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The housing market in The Netherlands as a driver for social inequalities: proposals for reform

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ABSTRACT

The Dutch housing market suffered more than many other West-European housing markets from the global financial crisis. After some stimulation measures at the beginning of the crisis, the market was hit hard by several government policies in both the rented and the owner-occupied sectors. Against this background this paper pays attention to the disfunctioning of the Dutch housing market and to current housing issues which are high on the political agenda. The paper argues that the contemporary Dutch housing market serves as an engine for social inequality and leads to sharp divisions and instability in society, in social, political and in economic terms. The paper then offers some solutions for these significant housing market problems.

KEYWORDS Housing policies; Netherlands; social inequalities; housing market reform; home ownership; renting

Introduction

The general goal of this paper is to explore the role of contemporary Dutch housing policies in driving inequalities in society. With the unexpected protest at the end of 2018 by many middle and low income households (the so called yellow jackets) in several countries on the continent, this subject is topical in many European countries. The influence of housing policies on societal inequalities has been debated extensively in the housing literature. Social problems, such as the bad housing conditions of the working class at the end of the nineteenth century, were at that time explained by the way labour and capital were organised (Clark & Ginsburg, 1975; Castells, 1977). Max Weber added to this discussion that social inequality is also

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determined by the ability of households to consume goods. Based on this last addition, Rex and Moore developed their famous Housing Classes in 1967. The key point of Rex and Moore's argument is that the position on the housing market is not equal to the position on the labour market (Rex, 1971; Rex & Moore, 1967). More recently, authors have argued that in housing systems, owning and renting has become a key marker of difference, not only socially, culturally and in the quality and range of accommodation that is available, but also in the opportunity to manage and accumulate wealth (Boelhhouwer, 2002; Haffner, Ong, Smith, & Wood, 2017; Smith, 2008). The adverse effects of home owning also became painfully clear after the Global Financial Crisis in 2008. During this crisis, it was especially recent buyers who became most vulnerable and suffered the greatest asset risks. On the basis of this setback, in recent years, sociologists, in particular, have paid much attention to the risks and boundaries of the development of home ownership (Aalbers, 2015; Haffner et al., 2017).

Given the shifting trends in the Dutch housing market and the clear historic importance of the housing market in driving societal inequalities, this Policy Review paper aims to explore the role of the contemporary Dutch housing market in driving social inequalities, segregation and affordability problems. Most significantly, the paper then sets out proposals for fundamental housing market reforms to combat the undesirable impacts of the housing market in the Netherlands.

Housing market conditions driving social inequality in The Netherlands

The rising housing shortage

The supply of sufficient housing is currently the biggest problem on the Dutch housing market. The recession in the housing market in the Netherlands started in the third quarter of 2008, yet housing production was still at a reasonable level. The annual housing construction output in the period 2000–2008 amounted to an average of 79,000 homes. However, from 2013 onwards there was a sharp decline in the number of new buildings realised and during the last four years, production fluctuated just under or above 50,000 homes yearly. In combination with an increase in the number of new households due to immigration, the housing shortage increased by about 3.2% in 2018. The future does not look much brighter. However, the number of building permits granted stabilised in the period 2015–2016Q2 at a very low level of around 10,000. In the last two years, there has been some recovery (Figure 1).

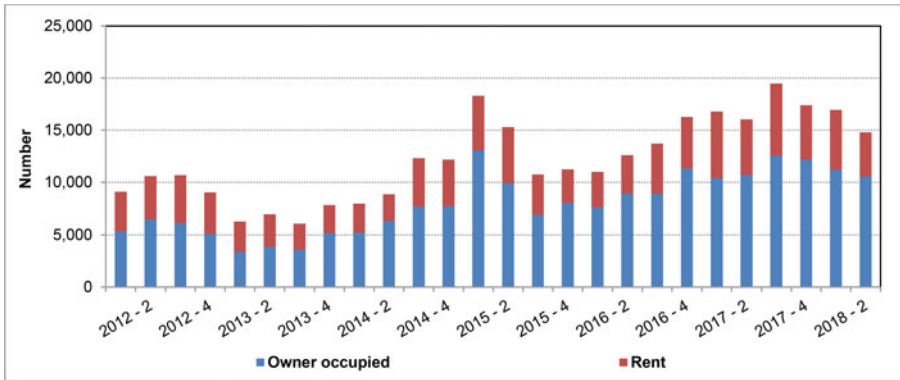


Figure 1. The number of new homes for which construction permits have been granted, on a quarterly basis, 2012–2018.

