

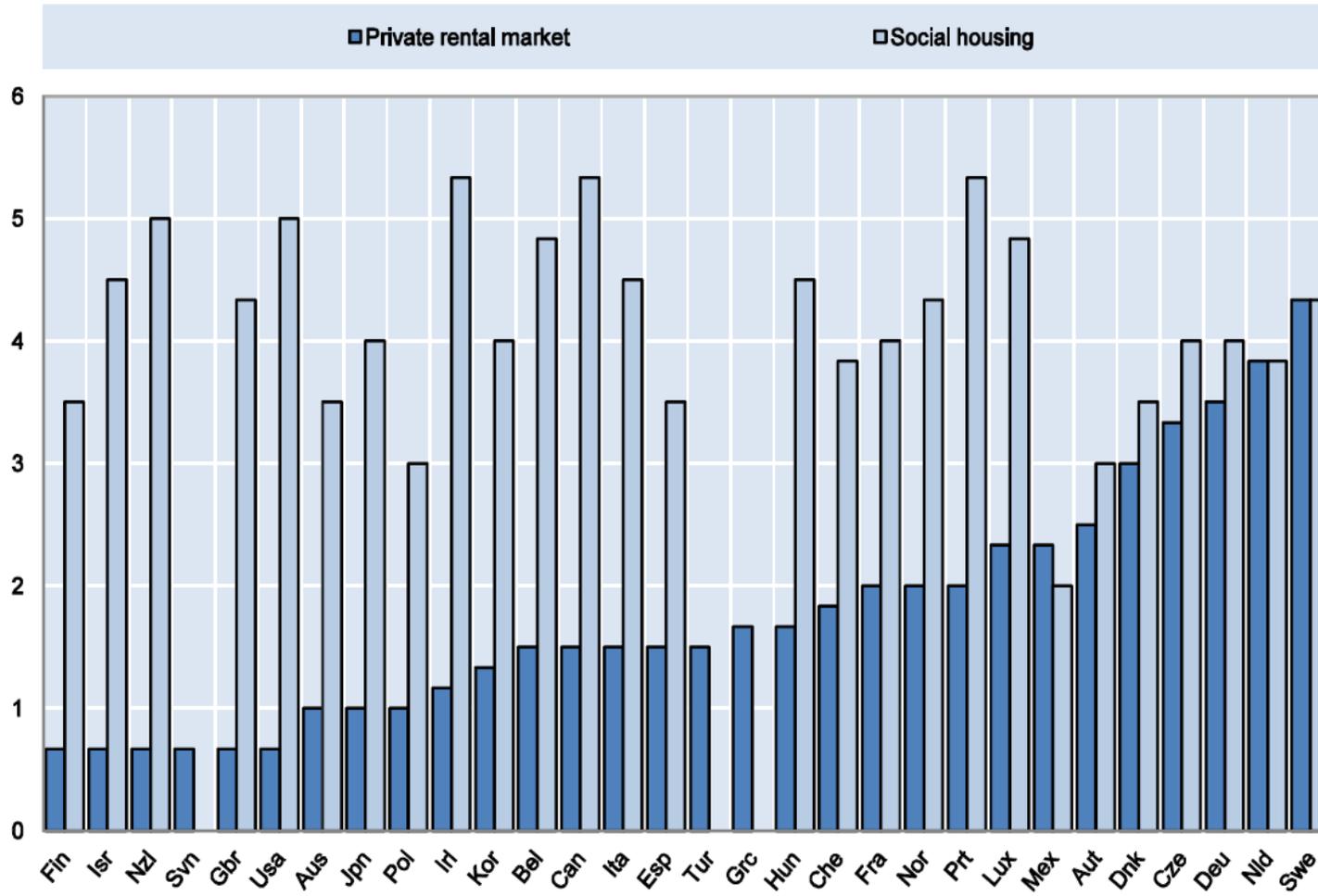
# Dutch rental housing market and the system of rent regulation

