Dutch Housing Market Quarterly

February 2013

Economic Research Department

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Introduction and summary

The second-hand housing market recorded a good fourth quarter in 2012. Prices stabilised and house sales rose considerably. The main reason was that buyers had a strong incentive to sign a provisional sale agreement before 1 January 2013, in order to remain eligible for tax deductibility under the old regime: interest-only repayments up to 50% and various options for mortgage redemption. Since 1 January, all new mortgages or mortgage top-ups are required to be repaid in full and on an annuity basis at least, in order to be eligible for mortgage interest relief. For these mortgages, the monthly costs are about 15% higher than was the case with a savings deposit mortgage when repaid in full.

The additional demand in the non-rental sector led to a better bargaining position for vendors. Consequently the selling price declined much less rapidly than had been the case in preceding quarters. In the end, prices dropped in the fourth quarter by only 0.7% on a quarterly basis - a significant improvement on the 3.7% drop seen in the third quarter. The latter months of 2012 also showed signs of stabilisation. At least as important was the rise in the number of provisional sales agreements and the number of house transfers. On balance, an estimated 33,000 provisional sale agreements were signed, and 35,704 houses exchanged hands - 10,000 more than might have been expected on the basis of the number of provisional sale agreements signed in the third quarter.

Expectations

Compared to 2012, no significant improvement in the economic situation is expected this year. Unemployment continues to rise, pension-related issues and cutbacks will induce buyers to remain cautious about entering the housing market. As a consequence, existing homes prices will remain under pressure during the early months of 2013. However, uncertainty surrounding policies, both in the Netherlands and in Europe appears to have abated. And the percentage of income paid by households on housing costs is currently below the historic average. For this and other reasons, we are more optimistic about the period beyond. Houses have become quite affordable for many people. It is mainly a lack of confidence that is preventing buyers from entering the market.

Besides demand, supply is crucial to pricing in the property market. Owing to the low construction output combined with an increasing number of households, tightness on the housing market will be further exacerbated in the coming years. However, there are sizeable differences between regions. This is because of diverging economic developments in the various regions as well as differences in population profile.

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Price trend

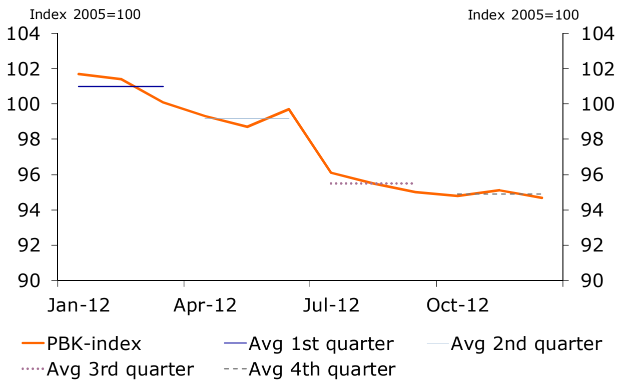
Price trend in the fourth quarter

In the fourth quarter second-hand house prices (PBK-index) declined by only 0.7% compared to the previous quarter. On a year-on-year basis the drop was 7.0%. On a positive note, house prices managed to stabilise during the fourth quarter of 2012. In December, prices were only 0.3% lower than in September (figure 1). And considering the price drop of 3.7% in the third quarter, we can say that the fourth quarter was reasonably good (figure 2). The slight price decline in the fourth quarter of 2012 does however bring the cumulative price drop since the top of the index (third quarter of 2008) to 16.1% in nominal terms - back to the level of early 2004 (figure 3).

Reasons for the stabilisation

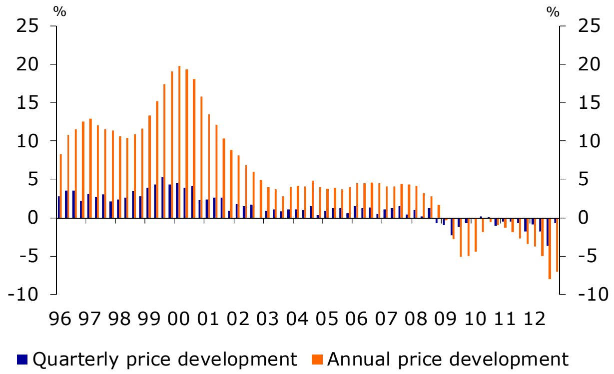
The main reason for the price stabilisation in the fourth quarter is the additional demand for houses, which strongly improved the vendors' bargaining position. On balance, 10,000 more houses were sold than might have been expected on the basis of the number of provisional sale agreements signed in the third quarter. The increased demand can be attributed to the fact that buyers who signed a provisional sale agreement before 1 January 2013 would still be eligible for more favourable mortgage conditions: up to 50% interest only and a choice of repayment methods. Mortgages taken out for houses purchased after 1 January 2013 have to be repaid in full and at least on an annuity basis in order to be eligible for mortgage interest relief (the linear option is also possible). The monthly costs for servicing an annuity-based mortgage are some 15% higher than when the mortgage is fully repaid via a deposit account mortgage. Households with pre-1 January 2013 mortgage who purchase a house after that date are permitted to take the existing (more favourable) mortgage with them to the next house (while keeping the favourable tax relief). However, any such mortgage will again be tested against the Mortgage Code of Conduct (GHF), with the most important condition being that no more than 50% of the mortgage may be repaid on an interest-only basis.

Figure 1: Price trend in 2012



Source: CBS

Figure 2: Price changes



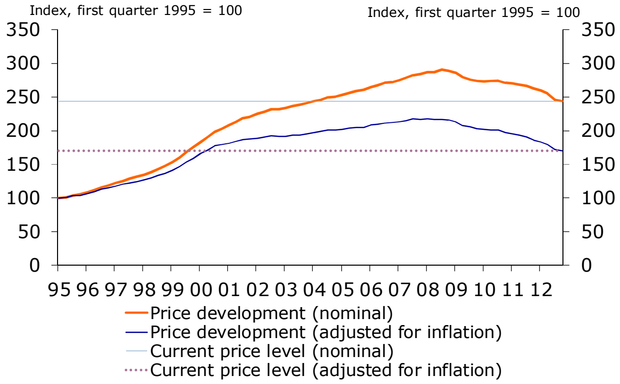
Source: CBS

Factors that dampen demand for houses

The additional demand for houses in the fourth quarter of 2012 came about despite the existence of demand-dampening factors: declining consumer confidence, the cutbacks that are to be implemented in 2013, the situation on the labour market and the prospect of partial reduction of pension payments from 1 April 2013. The fact that buyers had little confidence in either the housing market or the labour market is evident from the sub-indicators of consumer confidence. Confidence declined from -29 in September to -39 in December. Moreover, 87% of those surveyed expected unemployment to rise further. The housing market indicator of the Dutch Homeowners' Association (VEH) registered 51, the lowest level since measurements started (figure 4).

