



The Housing Market Reform Agenda: A Review of a Recent Housing Policy Document in the Netherlands

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Abstract: *The Dutch Cabinet published its Housing Market Reform Agenda on 17 September 2013. This paper describes the main features of the Agenda and presents an ex-ante evaluation of this policy document. The introduction of a landlord levy is one of the biggest inconsistencies in this Agenda. The Housing Market Reform Agenda is particularly critical of housing associations. There are good reasons to throw away the bath water, but the baby (= the housing association) should be nurtured.*

Keywords: housing market reform, mortgage market, housing association, ex-ante evaluation



Introduction

The Housing Market Reform Agenda of the Dutch national government, published 17 September 2013 (Blok 2013b), seeks to create some coherence between the various measures recently taken in relation to the housing market, including the owner-occupier and rental sectors, the system of housing associations and the construction sector. In this paper I outline large parts of the content of the Reform Agenda and present an ex-ante evaluation by making a number of observations.

According to the Cabinet, the Dutch housing market has stalled. This situation can only be resolved by comprehensively reforming both the owner-occupier market and the rental market simultaneously. The Housing Accord agreed by the current Rutte II Cabinet plus three opposition parties (D66, Christen Unie and SGP) on 13 February 2013 (Blok 2013a) seeks to provide a basis for 'a flexible and future-proof housing market that offers greater choice to tenants and home buyers, more opportunities for investment, greater resistance to economic shocks and contributes to a stronger Netherlands'. Clearly, more advertising copywriters worked on this text than serious policy experts. Securing the accessibility and affordability of housing is the starting point in all this. The housing allowance is meant to provide comprehensive support for those who cannot find suitable housing on their own. Reform should be designed to ensure a recovery in investment and restore confidence among consumers, investors and financiers. In the short term, the measures may be painful. Measures have, incidentally, been taken to improve the climate for investment and employment in the construction sector in the short term, according to the Reform Agenda.

The main problem to be addressed is that the housing market does not provide sufficient freedom and flexibility for tenants, buyers and investors. The housing market has become highly (and excessively) dependent on generous mortgage lending. Meanwhile, the rental market is struggling due to an inadequate supply of affordable rental housing, and a proportion of the social rental housing stock is being occupied by households on incomes officially too high to qualify for social housing. For those on middle incomes, there is a lack of choice. Tax subsidies for the owner-occupier sector and the dominant position of the housing associations in the rental market represent barriers to private investment in the free rental sector. As a result, according to the Reform Agenda, the housing market is split into two segments.

It is important that as many people as possible have a realistic choice between renting and buying, and so the rental market and the system of fiscal support for home buyers both need to be reformed simultaneously and incrementally.

The proportion of mortgage debt that is repaid during the term of the mortgage needs to be as high as possible and financial risks should be limited. Rents should reflect the actual value of the housing services. The main task of housing associations is to provide affordable rental housing. Furthermore, they contribute to improving the quality of life in the immediate vicinity of their social properties. The budget for housing benefits will be increased. The property transfer tax has now been permanently reduced from 6% to 2%. The Reform Agenda assumes that adapting rent policy will enable associations to pay their collective share of the landlord levy while also continuing to invest.



The Housing Market Reform Agenda covers the following points:

1. A housing market that functions better: manageable debt levels and risk reduction.
2. A competitive and transparent mortgage market.
3. A rental market that functions better: ample opportunities for households on lower budgets, more opportunities for the middle segment.
4. Housing associations: clear tasks and better supervision.

In this paper the parts of the Reform Agenda dealing with the construction sector, energy saving and private initiatives on the building market will not be discussed.

1. A housing market that functions better

The policy aims to reduce mortgage debt and limit risks; this will bolster confidence on the part of consumers, banks and investors.

The following measures support this aim:

- Establishing a link between the right to mortgage interest tax relief and paying off the debt completely during the term of the mortgage: realised.
- Permanently reducing the rate of the property transfer tax: realised.
- Temporary tax-deductibility on residual debts: realised.
- Residual debt (under strict conditions) co-financing under National Mortgage Guarantee Scheme: after summer 2013.
- Additional budget for first-time buyer loans (€50 million): realised.
- Reducing LTV ratio incrementally to 100%: starting 2013.
- Gradual adjustment of maximum mortgage interest deduction rate: proposal for Housing Market Measures Act 2014 on Budget Day.

