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The housing market in major Dutch cities

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Summary

The Dutch housing market is recovering, but not without considerable regional differences. Major cities such as Amsterdam, The Hague, Utrecht and Rotterdam, as well as medium-sized cities like Groningen and Eindhoven, are witnessing stronger house price rises than the rest of the Netherlands. Moreover, housing market dynamics vary from city to city. How to explain this? Are the cities a harbinger for the rest of the country? This study concludes that, despite signs of overheating in the large urban housing markets, there is no credit-driven bubble as yet. Spiralling house prices in the cities are mainly attributable to scarcity pricing. Additionally, more and more buyers are also contributing own funds. Ongoing migration to the cities is spurring demand for urban housing and supply is failing to keep pace. The result is a shortage of affordable housing, particularly in the non-rent regulated rental sector. This is putting middle-income earners in a tight spot. Supply in the non-rent regulated sector is growing slowly due to planning restrictions on new-build developments, a lack of planning and construction capacity, and the absence of effective incentives for municipalities and housing associations. The government needs to do more to encourage municipalities and housing associations to increase supply in the non-rent regulated sector.

Despite signs of overheating in large urban housing markets, there are no strong indications of a credit-driven bubble as yet. House prices are rising more rapidly in the major cities than in the rest of the Netherlands. Houses there are also sold faster and more frequently above the asking price, sometimes even without a mortgage or inspection contingency clause. This is a sign of overheating. However, mortgage lending growth in the cities is currently losing momentum: buyers are increasingly using own funds to purchase their home.

Strong price increases in the cities are mainly driven by ongoing migration to the cities, and are not a harbinger for the entire country. Highly educated young people are particularly drawn to urban centres because of the diversity and quality of educational institutions, jobs, culture and recreation. This is a global phenomenon. Whereas this magnetic attraction was once the preserve of metropolises such as New York, Paris and London, Dutch cities like Amsterdam, Eindhoven and Rotterdam are now also gaining popularity. Families, by contrast, are moving out of the city in search of space and affordable housing. This is giving a fresh impulse to the housing market in surrounding areas. Peripheral areas are paying the price for the pull of cities: lack of economic perspective is driving young people away and peripheral housing markets are falling into decline. The result is a three-way divide in the housing market: overheating in the major cities, revival in the surrounding towns, and the periphery lagging behind.

Lack of planning and building capacity as well as zoning restrictions are impeding new-build developments in and around cities. Alongside ongoing migration to the cities, post-crisis catch-up demand plays a role, fuelled by low interest rates. After the crisis, however, many municipalities and construction companies reduced their planning and construction capacity, so that they are now unable to respond quickly to accelerating demand. Added to this, the “Sustainable Urbanisation Ladder” policy prioritises development within cities over urban expansion. But space in city centres is notoriously scarce and city centre construction is more complicated than building elsewhere, due to higher density of construction and resistance from residents. Zoning plans are more stringent and buildings aesthetics criteria are more demanding. This leads to delays.

The housing market also varies between major cities. Bidding processes are particularly worrying in Amsterdam, where buyers are bidding up prices and taking risks by not including a mortgage or inspection contingency clause in their offer. And although private investors are increasingly active in the buy-to-let market, their main focus – particularly in Amsterdam – is on short-term rental to tourists through services such as Airbnb. Besides leading to increased competition in the mainstream owner-occupied and rental sectors, this is also affecting residential quality. Preserving an attractive living environment is an important objective for all four major cities. They are keen to maintain a socially mixed city. One important tool for achieving this is the development of a basic stock of affordable social rental housing. Major Dutch cities face diverse challenges when it comes to expanding their housing stock within their existing boundaries. Amsterdam and Utrecht, for instance, have centuries-old city centres where undeveloped space comes at a premium and high-rise opportunities are scarce. Rotterdam, by contrast, has great potential for high-rise construction and densification: abandoned dockland sites, for instance, can be re-developed for residential use. Transformation can also add to the housing supply: in The Hague, for instance, former ministerial buildings are being converted into residential complexes. Urban expansion is more difficult for The Hague due to its location near the coast, which forms a natural barrier. The dynamics in the regional housing markets reflect these differences between cities. A relatively large number of families are moving away from Amsterdam and Utrecht to settle in one of the surrounding areas. In Rotterdam and The Hague, by contrast, more families are opting for attractive neighbourhoods within the city.

10 **The shortfall of private rental housing is leaving middle-income earners stranded.** The more flexible labour market and the reduction in the maximum loan-to-value (LTV) ratio are jointly driving up demand for rental housing. The supply of private rental housing is insufficient to cater to everyone. Middle-income earners are bearing the brunt of this mismatch: it is harder for them to buy a home and they are not eligible for social housing. This is more or less forcing them out of the city. A larger mid-market private rental segment is the key to creating a housing market that is free of imbalances and better aligned to the needs of the increasingly flexible and globalised labour market.

Municipalities and housing associations lack effective incentives to develop the private rental segment. Municipalities are financially dependent on revenues from land development. This gives them an incentive to favour owner-occupation, which yields a higher land price than comparable rental housing. The reason being that the owner-occupied sector is subsidised through the mortgage interest relief scheme, whereas private rental housing is not. Housing associations are expected to concentrate on their core task: the provision of affordable rental housing for lower-income households. The government is urging housing associations to sell more expensive rental housing in order to expand supply in the private sector. This is, however, not always in their best interest because housing associations can use their income from more expensive rental housing to pay the landlord levy on less profitable social housing.

The government can give municipalities and housing associations more incentives to develop the private rental market. An accelerated phasing out of the mortgage interest relief scheme would make private rental construction more attractive for municipalities. Secondly, the government could require municipalities to allocate a minimum percentage of their zoning plans to mid-market rental housing. To make this type of construction profitable, municipalities need to reduce land prices. In exchange for lower land prices, municipalities should negotiate a commitment to long-term rental from landlords in order to prevent rental housing from being rapidly resold as owner-occupied properties. Housing associations can boost supply in the private rental segment by re-assessing their housing stock based on quality criteria. Relatively good-quality housing can then be rented out in the private mid-market segment.

1 Introduction

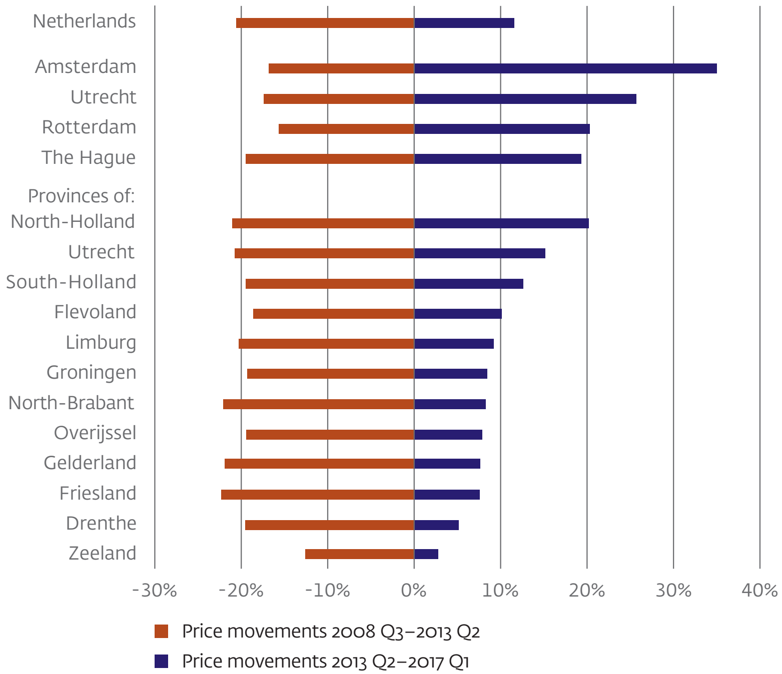
The Dutch housing market is recovering strongly from the crisis. Prices have risen by over 16% since the post-crisis low in 2013. The annual transaction volume has increased from 100,000 in 2013 to 215,000 in 2016. Despite the strong recovery, Statistics Netherlands (CBS) estimates that the nationwide house price in March 2017 was still 9% below the peak of August 2008.

Large differences exist between price movements in major cities and the rest of the Netherlands. Chart 1 shows that house prices in the four major cities have risen more strongly than in the rest of the country. Transaction volumes also recovered more quickly in the cities. House prices in Amsterdam, Rotterdam and Utrecht are now above their pre-crisis levels.

The same pattern of faster price increases in major cities than in the rest of the country can be seen abroad. In fact, prices there are rising even faster than in the major cities in the Netherlands (Chart 2). In the UK, for instance, house prices have appreciated by 12% per year on average in London versus 7% nationwide. China is the most extreme example, with an average annual increase of 3% nationwide, while prices in Beijing have risen more than five times as fast.

Chart 1 Regional house prices since the post-crisis low

Percentage change from 2008 levels.

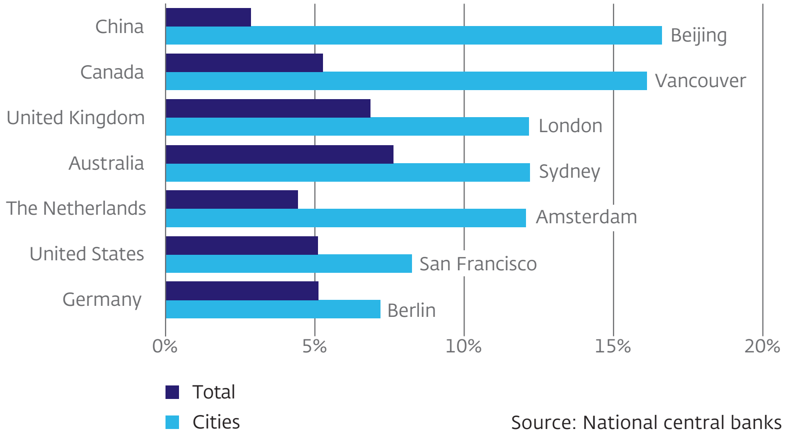


Source: Statistics Netherlands (CBS)

Note: The price movements in this chart are shown in percentages of the 2008 level to enable a fair comparison between the two periods considered. The applied price index contains both sold and unsold properties.

