ABN·AMRO

# Housing Market Monitor

Group Economics | Jan. 16, 2025
Mike Langen

## Summary

- We expect the price trend to continue and house prices to rise 7% in 2025.
- The driving forces remain rising wages, lower mortgage rates and the supply shortage.
- The number of transactions will increase 2.5% in 2025 and 1% in 2026.
- Price and transaction growth will return to the long-term trend in 2026.

**Looking back, 2024 was a strong year with a clear direction.** The final CBS statistics for December are not yet in, but November showed a month-on-month price growth of 0.9% again. The 3-month trend therefore indicates a slight slowdown. However, 2024 was generally a strong year, with average monthly price growth of 1% and little fluctuation. We expect this trend to continue in December, leading to a price growth of 8.9% for 2024, which is slightly higher than our latest forecast of 8.5%. In the first 11 months of last year, there were a total of 182,634 transactions. Because December usually has a relatively high number of transactions (on average 11% of the annual total), we expect 2024 to end with more than 200,000 transactions, in line with our previous forecast.

**For 2025, we expect a price growth of 7%.** With the exception of 2023, Dutch house prices have increased by more than 7% per year since 2017. This is mainly due to strong fundamentals such as high demand and a shortage in supply, but also due to favourable capital markets (low interest rates, lots of savings). Currently, all these indicators show that the price trend will continue. Probably the only considerable factor are record high prices as affordability may become an issue at some point. However, we expect that at most this could lead to lower growth, but not to overall decreasing prices. We do expect some variation with higher price growth in rural areas, due to lower-priced (affordable) housing and excess demand. For 2026, we expect prices to rise by 3% and close to the long-term average. The reasons are the normalization of inflation and lower wage growth.

**Transactions are expected to remain high, but not to increase much further**. In 2024 did not only prices but also the number of transactions increase, indicating that there is a lot of liquidity in the market. For 2025, we expect liquidity to remain high and the number of transactions to increase slightly by 2.5%. For 2026, we expect the number of transactions to remain almost constant, resulting in an increase of only 1%. We expect the drivers of the number of transactions to change over time. The housing market hype will flatten as price levels raise and income growth weakens. At the same time, we expect the number of new construction projects to increase, increasing supply. We therefore expect that markets will normalize over time.

**Higher wages continue to drive up home prices this year.** The underlying factors for our forecasts are the still rising household incomes, falling mortgage rates and limited supply. We expect falling mortgage rates and see more favourable borrowing regulations. The tight labour market continues to give workers strong bargaining power, better than historically common in the Netherlands. This results in higher household incomes in the short term and thus higher demand for homes. The NHG limit was also raised in January, leading to more borrowing capacity. Furthermore, we expect mortgage rates to fall further, partly because European inflation has fallen to the 2% target level, allowing the ECB to continue lowering interest rates. Deposit rates are expected to fall to 1.5%, which will eventually lead to lower mortgage rates as well. The prospect of interest rate cuts boosts confidence in the housing market, although the Dutch housing market is less sensitive to interest rate changes, thanks to the preference for long fixed-interest periods, the ability to take mortgages with you when you move and the mortgage interest deduction.

**Housing supply remains tight, but there is a silver lining**. On the supply side, we see some signs of improvement, but overall there is still a shortage and will remain so in the short term. The government recently invited market participants to make new agreements on housing construction. Even though these have not materialized, it seems that the move is in the right direction and investors are regaining confidence. Furthermore, the government recently allocated funds to encourage municipalities to deliver construction projects quickly. Developers are experiencing further tailwinds, as wage growth and inflation are expected to normalize, while interest rates are falling. We therefore expect construction to pick up but due to long business cycles the results will probably not show effect until next year.

**We expect the housing shortage to increase in 2025 due to the shortage of small homes.** In our current focus publication, we look at the underlying reasons and outcome of the housing shortage. We find that the main reason is the changing demographics in the Netherlands. Households are getting smaller and especially the number of single-person households is increasing. This phenomenon is observable not only in cities, but also in rural areas. It is not only a trend among young people as most single households can be found in the baby boom generation. If we look at the supply side, however, we see that Dutch homes are generally not becoming smaller. This is especially a problem for rural areas, where homes are traditionally built larger than in urban areas. With rising prices per square meter, this means that houses are generally becoming less affordable for single households.