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Reregulation and Residualization in Dutch social Housing: a critical Evaluation of new Policies

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Abstract: *The Dutch social rental sector often serves as an example for other countries as a result of its large share and good quality housing. However, many things have changed in the sector in recent years. After 2011, the central government has regained its control over the housing associations. This was needed after the unacceptable amount of scandals that characterized Dutch social housing after 2000. Unfortunately, some of the new housing policies direct the sector into the direction of a residualization (the sector becomes smaller and there is a larger concentration of lower income groups). This is undesirable because the challenges that housing associations have to face are bigger than ever. Housing shortages are increasing, housing affordability is under pressure and spatial segregation is growing.*

Keywords: social rental housing; the Netherlands; housing policy; residualization.

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Introduction: the historical Development of the Dutch social rental Sector

The first Dutch housing associations were set up between 1850 and 1860. Some of these housing associations took the form of housing cooperatives and were initiated by better-off workers. Other housing associations were set up by employers in order to avoid labour unrest, to foster employee loyalty and to improve the productivity of the workforce (Elsinga and Wassenberg 2014). This is often called philanthropic capitalism (Beekers 2012). In 1901, the Dutch state interfered with the introduction of the Housing Law (*Woningwet*) that intended to put an end to the unhealthy and dangerous living conditions in the Dutch industrial cities.

The Housing Law regulated the housing quality and provided a framework for the provision of financial government support to housing associations. As a result of the introduction of the Housing Law, the number of housing associations gradually increased and their character changed. The housing cooperatives, whose organizational structure did not match well with the housing law, gradually disappeared and new housing associations were started under impulse of the protestant and catholic movement (Beekers 2012). In municipalities where there were no private housing associations, the local government stepped in and municipal housing companies were started. In other words, although the housing associations started as an initiative of civil society, they quickly come under government influence. In the first part of the 20th century, it was particularly the local government (municipalities) that had a large influence on the development of the Dutch social rental sector.

The heydays of the Dutch housing associations were between 1950 and 1990. In that period, the share of social rental sector increased from about 10% to more than 40% (Haffner et al. 2009). The Netherlands had to cope with a large housing shortage as a result of war-damage and strong demographic growth (Musterd 2014). In an attempt to diminish this housing shortage, the government provided generous subsidies to the housing associations so that they could build large numbers of new social rental dwellings. This subsidy system went hand-in-hand with a strong influence and control of the central government. In a way, the housing associations were reduced to implementing bodies of the central government.

After the 1980's, the government subsidies subsided and the housing associations gradually gained more independence. This cumulated in the so-called 'grossing and balancing operation' of 1995 that gave the housing associations complete financial independence (Priemus 1995). After the grossing and balancing operation, the financial position of the housing associations quickly grew stronger as a result of low interest rates and rising house prices (selling off part of the dwelling stock became an important activity for housing associations). As a response to their wealthy situation, the housing associations started to broaden their activities. They not only provided affordable rental housing but increasingly invested in social projects, public-purpose buildings and commercial real estate.

The marketization and neo-liberalization of the Dutch social rental sector also became visible in the salaries of the directors of the social rental landlords. These salaries increased a lot, causing widespread public indignation. Furthermore, various cases of mismanagement and fraud came to the surface (Boelhouwer and Priemus 2014). The most important, and probably the best- known, of these cases is the Vestia one. This housing association, the biggest one in

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the Netherlands at that time (managing 80,000 dwellings), lost about 2 billion Euros as a result of irresponsible speculation with financial products. In response to these scandals, a so-called parliamentary enquiry[1] was started in 2013. The committee responsible for this enquiry consisted of six members of parliament (representing six different political parties) supported by a research staff. They concluded the following:

- The so-called 'moral compass' of directors and supervisors was insufficiently developed. As a result of this, some of the decisions taken by these executives were at odds with the societal non-profit oriented mission of the housing associations (for example providing a very high salary to the directors of housing associations or investing in commercial projects). In several cases (16 of such cases have been investigated in the parliamentary inquiry), the lack of a good moral compass resulted in fraud and corruption;
- The boundaries within which housing associations were allowed to operate were not clearly defined;
- The governance and particularly the supervision of the housing associations was insufficiently developed. There was very little supervision by the central government and the internal supervisory boards were sometimes uncritical, ill-informed or insufficiently competent;
- There was plenty of money available and possible investment risks were insufficiently perceived, also because they were backed by the other housing associations and the central and local government. This led to a so-called moral hazard (Tweede Kamer 2014).