Chart 2 Annual house price increase in selected cities and countries

Average annual house price increase over the past three years.



Source: National central banks and statistical agencies.

Note: The last reference period was 2016 Q3 (Australia), 2016 Q4 (Canada, China, Germany and the UK) or 2017 Q1 (the Netherlands, United States), depending on data availability.

The objective of this study is to find out why prices have risen so rapidly in the four major Dutch cities and whether these price increases are a harbinger for the rest of the country. First, we will look at possible financial stability risks: is a credit-driven bubble forming in the cities? Next, we will analyse supply-and-demand differences to examine whether the tightness in urban housing markets has the potential of spreading to the rest of the country. Other factors considered in this context are the effects of ongoing globalisation and labour market flexibilisation, as well as differences between the four major cities and experiences abroad. We will set out the consequences that rising prices can have for the position of middle-income earners and the differences between renters and buyers. To paint an accurate picture of these developments, we spoke with housing market experts, councillors and estate agent organisations.[1] Finally, based on the insights from this study, we will make some policy recommendations.

1 Input for this study was obtained from the City of Amsterdam, the City of The Hague, the City of Rotterdam, the City of Utrecht, the Dutch Ministry of the Interior and Kingdom Relations, CPB Netherlands Bureau for Economic Policy Analysis, the Dutch Real Estate Agents Association (NVM), Makelaarsvereniging Amsterdam (the association of Amsterdam-based real estate agents), ABN AMRO Bank, Rabobank, the Dutch Association of Institutional Property Investors (IVBN), Bouwend Nederland (the association of construction companies in the Netherlands), the Dutch Association of Property Developers (NEPROM), NVB-Bouw (an association of property developers and construction companies), ABF Research, Calcasa, several academics and independent housing market experts. We thank all of them for their cooperation and useful insights.

2 Price movements in major urban housing markets dissected

2.1 Signs of overheating in major urban housing markets

What indicators do we use to identify overheating?
Price-to-income and price-to-rent ratios are commonly used to measure price movements and the degree of overheating.[2] The price-to-income ratio is a benchmark for affordability: if house prices rise faster than incomes, owner-occupied properties will, given interest rates, become less affordable and the number of potential buyers will decline. The price-to-rent ratio is, at a given interest rate level, a benchmark for the degree of equilibrium between owner-occupied and rental housing. This equilibrium should be achieved through arbitrage: if house prices rise much more sharply than rents, potential house buyers will be inclined to rent instead of buy.

The effect of interest rates is not fully factored into these benchmarks. Interest rates influence both the price and the financing costs of housing: lower mortgage rates lead to higher house prices but lower financing costs. The price-to-income and price-to-rent ratios do include the impact of interest rates on prices, but not the effect on financing costs (Himmelberg et al., 2005). Our own calculations show, however, that in recent years financing costs have followed a similar pattern to the price-income ratio. In fact, current costs are actually slightly lower than the pre-crisis level, both in major cities and in the Netherlands as a whole.

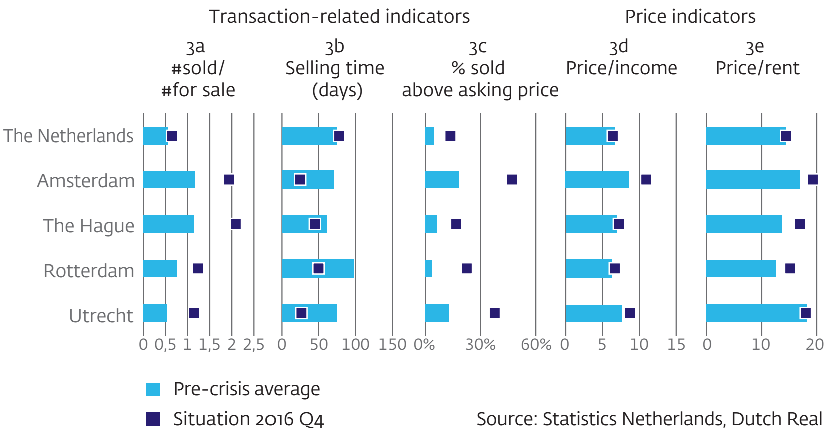
2 See, for instance, ECB (2011, 2015), ESRB (2015) and IMF (2016).

Alongside price benchmarks, transaction-related indicators can thus help to determine the degree of overheating. Overheating stems from increasing scarcity in the housing market: when more properties are sold than come on the market, supply shrinks, potential house buyers have less choice and the market tightens. This drives up prices. Another factor is the time it takes to sell a house: quickening house sales could point to overheating. A final important indicator is the ratio between the transaction price and the asking price. When selling prices are structurally higher than asking prices, the market may be overheating.

To what extent is the market overheating?

Transaction-related indicators show that major urban housing markets are showing signs of overheating. The housing market in the major cities is a real seller's market: demand is surging ahead of supply. In the major cities, the ratio between the transaction volume and the number of properties listed for sale in a quarter exceeds the pre-crisis average (Chart 3a). In some cities, the time it takes to sell a property has halved compared to the pre-crisis average (Chart 3b). In other words, the housing market in the cities has become a lot tighter: the number of properties for sale in the cities is now 30% lower than the pre-crisis average (2000-2008). In addition, far more properties are being sold above the asking price than just before the crisis, particularly in Amsterdam (58% of the transactions) and Utrecht (46%) (Chart 3c). The housing market is also rapidly tightening in medium-sized cities such as Groningen and Eindhoven. This tightness is not yet visible in the rest of the Netherlands: the number of houses for sale is still 7.5% higher than before 2008. Moreover, houses here are also sold less quickly and less often above the asking price.

Chart 3 Indicators for overheating in the Dutch housing market



Source: Statistics Netherlands, Dutch Real Estate Agents Association (NVM).

Note: The prices for price/income (3d) and price/rent (3e) are for all existing owner-occupied properties, sold and unsold. Income is average disposable income. Asking and selling prices (3c) exclusively relate to sold properties. Rents (3e) relate to newly rented properties in the private sector. Average pre-crisis levels cover the periods 2007 Q1 to 2008 Q3 (house sales and supply, 3a, 3b), 2006 Q1 to 2008 Q3 (asking prices, 3c), 1995 Q1 to 2008 Q3 (price/income, 3d) and 2000 Q1 to 2008 Q3 (price/rent, 3e).

Estate agents also find that more houses in the major cities are being purchased without mortgage or inspection contingency clauses, which could be risky. The fierce competition in the urban housing markets can prompt buyers to waive the mortgage and/or inspection contingency. A survey among estate agents conducted by the Dutch Real Estate Agents Association (NVM) shows that, in the second half of 2016, 45% of properties were sold without a mortgage contingency clause in Amsterdam, versus

12% nationwide. Buyers do still have a statutory three-day cooling-off period after having signed the provisional purchase agreement. Within this period, they can back out of the deal without stating reasons, even if no contingency clauses have been stipulated. After this period, however, buyers who have waived a mortgage contingency clause a penalty if they cannot obtain the necessary financing. A buyer who buys without an inspection cannot cancel the transaction after the statutory cooling-off period if the purchased property turns out to be in worse condition than expected.

Price-to-income and price-to-rent ratios confirm that there is overheating in the major urban housing markets. The price-to-income ratio in the major cities is above the pre-crisis average; this is particularly visible in Amsterdam and Utrecht (Chart 3d); this level has not yet been reached in the rest of the Netherlands. The sharp decline in mortgage rates is an important contributing factor here. Also striking is the fact that the price-to-rent ratio in many major cities is now above the pre-crisis level (Chart 3e). This suggests that prices of owner-occupied properties are rising faster than rents in the private rental sector.

2.2 As yet no indications of a credit-driven bubble

Despite the tighter income criteria, households can borrow more than before the crisis, which is fuelling the demand for housing. The maximum mortgage amount for households with a gross income of EUR 50,000 is now nearly 4% higher than in 2008 (DNB, 2016). Low interest rates and rising incomes mean people can borrow more, which is boosting demand for housing. Additionally, the current low interest rates make it attractive for existing home-owners to move house in order to exchange their existing mortgage for a new deal at a lower interest rate.

