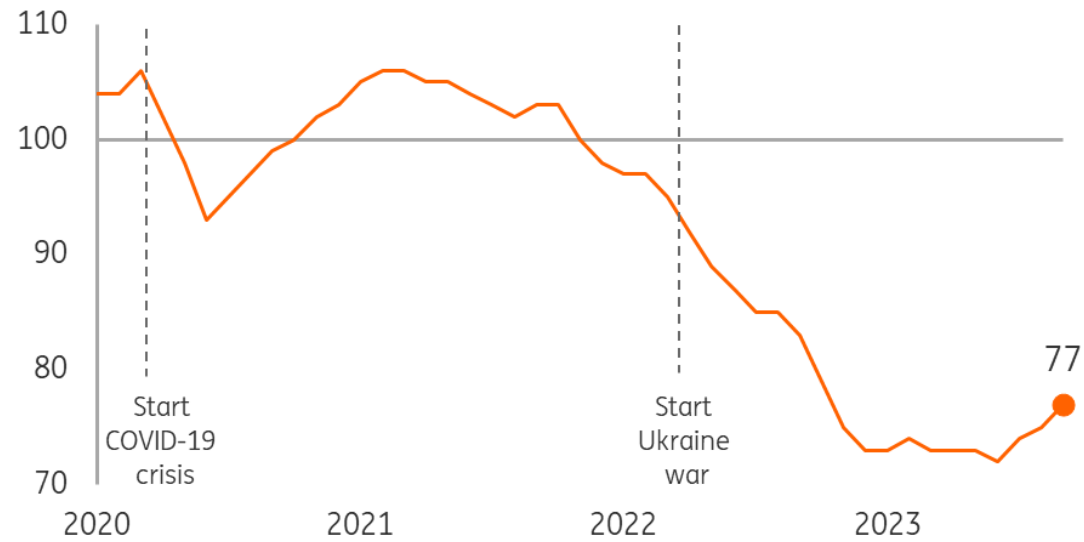


Source: CBS (National Statistics)

Driver 5: sentiment pessimistic yet improving

Sentiment is pessimistic yet slightly improving

Confidence in the housing market (100 = neutral)

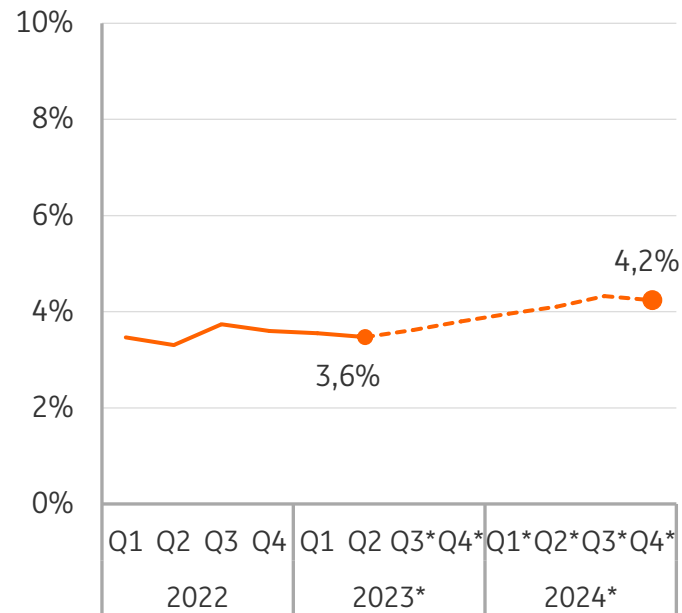


Source: Vereniging Eigen Huis (Association of home owners in the Netherlands)

Other drivers: Low unemployment, housing shortage and financial buffers support house prices

Unemployment is expected to remain low

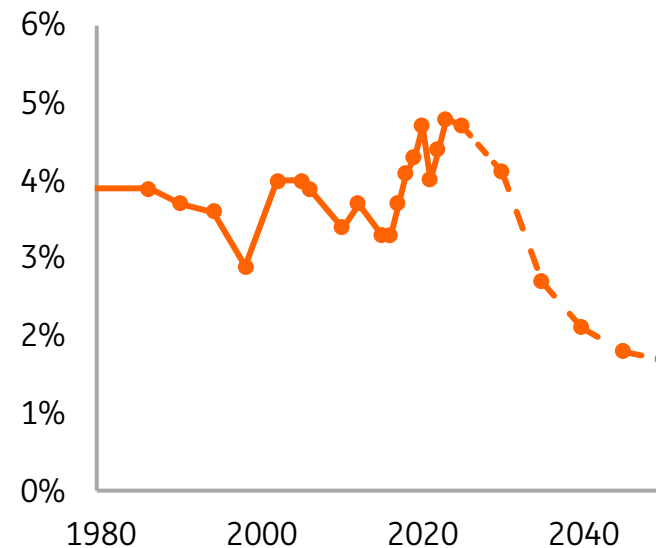
Unemployment rate over time



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

Housing shortage still high

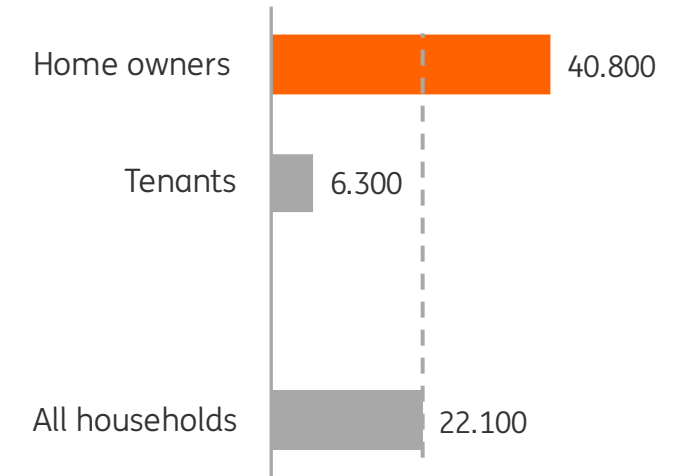
Housing shortage* as % of total housing stock



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

Homebuyers' financial buffers are large

Median value of financial assets in 2022*



*Bank and savings deposits and securities.
Source: CBS (National Statistics)

Contact details

Author

Sander Burgers
Senior Economist Housing Market
ING Research Netherlands

 Sander.Burgers@ing.com

 [linkedin.com//in/sanderburgers/](https://www.linkedin.com/in/sanderburgers/)

With the contribution of

Mirjam Bani	ING Research
Dimitry Fleming	ING Research
Marten van Garderen	ING Research
Lex Hoekstra	ING Research

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