2. A competitive, transparent mortgage market

The Cabinet wants to ensure that there is sufficient competition on the mortgage market and that entry barriers and capacity constraints are reduced. The Kroes Committee has looked at the possibility of establishing a National Mortgage Institution (NHI), which would enable institutional investors to play a greater role in financing mortgages with guarantees from the Dutch State.

The following measures are relevant here:

- Amendment to the Financial Markets Decree 2013: realised.
- Establishment of the National Mortgage Institution: under consideration.
- Research by the Netherlands Authority for Consumers and Markets (ACM) into entry barriers for mortgage banks: not yet known.

3. A rental market that functions better

Blok (2013: 7): ‘In principle, there are currently enough homes with regulated rents in relation to the target group, but not all of these houses are actually available for the target group.’ This



is due to imbalances in the market and the fact that rents do not reflect the real demand for housing services to an adequate extent.

The basic principle is that the total quantity of the social housing should remain in proportion to the size of the target group. The imbalance in the housing market is being addressed, which will create mobility in the regulated rental market, leading to more availability and greater choice for lower-income groups. To provide enough alternatives for middle-income groups, a viable free rental sector needs to be developed.

The following measures have been announced:

- Income-related rent increases above inflation: realised.
- Introduction of variable rent increases: legislative proposals before the end of 2014.
- Adaptation and simplification of the WSW (Social Housing Guarantee Fund): proposal as part of the National Budget 2014.
- Increase in budget for housing allowances in connection with above-inflation rent increases: from 2013.
- Introduction of a landlord levy, with a reduction for certain categories of investment: proposed Housing Market Measures Act.
- Creating a level playing field by redefining the activities of housing associations: amendment to the Housing Reform Act.
- Relaxation of the rules on the housing associations' sales to commercial parties: amendment to memo autumn 2013.
- Monitoring mid-market segment.

4. Housing associations: clearer role and better supervision.

There have been a number of instances of abuse in some sections of the housing associations sector: failures of governance, unacceptable remuneration practices, certain commercial projects involving unacceptable financial risks or financial mismanagement. The Parliamentary Inquiry Commission on Housing Associations will investigate these issues. Since the Grossing Act (1995), there has been increasing commercial activity and a wave of mergers among housing associations. Associations have participated actively in the 'neighbourhoods policy'.

The Housing Market Reform Agenda aims to bring about a 'sustainable system of housing associations' (Aedes and Kabinet Rutte II 2013).

'To minimize the risks, tasks and roles need to be defined better. The provision of social housing will once again need to become the central role of the associations. The starting point will be that these operations should provide a decent return. The economic situation means that the associations' earnings model will inevitably need to be re-evaluated; indeed, this is important for the functioning of the wider housing market, too. If associations focus more on their core business, there will be more room for private investors in the deregulated rented sector. For the housing associations, focusing on their core activities means that the priority should shift towards the lowest income households and away from those on higher incomes. This will mean that they will be operating in the public interest and contributing to a market that functions better.'

The following measures are identified:



- Implementation of the agreement with Aedes, the umbrella organisation of housing associations: beginning September 2013, for example through the Amendment to the Housing Reform Act.
- Delineation of the field of activity of associations: Amendment to the Housing Reform Act.
- Strengthening the role of local government in relation to associations and regulating the size of associations: Amendment to the Housing Reform Act.
- Developing national policy framework for associations: early 2014.
- Repositioning of financial supervision under ministerial responsibility: Amendment to the Housing Reform Act.

5. Reform agenda: an ex-ante evaluation

How should we assess the Housing Market Reform Agenda? First of all, it should be noted that it contains little that is new in terms of policies. Essentially, it simply brings together a range of on-going or previously announced policies.