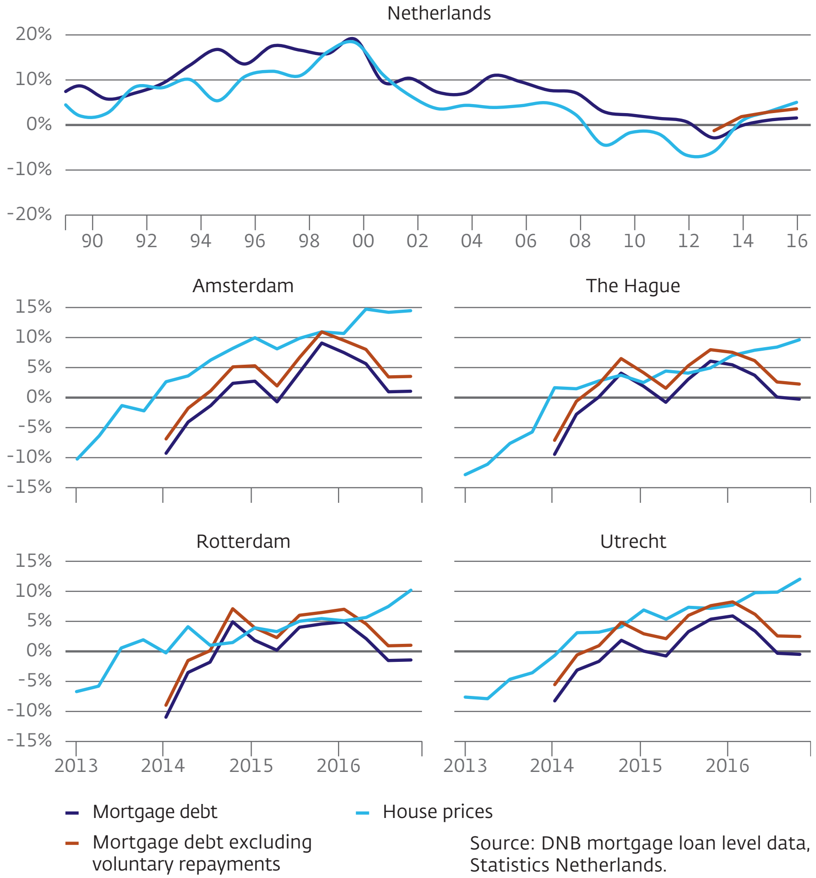
However, the traditionally strong link between mortgage lending growth and house prices is weakening in major cities. Chart 4 shows that overall Dutch mortgage debt has grown slightly since 2013. The four major cities initially mirror this picture of mortgage debt rising in tandem with house prices. But a divergence between the two has been noticeable since early 2016, as house prices continue to climb while mortgage lending starts to slacken. One reason is the surge in voluntary repayments, which is an attractive option for home-owners because of low interest rates on savings. Accordingly, extra repayments between 2013 and 2016 totalled some EUR 55 billion. However, even when controlling for this factor, the picture of relentlessly rising house prices and limited mortgage growth remains intact in the major cities.

More buyers in major cities are using own funds to help finance their home purchase. Interviews with experts reveal that down payments of EUR 50,000 to EUR 70,000 are no longer uncommon in Amsterdam. Land Registry figures indicate that house sales without an accompanying mortgage in the Netherlands have doubled from 8% in 2008 to 16% in 2016. These non-mortgage sales are more common in the major cities. For instance, over a quarter of the transactions in Amsterdam since 2013 were financed without a mortgage. The relaxed tax exemption for gifts used for house down payments or mortgage repayments, which was in effect until the end of 2014, has probably contributed to this trend.[3] The number of first-time buyers who did not take out a mortgage peaked in December 2014, while tax records show that gifts made under the relaxed gift tax exemption topped EUR 10 billion in 2013 and 2014. Low interest rates on savings, of course, are another persuasive reason for using personal or family savings to buy a house. One final explanation for the divergence between

3 This gift tax exemption of up to EUR 100,000 has been reintroduced with effect from 1 January 2017.

Chart 4 Mortgage debt and house prices

Annual percentage movement.



Source: DNB mortgage loan level data, Statistics Netherlands.

Note: The top part of the chart shows all Dutch household mortgages. The rest of the chart illustrates the picture for the four major cities based on some 90% of all mortgages extended by Dutch financial institutions.

mortgage credit growth and house prices in cities (Chart 4) could be that house buyers are opting for consumer rather than mortgage loans. A survey conducted by the Netherlands Authority for the Financial Markets (AFM) did not, however, find strong evidence for this (AFM, 2016).

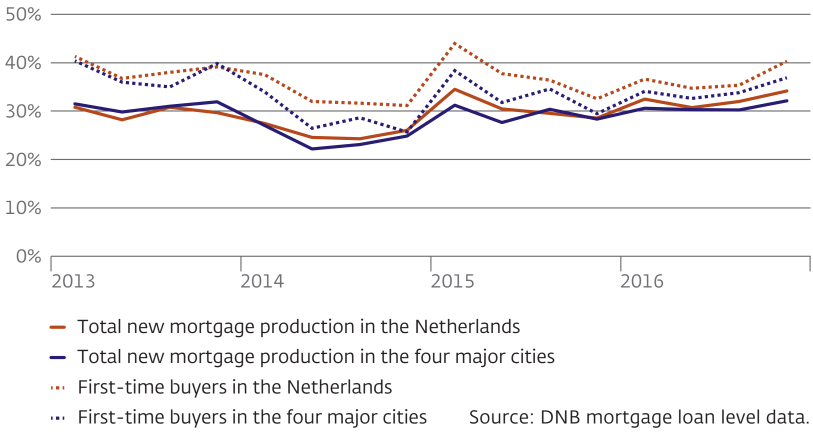
The share of households borrowing close to or at the loan-to-income limit is lower in the cities than in the rest of the Netherlands. The maximum permitted mortgage amount is partly based on the financing costs standards of the National Institute for Family Finance Information (NIBUD). If households start pushing themselves to buy more expensive houses, the mortgage amount will come closer to the permitted maximum.[4] That said, there is no evidence of this in recent years. The share of households borrowing more than 90% of the maximum permitted mortgage amount has remained virtually constant (Chart 5). In fact, the percentage of households borrowing close to the limit is even slightly smaller in the cities than in the rest of the country.

At the same time, the LTV in the major cities was lower than the Dutch average in 2016. The Loan-to-Value ratio (LTV) for new first-time buyer mortgages in Amsterdam and Utrecht averaged around 90% in 2016, versus 95% nationwide, for instance. This is mainly due to the larger number of first-time buyers with an LTV below 80% (Chart 6), which confirms the earlier observation that home buyers in major cities are contributing more own funds.

4 The average LTI ratio rose strongly in the run-up to the crisis of 2008 (Verbruggen et al., 2015). However, the LTI criteria increased much more slowly in that period, which means that, on average, house buyers borrowed closer to the limit.

Chart 5 Share of households borrowing more than 90% of maximum permitted amount

Based on financing costs standards.



Source: DNB mortgage loan level data.

Note: The calculation of the financing costs standard in this chart takes account of income differences between house buyers and the decline in interest rates over that period. First-time buyers cannot be perfectly identified, but are approximated by looking at all new mortgage borrowers younger than 35; these are mostly first-time buyers. The four major cities are Amsterdam, The Hague, Rotterdam and Utrecht.

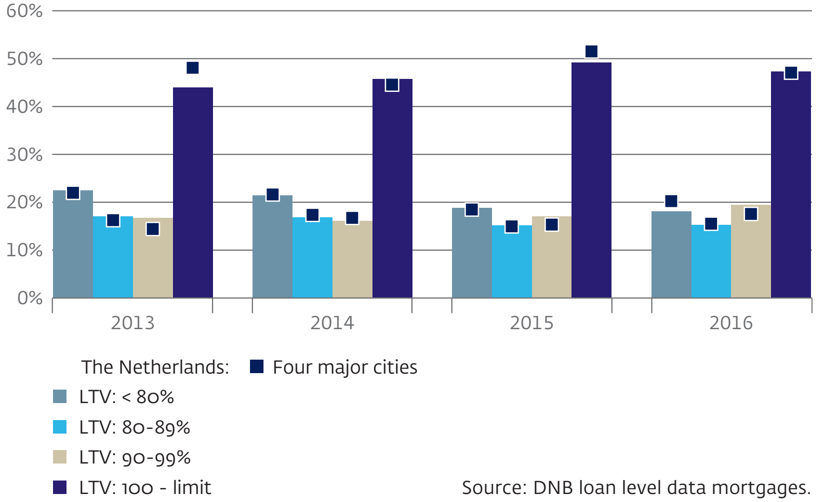
Surveys indicate that home-owners in cities count more on price increases than in the rest of the country. Price movements in the Netherlands as a whole do not appear to be driven by expectations of strong price increases in the future. According to the recent DNB Household Survey[5], the majority of Dutch home-owners expect a moderate rise in house prices of 3.5% on average in the coming two years. The market indicator of the Dutch Home-owners' Association, which is based on a survey among owners and potential buyers, confirms this picture: the majority of those surveyed expect a moderate increase in house prices (Boumeester, 2016). But the expectations regarding price increases in cities seem to be higher. An ING survey, for instance, shows that 14% of respondents expect that Amsterdam house prices will never fall. For comparison: this figure for the Netherlands as a whole is 5% (ING, 2016).

Housing markets in major Dutch cities are showing signs of overheating, but there are no strong indications of a credit-driven bubble as yet. Despite the higher price expectations of home-owners in major cities compared to those in the rest of the Netherlands and the tightening urban housing markets, credit indicators do not point to a credit-driven bubble as yet. Even after adjusting for repayments, mortgage lending growth is limited and home-buyers are not borrowing closer to the maximum permitted amount than before. Interestingly, the LTI and LTV in the cities are in fact currently lower than in the rest of the Netherlands due to the contribution of more own funds. The conclusion, therefore, is that price increases are mainly driven by the tightness in the housing market in the major cities.

5 An annual survey among 2,000 households about income, work, pensions, housing, mortgages, assets, loans, health, economic and psychological concepts and personal characteristics.

Chart 6 LTVs of new mortgages for first-time buyers

Average percentage shares across four quarters.



Source: DNB loan level data mortgages.

Note: First-time buyers cannot be perfectly identified, but are approximated by considering all new mortgage borrowers younger than 35; these are mostly first-time buyers. The LTV limit fell by one percentage point each year: in 2013, the LTV limit was 105, in 2014 it was 104, in 2015 it was 103 and in 2016 it was 102. Some of the new loans have an LTV higher than the LTV limit. The law allows this for certain purposes, such as to finance negative equity debt or sustainable home improvements. These loans are omitted from the chart. The four major cities are Amsterdam, The Hague, Rotterdam and Utrecht.

3 Differences between the major cities and the rest of the Netherlands

3.1 Demand for housing

Housing demand is rising faster in the cities than in the rest of the country. The reviving economy and low mortgage rates are jointly fuelling demand for owner-occupied properties all over the country. The ongoing migration of young people to the cities is adding further impetus to the housing market in the cities.

