



### **Position paper on Country Report 2019**

Aedes greatly values the work of the European Commission's services on the European Semester. Aedes represents 90% of the social housing sector in the Netherlands. Since the Country Reports and Country Specific Recommendations (CSRs) often include an analysis of the Housing market, we monitor the European Semester closely.

We applaud the Commission for taking steps in making the European Semester more social by integrating the European Pillar of Social Rights into the Country Reports. Finally Aedes supports the plans of the Commission, as set out in the AGS, to ensure more effective links between European Funding and the European Semester. Especially European funding possibilities fostering the energy transition are appreciated. With regards to the analyses on the housing market we would like to offer our technical expertise through this position paper.

#### **Mortgage interest deductibility and distortions on the housing market**

Aedes agrees with the assessment of the European Commission that mortgage interest deductibility remains an important distortion on the housing market. Subsidies to owner occupied housing have an upward effect on the price of houses. Furthermore mortgage interest deductibility inflates land prices in this segment which may not incentivize municipalities to include sufficient shares for the private rental sector in their zoning plans, as is concluded in the country report.

The report also concludes that the social housing sector is subsidised. It is important to stress that housing corporations have not received direct subsidies for the construction of social housing since 1995. In fact, housing corporations are a net contributor to the government's budget through various forms of taxation.

Housing corporations do receive a form of state aid. This has been declared compatible with European state aid legislation in Decision C (2009) 9963. State aid mostly consists of guaranteed loans by the Social Housing Guarantee Fund (Waarborgfonds Sociale Woningbouw, hereinafter WSW). The WSW is a private body. To cover claims on this guarantee the WSW firstly draws on its guarantee reserve. If this falls below a certain level, as a second buffer, the WSW requires a compulsory financial contribution from all housing corporations. For this commitment housing associations reserve money on their budgets. The third buffer consists of the agreement with central government and municipalities that WSW can dispose of interest-free loans if necessary. So far it has never been necessary to fall back on this third buffer.

If a corporation cannot meet its financial obligations, the WSW may also provide aid from a rationalisation fund. Rationalisation aid is considered to be state aid as well. This fund is financed from a general levy on all housing corporations and not from general taxation.

Aedes does not share the assessment that subsidies to the social housing sector lead to an underdeveloped private rental sector. Apart from the fact that housing corporations do not receive direct subsidies, and the state aid that housing corporations receive is largely financed by the sector itself, housing corporations offer affordable housing in a domain where, due to a lack of return in investment, there is in fact no market supply.

#### **Affordability: struggling middle income households**

Aedes shares the conclusion drawn by the European Commission that the private rental sector and the owner-occupied is often not affordable for middle-income households, especially in pressured urban areas. At the same time these households are not eligible for social housing. A recent report concluded that due to this fact around 400.000 middle income households struggle to find affordable housing<sup>1</sup>.

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<sup>1</sup> Planbureau voor de Leefomgeving. Middeninkomens op de woningmarkt. Ruimte op een krap speelveld.



In an increasing number of regions there is no connecting middle segment in private rental nor in owner-occupied housing market (700-1000 euro rent per month). In a recent evaluation of the Housing Act a Commission, chaired by former Member of Parliament Van Bochove, summed up several reasons for this development<sup>2</sup>:

- Housing corporations are bound by stricter allocation rules and focus on the core task of providing housing to people with a low income.
- Construction costs and land prices are rising, which means that it is not financially profitable for market parties to build and rent homes in this segment.
- Home ownership is less easily accessible due to stricter mortgage conditions and the sharp increase in prices, particularly in (urban) scarcity areas.
- Housing corporations are free to allocate an additional 10% to households above the income threshold for social housing. The free space of 10 percent is not or insufficiently used by corporations. For the fear of sanctions, they stay away from the limits.

Especially in cities rental prices are increasing. Some cities are prioritizing key workers in the allocation of housing in order to prevent a shortage of, for example, teachers, nurses or policy officers<sup>3</sup>. The national government is planning to initiate an *emergency button* for the middle rental segment (*noodstop middenhuur*). This allows municipalities in regions with excessive rental prices to maximize the initial rental price of a free sector rental home based on a percentage of the fiscal value of a house (*WOZ-waarde*)<sup>4</sup>.

Aedes worries about the development of rental prices and calls upon the European Commission to monitor the affordability of rental housing in the European Semester process.

#### **Housing corporations and the middle income households**

Aedes observes that in many (urban) pressure zones, it has become difficult to find affordable housing at market prices. Investors and other landlords offer dwellings in the private rental market, however the rental prices are often higher than €1.000 a month. We advocate that, where it apparently is not possible to offer affordable housing at market conditions by market parties, this should be carried out as an SGEI-activity. Evidently there is no displacement of the market since it is not profitable enough to offer middle segment dwellings at affordable prices.

