



# NETHERLANDS - April 2018

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## HOW MUCH WILL MY HOME BE WORTH LATER ON? ..... 1

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### How much will my home be worth later on?

What are the dynamics behind house price fluctuations and how high is the risk of severe depreciation for homeowners? Alfred Teye was awarded a PhD on this topic last 16 March at the Delft University of Technology (TU Delft). One of his thesis questions was how house prices in different regions influence each other. This dissertation research - which may be particularly interesting for policymakers and financial institutions - forms part of a cooperation between TU Delft and Statistics Netherlands (CBS) on statistical methods in the housing market.

#### Risks in the property market

The property market collapsed during the financial crisis (starting in 2007-2008) affected many homeowners. House prices dropped below their original mortgage value and a significant number of homeowners went into negative equity. Alfred Teye: 'After the crisis, the government wanted to stimulate the housing market, but the question was how. There had been little research on the way house prices develop in the Netherlands and the risks accompanying them. I wanted to answer those questions.' In his research Teye focused on the way in which house prices influence each other in different parts of the country. 'In addition, I looked at the possibility of developing an insurance which protects homeowners from a loss of value during sale. This type of insurance does not yet exist in the Netherlands.'

#### The price wave

The main conclusion in Teye's research is that house prices in the Netherlands are spatially connected with each other. Before the financial crisis, prices in Noord-Holland province affected those in the rest of the country, with the exception of Zeeland province. The influence from around the capital of Amsterdam - a major economic hub - is most noticeable in Utrecht and remains visible when house price fundamentals such as GDP and interest rates are adjusted for. Teye: 'This knowledge may help policy-makers in the future to take timely measures in order to prevent turmoil in the housing market. Prof. Jan de Haan, one of the co-supervisors alongside Prof. Marja Elsinga (TU Delft) and a senior methodologist at CBS: 'Connecting the national and regional trends also ties in with CBS' ambition to start serving local and regional authorities alongside the national governments. This is why we set up the Urban Data Centres last year. The housing market is among their frequently researched topics.

#### Reducing the risk

Another important conclusion from Teye's dissertation research is that, in the long run, house prices in the centre of big cities will go up faster than in the suburbs. 'The reason for this is that there is more activity and higher demand in the city. However, short-term fluctuations are larger in the city centres.' A home-value insurance could help mitigate the property price risk, says Teye. In his research, he studied whether the efficiency of a home-value insurance scheme which is based on a house price index could be improved in our country.

#### Innovative methods

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In his research, Teye used various innovative methods to measure and analyse the housing market dynamics and risks. This involves a combination of standard statistical analyses and recently developed complex econometric modelling techniques. For his research he used CBS data, the house price index in particular. De Haan: 'The techniques used offer attractive points of departure for further analysis of housing market dynamics in the Netherlands. After all, where people live has consequences for the entire Dutch society, for instance in the areas of energy supply, demand for education and mobility needs. This ties in very well with CBS's strategy to study such aspects in conjunction with one another, often with partners like universities.'

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