

Promoting Investment in Private Rented Housing Supply: International Policy Comparisons

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1. Introduction

1.1 This note gives a brief overview of the policies towards the private rental sector in the Netherlands, with specific attention being paid to policy measures that aim to promote investment in this sector. The report is based on an analysis of existing sources and documents, with a particular focus on Haffner *et al* (2009).

2. Data and information

2.1 In 2006, 11 per cent of the Dutch housing stock consisted of private rental dwellings. Between 1947 and 1989, the share of the private rental sector has dropped from 60 per cent to 13 per cent. Since 1989, the Dutch private rental has continued to lose market share, albeit at a much slower pace.

2.2 Since 1990, the share of the Dutch private rental sector in the production of newly built dwellings ranges between 5 and 10 per cent.

2.3 Approximately 40 per cent of the Dutch private rental dwellings are owned by individual private rental landlords (including small companies). These landlords are usually small-scale and primarily own dwellings built before 1940 with a relatively low quality and rent (Priemus, 1998).

2.4 The other 60 per cent of the Dutch private rental dwellings are owned by professional private rental landlords. These are mainly institutional investors such as pension funds, insurance companies and investment funds (Elsinga *et al*, 2007). These professional private rental landlords are usually rather large in scale and primarily own dwellings built after 1960. Their dwellings are relatively new, relatively expensive and generally of high quality (Priemus, 1998).

3. Rent regulation and tenant security

Rent regulation

3.1 The Netherlands has a strict rent regulation system that covers both the social rental and the private rental sector. In the private rental sector, 84 per cent of the dwelling stock is rent-regulated. The regulated dwellings are subject to a dwelling valuation system (*woningwaarderingssysteem: WWS*), which accords points to a dwelling on the basis of the quality of the housing and the housing environment. A maximum rent is then set on the basis of the number of points. For the regulated private rental sector, a maximum annual rent increase is set every year by the central government. The current Dutch government has decided to pursue an inflation-indexed rent policy in the period 2007-2010.

Promoting investment in private rented housing supply: international policy comparisons

- 3.2 Private rental dwellings with enough quality points (> 143) and/or a sufficiently high rent (€631.73 in 2009) are part of the unregulated private rental sector. In this unregulated sector, neither the initial rent setting nor the annual rent increase are controlled.

Tenant security

- 3.3 A tenancy agreement in the Dutch private rented sector is usually for an indefinite period of time, with the tenant having a term of notice of one month. Some private rental sector contracts, however, state that the tenant should rent the dwelling for at least one year. A landlord can only terminate a running tenancy agreement under specific circumstances listed in the Dutch civil code (Elsinga *et al*, 2007).

4. Subsidies and tax incentives for private rental landlords

- 4.1 Until the 1980s, there were similar object subsidy arrangements for both social rental and private rental landlords. These object subsidies provided a contribution to the exploitation costs of the rental dwellings and they were paid out on a yearly basis. The Decree on Dwelling-Linked subsidies in 1992 brought these operational subsidies to an end and replaced them with a one-off contribution. When this programme was ended in 2005, it put an end to all bricks and mortar subsidies in the Netherlands. The government does, however, still make limited location subsidies available for the construction of housing in urban regions.

Subsidies for renovation and improvement of housing quality

- 4.2 There are no comprehensive national policy instruments that aim to improve the quality of the existing private rental dwelling stock. However, some municipalities, especially urban municipalities with a relatively old housing stock, have developed their own policies. For example, they may put money into a special fund (*Stimuleringsfonds Volkshuisvesting Nederlandse Gemeenten*). This fund then provides long term loans with a low interest rate to homeowners or private rental landlords that want to invest in home improvement and renovation. The interest payments and amortizations of the loan flow back into the fund, which is supposed to function according to the 'revolving fund' principle.

Taxation of institutional private rental landlords

- 4.3 The taxation of private rental landlords differs according to the type of landlord. Professional private rental landlords (companies) will be subject to corporation tax (35 per cent). However, institutions which only invest (such as insurance companies and pension funds) may be exempt from this tax, provided they pay a dividend to the shareholders.

Promoting investment in private rented housing supply: international policy comparisons

- 4.4 Individual private rental landlords pay tax on three types of income¹:
- Income from employment and home ownership (box I)
 - Income from a substantial interest (box II)
 - Income from savings and investments (box III)
- 4.5 The profit realised by more active asset managers is taxed on the basis of box I. The rate depends on the income and reaches a ceiling at 52 per cent. In practice, it is the tax inspector who decides which box applies. Many market landlords are taxed on the basis of box III because the tax inspector regards them as investors. The rate is 30 per cent of a notional profit of 4 per cent of the positive balance of assets less liabilities. In effect, this works out at a tax rate of 1.2 per cent. Expenditure on maintenance or home improvement is not tax-deductible (Elsinga *et al*, 2007).
- 4.6 Finally, there is a property tax for all owner-occupier and rented dwellings that is based on the market value (on the home owning market) of the private rental dwelling. The percentage of this property tax differs between municipalities.

Lower VAT on insulation of the dwelling

- 4.7 From 1 July 2009 and onwards, renovation activities that improve the insulation of private rented or owner-occupancy dwellings are subject to the lower VAT rate (6 per cent instead of 19 per cent).

5. Key factors influencing investment in the private rental sector

- 5.1 Investment in the Dutch private rental sector is rather limited. The following three factors are often blamed for this:
- The strict rent regulation which makes investments in the regulated rental segment unattractive.
 - The full fiscal deduction of mortgage interests in the Dutch owner-occupancy sector, which makes owning a home financially more attractive than renting, thus reducing the demand for private rental dwellings.
 - The potentially unfair competition of social rental landlords. Recently, this argument has become less valid because social rental landlords now also have to pay corporation tax.

6. Reasons for selecting or not selecting Australia in the next stage of the research

- 6.1 Reasons for selecting the Netherlands:

¹ These boxes refer to categories in the Dutch income tax system. The terms are commonly used.

Promoting investment in private rented housing supply: international policy comparisons

- With the exception of the rent regulation, there are some similarities (especially with regard to the tenure distribution, the housing allocation and the role of private housing associations) between the housing systems of the Netherlands and the UK.

6.2 Reasons for not selecting the Netherlands:

- As a result of the strict rent regulation, the investment conditions in a large part of the Dutch private rental sector are restricted and therefore not comparable to the free market conditions in the private rental sector of the UK.
- The Dutch private rental sector is not very dynamic; its share is declining and new investment into it is limited.
- There are few government measures that aim to promote investment in the Dutch private rental sector.

Promoting investment in private rented housing supply: international policy comparisons

References

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