New policies for the Dutch housing market?

Housing Market Bulletin

RaboResearch
Global Economics & Markets
mr.rabobank.com

Lisanne Spiegelaar
Housing economist
+31682144852

Carola de Groot
Senior housing economist
+31683176813

Ruben van Leeuwen, CFA
Head of Credit Strategy & Regulation
+31307121391

Summary

- City of Amsterdam attaches strict conditions to newly-built homes in order to keep local housing market affordable
- Several political parties are coming up with nation-wide housing policy proposals, but it remains to be seen whether they can gather a majority in Parliament and Senate
- The Dutch government is investigating a so-called "emergency stop" on rents in the middle rental segment
- Overall, national policy initiatives remain vague and are mostly in the exploratory phase

Introduction

With record house price levels, lagging construction activity, increasing shortages on the rental market, the rise of buy-to-let investors, and even less homes available for sale, the Dutch housing market is coming under increasing pressure. As a result of this situation, housing accessibility is getting severely constrained, in particular in the urbanised areas of the country. The issue has now clearly got the attention of politicians. On a national level, the policy reaction remains muted, as most initiatives remain vague and in the exploratory phase. On a local level, this is different. Especially the municipality of Amsterdam is intervening in the housing market with drastic initiatives. In this short note, we shed more light on new housing market policies, which could affect both the owner-occupied and rental housing markets.

Amsterdam: Local market interventions

Amsterdam has the questionable honour of ranking first on the list of least affordable places to live in, according to the Knight Frank's Global Affordability Monitor. In order to keep the city liveable and accessible for the broad society, it is therefore not surprising that the City Council has come up with new regulation and proposals in an attempt to steer market forces.

To begin with, the council has already tightened conditions for new construction projects in order to ensure a better distribution between different price ranges in the properties on offer. For each new construction project, 40% of the newly built units is designated for the regulated (social) rental sector. Another 40% must be built for households belonging to the middle-income class. These homes can be built both in the owner-occupied sector and in the liberalised rental sector, with the monthly rent varying between €720-1000 per month ('middensegment' in Dutch, or in English: mid rental segment). The remaining 20% is reserved for more expensive rental homes and owner-occupied properties. In addition, the annual rent increase is capped on those newly-built properties. Rental homes in the liberalised rental sector that are targeted for the middle-income class, must also remain in that segment for at least 25 years. Unfortunately, this market intervention also has a downside. According to the *Financieele Dagblad*, these new policies result in an underutilisation of building plots, as the constraints diminish the returns of developing and building new homes.

Nonetheless, the Council is planning to move one step further, by setting a contractual maximum selling price in the ground lease conditions for newly built mid-priced owner-occupied houses: the maximum sale price is then set at €175-297k. In this way, households with an annual income between €38-60k should be able to afford a home and have access to the owner-occupied market. The architect of the plan, councillor Ivens (left-wing party SP), has already pointed out himself that this additional measure could result in speculation, with buyers reselling such a home for a much higher price, but he does not yet have a clear plan to prevent this. Moreover, these regulations could scare off home builders, project developers and investors even more, potentially resulting in even less supply of new homes.

The most recent initiative of the Council is to introduce a rental ban on newly built owner-occupied homes. Because the municipality owns the land through ground lease, it could insert the condition that the house is intended for the owner-occupancy now and in the future. In our understanding, it is not legally possible to introduce such a ban on existing owner-occupied homes. In the autumn of 2019, a more detailed proposal on the rental ban will be published by the Council, including the financial effects and method of enforcement.

Stirring the political debate on a national level

On a national level, the debate around interventions on the housing market is also intensifying. In light of the recently held provincial elections, a number of political parties have voiced several proposals regarding nation-wide housing market policy.

The left-wing opposition party SP, for example, wants municipalities to be able to enforce that those who buy a home will actually live in it. GroenLinks, another left-wing opposition party, proposes setting a limit on the contribution of the fiscal appraisal value of the property ("WOZ") in the housing evaluation system used for calculating the maximum rent in the regulated rental sector, in order to guarantee that extreme house price increases do not cause higher rents. They also want to raise the upper limit for the regulated rental sector from €720 to €1,300 (per month), and the party wants to extend the landlord levy to smaller landlords: the levy must also apply to landlords with fewer than fifty homes.

In contrast, the coalition party ChristenUnie wants to abolish the landlord levy to give housing associations more space to invest in construction, renovation and sustainability. In addition, this party wants to exempt first-time buyers from paying a stamp duty. The three parties find common ground on increasing the stamp duty for buy-to-let investors. Several Dutch real estate lobby groups have already expressed strong criticism to these plans, which they believe will lead to decreased market functioning, less investments and a decrease in housing supply, resulting in even bigger shortages. At this point, it is uncertain whether there will be a majority in Parliament for these plans. It is even less certain whether there will be a majority for these plans in the Senate, especially after the major electoral shift during the provincial elections. Furthermore, we note that several policy makers, including DNB and the responsible minister for housing (Ollongren, D66), still seem to be keen on increasing the size (and role) of the private rental segment in the housing market.

Plans for the middle rental segment: emergency stop on rents?