Source: Statistical Bureau of Statistics Netherlands (2019). Statline, <https://opendata.cbs.nl/statline/#/CBS/nl/>

Accessibility of homeownership

Accessibility is determined not only by the supply of new buildings. Rex and Moore (1967) also indicated that the eligibility criteria set in the various housing tenures, play an important role. In this context, more specifically, the effects of the Code of Conduct for Mortgage Loans introduced in August 2011, at the top of the credit crunch and housing market crisis in the Netherlands, must be mentioned (Boelhauwer, 2017). This policy impacted especially on those income groups who did not qualify for social housing and earned too little for a rental property in the private rental sector. Their incomes were too high for the social rented sector and too low to fulfill the more strict criteria in the owner occupied sector. In addition, the methodology of the code of conduct was insufficiently accurate as to the actual disposable income of households, resulting in situations in which a household was not eligible for a mortgage loan with housing expenses that were considered to be reasonable in the private rented sector (Boelhauwer, 2017). As a result of the new legislation, many households have missed the chance of buying an affordable home and the pressure on the rental sector has increased substantially.

Middle income groups are falling between two stools

The middle income groups are particularly affected by the non-alignment of the eligibility criteria set in the different housing tenures (Boelhauwer, 2014; Hoekstra & Boelhauwer, 2014; VROMRaad, 2011). The policy in the social rented sector is more and more focused on housing the lowest income groups. For example, housing associations should in 2018 allocate 90% of their vacant rented dwellings to households with an income below 36,165 euros. These measures are annually strictly audited by the

accountant. In practice, this means that many households with an income of 1,900 euros net per month and higher are designated to the private market. However, as mentioned, when their income is assessed by the strict standards of the code of conduct for mortgage lending, it is often insufficient to purchase a home, even when their monthly living expenses are significantly lower than they have to pay for a similar dwelling in the private rental market.

It can be concluded that the middle income groups who are looking for a suitable home on the Dutch housing market literally fall between two stools. They earn just too much to enter the social housing sector, they are not eligible for a mortgage, and a private rental house is often (too) expensive or even unavailable. Remaining options include a financial appeal to their parents for help with a mortgage, to share a home, to occupy an alternative dwelling (for instance a room or a caravan) or to remain longer at home.

Serious affordability issues

In recent years, due to the sharp increase in rents (15% in the last five years) and the decline in purchasing power because of the economic recession, housing costs have risen sharply in the social rented sector. For example, in 2015, the net rent quote (net rent as percentage of the disposable income) has, according to the Dutch WoOn-survey, risen from 23.8% in 2012 to 26.7% in 2015. For households eligible for social housing and with a gross income of up to 34,299 euros in 2015, this quote is 28.9% and gross housing expenses even reach 39.6%. This development is in contrast to the development of housing costs in the home ownership sector; the net housing quote dropped from 22.2% in 2012 to 20.1% in 2015 (mainly due to a sharp decrease of mortgage interest rates). So, the inequality between households with mainly a low income in the rented sector and the higher income households in the owner occupied sector increased because of rising and declining houses costs in both sectors. After 2015, this situation became the new status quo.

Increasing spatial segregation

Current housing policy increasingly imposes restrictions on the accessibility of the various income groups in the housing market and, in practice, leads to spatial segregation and also to marginalisation of the social housing sector and the cheap parts of the private rental sector.

The social housing sector in the Netherlands is increasingly becoming the area of the lowest income groups and of households who are no longer active in the labour market (64% in 2018).