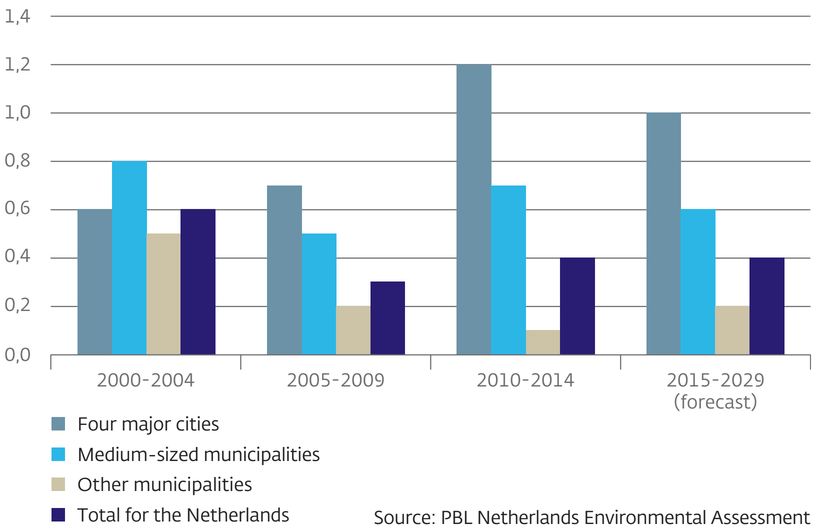
Urbanisation

Urbanisation is an international trend, both in developed and emerging countries. In the past 25 years, the share of the population living in urban areas has steadily grown all over the world. In the Netherlands too, the population in the four major cities has grown proportionately faster than in the rest of the country since 2005 (Chart 7). And since 2010, the urban population growth rate has been nearly three times higher than the nationwide average (PBL Netherlands Environmental Assessment Agency/ Statistics Netherlands, 2016).

Forecasts show that this trend will continue in the Netherlands. The large cities and medium-sized municipalities are expected to continue seeing the strongest population growth in the future (Chart 7). One key factor for housing demand is the development of the number of households. The number of households is growing almost everywhere in the Netherlands, but in major cities even more so. PBL Netherlands Environmental Assessment Agency and Statistics Netherlands (CBS) predict that, until 2030, the number of households will rise by 53,000 (about 12%) in Amsterdam, nearly 29,000 (16%) in Utrecht, 19,000 (8%) in The Hague and 15,000 (5%) in Rotterdam. In the Netherlands as a whole, the number of households will probably grow by some 640,000 to 8.4 million (8%) until 2030.

Chart 7 Annual population growth

Percentage movement per year.



Source: PBL Netherlands Environmental Assessment Agency/Statistics Netherlands regional population and household forecast (2016).

Note: Municipal boundaries in effect in 2015. Four major cities: Amsterdam, Rotterdam, The Hague and Utrecht. Medium-sized municipalities: other municipalities with more than 100,000 inhabitants in 2015. Other municipalities: all other municipalities.

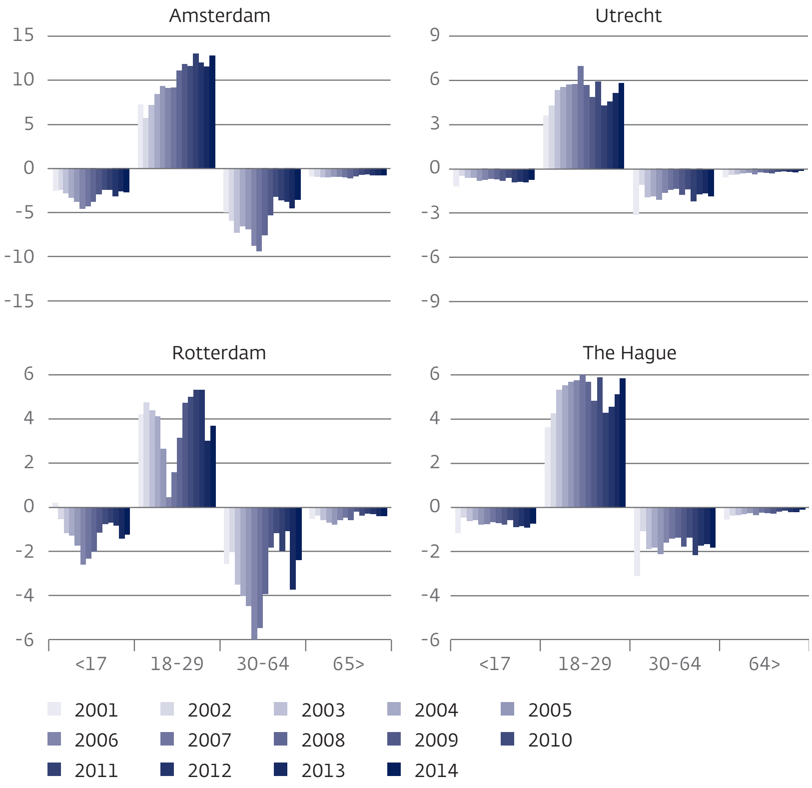
Who are migrating to cities and why?

Mainly young people are migrating to the city. Chart 8 shows a sharp acceleration in the influx of young people into Amsterdam since the turn of the century. The other large cities are also attracting many young people. This mainly concerns the 18 to 24 age group; the 25 to 29 age group represents a smaller share of the inflow.

These young people come to the city to study or work. The migration of young people to the cities is partly caused by the higher number of students enrolling in universities and colleges (PBL Netherlands Environmental Assessment Agency, 2015). Another reason is that, between 1999 and 2013, the percentage increase in the number of jobs for highly educated persons

Chart 8 Net migration into the four major cities, 2001-2014, by age category

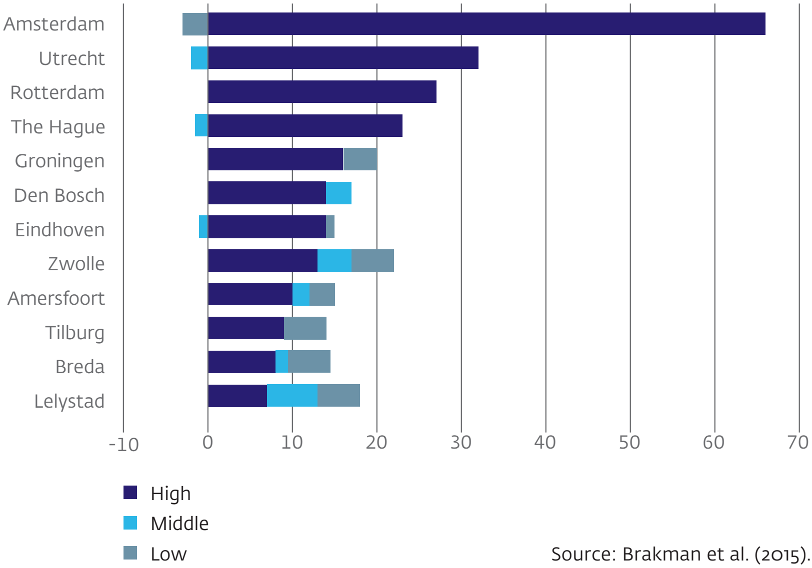
Net migration inflow into the city per year in thousands.



Source: Statistics Netherlands.

Chart 9 Percentage growth of number of jobs by education level, large and mid-sized cities, 1999-2013

Total growth throughout the period.



Source: Brakman et al. (2015).

was many times higher in the cities (the big four, but also in such cities as Groningen, Eindhoven and Zwolle) than in the rest of the country (Chart 9). This has to do with the rise of the service economy and technological developments in logistics and ICT (Brakman et al., 2015; Parlevliet et al., 2016). Cities specialise in professional and financial services, as a result of which we see strong growth in jobs for highly qualified staff, which in turn attracts young people.

Young people want to live close to their job and good recreational opportunities. Interviews with experts have shown that young people today are more focused on a good work/life balance than earlier generations and are keen to settle in a city or town where they can combine work and leisure. That is why experts expect strong demand for housing in the four major cities, but also in medium-sized cities such as Groningen and Eindhoven, over the coming decades.

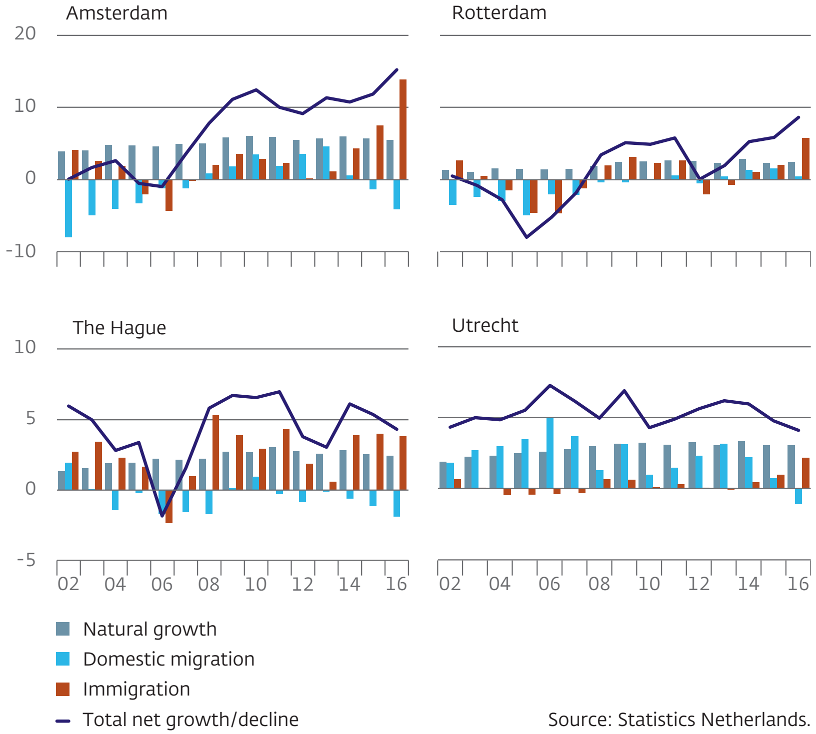
This reflects a new global lifestyle trend: young people want to live in a place where they can connect with a global subculture. Experts see that cosmopolitan young people enjoy living and working in a multicultural setting. While formerly only a handful of cities (New York, London, Paris) exerted this magnetic attraction, globalisation and the growing importance of the services sector is putting more and more cities on the map. This social-cultural component is not just attracting people to Amsterdam, but also to cities such as Rotterdam and Eindhoven.