More policy focus is currently aimed at the level of rents, especially in the middle segment where rents have increased to staggering levels. This is driven by the shortages in this segment, which are expected to increase to around 200,000 housing units over the next ten years. Higher rents are constraining housing access for middle-income households, who earn too much for a rental home in the regulated (social) housing sector, and who are unwilling or – more often, unable to buy a home.

For this reason, proposals have been circulating for a so-called "emergency stop" for the liberalised rental sector. The responsible minister, Ollongren, wants to grant municipalities the right to, temporarily and locally, restrict rental price rises in the liberalised rental sector so that they become affordable again for middle-income households. More specifically, it means that municipalities can maximize the initial rent in the liberalised rental sector at a certain percentage of the fiscal appraisal value of the property (“WOZ”). In this way, exorbitant rents must be prevented.

This, of course, could have an impact on property developers’ and investors’ willingness to invest in the Dutch rental market. Therefore, the minister emphasises that such a measure shouldn’t affect the long-term return on their investments, i.e. it should not jeopardise new construction. Before hitting the emergency button, the minister first wants to examine the externalities around such a measure.

Apart from the question whether this plan is desirable in the long term, such a measure will contribute to the desired result in the short term: according to calculations by the municipality of Amsterdam, the plans can provide up to 30,000 extra homes in the mid rental segment.

Moreover, a recent debate on the shortage of homes in the mid rental segment showed that there appears to be a parliamentary majority for giving housing associations free rein in deciding whether to build houses for the mid rental segment. They currently need to assess whether or not there are any market parties willing to build new homes in that segment before taking on the job. The minister herself opposes this proposal, out of fear that it will harm the level-playing field between market parties and housing associations, since the latter already work in close collaboration with the municipalities.

National Housing Agenda and Regulated Rental Agreement

Other policy initiatives on a national scale, including plans to stimulate home building activity, remain much vaguer. In May last year, several stakeholders presented their plans for improving the Dutch housing market in a document called the National Housing Agenda. The main goals are to focus on accelerating and increasing home construction, making better use of existing housing stock and keeping housing affordable. The Housing Agenda outlines the most important areas for improvement, but is lacking explicit goals. Instead of presenting a plan on how to reach the goals, issues and goals are being formulated rather vaguely in terms of "we are going to investigate" and "we are looking at”. Nevertheless, the document does contain a few detailed plans, such as setting up an investment fund for the pre-financing of complex inner-city transitions: such projects currently often fail because of high initial investments.

Following this National Housing Agenda, Aedes (the lobby group of housing associations) and the Woonbond (an interest group representing tenants) presented the so-called Regulated Rental Agreement covering 2018-2021 in December last year. The central principle of this agreement is to improve affordability for tenants. To this end, rents may not increase more than the inflation rate in the coming years. However, this does have consequences for other necessary investments such as for new construction, renovation, and sustainability. A national framework has been chosen, within which local variations can be made if regional/local circumstances demand this.

RaboResearch
Global Economics & Markets
mr.rabobank.com

Global Head

Jan Lambregts
+44 20 7664 9669
Jan.Lambregts@Rabobank.com

Macro Strategy

Europe

Elwin de Groot
Head of Macro Strategy
Eurozone, ECB
+31 30 712 1322
Elwin.de.Groot@Rabobank.com

Stefan Koopman
Market Economist
Eurozone, UK
+31 30 712 1328
Stefan.Koopman@Rabobank.com

Teeuwe Mevissen
Senior Market Economist
Eurozone
+31 30 712 1509
Teeuwe.Mevissen@Rabobank.com

Bas van Geffen
Quantitative Analyst
ECB
+31 30 712 1046
Bas.van.Geffen@Rabobank.com

Wim Boonstra
Senior Advisor
Germany
+31 30 216 2666
Wim.Boonstra@Rabobank.nl

Koen Verbruggen
Economist
France
+31 6 129 73 956
Koen.Verbruggen@Rabobank.nl

Alexandra Dumitru
Economist
UK, Ireland
+31 30 216 0441
Alexandra.Dumitru@Rabobank.nl

Maartje Wijffelaars
Senior Economist
Italy, Spain, Portugal, Greece
+31 30 216 8740
Maartje.Wijffelaars@Rabobank.nl

Michiel van der Veen
Economist
Eurozone
+31 6 831 34 616
Michiel.van.der.Veen@rabobank.nl

Americas

Philip Marey
Senior Market Strategist
United States, Fed
+31 30 712 1437
Philip.Marey@Rabobank.com

Hugo Erken
Head of International Economics
United States
+31 30 215 2308
Hugo.Erken@Rabobank.nl

Christian Lawrence
Senior Market Strategist
Canada, Mexico
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Mauricio Oreng
Senior Market Strategist
Brazil
+55 11 5503 7315
Mauricio.Oreng@Rabobank.com

Asia-Pacific

Michael Every
Senior Market Strategist
Asia, Australia, New Zealand
+852 2103 2612
Michael.Every@Rabobank.com

Björn Giesbergen
Senior Economist
China, Japan
+31 30 216 2562
Bjorn.Giesbergen@Rabobank.nl

