

# Chapter 13

## The Dutch Housing Agenda



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### 1 Introduction

Urban Age, the Triumph of the City, the City of the Future. These are the powerful one-liners from leading institutes and opinion makers, all of whom share a single message: the future lies in the city. For these opinion makers, the fact that the future lies in the city is not merely a matter of hope but a clear fact. Cities are the driving forces behind the economy. The number of people living in a predominantly urban region or intermediate region increases. By 2050, that total will have risen to around 80% (European Union 2016). The structural migration to the cities is above all prevalent among young people (Hekwolter of Hekhuis et al. 2017). They are attracted by the high-quality education and employment opportunities, the culture and the good recreational opportunities. If you combine migration to the cities with low interest rates and rising income levels—so that people can borrow more—then you have the reasons for our attendance at De Nederlandsche Bank’s ‘Hot property’ seminar in May 2018: London, Paris and Amsterdam are all cities with a squeezed housing market and a rising trend in house prices.

The number of homes available cannot keep pace with the rate of migration to the cities. This causes the rise of housing prices to continue. Data from Statistics Netherlands (2018) show that price rises of more than 10% are commonplace in our large cities. With the financial crisis still in mind, the question soon emerges: are we seeing an overheating housing market in our large cities?

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The study undertaken by De Nederlandsche Bank in 2017 ('The housing market in major Dutch cities') shows that the Dutch housing market, in the large cities at least, does seem to be showing signs of that phenomenon. For the time being, however, there are no real indications of a 'credit-driven bubble'. After all, people in the large cities often provide much of their own financing, when they buy a home. At the same time, it remains of key importance that we carefully protect both consumers and the financial sector against the risks of a possible housing bubble.

It is beyond doubt that rising house prices do engender another problem, namely a shortage of affordable housing, above all for those with a middle income. Without access to own funding, they have difficulty finding a home in the city.

The problems on the housing market are a complex social issue. Everyone is entitled to a home. Finding a good balance between accessibility, affordability and minimising the macro-economic risks is a huge puzzle which we in the Cabinet are currently working on. The Cabinet has for example taken steps to slow down the growth of mortgage indebtedness, making both consumers and banks less vulnerable to possible shocks in the future. We will accelerate the reduction of the mortgage interest deductibility until it reaches the level of the lowest tax bracket. In addition, since 2013, home owners have been required to make mortgage repayments, in order to be eligible for mortgage tax deduction. The rules governing mortgages were further tightened up during the last Cabinet period. For example, the loan-to-income standard was adjusted and embedded in a legal framework. Dutch LTI ratios are relatively strict, with the aim of protecting consumers and ensuring financial stability. The maximum mortgage has also been gradually reduced to not more than the value of the home. This is a requirement we plan to adhere to: a maximum loan-to-value of 100%. In our opinion, this is a responsible mortgage level, and it does not unnecessarily hinder access to the housing market for newcomers to that market. In the Netherlands, the level of mortgage payment arrears is particularly low compared to other countries.

## **2 Housing Affordability and Increasing Supply**

This brings us to the next point: the accessibility and affordability of homes. To keep pace with the growth in demand for houses in the cities, it is essential that enough new homes are being built. People should be able to find a home they can afford in the region where they wish to live. We have no intention of deciding where houses should be built. That responsibility lies with the municipalities and provinces. On the other hand, we do wish to tackle the housing shortage in collaboration with local government and the other stakeholders. Solutions require commitment, involvement and cooperation from and between all players in the housing market. We want to take a lead in this process. On a national level, we do this through the National Housing Agenda (Ministry of the Interior and Kingdom Relations 2018). This Agenda has been achieved in order to tackle the challenges in the housing market together with stakeholders in the short and long term. The three challenges that the National Housing Agenda focuses on are increasing and accelerating the construction of housing, making better use of the existing stock, and securing the affordability of housing. However, regional differences

in tightness of the housing market are large, and major aspects of housing policy, like planning the construction of new housing, are mainly the responsibility of municipalities and provinces. That is why we also tackle these challenges at a regional level by initiating discussions, reaching agreements and sharing knowledge in large urban regions where tension on the housing market is high.

First, the acceleration of the housing construction. The 2015–2025 forecast is a housing shortage of 700,000. Building 75,000 homes per year is a gauge on which parties focus and address each other. In the large urban regions, we focus on urging regional stakeholders to construct those houses in areas where demand for housing is highest. One of the reasons why there is such an urgent need to accelerate the rate of house building is that insufficient new homes were built during the crisis period. Production in the construction sector is heavily dependent on economic growth on the market, business and consumer confidence and investor sentiment. On top of these factors, the construction sector is a late-cyclic sector. In other words, the response by the construction sector lags behind economic changes. For that reason, we believe it is essential that we also focus on continuity in the construction process, next to accelerating the production. We have therefore called upon the municipalities and provinces to not only focus on the short term, but also to plan sufficiently for the medium and long term.

With respect to making better use of the existing stock, we will focus on the mid-priced rental sector. Moreover, focus will be on the reinforcement of the municipal housing policy and tackling exploitation of rental housing by landlords.

To secure the affordability of housing, the National Housing Agenda calls for the conclusion of a social rental agreement for the regulated rental sector. In this respect, we will focus on the regular rent increases and appropriate measures to stimulate the flow from the regulated sector to the non-regulated sector for the households who earn enough money to live in a non-regulated rental home.

More than half of the total Dutch housing stock consists of owner-occupied homes. The vast majority of rental homes are in the social housing sector, for which access is limited by a maximum income level. In other words, in the Netherlands we have a relatively small non-regulated rental sector. And specifically that non-regulated rental sector is becoming increasingly important. Young people no longer wish to immediately tie themselves down with an owner-occupied home, and the flexible labour market means that in particular demand for affordable rental housing is rising. Particularly in the large urban regions, limited supply and high demand for rental housing in the non-regulated sector has led to very high rent levels, mostly eliminating the existence of a mid-priced rental sector. Within the Cabinet, our priorities are focused on this mid-priced rental sector. More mid-priced rental housing is an essential precondition for a smoothly functioning housing market. More mid-priced rental housing promotes flow on the market, and that flow is needed in order to offer newcomers to the housing market and young families good-quality accommodation.

At the start of 2017, headed by the government, a start was made on bringing local parties together. Agreements were reached with those parties on creating more mid-priced rental housing. On a national level, we explored ways to provide solutions to deal with the practical obstacles at local level. One of the great hindrances was the lack of communication between municipalities and investors. A digital platform to promote specifically that form of cooperation has been

launched, via which municipalities can now publish their plans for the construction of mid-rental housing.

### 3 Concluding Remarks

The housing market today still faces a large number of challenges, and the key question is how we should solve the problems facing the housing market as effectively as possible. Central bankers will concentrate their efforts from their position as guardians of financial stability; our efforts will be based on our role as guardian of the housing market. Our advice is to respond in a timely fashion to the dynamics of today's modern cities. We must ensure the accessibility and affordability of all regions including large urban areas and for all groups in our society. And we must protect our society from the consequences of rising purchase and rental prices, limited flow on the market and long waiting lists.

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