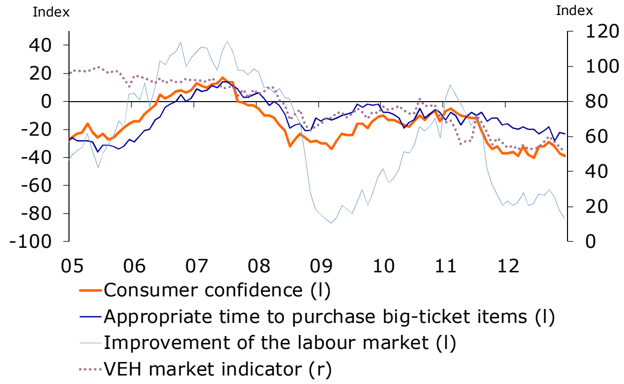
Another important factor is the assumption among many households that house prices will decline further. Potential buyers put off buying a house, assuming that the same house will be cheaper at a later date. This incentive is greater among first-time buyers than among existing home owners, because those already on the property ladder will also experience a price decline when selling their own house. In addition, the expected further price decline extends the period in which the one-off costs of purchasing a house can be 'earned back'. For this reason, house buyers prefer to skip a rung on the property ladder. First-time buyers won't want to buy a house that they will have 'grown out of' within three to five years due to increased family size, for example. Consequently, demand for purchasing a house is currently declining. However, new market entrants as well as existing home owners will not postpone purchasing a house indefinitely. Once their existing home is no longer suitable - due to increased family size or a change of job, for example - these households will enter the housing market.

Figure 3: Nominal and real price trend



Source: CBS, OECD

Figure 4: Confidence at a historic low



Source: CBS, VEH

Price trend

Latent demand becomes effective demand
A number of conclusions can be cautiously drawn from the developments of the fourth quarter of 2012. First, for some time there has been latent demand for non-rental housing. This latent demand was partly released recently, when buyers found they would be confronted with higher monthly costs if they bought a house after 1 January 2013. It is expected that the remaining latent demand will be tapped into once confidence returns to the housing market and to the economy. It is then that the tightness on the housing market will become clearly visible, putting upward pressure on prices (see also Long-term trend, from page 13 in this Report).

Secondly, for this latter group, although opportunities for buying existed, they decided not to make use of them before the fourth quarter. This becomes clear when we look at the current proportion of income that people spend on their mortgage, this is currently well below the historic average. This shows that houses are currently very affordable (see also Long-term trend, from page 13 in this Report).

Different price segments

National versus regional

Within the Netherlands, there are large differences between regions (see also Regional variation, from page 18). Accordingly, selling prices in areas with relatively more expensive houses and/or a dwindling population have fallen more sharply than in other areas. The price decline since the start of the economic crisis (third quarter of 2008) varies from -5.5% in Zeeuws-Vlaanderen to -22.3% in the region of Het Gooi & Vechtstreek (figure 5). It should be noted that the regional price trend is based on a lower number of transactions which means these data are less reliable than the national figures.

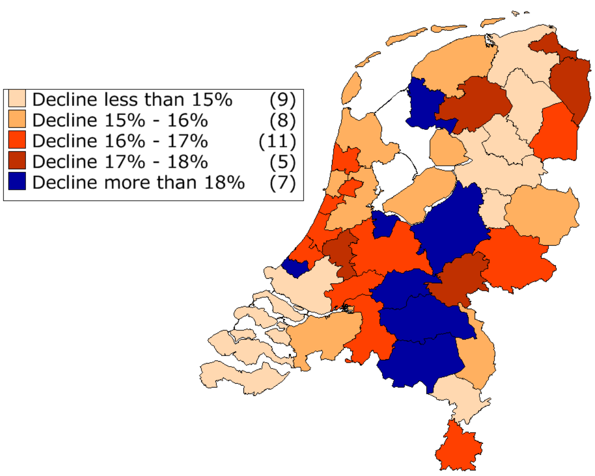
Differences in house type

Besides the regional differences, there are also sizeable differences in price between market segments. Since the third quarter of 2008, prices have declined in the cheaper segment - apartments and mid-terrace houses - by 15.9% and 14.0% respectively. In the same period, detached houses declined in value by 19.1% (figure 6). The reason for this difference is the greater drop in demand in the more expensive segment. After all, existing home owners have the option of making alterations to their house instead of moving.

Expectations for 2013

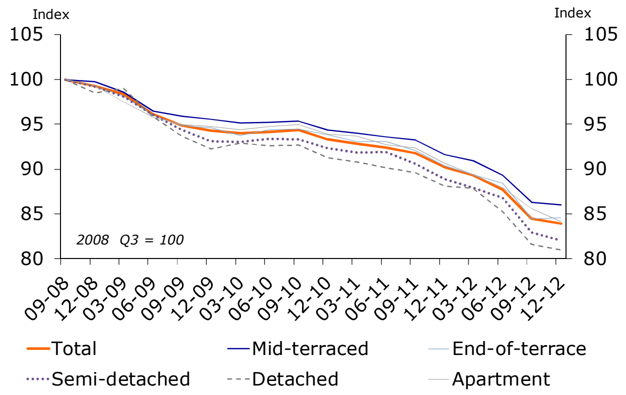
Existing home prices are expected to decline somewhat further in 2013 and then to stabilise or even rise in the medium term (See also Long-term trend from page 13). Because the monthly costs are now some 15% higher for the same mortgage-sum than before 1 January 2013, house prices will remain under pressure. The lower level of mortgage interest relief, on top of the mandatory annuity mortgage redemption, will, *centris paribus,* have a structural dampening effect on demand, thereby pushing house prices down by a few percentage points. In 2013, the economy will not make any significant contribution to a recovery on the housing market. Unemployment continues to rise and economic growth will not pick up much, on an annual basis.

Figure 5: Regional price trend



Source: CBS

Figure 6: Price trend per segment



Source: CBS

Different price segments

Together with declining purchasing power - caused by factors such as fiscal austerity measures - this means households will have less money to spend on purchasing a house. We see this in a decline in borrowing capacity. Those whose income doesn't rise in 2013 can borrow about 7.5% less. Finally, the maximum loan-to-value ratio (between mortgage and house value) permitted for taking out a mortgage has been reduced from 106% to 105%. However, the impact of this is expected to be limited. On the other hand, political uncertainty, both in the Netherlands and in the rest of the EU appears to have abated. And the turmoil on the financial markets also appears to have lessened. These calmer conditions may restore consumer confidence sufficiently and, therefore, increase the incentive of households to purchase a house.

It is not the borrowing capacity, but affordability, that is instrumental in whether prospective buyers can enter the housing market. Because of the price decline in the past four years, potential buyers need less money to buy a house. Currently, the housing expense as a proportion of household income is below the historic average - a clear indicator that houses are quite affordable at the moment. In the medium term, this improved affordability will lead to extra demand for houses, which will result in a stabilising of prices (See also Long-term trend, from page 13). Demand for non-rental housing will also increase if the plans for the rental market go ahead. The proposed rent increases in the social rental sector will increase the attractiveness of buying a house.

Strong rise in transactions

Besides price development, the number of transactions is a very useful indicator for gauging the condition of the housing market. Based on the number of houses that changed hands in the fourth quarter of 2012, we can describe these developments as very positive. However, it should be noted that this is chiefly the consequence of policy measures that took effect on 1 January 2013.

More provisional sale agreements ...

Because the date of the provisional sales contract is key in determining whether the buyers may avail of the old tax rules, the NVM data for the fourth quarter are particularly relevant. These figures show that many potential buyers responded to the extra incentive to take action. In the fourth quarter of 2012 25,031 provisional sale contracts were signed with an NVM-estate agent, compared to 18,992 in the third quarter. Normally, the fourth quarter performs well in any case compared to other quarters. But even correcting for this, a distinct rise in the number of provisional sale contracts remains visible (figure 7). Adjusted for seasonal factors, the number of provisional sales agreements was some 3,200 higher than usual. Based on an NVM market share of about 75%, this translates into about 4,300 extra contracts in the entire market.