Because the social housing sector is segregated more and more, the spatial segregation of tenants also increases. The second accelerator of segregation is the housing shortage and the associated strong price increases in the home ownership sector. More and more households with a middle income are not able to find an affordable house for sale. As a result, particularly attractive neighbourhoods in the major cities are becoming less accessible to these middle income groups, and, vice versa, the concentration of low incomes in 'poor neighbourhoods' is getting worse.

The disadvantage of this growing spatial inequality is that the liveability of neighbourhoods with mainly low-income households is under pressure and that the value of real estate can decrease rapidly, especially when a turning point is reached and the liveability turns into a spiral of decay. Conversely, in the attractive and improved neighbourhoods, an opposite development takes place.

Towards housing policy reform

In this last section of the paper, several major reforms are proposed by the author to reduce the inherent inequalities in the Dutch housing market. These include in particular proposals designed to fill the gap between those households who have obtained a comfortable position in the housing market (insiders) and those who have to establish themselves in the near future (outsiders).

Anti-cyclical housing policy

Under the influence of low mortgage interest rates, the affordability of the home ownership sector is better than ever for many households (especially for those who already entered the home ownership market) and demand and houses prices are increasing. This leads to an overheated market in the Randstad and other core economic areas in the Netherlands. However if the mortgage interest rate rises again in the near future, for example, to quite common interest rates of 5% to 6%, affordability will decrease and stagnation may occur again.

Such an undesirable development can be prevented by introducing an anti-cyclical policy aimed at a stable development of the housing market. This can be realised by temporary measures as well as through more structural policy changes. Temporary measures may take into account policy differentiation with regard to specific housing market areas. For example, it is possible to differentiate between the National Mortgage Guarantee (NHG) cost limit (a national guarantee for home owners) or the Loan To Value (LTV) standard. The NHG cost limit in 2019 is 290,000 euros for the whole

country. Home buyers who buy below this threshold can obtain an insurance which covers losses in the case of a forced sale and also receive a discount on their mortgage interest rate. However, because of the huge price differences in the Netherlands, buyers in the overheated areas can hardly find a house below the threshold and buyers in markets with less pressure have far more opportunities.

An interesting structural measure that is associated with the historically low mortgage interest rate is to accelerate the abolition of the system of mortgage interest tax deductions. The speed of this reduction can be connected to the level of the mortgage interest rate. With the currently low mortgage interest rate, this is the ideal moment to opt for the accelerated abolition of the mortgage interest tax deduction. Such a policy will decrease the differences between the generations. The young generation benefits less from the mortgage interest tax deduction because, since 2015, it is no longer allowed to use interest only mortgages in combination with mortgage interest tax deduction. The current annuity and linear mortgages result in much higher housing expenses, because the mortgage interest tax deduction is lower than in the case of interest only mortgages. Buyers before 2015 retain the right to deduct their mortgage interest on the basis of an interest only mortgage even if they move to another house. Also, because there is no flat deduction rate, higher income groups do get more tax deduction than lower and middle income groups (who belong in many cases to the younger generation).

Regionalisation of housing policies

Because the differences in the housing market have increased sharply in recent years and are likely to grow in the coming years, the proposal is to regionalise the current housing policy. This proposal is in line with the Rli Advisory board (Rli, 2015, p. 25) and also by proposals of the Renewed City (an organisation of the housing associations who are active in the bigger cities of the Netherlands) (de Jong & Vermeulen, 2016). In this way, the Rli proposes to replace uniform national standards such as the rent allowance scheme and the income and liberalisation thresholds, by regional standards. These new standards could be established by the State after consultation with the provinces. For the moment, a division into three areas could be organised: areas with high demand (mainly the Randstad and some major cities outside), areas where the housing market is more or less balanced, and shrinking areas (located in the periphery of the Netherlands). Until now, the government has been somewhat reluctant to introduce such

regionalisation as it makes the existing policy instruments more complicated and introduces discussions about the exact regional borders.

Allocation of different areas for housing production and an investment fund for urban areas

Future demand for new homes will, for the most part, be in already existing urban areas. The Planning Agency for the Living Environment (van Duinen, Rijken, & Buitelaar, 2016) stated that in the cities there is a theoretical location capacity to accommodate 35% to 80% of the housing demand. Various calculations indicate that through the transformation of offices, up to approximately 30,000 to 40,000 homes can be realised (ABF, 2018).