The inflow of young people into large cities also boosts natural population growth there. The presence of many young people in cities also means that a relatively large number of children are born. As a result, natural growth also plays an important role in the expansion of urban populations (see the grey bars in Chart 10).

In addition, immigration is increasingly driving population growth in the four major cities. The red bars in Chart 10 show that immigration has become the most important growth factor in Amsterdam, Rotterdam and The Hague. Many immigrants go to the large cities in search of work and education and to connect with communities of the same origin (PBL Netherlands Environmental Assessment Agency/Statistics Netherlands, 2016). Immigrants display the same pattern as young Dutch people: a relatively large number of highly educated immigrants live in cities. Over 65% of all foreign knowledge workers live in Amsterdam, Rotterdam, The Hague, Utrecht or Eindhoven. Amsterdam is the outright leader: 35% of all foreign knowledge workers live here (PBL Netherlands Environmental Assessment Agency, 2014).

Chart 10 Causes of population growth over the years

Population growth per year in thousands.



Source: Statistics Netherlands.

The strong improvement in housing and residential quality has made the city a more attractive place to live. In 1990, the quality of housing in the four major cities was still clearly lower than in the rest of the country. Since then, major investments in urban renewal have vastly improved the quality of housing as well as the general living environment in cities (Ministry of Housing, Spatial Planning and the Environment, 2002). This has contributed to the rising demand for urban housing.

Demand within the large cities is mainly concentrated in the city centre and areas near public transport hubs. Not all places in the city are equally popular: the liveliest part, often the centre, is in most demand. In Amsterdam, for instance, people mostly want to live inside the ring road. Areas such as Amsterdam-Noord and Amsterdam-Zuidoost are less desired. Popular areas in Rotterdam are the city centre, Kop van Zuid, Kralingen and Hillegersberg. In The Hague, the most coveted neighbourhoods are near the coast, whereas the Schilderswijk and Moerwijk neighbourhoods are less popular. The proximity of public transport is also a major factor. In Utrecht, a city with a large number of jobs within commuting distance, the demand for housing is particularly strong in a radius of three kilometres around Utrecht central station.

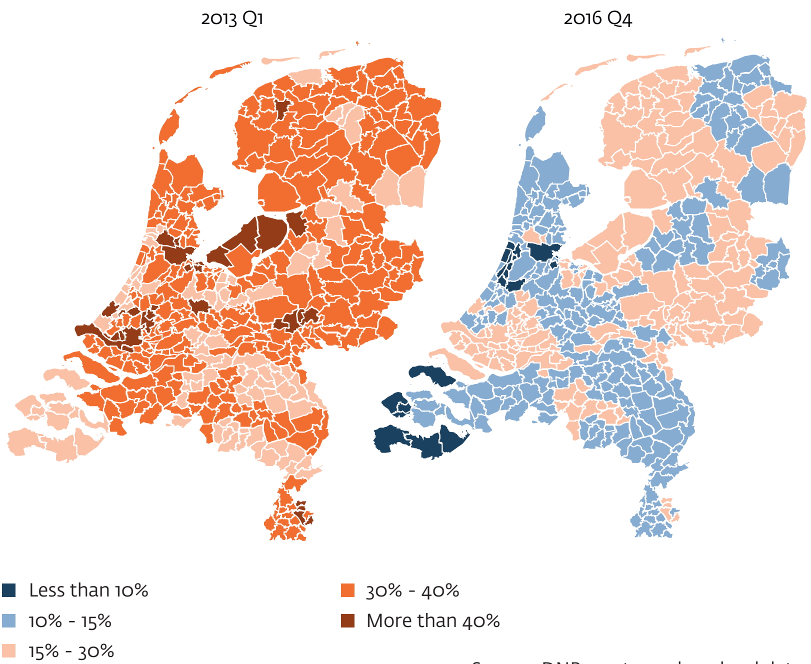
Who is moving out of the city?

Families and elderly people are still leaving the cities. Young people traditionally gravitate towards the city at the start of their career for education and work. Later, when they have a family, they move away from the city to find more quiet and spacious surroundings as well as cheaper houses. On balance, elderly people are also still moving out of the city (Chart 8).

The recovering housing market has revitalised this movement. During the crisis, many families continued to live in the city because they had an underwater mortgage. Now that this is no longer the case (Figure 1), they are spreading their wings again. The outflow of mainly young families currently exceeds the inflow of young people into Amsterdam (since 2015) and Utrecht (since 2016) (blue bars in Chart 10). The Hague has had a negative domestic migration balance for some time now. In Rotterdam, by contrast, the domestic migration balance is still positive. Unlike Amsterdam, The Hague and Utrecht, Rotterdam lacks attractive peripheral areas. For this reason, families are less likely to leave Rotterdam and prefer to move to attractive urban neighbourhoods such as Kralingen and Hillegersberg.

Figure 1 Share of underwater mortgages in the Netherlands, 2013 versus 2016

Percentage of total number of mortgages.



Source: DNB mortgage loan level data.

Note: Area delineation based on the first two postal code digits.

Buy or rent?

Buying is still financially more attractive than renting. Owing to mortgage interest relief and the current low interest rates, average housing expenses are lower for owner-occupiers than for tenants. By way of illustration: the average housing expenses of mid-income home-owners are about a fifth of their disposable income, whereas mid-income private sector tenants spend a third of their income on rent (CPB, 2016).[6] The non-rent regulated sector, with monthly rents of over EUR 710, is the only segment of the housing market that receives virtually no subsidy. Social housing rents are regulated and therefore lower than the market rent. This is the most subsidised segment (in 2015 the annual subsidy amounted to 2.7% of the *WOZ-waarde*, the property value as calculated for tax purposes); owner-occupied properties are subsidised to the tune of some 1.5% (CPB Netherlands Bureau for Economic Policy Analysis, 2016).

But not everyone can live in an owner-occupied property, so there is also a growing demand for rental housing. At present, the LTV limit is being steadily reduced in small increments of one percentage point per year to 100% in 2018, meaning that buyers must contribute more money of their own. This could throw up a barrier, particularly for first-time buyers who do not yet have substantial savings: about half of the first-time buyers cannot immediately buy a home if the LTV limit is 100% (Verbruggen et al., 2015).

Labour market flexibilisation contributes to this growing demand for private rental housing. In 2009, 5% of all home-seekers wanted a rented home in the private sector; by 2015, the figure had risen to 12% (Ministry of the Interior and Kingdom Relations, 2016). According to the Dutch Real

6 About 1.4 million households are on a middle income; this corresponds to 19% of all households. A middle income is defined here as an income between EUR 34,912 and EUR 50,000 per year (2015) (Source: CPB Netherlands Bureau for Economic Policy Analysis, 2016).

Estate Agents Association (NVM), more and more people are opting to rent instead of buying in order to be more flexible (NVM, 2016). Flexibility is particularly important for self-employed people and flexi-workers. Evidence suggests that flexi-workers are indeed more likely to prefer rental housing compared to households in permanent employment (Boumeester and Dol, 2016). The WoON housing market survey for 2015 shows that demand for mid-market and upmarket rental housing greatly exceeds the supply in and around large cities. This demand outstrips supply by 43% in the greater Amsterdam area, 21% in Utrecht and 28% in Rotterdam (Ministry of the Interior and Kingdom Relations, 2016). But rents in the major cities are high, particularly in Amsterdam: in the Netherlands, therefore, renting is often not a viable alternative to buying.[7] This contrasts with countries such as France and Germany, where renting is relatively popular. In Germany, for instance, 55% of home-seekers would rather rent than buy (BPD, 2016).

The limited accessibility of the social rental segment for middle-income earners is also spurring demand for private sector rentals. The Dutch Housing Act 2015 forces housing associations to focus on their core tasks. More specifically, this means renting out at least 80% (from 2020 onwards: 90%) of their social housing stock to households with an annual income up to EUR 35,739. This makes social housing less accessible to middle-income earners, leading to rising demand for private rental housing.

7 In Q4 2016, the average rental price per square metre of a newly rented private sector home in the Netherlands was EUR 11.48. This is also the average rental price per square metre in Rotterdam. In the other large cities, the rental price per square metre is higher: EUR 12.18 in The Hague and EUR 15.63 in Utrecht. Amsterdam is by far the most expensive with an average rental price per square metre of EUR 18.88 (source: Dutch Real Estate Agents Association (NVM)). These figures are the average price excluding service charges for homes that were newly rented out for a price above the private sector threshold in Q4 2016.