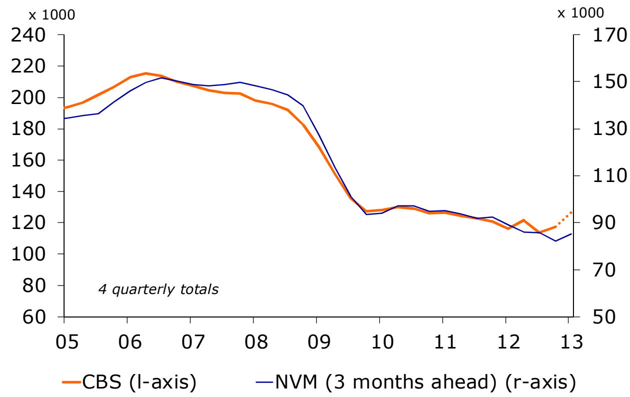
...lead to more transactions

On average, a house changes hands three months after the sale agreement has been signed. Based on an NVM market share of about 75%, while 18,992 provisional contracts were signed in the third quarter, approximately 25,250 should have exchanged hands in the fourth quarter. In reality, 35,704 transactions took place - over 10,000 than might have been expected on the basis of the number of provisional agreements in the third quarter. This can partly be explained by the fact that buyers wanted to bring the exchange of contracts forward, before 1 January 2013, which made the period between agreement and transaction shorter than usual. But even if all the extra sale agreements in the fourth quarter are converted into a transfer of ownership, this

Figure 7: Sales contracts break the trend

Source: NVM

Figure 8: Comparing contracts and transactions



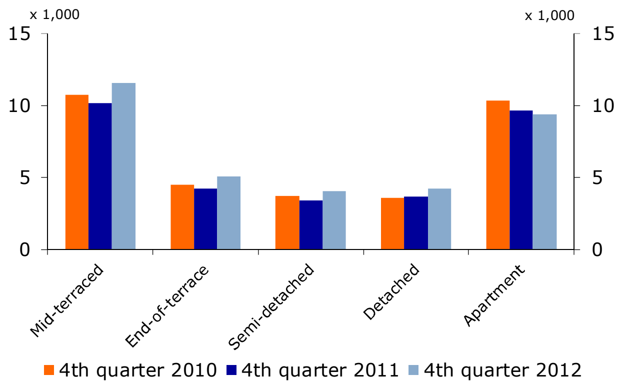
Source: CBS and NVM

does not account for over 5,000 transfers. Moreover, some of the provisional sale agreements will probably not have been converted into a transfer of ownership until 2013. In other words, the additional demand for houses was greater than is reflected in the NVM data (figure 8). However, this is not to say that the number of transactions will increase in the first quarter. Many buyers brought their purchase forward last year, which means demand will be lower than usual in the first quarter of 2013.

Rise most marked among first-time buyers/younger age groups
With the exception of apartments, more houses were sold in all segments compared to a year ago (figure 9). In absolute numbers, the rise was greatest for mid-terrace houses. Compared to the fourth quarter of 2011, over 1,400 more mid-terrace houses were sold. On a percentage basis, the rise was greatest for semi-detached houses: +19.7%. Figure 10 shows that relatively more younger age groups entered the market, leading to a rise in the market share of the under 35s. Assuming that this age category represents first-time buyers, there were relatively more new entrants to the market in the fourth quarter. Noticeably, however, this group bought fewer apartments both in absolute and relative terms, and there was a sharp rise in demand for mid-terrace houses. We can therefore conclude that some first-time buyers are skipping the traditional first rung on the property ladder.

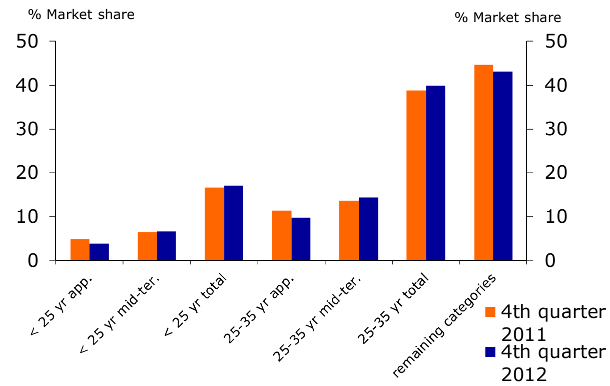
Selling time getting even longer
According to NVM data, houses sold in the fourth quarter had been on the market for an average of 171 days. This compares to 158 days in the third quarter. The selling period was shortest for mid-terrace houses, i.e. 141 days. Detached houses were the slowest to sell, taking an average of 259 days. In addition to the increased selling time, the difference between the final asking price and the ultimate selling price also rose. Prior to the financial crisis, this difference was a little over 3%; during the past four years it has risen to about 6%. In the same period, the difference between the original asking price and the ultimate selling price has risen from about 6% to 9%.

Figure 9: More transactions in almost all segments



Source: CBS

Figure 10: Younger people buying more houses

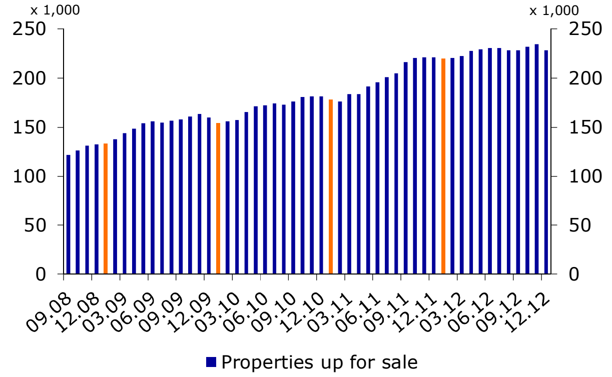


Source: Land Registry

Fewer houses for sale

The effects of the extra sale agreements and transfers of ownership are reflected in the supply of houses on the market. The number of houses on the market declined in December by almost 7,000 to 228,208 compared to November (figure 11). Since the number of new houses to the market was not greater than otherwise, the decline must be explained by additional sales.

Figure 11: Decline in supply



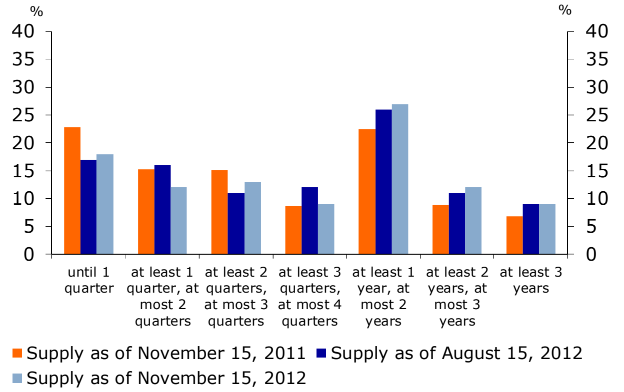
Source: Huizenzoeker.nl

Houses on the market for longer

As well as being on the market for longer before being sold, houses currently for sale have been on the market for a prolonged period. Mid fourth quarter, houses for sale had been on the market for an average of 352 days. This compares to an average of 336 days in the previous quarter. This rise is also reflected in the percentage of houses that are for sale for longer than a year; this percentage has risen from 39% a year ago to 48% currently (figure 12). Vendors whose house has been for sale for longer than three years on 1 January 2013 and have a double mortgage may no longer obtain mortgage relief for both homes, as of 1 January.