After using these empty offices, housing production in the city could take place on brown field locations in redevelopment areas. The development of these areas is relatively expensive because of issues such as contaminated soil, business buildings having to be demolished and owners having to be bought out or moved. In their inventory, PBL (van Duinen et al., 2016) did not include the financial feasibility of these locations. There are two ways to develop a substantial part of these locations: a further tightening of the housing stock; to make house prices higher and thus give higher returns on investment. These benefits can be used to make the site development profitable. A second possibility is to arrange substantial financial support by the Government via a revival of the former Investment Fund for Urban Areas. Given the strong economic and social interests I am in favour of the later option, in which the government makes the necessary pre-investment. Via claw-back procedures, this investment could be ploughed back as and when these locations become more profitable.

Because the use of inner-city locations is probably not enough to accommodate the rising housing demand in the coming years, it is also important to develop small residential areas directly adjacent to the cities without the use of parts of the green heart of the Netherlands or other important green areas. Such a development is also in line with the current housing demand.

Towards a strong social rented sector

As one of the most important achievements of its past, the Netherlands still has a substantial social rented sector (approximately 30% of the housing stock is owned by housing associations). It can be argued that the current Dutch housing policy makes too little use of this unique sector. Instead of using the sector's financial strength for public housing goals, the government is reducing their investment capacity - in 2015 the introduction of the landlord tax cost about 1.9 billion euros per year. In the short term, there is

every reason to stimulate the social rented housing sector, which partially solves the specific problems identified in the previous section on the housing market. The sector is capable of producing affordable housing for the middle income groups and giving a boost to housing production.

In concrete terms, the following initiatives are considered:

- a conversion of the landlord tax into an investment budget. This will lead to higher production levels and more possibilities for middle incomes and younger generations;
- an amendment to the Housing Act, which allows housing associations to develop mid-priced rental housing without the permission of the municipality;
- more regionally differentiated possibilities for investment in liveability and in societal real estate.

Towards clear affordability criteria in the rented and home ownership sectors

Removing the differences in the maximum living expenses between the home ownership and social rented sectors is strongly advocated. In the current situation, both norms are not connected, especially not for young starters with low and middle incomes. In addition, a call for a differentiation of the uniform income standards in both the rental and home ownership sector, and more specifically in determining the target group for the social rented sector could be worthwhile. In a recent study, Witjes (2016, p. 16) shows that the way the current income threshold for the target group in the social rented sector is determined does not fit the differences in housing budgets and housing needs between different household categories.

Optimal funding

In order to achieve an adequate housing policy, it is important that the financing of the housing market is properly secured. Investors and the government together could investigate alternative ways of financing new housing initiatives, for instance by optimising the possibilities of securitisation. Against this background, dialogue with the European Commission could be sought again and political pressure could be exercised to enable a Dutch Mortgage Institute (this closed two years ago because of competition issues not allowed by the commission).

Conclusion

This policy review indicates that the current Dutch housing market is an engine for social inequality and leads to sharp divisions in various areas.

The increasingly unequal treatment of the different housing tenures plays an important role but arguably, more important is the unequal position of those who have already established themselves a firm position on the housing market (insiders) and those who are looking for their first home or first owner occupied house (outsiders). The latter group mainly consists of young households who are at the beginning of their housing career. Of course, as in many other countries, the position that households have gained over the years on the housing market plays an important role in their current housing market opportunities and the degree of inequality between households. But that is certainly not the only explanation. In addition (recent) housing policies ensure that the problems are not structurally addressed and that the inequality between, in particular, the different age cohorts increases rather than decreases. In order to cope with this undesirable situation, a fundamental reform of the housing market is necessary. In my view, these choices are also needed to reduce an as yet unmentioned division: the increasing gap between citizens and government. Many citizens, and more specifically low-middle income groups and young households, do not understand the current policy choices which leads to an increasing distrust in government and to instability in society, both in social, political and in economic terms. The recent riots in many European cities are an example of this distrust.

Disclosure statement

No potential conflict of interest was reported by the author.

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