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**ORTEC**  
FINANCE

# Differences in rent control

Scale 0-6: Increasing in degree of control



# Dutch rent regulation

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

# The Dutch rental market

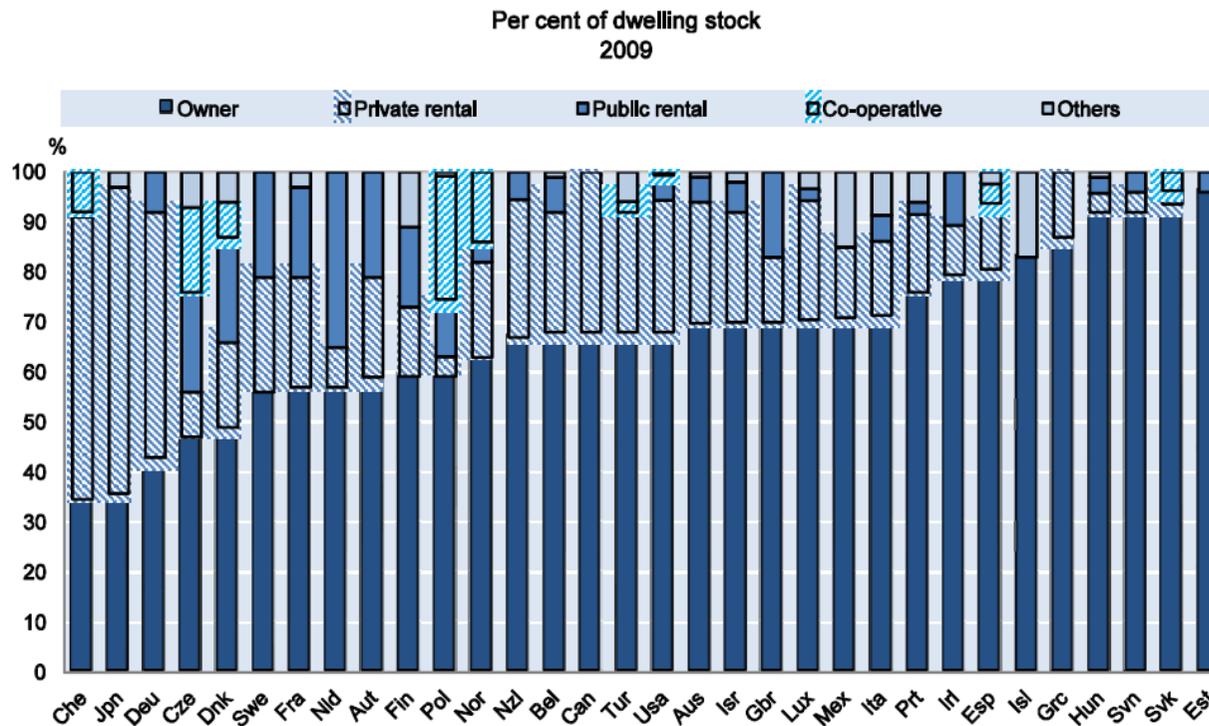
- The Dutch rental market (40% of the total housing stock) is dominated by:
  - the social housing sector (housing associations)
  - the regulated sector
- Number of dwellings by sector and by regulation (# mln, 2015)

	Social sector	Private sector	Total
Regulated	2,2 (76%)	0,2 (7%)	2,4 (83%)
Non-regulated	0,1 (3%)	0,4 (14%)	0,5 (17%)
Total	2,3 (79%)	0,6 (21%)	2,9 (100%)

- 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



Source: Calculations based on OECD Housing Market questionnaire.

# The Dutch system of rent regulation

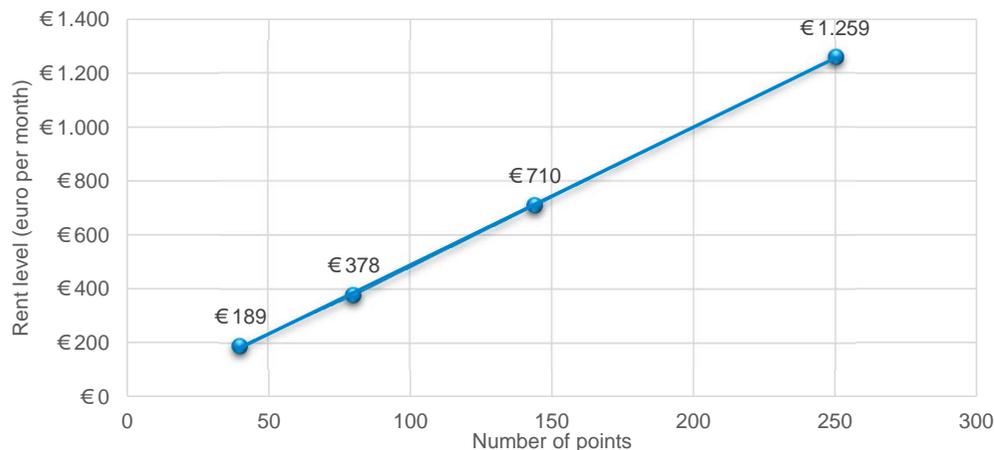
- The main elements of rent regulation are:
  - the regulation of the maximum rent level of a *new lease*:
    - a system of valuations points gives the maximum rent level
  - the regulation of the yearly rent increase:
    - there is a maximum yearly rent increase; in the past based on inflation; in 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<sup>e</sup>, 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  $VPV \text{ plus } VPV$  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)

