

Netherlands: house prices to rise more slowly in 2022

We expect house prices in the Netherlands to increase by 13.5% in 2022, but uncertainty in the housing market remains



House prices in the Netherlands increased by 15.2% on average in 2021

Looking back: acceleration of house price increases in 2021

House prices in the Netherlands increased by 15.2% on average in 2021, far exceeding the rise in 2020 (+7.8%). The following drivers contributed to last year's house price increases:

- **Homebuying budgets increased in 2021**, firstly driven by an expansion of lending standards for dual earners in 2021. This increased their maximum borrowing capacity by approximately 2-3%. Positive income growth of 2.2% in 2021 also increased homebuying budgets. Finally, interest rates remained low and even decreased further by 10-20 basis points.
- **A one-time exemption from the 2% transfer tax for homebuyers younger than 35 years** old was introduced at the beginning of 2021. This structurally increased the purchasing power of first-time buyers, who account for more than 33% of all home sales on average.
- **Extra savings** accrued during the Covid-19 pandemic (lockdown measures reduced household spending options) enabled homebuyers to make higher bids.

Looking ahead in 2022: more subdued house price increases

Higher interest rates and thus mortgage rates (which increased by more than 50 basis points on average in the first quarter of 2022), lower investor demand, and less positive sentiment in both the economy and housing market will slow the increase in house prices this year. In our base case, house prices increase by 13.5% on average in 2022, with more than half of the increase due to carry-over effects, while the number of transactions of existing homes will decline by about 15% to 190,000 (2020: 225,000). However, uncertainty in the housing market is currently higher than normal. The Ukraine war, Covid-19 developments, and the rise in interest rates are all difficult to predict but will be decisive for the housing market in the coming months. To illustrate: a 1%-point increase in mortgage rates lowers homebuying budgets by about 5-10% in order to maintain equal mortgage payments.

Mainly owner-occupied and regulated rental properties

The Dutch housing market consists of 4.5 million owner-occupied homes (57% of the housing stock), and 3.4 million rental properties (43%). The distinction between the regulated ('social housing') and the unregulated rental segment is important. About 76% of the rental housing stock in the Netherlands is regulated, meaning that landlords are forced by law to apply rents below market rates. The dominance of the owner-occupied and social housing segments is a natural result of subsidies, such as the interest paid on mortgages being deducted from income for owner-occupiers, and rent allowances for households in social homes. Subsidies are absent for unregulated homes.

Regulation puts returns under pressure

Recent regulatory changes have lowered expected returns on rental homes in both the regulated and unregulated segments.

- The **increase in the transfer tax from 2% to 8% in January 2021** has affected both private and institutional investors (a further increase to 9% is due in 2023).
- A **maximum rental price increase of 1% plus inflation in the previous year** (3.3% in 2022) has been implemented for existing contracts in the unregulated segment last year, which is intended to reduce the increases in rental costs for sitting tenants. Previous [ING research](#) however showed the effect on expected returns of this cap seems to be limited. First of all, the limit is not aimed at the current rent levels but rather the annual rent increase for sitting tenants. Secondly, the annual average rent increase for sitting private sector tenants in the Netherlands has almost always been below inflation plus 1% since 2012, even without the current limit.
- **Private investors this year have been banned from buying owner-occupied homes** with a property value of up to a certain value in some major cities (so-called "opkoopbescherming"), including Amsterdam, Rotterdam, The Hague and Utrecht. The purpose is to improve the position of first-time buyers relative to private investors in the housing market.

Looking ahead, future expected regulation could significantly lower expected returns.

- **Planned rent control is estimated to reduce the rental price of 40,000 regulated and unregulated rental properties** (1% of total rental housing stock). The number of rental properties affected will be higher in major cities like Amsterdam. The regulation means that

the maximal rental price of a home is now calculated based on a points system, including a home's property value ("WOZ value"). The vast increase in house prices since 2013 has increased the share of these "WOZ-points" over time and has increased the shift of rental homes from the regulated to the unregulated segment - as under the current system, rental homes allowed to rent out at more than €763,47 this year are unregulated. In order to break this pattern, planned regulation will limit the share of these "WOZ-points" to 33% of all points. This will reduce the maximum rental price of about 23,100 regulated properties that would have shifted to the unregulated segment under the current rules and means that 14,800 unregulated properties will be pushed back to the regulated segment.

For private investors, there is also the **announced reform of the capital gains tax in the Netherlands in 2025**, which is likely to lead to higher taxation of rental returns. The current system based on fictitious returns is structurally underestimating the returns on rental homes. This will lower the demand from private investors as net returns will come down compared to alternative investment opportunities.

Author

Mirjam Bani

Economist

mirjam.bani@ing.com

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