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Summary

Open doors, closed doors: median-income groups and the housing market
The Councils for the Environment and Infrastructure (RLI), June 2011

In this advisory report, the Councils explore the difficult situation of median-income households on the housing market and present possible solutions.

The Dutch housing market is subject to many problems. There is insufficient throughflow, new-build production has declined, first-time buyers and renters have difficulty in finding a property, and there are problems in terms of affordability. The housing market is stagnating. Moreover, it is divided. There is a rented sector comprising some three million units, in which rental levels are largely subject to legislative control. These units are predominantly occupied by households with a low or median income. There is also an owner-occupied sector comprising approximately four million units. Here, prices are largely determined by market forces and the units are occupied by households with a high or median income. The gulf between the two sectors is becoming even wider. The rented sector lacks a high end, while the owner-occupied sector lacks a low end. In other words, the rented sector finishes too early, the owner-occupied sector starts too late.

In recent years, the VROM Council has published two advisory reports on the housing market. Both consider the functioning of the housing market as a whole, and both advise a fundamental reform of housing policy. The Councils for the Environment and Infrastructure agree that an integrated reform of all aspects of housing policy is indeed necessary. The basic principle must be that of 'ownership neutrality': it should be for the individual to decide whether to buy or rent, not the government. In addition, policy should seek to ensure that only those who are unable to meet their own housing expenses should receive any form of financial support. This calls for a transition from the virtually generic support structures now seen in both the rented and owner-occupied sectors, to a system in which support is more specific and targeted.

The current advisory report focuses on the position of median-income groups on the housing market. There are many indications that this position is now under strain. It is these groups who are most affected by new legislation governing the rented sector, such as the requirement that 90% of rent-controlled social housing units (having a maximum rent of €652 per month), must be rented to households with a combined taxable income of no more than €33,614 per annum. We term this rule the '90% norm'. At the same time, the eligibility criteria for mortgage loans have been made more stringent. The effect of these measures is that median-income households wishing to relocate must look beyond the rent-controlled social rented sector. If they are unable to obtain a mortgage, they will usually be restricted to the private, unregulated rented sector.

Following careful analysis, the Councils have found that households with a low-median income (€33,614 to €43,000) have very few alternatives outside the social rented sector. Other properties are simply too expensive. For many such households, the difference in rents between the regulated and unregulated sectors is too great, while the option of buying a home is not available due to the high prices and stricter lending criteria.

An integrated reform of the housing market is absolutely necessary if these problems are to be resolved once and for all. Nevertheless, the application of a carefully considered combination of measures will mitigate the problems experienced by the (lower) median-income groups even within the current situation. The Councils for the Environment and Infrastructure offer a number of recommendations in this advisory report. The suggested measures may be regarded as transitional arrangements until such times as a full reform of the housing market can be achieved.

The recommendations fall into various categories.

First, the Councils recommend that the income threshold applied further to the European ruling (the 90% norm) should be indexed from 2005, being the time at which the threshold of €33,000 was first mooted. The threshold would then become €37,300 (combined taxable income) in 2011. In addition, it will be appropriate to differentiate the 90% norm by region, since the characteristics of the housing market vary significantly from one part of the Netherlands to another. There are growth regions and there are those in which shrinkage can now be seen. Similarly, there are regions in which demand far outstrips supply and those with a better market balance. In this context, it will also be appropriate to research opportunities for a regional differentiation of the 'liberalization threshold', i.e. the maximum rental value of a property for the purposes of rent control legislation.

As social housing is allocated on the basis of fixed income thresholds, the Councils believe that there are good arguments for differentiation according to the size of the household. Multi-person households require more space than a single-person household. They also have different expenses, over and above that of housing itself. The disposable income available for rent is lower, whereupon it seems appropriate to establish a higher maximum income threshold for multi-person households.

In the implementation of any new policy which derives from European legislation, it is customary to allow a transition period. The negative effects of the 90% norm in terms of the housing opportunities for median-income households can be alleviated by (still) agreeing a transition period with the European Commission. Moreover, some problems can be avoided altogether if housing associations are permitted to phase in the 90% norm over a period of, say, three years. The Councils therefore recommend that the implementation of the measure should be subject to such flexibility.

The Councils also recommend further examination of a number of measures to determine if, and to what extent, they might increase the availability of housing for the (most vulnerable) median-income groups, thus limiting the adverse effects of the 90% norm. This is not solely a government responsibility but that of all parties. It therefore falls to the housing associations and private market parties to pursue a policy with this aim; the role of central government will be to facilitate the process.

The measures under consideration are:

- targeted use of housing allocation arrangements;
- a freeze on the rents of units currently just above the liberalization threshold;
- housing associations sequester part of their assets by means of an 'administrative separation', whereupon there will be no question of state support;
- housing associations sell units at a discount; the Koopgarant scheme (a low income-low risk type of home ownership) will then render the owner-occupied sector more accessible;
- further examination of the possibilities of 'individualized rents';
- an amendment of the liberalization threshold.

If supply in the mid-segment is to be increased, the government must allow housing associations greater opportunity to invest. The associations' investment capital must be therefore be activated rather than being skimmed off. In this context, it may be appropriate to allow housing associations to increase rents by 1% above the current rate of inflation in order to build greater investment capital. Additionally, incentives should be introduced to encourage large pension funds to invest in the housing market, thus increasing the number of private-sector rented properties available. Various European countries have implemented policy measures to achieve this aim and can offer useful examples.

Policy addressing the median-income groups calls for a careful examination of the problem of distortion within the rented sector. This distortion, known informally as 'silting', refers to a situation in which households with an average or above-average income continue to occupy low-rent housing. It is often blamed for the stagnation of the sector. In fact, the number of households paying a disproportionately low rent in relation to their income is small. Where there is any distortion, it is the *result* of housing market problems rather than their cause. It is therefore inappropriate to expect too much of a policy which is solely concerned with resolving distortion. The same applies to the measure which permits landlords to raise rents by 5% above inflation if the tenant household has a combined taxable income in excess of €43,000. It is important to ensure that these households have a viable alternative.