3.2 Housing supply

Structure of housing market

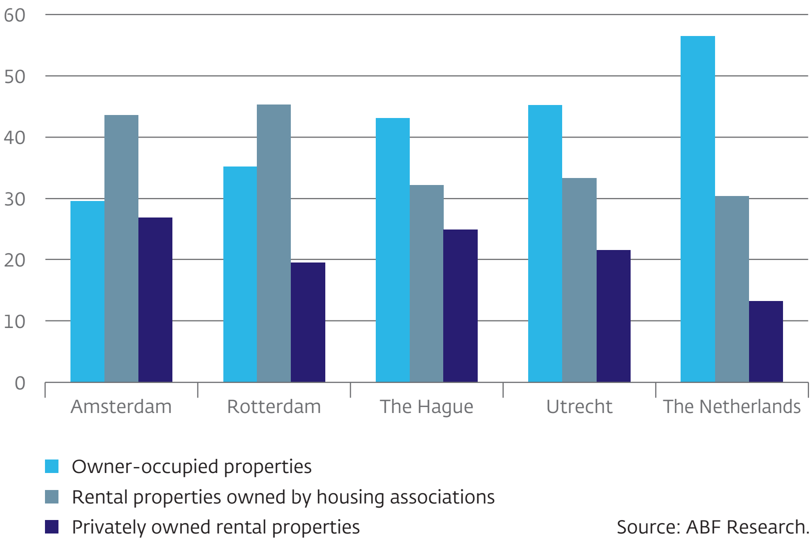
The Dutch social rental sector is relatively large (particularly in major cities), also compared with other European countries. Chart 11 shows that the housing association sector makes up no less than 30% of the total housing stock, and more than 40% in Amsterdam and Rotterdam. The Dutch social rental sector is one of the largest in Europe and considerably bigger than its counterparts in France (19% of the total), the UK (15%) and Germany (only 5%) (BPD, 2016; Whitehead et al., 2016). Municipalities promote social rental housing. This ensures that low-income households can remain in the city and keeps urban segregation within bounds. But there are allocation issues, with some social rental housing being occupied by households earning too much relative to their rent. Policy measures have helped to reduce this mismatch in recent years, but the percentage of high-income tenants with low rents was still 18% in 2015 (Ministry of Economic Affairs, 2016).[8]

Moreover, most privately owned homes are rented out in the regulated segment instead of the private sector. A points-based home valuation system determines whether a house qualifies for the regulated (social) sector or the non-regulated (private) sector. Rented homes with less than 146 points or a monthly rent lower than EUR 710 fall within the regulated sector; all others belong in the private sector. As a result, both housing associations (90%) and private landlords (65%) rent out the largest part of their housing stock in the regulated segment (PBL Netherlands Environmental Assessment Agency, 2017).

8 For instance, new regulations introduced in 2013 allow landlords to charge income-dependent rent increases.

Chart 11 Housing stock ownership ratio in major cities and the Netherlands

Percentages of total stock in 2015.



Source: ABF Research.

The supply of mid-market private rental housing falls short of demand in large cities. The non-rent regulated sector throughout the Netherlands has contracted steadily since the 1970s to less than 10% of all homes. This is partly because social rental and owner-occupied housing are subsidised (Whitehead et al., 2016; PBL Netherlands Environmental Assessment Agency, 2017). Most Dutch rental housing is owned by housing associations and falls largely within the social segment. And while the supply of private rental housing in cities is larger than in the rest of the Netherlands, demand here is greater as well. The result is a shortfall in the mid-market segment (monthly rent between EUR 700 and EUR 1,000), particularly in Amsterdam and Utrecht (Schilder & Conijn, 2015).

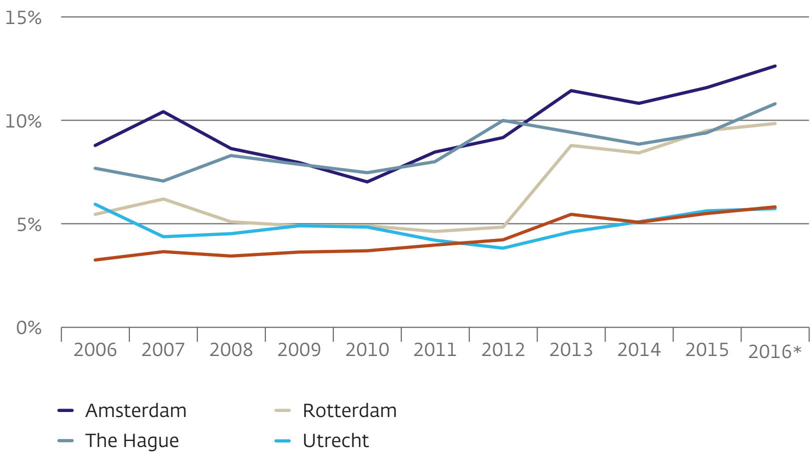
The focus in the four major cities in the Randstad conurbation still lies mainly on the social segment. All large cities aim to maintain a basic stock of affordable social rental housing. But this is not always easy. In The Hague, for instance, housing associations lack investment capacity. In addition, the property value partly determines the number of awarded points; as a result, rising property values in the cities automatically diminish the stock of social rental housing. Most municipalities have recently devoted more attention to middle-income households in their housing policy papers, but have failed to define explicit targets for the mid-market rental segment. And in the few cases that targets are set (such as in Amsterdam), the numbers are not sufficient to meet the rapidly rising demand.

The number of properties purchased for private rental has recently increased in the major cities. A Land Registry study shows that since 2014 the number of properties purchased for private rental in the cities has risen steadily (see Chart 12). Investors see the buy-to-let market as an alternative to low returns on other investments. According to experts, both professional parties and smaller private investors are queuing up to enter the non-rent regulated rental sector in the cities. But there are too few attractive projects, principally due to a shortage of good construction sites and high land prices. Private investor interest can help to expand the private rented segment, although it also means more competition for home-seekers in the owner-occupied market, which drives up prices.

Many private homes, however, are mainly rented out for short periods via websites such as Airbnb. In other words, these homes are withdrawn from the housing stock, leaving fewer homes available for mainstream rental. The popularity of Airbnb varies by city: it is used much more often in Amsterdam than in Rotterdam, for instance. This has consequences for residential quality (see Box 1).

Chart 12 Share of private investors in owner-occupied market

Percentage of total number of transactions.



Source: Dutch Association of Real Estate Agents (NVM), Land Registry.

Note: Approximation based on transaction data. A private investor is defined as a natural person with more than two and fewer than 50 properties.

* Up to and including 2016 Q3.

Box 1 Tourism threatens residential quality in Amsterdam

The residential quality of cities has greatly improved in the past decades. Restructuring – the demolition and replacement of obsolete housing with new-build developments – has given rise to much more attractive and safer neighbourhoods in the cities (Netherlands Institute for Social Research (SCP), 2011). In 1998, 20% of residents in the four major cities lived in neighbourhoods with extremely negative or negative scores on residential quality; in 2008, this percentage had fallen to 10% (Ministry of Housing, Spatial Planning and the Environment, 2009).

But the recent rise of Airbnb poses a threat to residential quality, particularly in Amsterdam. The number of tourists in Amsterdam is growing rapidly, and these visitors are also staying in the city for longer stretches of time. The number of Airbnb offerings is growing at a similar pace: rising from just under 8,000 in April 2015 to nearly 14,000 in July 2016. The highest concentration of Airbnb homes is in the Centre-West area: in July 2016, one in 15 homes in this area was listed on Airbnb. According to a recent study of the Amsterdam Court of Audit (2016), increased crowding in the city indirectly affects the residential quality in the form of nuisance caused by visitors, litter and crime. Whereas residents around the city centre have become more positive on average about their neighbourhood, residential satisfaction levels in the Centre-West area have dropped slightly compared to 2013.

Curbing the nuisance caused by low-budget Airbnb-related tourism is now a top priority for the City of Amsterdam. The City has now reached an agreement with Airbnb: Amsterdam home rentals via the Airbnb website are now limited to 60 nights per year.

Experts point out that, in other countries, buy-to-let investments contribute more to the expansion of the private rental sector than in the Netherlands. Large cities such as Brussels, Paris and London have a well-developed private rental sector. In these cities, private investors have traditionally shown a strong interest in buying properties for long-term rental. The UK has had a flourishing buy-to-let sector since the 1990s, partly due to the availability of targeted mortgages for private investors (Whitehead et al., 2016). An important factor in Brussels is the relatively high property transfer tax, which makes it unattractive for owner-occupiers to sell their homes; this makes renting it out a good alternative.

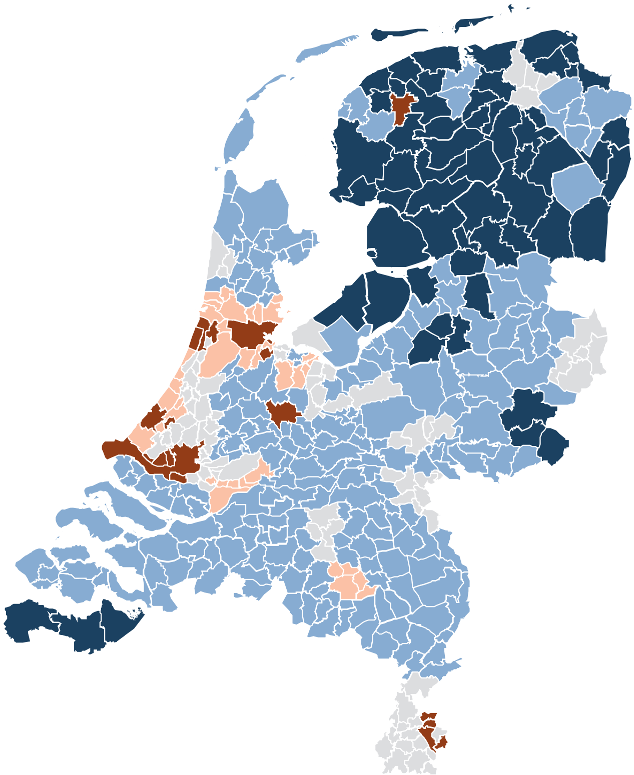
Obstacles to increasing housing supply

The price elasticity of the housing supply in the Netherlands is very low. According to an OECD study (2011), the price elasticity of the housing supply of the Netherlands is the second-lowest of all OECD countries after Switzerland. Swank et al. (2002) concur that the price elasticity of new-builds in the Netherlands is virtually zero: higher prices do not lead to more new-build developments. Rouwendal et al. (2007) show that price movements in the short term have no influence on investments in existing and new housing stock.