Recent Housing Policy Developments

Since 2011, the central government has firmly retaken control over the Dutch social rental sector. This process started in 2011 when the housing allocation rules changed as a result of a long-running discussion between the Dutch government and the European Union concerning state aid for social rental housing (see also Priemus and Gruis 2011; Elsinga and Lind 2013; Hoekstra and Boelhouwer 2014). The European Commission concluded that the Dutch housing associations do indeed receive state aid. Receiving state aid is legal for organizations that provide so-called Services of General Economic Interest: SGEI. SGEI are economic activities that public authorities identify as being of particular importance to citizens and that would not be supplied (or would be supplied under different conditions) if there were no public intervention[2]. In the case of Dutch social Housing, it was decided that SGEI activities should focus on a particular target group of socially disadvantaged or less advantaged groups (Priemus and Gruis 2011). Hence a new housing allocation rule came into force. From 2011 and onwards, 90% of the vacant housing associations with a regulated rent[3] (this concerns the large majority of the housing stock that housing associations own) has to be allocated to households that

[1] This allows the parliament to hold a large scale enquiry in which witnesses can be interrogated under oath and refusal to participate is sanctioned. Parliamentary inquiries only take place if there have been major scandals. Since 1848, no more than 20 parliamentary enquiries have been carried out.

[2] Definition taken from http://ec.europa.eu/competition/state_aid/overview/public_services_en.html

[3] The maximum rent level for the rent-regulated rental sector is € 710,68 (2016). For dwellings that have a rent above this level, no rent regulation applies. Furthermore, tenants of such dwellings are not entitled to housing allowances.

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belong to the so-called target group for social rental housing[4]. Before 2011, only 75% of the vacant social rental dwellings were allocated to this target group and therefore the new regulation assured that social rental dwellings were more strictly allocated to households that belong to the lower income group.

In 2012, a new government (a coalition between the conservative liberal party VVD and the social-democratic party PVDA, chaired by Mark Rutte who became prime minister for the second time) took office. The housing minister of this government, Stef Blok (VVD), has made it one of his main goals to make the social rental housing sector smaller and more targeted towards lower income groups. Therefore, in order to stimulate that households with a higher income move out of the social rental sector, income dependent rent increases were introduced in 2013. This meant that households that did not belong to the target group of the housing associations could get a much higher yearly rent increase, up to 6.5% (depending on the year and the household income), than households that did belong to this target group.

Furthermore, the Housing Law was completely reformed. The new Housing Law *(Woningwet*), which was the outcome of a long running discussion in parliament and in which the results of the parliamentary enquiry were partly incorporated, came into force in July 2015. The law clearly describes what housing associations can and cannot do. It states that the primary task of housing associations (the so-called Services of General Economic Interest: SGEI) is to build and manage social rental housing for their target group. All other existing activities (non SGEI) should be transferred to commercial parties or be separated from the SGEI activities in a distinct administrative or juridical entity that works on a commercial basis. New activities that do not belong to the core tasks of the housing associations, for example building rental dwellings in the non-regulated rental segment, are only possible under very strict conditions.

The governance and supervision of the Dutch social rental sector has been drastically reformed as well. A new housing authority, tied to the central government, has been set up. This authority strictly supervises the activities, financial management and governance of the housing associations. The appointment of directors or supervisory board members of housing associations also has to be approved by this new authority. For this purpose, an assessment of candidates (the so-called ‘fit and proper test’) is carried out.

The tenants and the municipalities have also gained influence. Each year, the housing association, the municipality and the tenant’s organizations have to agree on the activities that the housing association will carry out in the year to come. This is laid down in so-called performance agreements. Finally, the housing allocation system has become even stricter. More than 95% of the vacant social rental dwellings with a rent below € 586,86 (for one or two person households) or € 628,76 (for households consisting of three or more persons) should be allocated to households that are entitled to receive a housing allowance.[5] This new measure (*passend toewijzen*: ‘fair housing allocation’) has come into force on January 1, 2016. It

[4] In 2016, the income limits for belonging to this target group were € 35.379 (first 80% of housing allocations: this is the primary target group for social rental housing) and € 39.974 (next 10% of housing allocations). The remaining 10% of vacant social rental housing can be allocated to households with an income above € 39.974, whereby preference should be given to households with social or medical problems.
[5] The income limit for this is € 22.100 for one person households and € 30.000 for households consisting of more than person (€ 30.050 if the age of the household is above the pension age).

basically implies that the households with the lowest incomes should be housed in the cheapest segments of the social rental dwelling stock in order to limit the government's expenses on housing allowances.

A policy measure that is not part of the new Housing Law is the so-called Landlord Levy. This landlord levy was introduced by the Rutte 2 government in an attempt to alleviate the budgetary problems of the treasury. The housing associations were offered the possibility to carry through annual rent increases with a rate above inflation (particularly for households with a somewhat higher income, as shown above). However, in exchange for this, they had to pay a levy to the government, based on the cadastral value of their real estate in the regulated rental sector (Priemus 2014). The landlord levy not only applies to social rental landlords but also to private rental landlords that own more than 10 dwellings in the regulated rental segment. The revenue for the treasury as a result of this levy amounts to 1,7 billion Euro in 2017. The current minister (who is a member of the conservative party VVD) wants to continue the Landlord Levy after 2017, but various other political parties want to get rid of it. Therefore, the future of this policy instrument will depend on the outcomes of the national elections that will take place in March 2017.