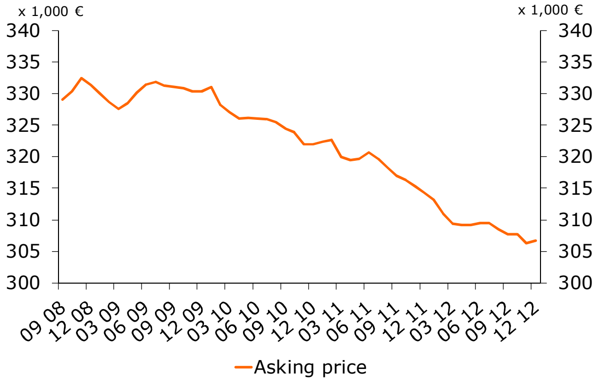
However, by no means all households whose house has been for sale for longer than three years belong in this group - a group that comprises approximately 20,500 households. Since the financial crisis, vendors are opting to sell their existing home first before buying another one.

Figure 12: Homes again for sale longer



Source: NVM

Figure 13: Asking price drops slightly



Source: Huizenzoeker.nl

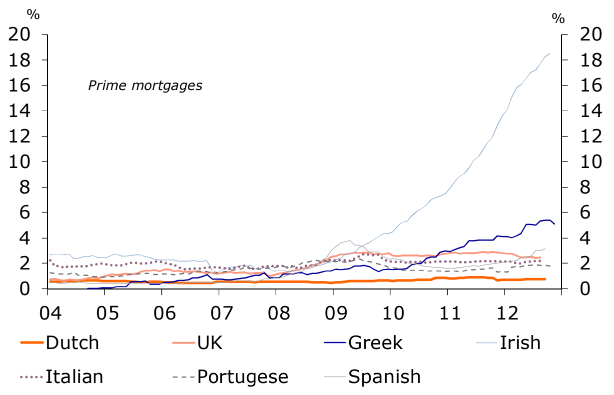
Asking price declining less rapidly than selling price

The asking price for homes on the market declined by 0.5% in the fourth quarter to an average of almost € 307,000 (figure 13). Since the start of the crisis, asking prices have fallen by 6.8%, which is considerably less than the fall in selling prices. The fact that the asking prices are declining less rapidly is because vendors are not in a rush to sell. This conclusion can be drawn on the basis of the low level of payment arrears and forced sales. Another important reason was that until recently vendors were unable to avail of mortgage interest relief on residual debt after selling a house. This pushed up the cost of mortgage debt considerably, making it less attractive to move along the property ladder. This movement was further inhibited by the considerable reduction in borrowing capacity by consumer loans. When the Rutte II cabinet assumed office, it was decided that residual debt would be deductible for tax purposes for a ten year period. These sensible measures have removed a major blockage to the dynamic on the housing market.

Payment arrears and forced sales

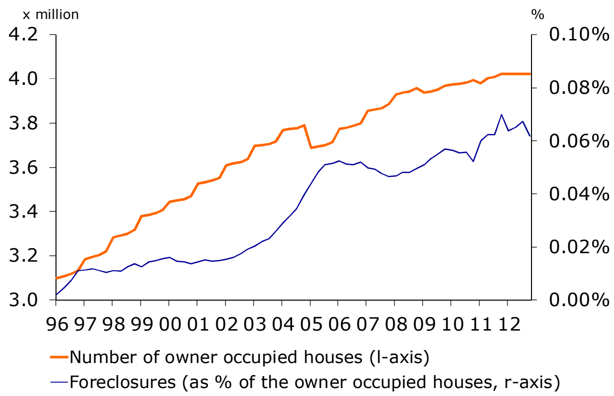
By comparison with other countries, the Netherlands continues to perform well in terms of the level of payment arrears and forced sales. However, data on payment arrears are not available in all cases. Nonetheless, data about securitised mortgages (40% of all outstanding mortgage debt in the Netherlands) shows that in September 2012 0.8% were in arrears (figure 14). This is lower than in any of the countries where similar data is available. About one eighth of all such cases ultimately results in a forced sale. In 2012 2,488 forced sales took place, compared to 2,811 in 2011. As a percentage of the total owner-occupied housing stock in the Netherlands, this amounts to 0.06% on an annual basis (figure 15). That said, the number of homeowners that have drawn on the Homeowner's Guarantee Fund has increased in the past year to 3,549 (2011: 2,004). This difference can be explained by the fact that the NGH also registers non-public auction (private) sales.

Figure 14: Payment arrears



Source: Moody’s

Figure 15: Forced sales



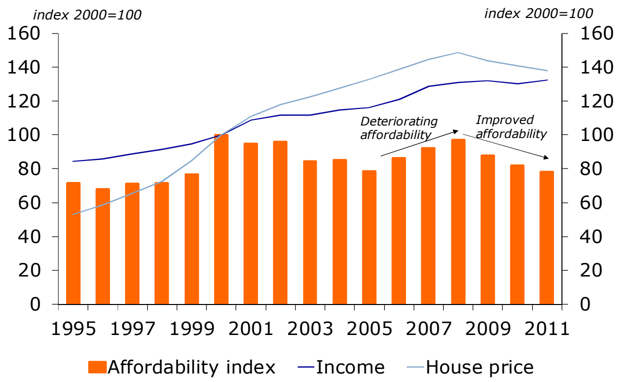
Source: CBS and Land Registry

Long-term trend

Medium term perspective: recovery in sight

House prices are expected to recover in the medium term in the Netherlands. Factors such as political uncertainty, economic headwinds, rising unemployment and declining purchasing power will have less impact after next year, while the low construction activity combined with increased demand due to demographics and improved affordability will lead to a bottoming out of prices. Yet it is likely that it will be a different housing market than before the crisis. Trends and developments such as greater influence of housing consumers, reduced influence of the government on the housing market, growth of the private rental sector and debt deleveraging may lead to a change in the housing trajectory and choices of house buyers.

Figure 16: Affordability index



Source: DNB

Waiting for recovery

In the current situation it is difficult to predict when house prices will bottom out. In the case of both rising and declining prices, the temptation is strong not to see beyond the trend of the preceding quarters. And in this case, that would mean a further price drop. That said, we do expect prices to rebound (moderately) in the medium term. The main reasons for an expected recovery of house prices in the medium term are (1) the generally favourable financial position of households despite the reduced borrowing capacity in 2013; (2) the rising shortage of houses due to a fall-off in new completions, combined with an increase in the number of households; (3) pent-up demand among potential house buyers and (4) inflation.

Credit rating agency Standard & Poor's likewise expects to see a recovery on the Dutch housing market in the medium term[1] pointing to essentially the same factors. S&P expects the recovery to result from the growth in the number of households, improved economic growth and the imminent (qualitative) shortage of housing. Moreover, affordability has improved significantly thanks to the price decline - since the start of the financial crisis, house prices have dropped by 16.1% in nominal terms. The speed and strength of a recovery in the long term are difficult to predict, however, and depend greatly on consistent policies and on economic factors, such as interest rates and unemployment. In the short term, (2013) we expect house prices to remain under pressure (see also Price trend and Different price segments from page 4 and page 7, respectively).

Our modest optimism for the longer term needs to be qualified by a number of remarks, however.