Geographical restrictions impede the expansion of the four major cities. Saiz (2010) and Hilber & Vermeulen (2016) demonstrate that geographical restrictions constrain the elasticity of supply: in cities that lack construction land, urbanisation leads to price increases. This is the case in the Randstad conurbation: much of the land surface is already built up (Figure 2), so that growing demand mainly serves to drive up prices. The expansion of some large cities in the Randstad conurbation is impeded by their location on the coast or in or near the *Groene Hart*, a relatively thinly populated area. The problem in the latter case is not so much lack of space, but the nationally determined zoning restrictions on construction in the protected green belt.

Figure 2 Share of developed land area

Percentages of total land area suitable for construction.



Less than 10%
10% - 20%
20% - 30%
30% - 40%
40% - 50%
More than 50%

Source: Van Dijk et al. (2016).

Note: Area delineation based on the first two postal code digits.

Municipalities lack effective incentives for developing private rental housing, partly because they depend on revenues from land development. Experts point out that this makes municipalities reluctant to grant building permits for land they do not own. Moreover, due to mortgage interest relief, land purchased for owner-occupied properties fetches more than land for rental housing (Box 2). Municipalities must lower the land price in order to make construction of the non-rent regulated housing profitable. However, they will not be keen to sell land for less than the relatively high price they paid themselves as this could lead to losses on the municipal budget (PBL Netherlands Environmental Assessment Agency, 2017).

Municipal land sale policy is mainly aimed at owner-occupied and social rental housing, although mid-market rentals are now receiving more attention. All four large municipalities apply fixed low land prices for social rental housing.[9] The residual value method is commonly used for owner-occupied and non-rent regulated housing. As a consequence, the higher value of owner-occupied properties means that land almost always fetches a higher price when it is sold for owner-occupied development (see Box 2). Amsterdam, where rents are relatively high, is the only place where the investment value of rental housing approximates the owner-occupied value, so that land prices for both types of housing are comparable. Some municipalities do charge lower land prices for small mid-market rental housing just above the privatisation threshold of EUR 710 per month. The City of Utrecht, for instance, applies a fixed low price for cheap small apartments up to EUR 760 per month and 70 square metres; the residual method is used above this level. The Hague and Rotterdam do not publish specific land prices for mid-market rentals.

9 The municipality sets out its land release policy and land prices in an annual document called a land price letter (in Dutch: *grondprijsbrief*).

Box 2 Supply of rental housing and mortgage interest relief

Mortgage interest relief distorts the supply of owner-occupied and rental housing. This tax subsidy reduces the costs of owner-occupied housing, so that buying is more attractive than renting. As a result, prices of owner-occupied properties are driven up, particularly when the supply is as inelastic as in the Netherlands (CPB Netherlands Bureau for Economic Policy Analysis and PBL Netherlands Environmental Assessment Agency, 2016). This not only leads to distortion on the demand side, but on the supply side as well: the sale proceeds of a new owner-occupied property are higher than the investment value of rental housing (Schilder & Conijn, 2009).

As a result, land purchased for new owner-occupied properties usually fetches higher prices than land intended for rental housing. The land price is often determined on the basis of residual value as the difference between the sale proceeds from the houses and the construction costs. This means that, assuming comparable construction costs, developers of owner-occupied properties can generally pay a higher price for the land than private investors who want to build private rental housing (PBL Netherlands Environmental Assessment Agency, 2017).

Municipalities will also want to keep existing residents satisfied, who may see new-build developments as contrary to their interests. Municipalities are confronted with an insider-outsider dilemma: new residents (outsiders) benefit from new-builds as these reduce scarcity; existing residents (insiders), however, will see it as threat to the value of their property. In addition, existing residents will not always welcome the construction of new homes on the scarce remaining space in their neighbourhood (densification). This is known as the Not In My Backyard syndrome. Existing residents who think that new-build development is not in their best interest can start up objection procedures and thus significantly delay the building permission process.

Municipalities also need to motivate their use of space in their key spatial planning decisions. The policy known as the "Sustainable Urbanisation Ladder" requires municipalities to justify new-build plans by demonstrating the need for building from scratch.[10] The possibilities for transformation and restructuring within urban boundaries must be explored first before new-build developments outside the urban boundaries can be approved. Because of this policy, most housebuilding currently takes place within existing urban boundaries. But space is limited within cities, particularly in Amsterdam and Utrecht. Moreover, building in city centres also tends to be more complex than outside the city: building aesthetics criteria are more stringent and zoning plans more restrictive.

10 See also https://www.rijksoverheid.nl/actueel/nieuws/2016/06/23/ladder-voor-duurzame-verstedelijking-eenvoudiger-en-minder-onderzoekslasten (in Dutch).

Housing associations are expected to concentrate on their core tasks: the construction, rental and management of affordable social rental housing for low-income earners.[11] For this reason, the government urges housing associations to sell their more expensive social housing that is suitable for private sector rental to, for instance, investors. The sale of these properties will, however, reduce the availability of rental housing in the social sector. However, housing associations can reinvest the proceeds from the sale to build new social rental housing.

But housing associations have conflicting interests, partly due to the landlord levy. Since 2013, housing associations have been required to pay a levy on the property value of their social rental housing.[12] A recent evaluation shows that this landlord levy restricts the housing associations' scope for investment and prevents them from selling more expensive property (Veenstra et al., 2016). They are privatising these homes in order to avoid paying the landlord levy, but are keeping them in their own portfolio. Housing associations can then use the relatively high rental income from these homes to pay the landlord levy. In other words, the levy gives the housing associations an incentive to retain their more expensive rental housing. Abolition of the landlord levy would eliminate this incentive, but would still not give housing associations a strong reason to sell these homes.

11 Under the Dutch Housing Act 2015, housing associations must focus on services of general economic interest (SGEI). This concerns 1) construction, rental and management of social rental housing, 2) management of publicly owned real estate, and 3) investment in residential quality. The development of private rental housing, owner-occupied housing and commercial property qualifies as a non-SGEI activity.

12 Since 2013, all landlords with more than ten social rental houses (50 from 2018) have been required to pay a landlord levy on the property value of these rented properties. Houses with rents above the privatisation threshold are not subject to this levy. See also https://www.rijksoverheid.nl/onderwerpen/huurwoning/inhoud/verhuurderheffing (in Dutch).

Box 3 Supply constraints: not all major cities are alike

All four major cities in the Randstad conurbation have ambitious plans to expand their housing stock. The house building plans until 2025 forecast 50,000 new homes for Amsterdam, 25,000 for The Hague and 36,000 for Rotterdam; the City of Utrecht did not mention a specific number in its housing policy paper. There is one snag: to achieve what is envisaged in these plans, the cities must greatly expand their planning capacity.

The primary focus of the four major cities is on new-builds within existing urban boundaries (densification), but this is not equally easy in all cities. Amsterdam and Utrecht, for instance, have centuries-old city centres, so high-rise buildings are not an option and undeveloped space comes at a premium. Rotterdam is better suited for densification. Former docklands, for instance, can be redeveloped for residential use and there is no taboo on high-rise buildings. The Hague, too, is looking to the skies.

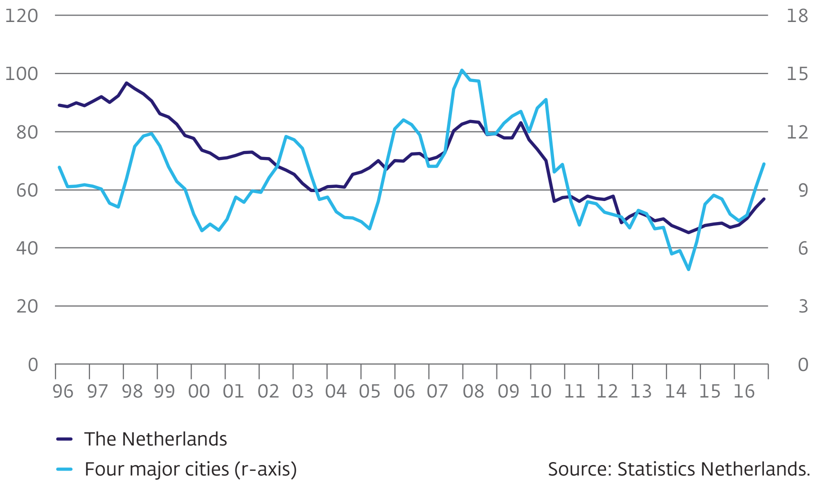
Transformation of existing office and commercial buildings is a densification option in all four municipalities, but is no panacea. Transformation can shorten the completion time of construction projects. The new-build process takes some ten years on average; transformation some three years. The City of Utrecht predicts an increasingly important role for transformation. Rotterdam is engaged in transformation projects around its central station, while The Hague is converting former ministerial buildings into residential complexes. Amsterdam is also eyeing transformation, but is struggling to get investors on board. It should be noted that transformation is no silver bullet: by no means all office and commercial buildings are located in areas where people want to live, and the offices in the best locations have already been transformed in recent years.

Some cities are also trying to develop outside the centre, but with varying success. Rotterdam, for instance, is developing certain parts of Rotterdam-Zuid, including areas around the Ahoy events venue and the Feyenoord football stadium. By contrast, the development of Amsterdam-Noord (barring the northern IJ waterfront) is slow to get off the ground. The City of Amsterdam does expect locations outside the ring road, such as Amsterdam-Noord and Amsterdam-Zuidoost, to gain popularity soon.

New-build development has been at a low ebb since the crisis. There is currently less house construction activity throughout the Netherlands than in the 1990s when prices were soaring. Experts fear that history will repeat itself if this housing shortfall continues. Cities witnessed a brief revival after 2014, but this mainly concerned developments that were still in the pipeline. Since 2016, the number of house completions has picked up again (Chart 13), both nationwide and in the four major cities. Interviews with experts show that capacity problems are an important cause of the slow recovery of construction output. Both builders and municipalities reduced their capacity after the onset of the crisis. In 2010, there were still 377,000 people employed in the construction sector. Since then, nearly 80,000 jobs have been lost. The capacity at construction firms and municipalities has not substantially increased since 2013, but the number of people working in the construction sector is expected to grow by 4% to 313,000 in 2018 (UWV, Industrial Insurance Administration Agency, 2017).