Hugo Erken
Head of International Economics
India
+31 30 215 2308
Hugo.Erken@Rabobank.nl

FX Strategy

Jane Foley
Head of FX Strategy
G10 FX
+44 20 7809 4776
Jane.Foley@Rabobank.com

Piotr Matys
FX Strategist
Central & Eastern Europe FX
+44 20 7664 9774
Piotr.Matys@Rabobank.com

Christian Lawrence
Senior Market Strategist
LatAm FX
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Rates Strategy

Richard McGuire
Head of Rates Strategy
+44 20 7664 9730
Richard.McGuire@Rabobank.com

Lyn Graham-Taylor
Senior Rates Strategist
+44 20 7664 9732
Lyn.Graham-Taylor@Rabobank.com

Matt Cairns
Senior SSA Strategist
+44 20 7664 9502
Matt.Cairns@Rabobank.com

Credit Strategy & Regulation

Ruben van Leeuwen
Head of Credit Strategy
ABS, Covered Bonds
+31 30 712 1391
Ruben.van.Leeuwen@Rabobank.com

Vaclav Vacikar
Analyst
Financials
+31 30 712 1519
Vaclav.Vacikar@Rabobank.com

Hyung-Ja de Zeeuw
Senior Strategist
Corporates
+31 30 712 1555
Hyung-Ja.de.Zeeuw@Rabobank.com

Bas van Zanden
Senior Analyst
Pension funds, Regulation
+31 30 712 1869
Bas.van.Zanden@Rabobank.com

Cas Bonsema
Analyst
ABS
+31 30 712 1849
Cas.Bonsema@Rabobank.com

Energy Markets

Ryan Fitzmaurice
Energy Strategist
+1 212 916 7874
Ryan.Fitzmaurice@Rabobank.com

Agri Commodity Markets

Stefan Vogel
Head of ACMR
+44 20 7664 9523
Stefan.Vogel@Rabobank.com

Carlos Mera
Senior Commodity Analyst
+44 20 7664 9512
Carlos.Mera@Rabobank.nl

Michael Magdovitz
Commodity Analyst
+44 20 7664 9969
Michael.Magdovitz@Rabobank.com

Client coverage

Wholesale Corporate Clients

Martijn Sorber	Global Head	+31 30 712 3578	Martijn.Sorber@Rabobank.com
Hans Deusing	Netherlands	+31 30 216 9045	Hans.Deusing@Rabobank.com
David Kane	Europe	+44 20 7664 9744	David.Kane@Rabobank.com
Neil Williamson	North America	+1 212 808 6966	Neil.Williamson@Rabobank.com
David Teakle	Australia, New Zealand	+61 2 8115 3101	David.Teakle@Rabobank.com
Ethan Sheng	Asia	+852 2103 2688	Ethan.Sheng@Rabobank.com
Ricardo Rosa	Brazil	+55 11 5503 7150	Ricardo.Rosa@Rabobank.com

Financial Institutions

Eddie Villiers	Global Head	+44 20 7664 9834	Eddie.Villiers@Rabobank.com
Roeland Bronsveld	Benelux	+31 30 216 9030	Roeland.Bronsveld@Rabobank.com
Krishna Nayak	Germany, Austria, CEE	+44 20 7664 9883	Krishna.Nayak@Rabobank.com
Philippe Macart	France	+44 20 7664 9893	Philippe.Macart@Rabobank.com
Mauro Giachero	Italy	+44 20 7664 9892	Mauro.Giachero@Rabobank.com
Martin Best	UK, Scandinavia, Middle East	+44 20 7809 4639	Martin.Best@Rabobank.com
Paul Duddy	USA	+1 212 916 3799	Paul.Duddy@Rabobank.com
Wouter Eijsvogel	Treasury Sales Europe	+31 30 216 9723	Wouter.Eijsvogel@Rabobank.com
David Pye	Central Banks	+44 20 7664 9865	David.Pye@Rabobank.com

Capital Markets

Herald Top	Global Head of Capital Markets	+31 30 216 9501	Herald.Top@Rabobank.com
Nader Pasdar	Capital Markets USA	+1 212 808 6861	Nader.Pasdar@Rabobank.com
Adam Wotton	Capital Markets Asia	+852 2103 2629	Adam.Wotton@Rabobank.com
Willem Kröner	Global Head of Equity Capital Markets	+31 30 712 4783	Willem.Kroner@Rabobank.com
Crispijn Kooijmans	DCM FIs & SSAs	+31 30 216 9028	Crispijn.Kooijmans@Rabobank.com
Bjorn Alink	DCM Securitisation & Covered Bonds	+31 30 216 9393	Bjorn.Alink@Rabobank.com
Othmar ter Waarbeek	DCM Corporate Bonds	+31 30 216 9022	Othmar.ter.Waarbeek@Rabobank.com
Joris Reijnders	DCM Corporate Loans	+31 30 216 9510	Joris.Reijnders@Rabobank.com
Brian Percival	DCM Leveraged Finance	+44 20 7809 3156	Brian.Percival@Rabobank.com

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