[1] S&P, Europe's Recession Is Still Dragging Down House Prices In Most Markets, 17 January.

Long-term trend

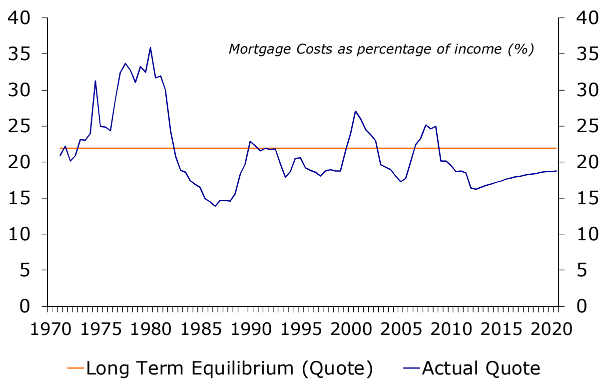
After prices have reached their bottom we initially expect to see only a modest recovery, with the average rise in house prices possibly lagging behind inflation at first. This means a period of still declining real house prices, but with rising nominal prices. Consequently, many houses will see their value rise from below the mortgage debt to above that debt, thus erasing negative equity. Individual loan-to-value ratios (LTV) will therefore decline, which is favourable for individual house owners and for financial stability.

Favourable affordability leads to recovery

A trend that we have observed is the ever improving affordability of purchasing a house since 2008. This is caused by the unusual combination of falling prices and declining mortgage interest rates (figure 16). The Dutch Central Bank's (DNB) housing market affordability index is a measure for the financing burden relative to disposable income. This index is published annually. According to the index, which is based on the average house sold and average disposable household income, affordability was under pressure in early 2008 because of increased interest rates on both money markets and capital markets and because house prices were rising in that period. However, since the fall of Lehman Brothers in September 2008, the financing costs for buyers have fallen at a more rapid pace than the decline in incomes. Accordingly, the average house price has fallen much more sharply in the past four years (-16.1%) than the statistical purchasing power of employees (-3.75%; MEV2013, pg. 15). But because mortgage interest rates have also fallen and individual wage rises and unemployment effects are not taken into account in statistical purchasing power, this means that on average, affordability has improved more than might appear at first sight.

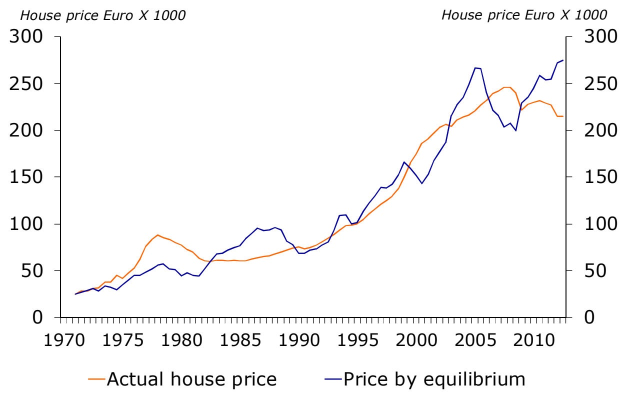
Conversely, however, the government measures adopted from 1 January 2013 will cause affordability to deteriorate by about 7.5%. On balance, though, affordability is still better than in 2008. It appears that the market has already partly factored in the negative effects of the reforms. Affordability - particularly for existing homeowners - is

Figure 17: Housing expenses ratio



Source: Rabobank

Figure 18: Actual house price and equilibrium price



Source: Rabobank

currently so favourable, that in our view it not a matter of not being able to buy, but not (yet) wanting to. Restoration of confidence will therefore be crucial. Affordability has also improved for first-time buyers, although to a lesser extent. The difference in this respect between existing homeowners and first-time buyers is due to the fact that banks are no longer permitted to increase the borrowing capacity for first-time buyers on the basis of good career prospects.[2]

Another method, the same conclusion

House price theory also provides arguments that point to a recovery on the housing market in the long term. This theory is based on the premise that there is a long-term equilibrium between monthly mortgage costs and income, viz. the financing costs to income ratio (FIR). In the prevailing house price models, FIR is often used for long-term equilibrium, with the assumption that the housing expense ratio is constant. A rise in income or a decline in mortgage interest rates thus leads to a rise in house price. Depending on market circumstances, this ratio can remain low or high for long periods, but ultimately a market correction will take place which ensures that the housing expense ratio will return to the long-term equilibrium.

Since September 2008, after the collapse of US investment bank Lehman Brothers, this housing expense ratio has moved below the long-term equilibrium of 22% (figure 17). We also saw this trend in the Central Bank's affordability index (figure 16). We subsequently made an estimate of the long-term house price on the basis of the equilibrium ratio, the actual mortgage interest rate and household income (figure 18). The conclusion of our analysis is that the actual house price is below the long-term equilibrium and that house prices will therefore recover in time.

Short term outlook: no recovery just yet

In theory therefore, a market correction in the medium term should ensure that equilibrium is restored, with a moderate price rise as a result. We know however, that housing market prices are always prone to overshooting and undershooting. Sentiment is always more volatile than the underlying fundamentals. This currently appears to be the case. Houses will first have to become too cheap before the market recovers.

Further observation

The future development of interest rates is very difficult to predict, while at the same time it plays an important role in both affordability and FIR. A rise in interest rates can have a negative effect on both these variables, which means the current under-valuation will be less likely to lead to a recovery in prices in the longer term.

[2] See M.T. van der Molen (2012), Aanschaffen woning is gemakkelijker [Buying a house has become easier], Rabobank Special Report 2012/01.

Long-term trend

Sufficient finances available but a tendency towards delaying a move

We furthermore conclude that numerous potential first-time buyers have sufficient finances available to buy a house. Recent research by NIBUD (National Institute for Family Finance Information) and the ING Group revealed that 30 year olds without children in rented accommodation earning a net monthly income of € 3,500 had average savings of € 16,600. These potential buyers are in a good position to buy a house, but apparently are not sufficiently motivated to do so. This could be related to their personal circumstances, but also to uncertainty on the housing market itself. This latent demand could well be released as soon as the uncertainty comes to an end.

Shortage of new completions, a reason for price stabilisation

So far we have focussed entirely on the demand side of the market. On the supply side, equally, there are developments which give rise to a certain optimism about house prices. While the fall-off in construction is bad for the building sector, in the medium time it will establish the bottom for house prices. The market research bureau ABF Research has calculated on the basis of trends in construction output and demographics that the housing shortage will double from a current deficit of 150,000 housing units to 300,000 (4%) by 2020 (ABF Primos prognosis, August 2012). The shortage is particularly acute in the regions surrounding Utrecht (8%) and Amsterdam (7%) (see also Regional variation, from page 18).

New housing completions are expected to decline further in the coming years: the forecasts vary currently from 35,000 to 45,000 new completions. Annually an output of approximately 80,000 to 100,000 new homes is required to meet the housing demand. According to The Netherlands Environmental Assessment Agency (PBL), the number of households in the Netherlands is expected to increase by about 800,000 until 2025, with similar growth both inside and outside the Randstad metropolitan area. The increase in the Randstad will be caused by population growth. Outside this area the population will decline as such, but the number of households will increase because of household fragmentation. However, this will not apply to the regions of Zuid-Limburg and the north-east of the province of Groningen. In these areas the number of households will likely decline. The increased number of households nationally together with limited construction will, in the long term, lead to tightness on the housing market. This will ultimately push prices up.