Chart 13 Number of completed homes

Four-quarter aggregates in thousands.



Source: Statistics Netherlands.

Note: The four major cities are Amsterdam, The Hague, Rotterdam and Utrecht.

Owing to a lack of planning capacity, housing supply will probably continue to lag demand in the coming years. Since the crisis, the issuance of new-build permits appears to have stagnated and the planned supply of housing continues to lag behind the expected growth in households in most provinces (Economic Institute for Construction and Housing (EIB), 2016). Many of the current plans remain "soft": zoning plans have yet to be finalised, so construction cannot start within the foreseeable future.

The cabinet has taken various initiatives to increase the supply of suitable housing. To illustrate: the Housing Sector Agreement concluded in 2013 contains measures to boost construction, give first-time buyers more latitude in the housing market, and counter high-income, low-rent tenancy. After having fallen for decades, the stock of private sector rental housing increased from 335,000 to 469,000 homes between 2012 and 2015. A further increase in the supply of mid-market rentals is necessary, however. More new measures have been presented for this purpose. Following an amendment of the Dutch Spatial Planning Decree, municipalities can now include the private mid-market rental segment as a separate category in their zoning plans, for instance. In addition, councillors, developers, housing associations and investors will work together at local level to promote the development of mid-market rental housing. However, unless municipalities and housing associations are given additional incentives to create more mid-market rental housing, supply growth will fail to gain sufficient momentum.

Box 4 Foreign cities also face supply shortages

In other countries too, the supply of housing is failing to keep pace with demand in the cities. Examples are Denmark (Copenhagen), Sweden (Stockholm) and Austria (Vienna). In a more extreme form, we see overheating in, for instance, London, Vancouver and San Francisco, where housing has become a lot less affordable due to scarcity. In its Article IV consultations, among other publications, the IMF concludes that many countries face soaring prices and overheating due to housing shortages (IMF, 2016). This problem is particularly prevalent in urban areas.

4 Three-way divide on the housing market

There is a three-way divide in the housing market: an overheated housing market in major cities, a reviving housing market in surrounding municipalities and a lagging housing market in shrinking regions. Interviews with estate agents indicate that there exists no single homogeneous housing market. Instead, there are diverse regional housing markets. These are interconnected, however: the spillover from major cities puts increasing pressure on satellite communities and the departure of young people from shrinking municipalities to cities is creating a supply surplus in peripheral housing markets.

Middle-income earners threaten to become stranded: living in the city is increasingly inaccessible for these groups. Their income is too high for social housing, they face fierce competition in the private rental market and they are not always able to afford an owner-occupied property in the city. As a result, prospective first-time buyers in particular are more or less forced to choose between relatively expensive rental housing in the city[13] or a more affordable place outside the city. High housing expenses prevent them from saving enough to buy a home; this is a problem that the Financial Stability Committee also mentioned in its recommendation for a further reduction of the LTV ratio after 2018 (FSC, 2015). With mid-income groups facing exclusion from the urban housing market, the ideal of a socially mixed city, catering to all income groups, is coming under pressure.

Families leaving major Dutch cities are putting pressure on surrounding municipalities. 10% of young families that left Amsterdam in 2015 relocated to Amstelveen and 9% to Haarlem. 60% of households leaving Utrecht moved to a town or village in the same province (Statistics Netherlands, 2016). According to Statistics Netherlands, families on higher incomes choose to

13 Experts are already flagging this "high rent relative to income" phenomenon as the new rental housing mismatch.

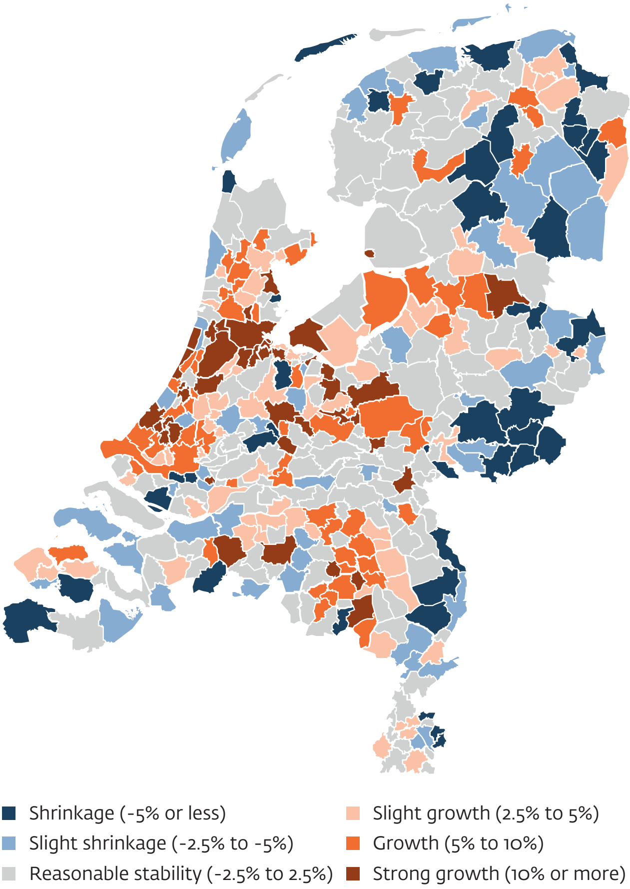
live in different municipalities from families on low incomes. Amstelveen, Haarlem and the Het Gooi area are very popular among Amsterdam families on high incomes, whereas families on lower incomes are more likely to opt for Zaanstad or Almere.

The smaller, more peripheral municipalities are expected to continue shrinking. This can be seen in Figure 3. Experts speak of "cannibalisation": owing to migration to the city, peripheral municipalities are being abandoned by young people. In areas such as Drenthe, Noordoost-Groningen, de Achterhoek, Noord-Limburg and Zeeuws-Vlaanderen, for instance, the number of inhabitants will continue to fall (PBL Netherlands Environmental Assessment Agency/Statistics Netherlands, 2016). Ageing can in due course lead to a surplus of mainly single-family homes in the periphery when baby boomers move to a nursing home or die (PBL Netherlands Environmental Assessment Agency, 2013). This is expected to result in an estimated 50,000 owner-occupied properties coming onto the peripheral markets every year from 2030. House prices in shrinking regions may thus come under further pressure, condemning home-owners there to a prolonged state of negative equity.

In peripheral municipalities, building for vacancy is a real risk if contracting demand is not sufficiently factored in. Interviews with experts show, for instance, that housing associations in peripheral areas have substantial capital and are using this for new-build developments. Estate agents expect the new-builds to be rented out, but expectations are that older houses will be left behind and remain unoccupied.

As a result, the rapid price increases in major cities are not a harbinger for the rest of the Netherlands. Considerable regional differences exist: while there is too little supply in cities, buyers in shrinking municipalities are spoilt for choice. In the periphery, there are also fewer new-build restrictions than in major cities.

Figure 3 Regional population growth forecast 2016-2030



Source: Statistics Netherlands/PBL Netherlands Environmental Assessment Agency.

Note: Area delineation by municipality.

5 Policy recommendations

Municipalities and housing associations do not always have the right incentives to provide the right type of housing in the right places. Municipalities face obstacles when it comes to increasing the housing supply due to cutbacks on planning capacity. Their land sale policy favours owner-occupied housing, which fetches a higher land price than private rentals, and social housing. Housing associations focus more on their core task (provision of social rental housing) and less on the non-rent regulated sector. As a result, the urgently needed development of additional private sector rental housing in the cities is not getting off the ground.

The government can encourage municipalities to provide more private rental housing, by setting minimum targets. The government could make arrangements with municipalities about the inclusion of a minimum percentage of mid-market rental housing in their zoning plans, similar to the social rental targets for housing associations. But this is only possible if the land prices charged by municipalities are sufficiently low to make mid-market rental housing profitable. To ensure that landlords also receive effective incentives, clear arrangements must be made about long-term rental and rent increase caps.[14]

14 Recently, the Amsterdam Mid-Market Rental Platform (PAM), which brings together institutional investors and housing associations, made such a proposal. These parties have set themselves the task of building 10,000 mid-market rented homes by 2025. The parties want to agree with the City of Amsterdam that at least 25% of new-builds consist of mid-market rentals, while also making arrangements about initial rent levels and annual rent increase caps for the coming 25 years.

Housing associations can also contribute to a larger supply of non-rent regulated sector by renting out their more expensive housing in the private sector. The homes in their housing stock that are suitable for mid-market rental can be identified by carrying out quality-based reassessments. These houses can then be included in their non-SGEI portfolio for rental in the mid-market segment (PBL Netherlands Environmental Assessment Agency, 2017). However, if the number of homes remains unchanged, this would reduce availability in the social rental segment, which means that additional housing also needs to be built in the social rental sector. This, in fact, is precisely what the housing associations have in mind. They aim to double the production of social rental housing to 34,000 homes per year. Municipalities will make land available for this purpose.[15]

Accelerated phasing out of mortgage interest relief is vital to create a more level playing field between owner-occupied and rental properties. Social rental housing and owner-occupied properties are both subsidised. Private rental housing is not, which makes it relatively expensive. These housing expenses are often unaffordable for highly educated young people and middle-income earners who are also ineligible for the social segment. In addition, mortgage interest relief means that people can pay more for owner-occupied properties than for rental housing. This gives property developers an incentive to concentrate on the owner-occupied market. A further phasing out of mortgage interest relief would reduce the subsidy on owner-occupation. This would make it more attractive to build for the private rented market and give municipalities an incentive to include the specific mid-market rented category in their zoning plans.

15 Aedes, the Dutch organisation of housing associations, has set out this ambition in its Housing Agenda 2017-2021.

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