A critical Evaluation of the new Policy Measures

In my opinion, the introduction of the new Housing Law can be seen as a positive development. After many years of scandals within the social rental sector and political discussion within the parliament, the housing associations had lost a large part of their legitimacy and credibility. They really needed a new vocation, better control mechanisms, more influence for stakeholders and a stricter regulatory framework. The new Housing Law provides all that. However, there are also two new housing policies that seem to ignore the current housing market and socio-economic situation, and may actually have a counterproductive effect. This concerns the Landlord Levy and the strict housing allocation rules that are the result of *passend toewijzen*. In my opinion, these two measures reinforce the process of residualization (increasing concentration of lower income groups in a shrinking social rental sector) that is already under way, and that has been observed by various authors (Elsinga et al. 2008; Hoekstra 2009; Musterd 2014). This process has negative effects on the Dutch housing system because it leads to a growing shortage of social rental dwellings, unaffordability of rental housing and increased chances of spatial segregation and problem accumulation.

Increasing Shortage of social rental Dwellings

Table 1 gives an overview of the development of the social rental dwelling stock in the Netherlands between 2009 and 2014. The table shows that between 2009 and 2013, the social rental dwelling stock in the Netherlands slowly increased (at least in absolute terms, in relative terms the size of the sector has been declining since the 1990s). However, in 2014 this has been nullified because of a steep decrease in the number of social rental dwellings built by housing associations. The trend is likely to continue in the future, because in the years 2013, 2014 and 2015, only around 7,000 building permits for the construction of new social rental dwelling were issued (according to the CBS: the national bureau of statistics). This sharp reduction in

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the new construction of social rental dwellings is most probably related to the introduction of the Landlord Levy in 2013. As a result of this levy, social rental landlords have less financial capacity, and are maybe also less willing, to do investments in new social rental dwellings[6]. This is pitiful because the demand for social rental dwellings has not subsided. On the contrary, the influx of asylum seekers from the Middle East (particularly Syria) has boosted the demand for social rental dwellings. Consequently, the shortage of social rental dwellings has significantly increased in recent years.

Table 1: The development of the Dutch social rental dwelling stock between 2009 and 2014

	2009	2010	2011	2012	2013	2014
Newly built social rental dwellings	30,400	28,600	28,600	25,600	29,900	17,200
Social rental dwellings bought	4,400	2,200	2,800	2,700	800	1,400
Dwellings sold	-13,400	-15,500	-18,100	-14,700	-16,700	-22,900
Dwellings demolished	-15,800	-13,100	-11,900	-10,400	-9,800	-9,700
Mutations in social rental dwelling stock	5,600	2,200	1,400	3,200	4,200	-14,000

Source: Aedes Feiten en cijfers

Increasing Affordability Problems

Despite the large size of the social rental sector in the Netherlands, housing affordability problems have increased strongly in recent years. This is due to the fact that rent levels have grown much more than incomes of tenants. As a matter of fact, average incomes in the rented sector have gone down between 2000 and 2014, whereas average rents have increased by about 45% in the same period (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties 2016). Particularly in 2012, 2013 and 2014, rent levels increased considerably because landlords had to earn extra money in order to be able to pay for the Landlord Levy. As a result of this development, the average rent to income ratio has increased from 21.3% in 2009 to 26.7% in 2015. The total housing costs (rent + local taxes + gas, water and electricity) to income ratio increased from 31,4% to 36,0% in the same time period (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties 2016). It goes without saying that these ratios are even higher for tenants with a low income.

Segregation and Problem Accumulation

The system of *passend toewijzen* has been introduced in order to limit the government expenses on housing allowances. Although in principle this is a valid argument, the introduction of this system has also boosted fears of increasing segregation. This is due to the fact that the cheaper rental dwellings, that need to be allocated to households with a lower income, tend to be concentrated in particular neighbourhoods and housing complexes. The so-called

[6] There is a debate in the Netherlands on whether the housing associations are not willing (this is argued by the minister of housing) or not able (this is argued by the housing associations themselves) to invest more in the production of new social rental dwellings.

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deinstitutionalization, which means that vulnerable groups such as psychiatric patients, homeless people and former prisoners (all groups with a low income), are stimulated to live independently (although with support) in a social rental dwelling rather than in an institution, also plays a role here. If too many vulnerable households are housed in the same area, there is a serious risk of problem accumulation and negative synergy: the problems in the neighbourhood are even bigger than the sum of the problems of the individual households because problems are reinforcing each other (Musterd 2016).

Conclusion

This contribution has described the historical development of the Dutch social rental sector, with a particular focus on the developments in the last five years. It has shown that the new housing law has provided a new regulatory framework and to some extent a new legitimacy to the Dutch housing associations. At the same time, some of the new policy measures lead to an increasing and in my opinion undesirable residualization of the Dutch social rental sector. The Landlord Levy has a negative influence on both the availability and affordability of social rental housing, which is unfortunate in a time of growing housing shortages and increasing affordability problems. Now that the economy has recovered and the budgetary problems for the government have diminished, it seems sensible to abolish this levy. Rather than paying the government, the housing associations should invest in new house building and keeping the rents at a moderated level. The strict housing allocation rules (*passend toewijzen*) should also be modified. In my opinion, housing allocation is a matter that should be agreed upon on the local level, for example in the municipal performance agreements. The Dutch housing market is too varied to work with a uniform housing allocation rule that applies to the whole country.

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