Secondly, the time period over which the Reform Agenda will apply is far from clear. The majority of the measures included in the Agenda seem to apply for the short term (2013 and 2014). There is no indication of what policy may be followed after that point; at least no change is envisaged.

The third observation is that figures are missing on vital points. What numbers are we likely to see for the new construction of rental and owner-occupier housing after 2014? What projections are there for the number of transactions in the housing market and for house prices, and what is likely to happen vis-à-vis the affordability of housing in the rental and owner-occupier markets? What trends are we likely to see regarding mortgage debt and residual debt? This lack of statistical precision leaves plenty of scope for slick marketing that seeks to cast a positive light on the effects of the policies that are in place. Sometimes, however, the Agenda contains statements that are contradictory, such as ‘the housing market has stalled’ and ‘the housing market is in good shape in a number of crucial respects’. The lack of quantified argumentation means that it is difficult to determine where and when bottlenecks may occur when it comes to implementing the policy.

Our fourth observation is that the document makes no mention of the Housing Market Agreement entitled ‘*Wonen 4.0*’ (Housing 4.0), which was made between the most important market actors including Eigen Huis Association of Owner-Occupiers, the Dutch Tenants Organisation Woonbond, Aedes and the National Association of Brokers NVM (Nederlandse Woonbond et al. 2012). Why is it that the Housing Market Reform Agenda diverges from *Wonen 4.0* in areas other than spending cuts? We could ask a similar question about why it diverges from recent recommendations (VROMRaad 2007; SER CSED 2010). In fact, the Housing Market Reform Agenda does not engage at all with realities outside the political world.

The government says that this is going to change this. The Reform Agenda argues: ‘The Cabinet appreciates the importance of social support for the implementation of these measures’, but ‘given the significant institutional interests involved, agreement with all stakeholders cannot always be guaranteed’ (Blok 2013a: 4). Three divergent Cabinet ‘visions’ have been published in a period of ten years, and the Cabinet now wants to work with the



relevant parties to develop its approach further: ‘This letter is an invitation to do that.’ (Blok 2013b: 4) However, the policy itself is apparently not up for discussion. It is apparently the detail of implementation that can be discussed.

A fifth observation is that the landlord levy, which is widely understood as a means of bolstering the coffers of the state, makes no sense at all for the housing market. It will even further widen the gap between buying and renting, as well as the gap between the social rental and commercial rental sectors. The landlord levy will make it difficult for landlords to invest significantly in new social and commercial rental properties; this comes during the financial crisis, at a time when housing demand is shifting from buying to renting.

A further negative effect of the reforms initiated by the government is that in the owner-occupier sector, the gap between *insiders* and *outsiders* will widen. Requirements for new mortgages mean that they must include an annuity loan to be paid off within 30 years. For existing mortgages, however, there are no requirements relating to repayments. This means that interest-only mortgages remain very common.

In the social rental sector, too, the gap between *insiders* and *outsiders* is widening. Households on annual incomes above €33,614 can continue to live in social housing quite easily, despite the fairly steep rent increases (inflation + 4.5%). However, households in the same income bracket who are currently outside the social rental sector will not be entitled to social housing; nor will they be able to readily access mortgage credit or easily find affordable housing on the commercial rental market. The reform of the owner-occupier sector implies that, as of 2014, the maximum rate of mortgage interest tax relief of 52% will be reduced by 0.5%-point annually. This is a very gradual reduction. In the rental sector, by contrast - with additional rent increases and significant pressure for vacancy decontrol - the pace of change is much quicker. For now, however, it remains fiscally attractive for existing mortgage lenders to maximise the mortgage debt of their customers.

A sixth observation is that the Cabinet is relying excessively on commercial investors, who are being quite forcefully encouraged to finance mortgages using pension funds. But investors are only prepared to consider this with a full state guarantee. Such a state guarantee would go beyond the current guarantee of the National Mortgage Guarantee (NHG). Agreement has still not been reached on the launch of the National Mortgage Institution. Financing mortgages with funds deposited by investors remains a tempting prospect for banks, incidentally, because it would offer them a means of reducing their financial risks and of limiting to some extent the current rationing of mortgages.