Government policy: More room for market effects from consumer preferences

We have observed an increasing trend in government policy towards greater influence from housing consumers on the housing market. This is positive for market effects and a more stable price level. This is a long-term trend that was started in 1990 by former Junior Housing Minister Heerma. Since 1990, government policy has emphasised the introduction of more market forces: subsidies were abolished or reduced and housing associations were made independent. Around 2000, the free market was given greater stimulus by strengthening the position of the consumer (Junior Housing Minister Remkes). The government chiefly stimulated demand for owner-occupied homes. After this, it was mainly advisory bodies (Environmental and Sustainable Development Council, the Social and Economic Council of the Netherlands (SER), the Netherlands Bureau for Economic Policy Analysis (CPB), Admistrative working group on Housing) that put forward arguments for further market reform. The conclusions are fairly clear: government intervention in the form of mortgage interest relief, transfer tax and rent subsidies needs to be reformed and reduced in order to generate a better dynamic on the market and permit greater choice for consumers. Ideally, neutral treatment of house purchasing and renting would improve freedom of choice on the housing market, permitting households themselves the choice of taking a risk with property. In 2007 we expressed our view that it would be wise for the government not to develop different policies for the rental and non-rental sectors, or specific policies for certain target groups, but instead to adopt generic measures[3]. In that context we also acknowledge the need for a greater (private) rental sector in the Netherlands. In the long term, this will affect demand for both social rental housing and non-rental housing. It is difficult to estimate the ultimate effects (on prices), as this depends mainly on the scope for creating an effective private rental sector as well as on possible changes to consumers' housing preferences.

To conclude

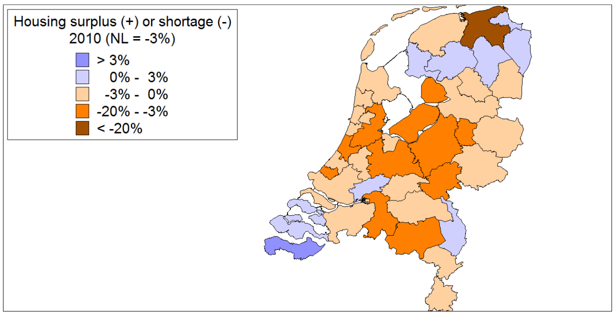
Altogether the outlook for the housing market in 2013 is not particularly rosy. However, the second-hand housing market is eventually expected to recover, after which the construction market will pick up. In the medium term we expect to see a moderate recovery in both house prices and home building. The policy pursued by the Rutte II cabinet combined with the likelihood that Housing Minister Blok can resolve the decades-long discussion about housing market reform offers the prospect of a stable housing market. After all, if others are seen to welcome government policy, confidence can return to the housing market. Confidence plays an important role in the non-rental sector, and besides household borrowing capacity is the most important factor for price development. This is clear from the price trend of recent years; owing to lack of confidence, the actual house price fell below the long-term equilibrium price which is based on hard economic data. Nonetheless, it always takes some time for policy changes to take effect. In the short term therefore, recovery will depend on economic recovery and spending willingness among consumers.

[3] Special Report 2007/35, Outlook for 2008: The Dutch residential property market.

Regional variation

The Netherlands may be a small country, but it shows considerable regional variation in population density and development. This is also the case on the housing market.

Figure 19: Housing market discrepancies 2010



Source: ABF-Research

Economic basis

The factors that cause this regional variation in the country and hence the spatial variation in the housing market are very stable in nature. The economic status of the Netherlands is formed by its position at the hub of an international traffic network. The west of the country, which is particularly favourably situated in this respect, has historically had the greatest concentration of inhabitants and economic activity. Later, parts of the south and east - the cities of Brabant, as well as Zuid-Limburg and the province of Twente caught up in their development. Initially this was brought about by the presence of (cheap) labour and minerals, but was enhanced later by the attractive residential and living qualities of these regions. These concentrations of people and activities in turn laid the ground for further concentration and dynamism. This is especially the case in - parts of - the Randstad metropolitan area, but also in a number of urban regions in the south and east.

Tightness and slack on the housing market

Economic activity drives the population dynamic, which in turn determines the housing market. Accordingly, the regional variation in economic and demographic development leads to regional differences in the housing market. Demand for housing is greatest in the urban regions of the Randstad, as well as in the south of the country and the surrounding commuter belt. It is significantly lower in the more thinly populated north-eastern half of the country as well as in the provinces of Zeeland and Limburg. The shortage of houses is most marked in regions to which young adults gravitate in their first steps towards independent living (figure 19).

Regional variation in house prices

The variation in tightness on the housing market, combined with regional differences in purchasing power as well as in the composition of the housing stock and housing market and zoning policy leads to major regional differences in house prices. Well-off households prefer a home in the - more desirable parts - of urban conglomerations or in attractive regions located at an acceptable commuting distance from those cities. This is why house prices are highest within the triangle formed by the cities of Zandvoort-Eindhoven-Zwolle.

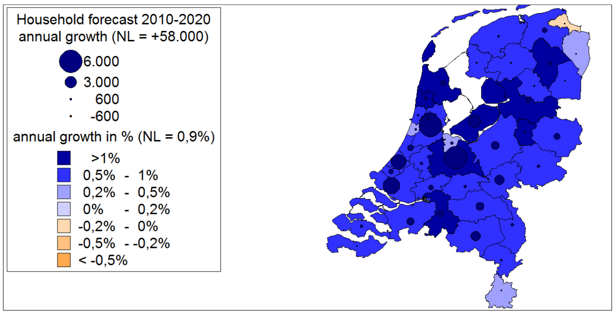
Within the cities as such, the housing value is generally low as much of the housing stock consists of social rental accommodation. The small stock of private rental and non-rental housing in the cities falls well short of meeting the large, affluent demand and is therefore generally expensive.

Regional variation

Age-dependent migration patterns

Of all the factors that determine demographic development, the birth and the death rates show only minor regional variation. While there are regional differences in domestic relocations and international migration, this pattern remains very stable. Immigrants gravitate towards the cities. It is here that international organisations are located, where concentrations of fellow-nationals are present and where there is a large supply of cheap rental housing. The main factor underlying regional differences in demographic development - the regional variation in domestic relocations - is related to life-cycle factors. Young adults initially gravitate towards the big cities, usually for the purposes of education, employment or relationships; later when they start their families they move to the suburbs. As the years go by, they continue to prefer to live in a 'green' environment, but are less likely to move house, and if they do so, it will be more locally.

Figure 20: Likely household development 2010-2020



Source: ABF-Research

Indirect impact on extent and nature of housing demand

Domestic migration also has an indirect impact on regional demographic development because it affects the age profile of the population in the various regions. The continuous stream of young adults towards the cities leads to population ageing - and ultimately a surplus mortality rate - in peripheral rural regions. Consequently, these regions may experience severe household size reduction and a decline in population. Cities also have a large percentage of small, one and two-person households, but thanks to the influx of young adults, the urban population - in contrast to the peripheral regions - is relatively young. The new housing estates around the cities have a high birth rate and a very large percentage of families make up the households. This natural growth, together with the influx of residents, leads to population growth in these locations.