# points	Social sector	Private sector
0 – 40	0%	1%
41 – 80	18%	19%
81 – 144	27%	17%
145 – 200	50%	38%
201 and more	5%	25%
Total	100%	100%

- 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 –

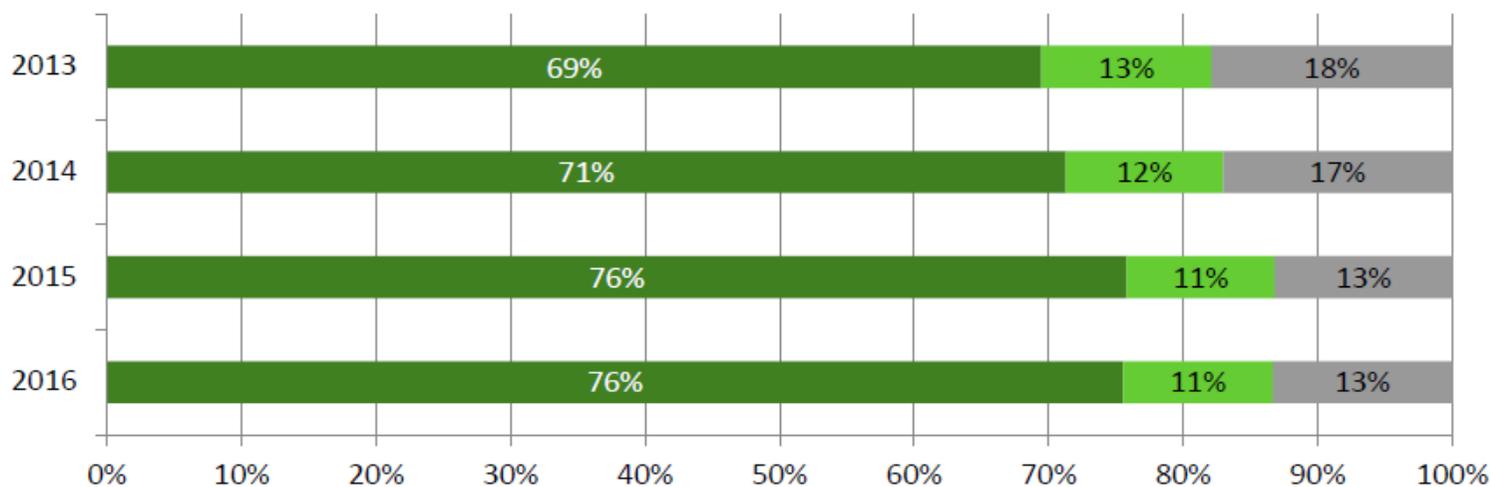
- Slightly different and for housing associations there is a maximum to the increase of the total rental income

# 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

Household income			
Lo 33.000	1,5%	inflation	0,0%
33.000 – 43.000	1,5%	inflation	0,5%
Hi 43.000	1,5%	inflation	2,0%

## Income distribution social rental sector



Low income group

Middle income group

High income group

- Partly as a result of the high rent increase for the high income group, the share of this group in de social rental sector has declined as was intended

## Yearly rent increase

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Social sector	2,1%	2,9 %	1,8%	2,1%	3,4%	5,1%	4,9%	2,8%	1,8%
Private Sector	1,9%	3,1 %	1,7%	1,6%	3,4%	4,6%	4,1%	3,0%	2,8%
Total	2,0%	2,9 %	1,8%	2,0%	3,4%	5,0%	4,8%	2,8%	2,1%

- 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

## Landlord levy

- 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