Dutch rental housing market and the system of rent regulation

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Differences in rent control

Scale 0-8: Increasing in degree of control

- Private rental market
- Social housing
Dutch rent regulation

- An overview of the Dutch rental market
- The system of rent regulation
- The policy debate
- Conclusions
The Dutch rental market

- The Dutch rental market (40% of the total housing stock) is dominated by:
  - the social housing sector (housing associations)
  - the regulated sector

- Number of dwellings by sector and by regulation (# mln, 2015)

<table>
<thead>
<tr>
<th></th>
<th>Social sector</th>
<th>Private sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated</td>
<td>2.2 (76%)</td>
<td>0.2 (7%)</td>
<td>2.4 (83%)</td>
</tr>
<tr>
<td>Non-regulated</td>
<td>0.1 (3%)</td>
<td>0.4 (14%)</td>
<td>0.5 (17%)</td>
</tr>
<tr>
<td>Total</td>
<td>2.3 (79%)</td>
<td>0.6 (21%)</td>
<td>2.9 (100%)</td>
</tr>
</tbody>
</table>

- Small part of the social sector is non-regulated; 1/3 of the private sector is regulated
An international comparison

- Compared to other countries, The Netherlands have: a relatively large social and regulated sector.
The Dutch system of rent regulation

- The main elements of rent regulation are:
  - the regulation of the maximum rent level of a new lease:
    a system of valuations points gives the maximum rent level
  - the regulation of the yearly rent increase:
    there is a maximum yearly rent increase; in the past based on inflation; in recent years also based on income of the household
  - tenant eviction is hardly possible
    eviction is only possible when the landlord urgently needs the dwelling for own use
  - a regulated dwelling stays regulated until the household moves out irrespective of quality or rent level
The regulation of the maximum rent level

- The maximum rent level is based on the quality measured by valuation points:
  - all kind of characteristics are given points (amongst others floor space, energy index, heating, toilet, lavatory, renovation, size of kitchen, etc.)

- Problematic aspect is that these points have no relation with market demand and/or scarcity at all. Recently this has changed:
  - since 2015 July 1\textsuperscript{e}, the number of points is also based on the vacant possession value (WOZ-value)
  - 25\% of the valuation points are based on the combined effect of VPV \textit{plus} VPV divided by floor space
The maximum rent level

- Minimum number of points 40; maximum rent € 189
- In the range 40 – 80 for each point the maximum rent is € 4,72 higher
- From 80 onward for each point the maximum rent is € 5,18 higher

- Yearly increase of the maximum rent per point by inflation (CPI)
Boundary of the regulated sector

- The boundary between the regulated and non-regulated sector is €710 p/m. This corresponds with 144 valuation points.
- When the dwelling has more than 144 points the new lease may be non-regulated on the condition that the new rent is set higher than €710 p/m.
- In the period 2016 – 2018 the boundary rent level of €710 p/m is ‘frozen’ so every year less points are needed to reach the maximum rent level of €710 p/m.
- A regulated contract may have a rent level higher than €710 p/m caused by the yearly rent increase.
### Frequency distribution of the valuation points

#### Frequency distribution of the quality of the dwellings by the valuation points (2016)

<table>
<thead>
<tr>
<th># points</th>
<th>Social sector</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 40</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>41 – 80</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>81 – 144</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>145 – 200</td>
<td>50%</td>
<td>38%</td>
</tr>
<tr>
<td>201 and more</td>
<td>5%</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

- **Average number of points**
  - social sector: 147
  - private sector: 165

- **Actual rent level as a % of maximum rent level**
  - social sector: 72%
  - private sector: 86%

- A large difference between the potential non-regulated rental stock (56%) and the actual situation (17%).
Explanations

- The possibility to have a non-regulated contract exists since 1989

- Explanations for the small share of non-regulated dwellings (beside that the household has to move out and the number of points has to be sufficient):

  - housing associations in general don’t use the possibility to switch to a non-regulated contract to keep the dwellings affordable
  - for a commercial landlord it was more profitable to sell the empty dwelling to an owner-occupier (vacant possession value is higher than the tenanted investment value)
Regulation of the yearly rent increase

- Applies only for regulated contracts and gives a maximum for the rent increase. A lower rent increase is always permitted.