Shift in migration pattern expected around 2025

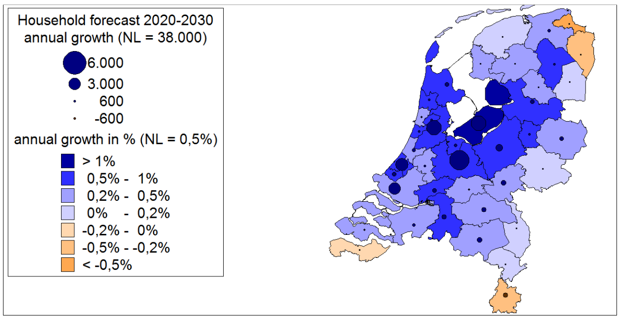
Changes to the age profile of the population will lead - now and in future years - to a major shift in domestic migration patterns. Thanks to the populous baby boom generations, suburbanisation was, until recent years, the main factor of influence in regional demographic development. With population ageing, baby boomers are no longer moving house as often, which means the (although less numerous) younger generations have become more instrumental in relocation patterns. These young adults and first-time buyers tend towards urban areas. The northern wing of the Randstad and Haagland are particularly popular places to live for these groups. For this reason urban areas are set to expand in the coming years relatively more than was previously the case.

In the current decade we will therefore see strong growth in the number of households in many parts of the country (figure 20). After 2025 when these new city dwellers reach the stage of having children, suburbanisation will again increase and the regions around the Randstad metro area will again experience an increase in population. In the northern wing and adjoining regions, the decline in growth rate will therefore be slower than average. In the rest of the country household development will either stagnate or decline after 2030 (figures 21 and 22).

Conclusion: concentration of house building, shrinking relocation market
As the pace of household fragmentation slows down in the coming decades, demographic development in the Netherlands will increasingly be dominated by population ageing and shrinkage - in view of international migration and age-dependent relocation patterns. Consequently, demand for homes will decline sharply, as will the number of relocations. Only in the northern wing of the Randstad metro area will household growth and thus tightness on the urban housing markets continue for decades. It is in this region that more house-building should take place.

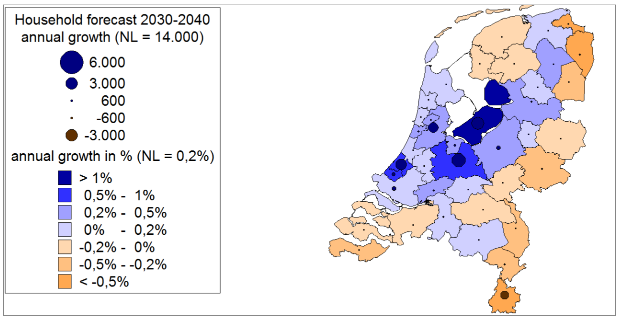
The rest of the country can expect to experience an ongoing decline in the pace of household growth. Nonetheless, house building should take place anyway, in order to meet the demands of the current decade. However, in contrast to the northern wing any expansion of the housing stock should be largely temporary in nature and, should be concentrated in the inner cities. With the exception of the above-mentioned region, large-scale development of built-up areas is no longer necessary, given the current projected regional population development.

Figure 21: Likely household development 2020-2030



Source: ABF-Research

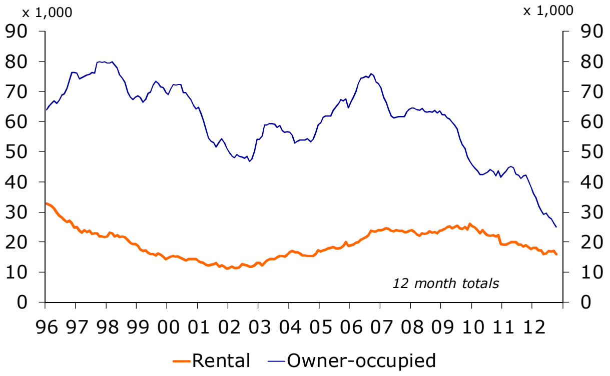
Figure 22: Likely household development 2030-2040