In the rental sector, the call for commercial real estate investors is not very credible. Of all property investments made by Dutch investors, 37% are actually made in the Netherlands (Wolzak 2013). Most investors already take the view that this proportion is too high, given that the returns available abroad are higher than those available in the Netherlands. Since 2000, property investors have withdrawn from the Dutch rental housing market to a significant extent, and their market share has declined considerably. They are greatly deterred by the current policies on rents, tenure security and the landlord levy. In large parts of the Netherlands, commercial real estate investors are not active at all on the housing market. These investors focus largely on a selection of cities in the Randstad. They adhere to very specific and strict requirements regarding location and land prices. If housing associations were to withdraw from part of their non-DAEB activities (DAEB = Services of General



Economic Interest), it is unlikely that these activities would be taken up by any other actors on the housing market. Those activities would not take place.

Finally, some critical remarks must be made when it comes to the Cabinet's plans to place the external monitoring of housing associations under the direct control of the Minister of Housing. The Minister's track record of monitoring the performance of housing associations is decidedly poor. All the activities of associations that are now being subject to criticism were just recently approved by the Housing Minister. Independent external supervision, covering achievements, integrity, finance and State Aid issues of housing associations, as proposed by Schilder et al. (2006), could provide a much better solution.

The main thrust of the Housing Market Reform Agenda is clear and compelling: a step-by-step reduction of what are termed indirect subsidies (= the difference between market rents and actual rents) in the regulated rental sector, as well as the gradual reduction of tax subsidies for owner-occupiers. However, in practice this policy has been introduced too early: a housing market that is beset by a financial and economic crisis is not sufficiently robust to withstand such a radical reform. The result of making these spending cuts too early has been that the volume of housing construction has fallen disproportionately (while the demand for housing has continued to grow), that the fall in house prices has been relatively large, that unemployment in the construction sector has risen unduly and that consumer confidence in the housing market has fallen quickly to a deep low. If the operational plans for reform had been prepared better and then introduced in 2015, as advocated by SER-CSED (2010) and *Wonen 4.0* (Nederlandse Woonbond et al. 2010), the housing market would be facing fewer problems, and the wider economy, too.

But what is done cannot be undone: the Dutch housing market is going through a turbulent period, not only as a result of the financial and economic crisis and the Euro crisis, but also due to the housing market actions of the government. Now that the economy in neighbouring countries is recovering and an end seems to be in sight to the economic crisis in the Netherlands, the conditions are right for a modest recovery in the Dutch housing market.

The Housing Market Reform Agenda needs a rethink on a number of specific points. Key is the structural shift in the housing market from buying towards renting, which requires an adequate response (in connection with to labour market flexibility, the increasing number of self-employed and high unemployment); the relationship with Basel III must be kept constantly in mind; and the impact on the affordability and accessibility of social rental housing needs to be monitored carefully (Priemus 2013).

The landlord levy should be scrapped as soon as possible. The housing associations already have their hands full with the Vestia Levy (€700 million) and the Geertruidenberg Levy (€118 million): to be paid by all housing associations as a result of the structural losses of two housing associations. Income-based rent increases should come to an end and the housing allowance should be made into a more general housing benefit to ensure the effective affordability of housing for low-income groups, in conformity with the Dutch Constitution.

All this requires a new consensus on what the legitimate role and field of activity for housing associations should be, including how their activities are to be supervised internally and externally. The Housing Market Reform Agenda is hamstrung by a lack of consistency when it comes to the housing associations sector. On the one hand, it states that the housing



associations sector needs to be scaled down and should focus on its core tasks. On the other hand, it recognises that in recent decades housing associations have managed to achieve some great successes, both in the construction of new homes and through strategic housing stock management and urban renewal (Van Bortel et al. 2012). The Parliamentary Inquiry into Housing Associations should bring clarity on the core tasks of housing associations and how they should be supervised. The bathwater certainly needs to be thrown away, but the baby should be retained and nurtured. The high quality of Dutch housing is largely due to the past achievements of housing associations. Experts looking at the Netherlands from abroad understand this. Now Dutch politicians also need to be convinced.

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