- Level of maximum yearly rent increase:

2013 – 2016
- Based on inflation + 1,5% and the level of the household income

2017 –
- Slightly different and for housing associations there is a maximum to the increase of the total rental income
Regulation rent increase 2013 – 2016

- Oct. 2012 a new liberal / social democrat government came into office (now in resignation)
- Extra yearly rent increase in the regulated sector to reform the housing market
- Maximum yearly rent increase:
  - 1,5% + inflation (CPI) + income related percentage

<table>
<thead>
<tr>
<th>Household income</th>
<th>1,5%</th>
<th>inflation</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lo 33.000</td>
<td></td>
<td></td>
<td>0,0%</td>
</tr>
<tr>
<td>33.000 – 43.000</td>
<td>1,5%</td>
<td>inflation</td>
<td>0,5%</td>
</tr>
<tr>
<td>Hi 43.000</td>
<td>1,5%</td>
<td>inflation</td>
<td>2,0%</td>
</tr>
</tbody>
</table>
Partly as a result of the high rent increase for the high income group, the share of this group in the social rental sector has declined as was intended.
Yearly rent increase

- Yearly rent increase regulated sector (rent adjustment for new contracts included), 2008 – 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Social sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2.1%</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2009</td>
<td>2.9%</td>
<td>3.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2010</td>
<td>1.8%</td>
<td>1.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2011</td>
<td>2.1%</td>
<td>1.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2012</td>
<td>3.4%</td>
<td>3.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2013</td>
<td>5.1%</td>
<td>4.6%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2014</td>
<td>4.9%</td>
<td>4.1%</td>
<td>4.8%</td>
</tr>
<tr>
<td>2015</td>
<td>2.8%</td>
<td>3.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2016</td>
<td>1.8%</td>
<td>2.8%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

- In recent years the yearly rent increase was quite high
Regulation yearly rent increase 2017 -

- Maximum yearly rent increase:
  - 2.5% + inflation (2017: 0.3%)

- Maximum for high income group (2017: € 40,349):
  - 4.0% + inflation (2017: 0.3%)
  (excluded: disabled, retired, households 4 + p.)

- Maximum total weighted rental increase *only* for housing associations:
  - 1% plus inflation (2017: 0.3%)
  (yearly rent increase plus rent adjustment new contracts)
The policy debate 2006 - 2012

- There has been an extensive debate about the functioning of the Dutch housing market.
- Main conclusions:
  - a large amount of fiscal subsidy in the owner-occupied sector causing a high level of mortgage debt and high volatility of house prices
  - in the regulated rental sector a large difference between market equilibrium rent and the actual rent level: a kind of implicit subsidy resulting in less supply, housing shortages and lower welfare
  - no level playing field between the housing associations and the private rental sector resulting in a small private rental sector
Policy measures

- In the period 2012 – 2016 several policy measures have been taken to reform the housing market
- Amongst others:
  - diminishing the fiscal subsidy in the owner-occupied sector
  - maximum rent level also based on vacant possession value
  - relatively high yearly rent increase
  - more level playing field in the rental sector by more focus on the state aid to housing associations
  - promoting private rental sector
  - a landlord levy to seize the extra rental income
There is a landlord levy on rental dwellings with a rent level below €710 p/m (the boundary rent level between regulated and non-regulated sector); both social and private rented dwellings. Introduced in 2013 and it will increase in 2018 to 0.591% of the vacant possession value (WOZ-value); total revenue €2 bln. Consequences:
- (forcing) higher rent increases
- less investments in the regulated rental sector
- private landlords leaving the regulated sector
Position of housing associations

- The rent regulation is specially relevant for housing associations.

- The affordability of the relatively high quality dwellings for the low income households is the central policy focus for the coming years.

- More important than the rent regulation itself is the obligation for housing associations to offer low income households a dwelling with an affordable rent (= in general lower than the maximum rent level).
Conclusions

- The Dutch rent regulation seems to be quite extensive
- The actual size of the regulated sector is much larger than the potential size
- There have been taken small measures to reduce the (negative effects of the) rent regulation
- In the future the regulated sector will be more and more reduced to the housing associations

And:
- For housing associations the obligation to offer affordable dwellings is much more restrictive than the rent regulation