Source: ABF-Research

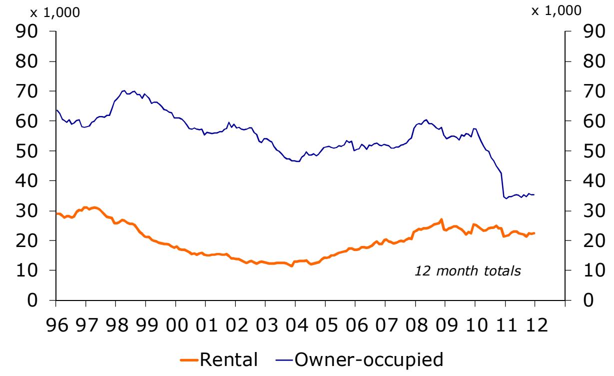
Graphs

Building permits issued



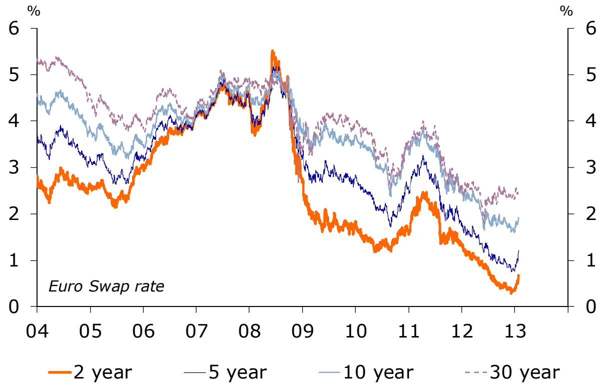
Source: CBS

Construction output



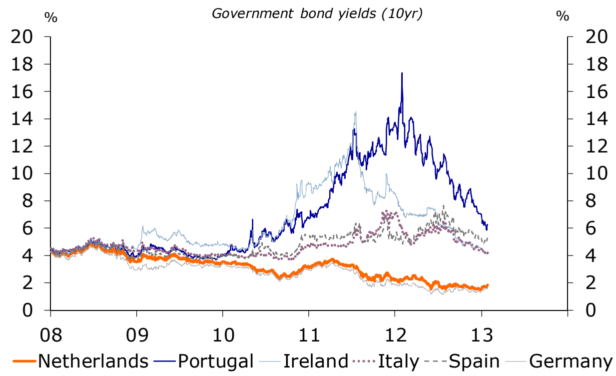
Source: CBS

Swap interest rates



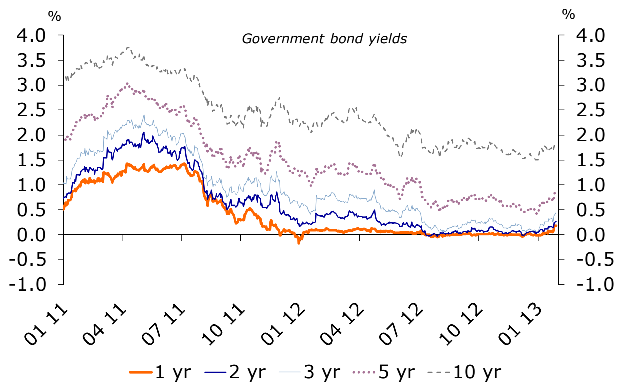
Source: Reuters EcoWin

Capital Market: various countries



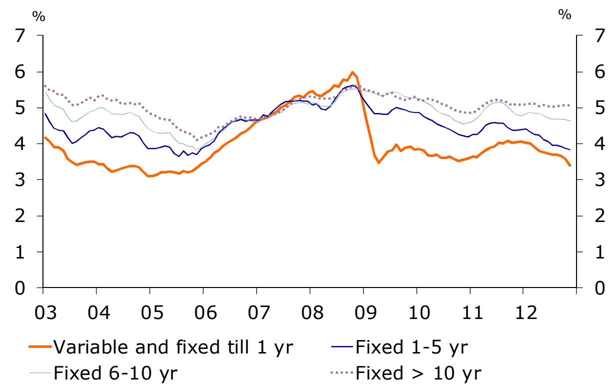
Source: Reuters EcoWin

Capital Market: Netherlands, by maturity



Source: Reuters EcoWin

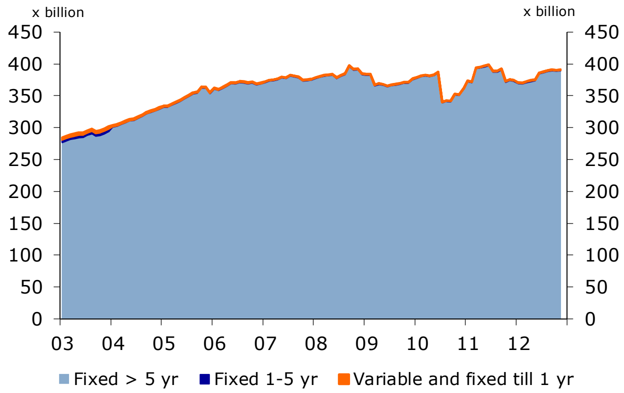
Mortgage interest on new contracts by maturity



Source: DNB

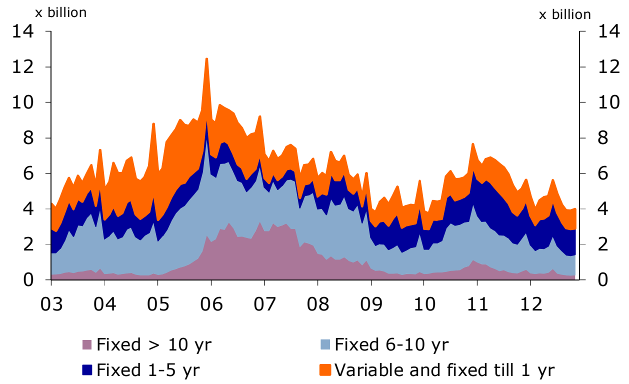
Graphs

Volume of existing mortgages by maturity



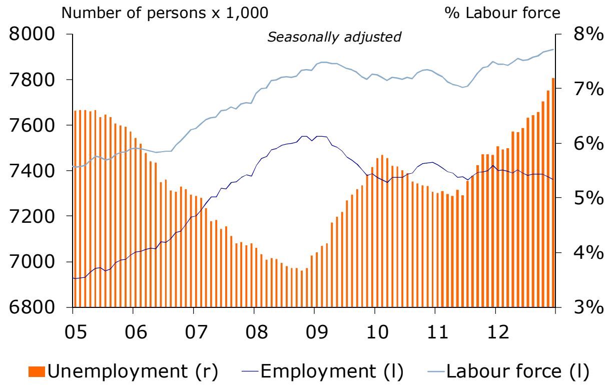
Source: DNB

Volume of new mortgages by maturity



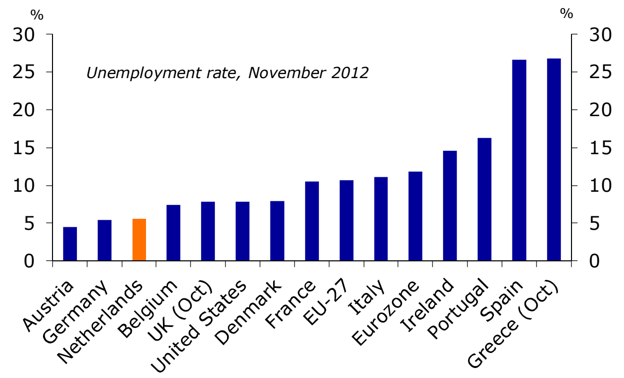
Source: DNB

Unemployment in the Netherlands



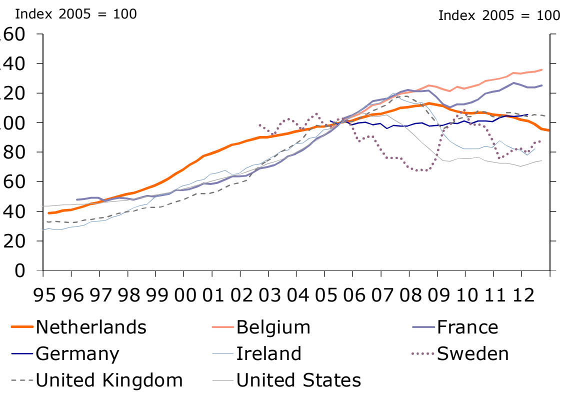
Source: CBS

International comparison of unemployment



Source: Eurostat

International price trend



Source: Reuters EcoWin

Economic expectations

	2011	2012	2013
Year-on-year change in %			
Gross Domestic Product	1.1	-1	-¼
Private consumption	-1.0	-1½	-¾
Government expenditures	0.1	¼	-½
Private investment	8.9	-4½	-2¼
Exports of goods and services	3.9	2¾	2
Imports of goods and services	3.6	2½	2
Consumer price index	2.3	2½	2
Unemployment (% labour force)	4.4	5¼	5¾
Government budget (% GDP)	-5.1	-3.7	-2.7
Government debt (% GDP)	65.5	71.4	71.9
Current account balance (% GDP)	6¾	7¼	7

Source: CBS & Rabobank

Key data

House prices

Year-on-year change (%)	2010	2011	2012 [a]	2013 [a]
NVM (median house price)	3.2	-1.9	-7.5	
Land Registry (purchase prices)	0.3	0.3	-5.6	
Statistics Netherlands/Land Registry	-2.0	-2.3	-5.9	
CALCASA WOX	-0.3	-0.2	-4.7	

Numbers

x 1,000	2010	2011	2012 [a]	2013 [a]
Sales transactions	126	121	117	
New housing completions (rental and sale)	56	58		

Numbers

	2010	2011	2012 [a]	2013 [a]
Involuntary sales	2,086	2,811	2,488	-

Key economic data (November 2012)

	2010	2011	2012	2013 [a]
GDP (volume growth in %)	1.7	1.1	-1 [a]	-¼
Inflation (%)	1.3	2.3	2.5	2
Unemployment (%)	3.7	4.4	5¼ [a]	5¾

Interest rate [b]

Level (%)	29 January 2013	+3m [c]	+12m [c]
3-month eurozone	0.22	0.17	0.31
10-year euro swap	1.88	1.90	2.30
Mortgage interest rate. 5-10 years fixed[d]	4.62[d]		

[a] Rabobank forecasts
[b] Forecast by Financial Markets Research, Rabobank International
[c] 3-month outlook and 12-month outlook, respectively
[d] Monthly average for November 2012 – Dutch Central Bank

Colophon

The Dutch Housing Market Quarterly is a publication of the Economic Research Department (ERD) of Rabobank Nederland. The view presented in this publication has been based on data from sources we consider to be reliable. Among others, these include Reuters EcoWin, Land Registry, NVM, DNB, CPB, Statistics Netherlands and huizenzoeker.nl.

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