Therefore, we advocate that the domain for SGEI should be increased in regions where these middle segment dwellings are not offered by market parties. A local differentiation of the income limits and deregulation limit would help housing corporations to invest in rental properties with a rent between 700 and 1.000 euro and do justice to the clear regional differences in the housing market.

As a second best, housing corporations can build dwellings for middle income households as a non-SGEI activity. The Dutch government has submitted a draft law to Parliament to increase supply in the mid-priced rental market (*Wet maatregelen middenhuur*) by easing the requirements for housing corporations to build for this segment as a non-SGEI activity. Easing requirements for housing corporations, through simplifying the market test, to build for this segment is a positive step.

The market test, however, remains an important obstacle for housing corporations to build in the middle segment as non-SGEI activity. With the market test, a municipality assesses whether (market) parties other than a housing association are interested in carrying out a non-SGEI activity. Only if the test shows that this is not the case, the housing corporation may proceed.

We witness that many municipalities do not initiate market tests because it is considered to be too complicated. In some municipalities where a market test was undertaken, this led to delays of nearly a year. For housing corporations this creates a large dependency on the planning of other parties, which makes it difficult to formulate policy in this area. Therefore we call for abolishing the market test all together, rather than easing up the requirements in this test.

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<sup>2</sup> Rapport van Commissie van Bochove: Evaluatie herziene Woningwet. Kansen en belemmeringen voor de maatschappelijke opgave van woningcorporaties

<sup>3</sup> See for example: Woonagenda 2019-2023 by the city Den Hague

<sup>4</sup> <https://www.rijksoverheid.nl/actueel/nieuws/2019/02/22/kabinet-neemt-maatregelen-voor-beter-betaalbare-huurmarkt>



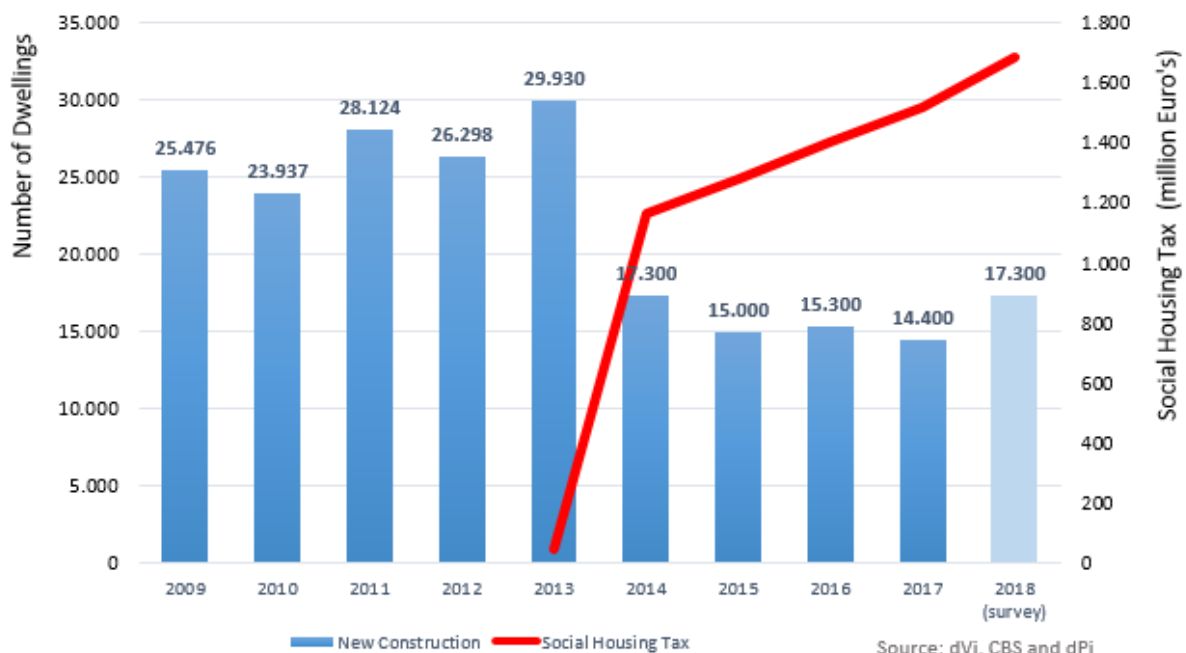
**Availability: obstacles in new construction**

The European Commission rightly concludes that building more homes could help ease current housing market pressures. Although the development of new dwellings started to recover and an annual construction target of 75.000 dwellings until 2025 was set, the annual State of the Housing Market (published by the Dutch government) still predicts a housing shortage of 221.000 dwellings (2,6% of the total housing stock) by 2030.

Housing corporations face important bottlenecks in carrying out new construction plans. Recently, Aedes conducted a survey amongst its members regarding the bottlenecks they faced<sup>5</sup>. Most important bottlenecks that were reported back are rising construction costs, lack of building locations, high ground prices, lack of personnel capacity on the part of the municipality, negative financial feasibility of projects and insufficient construction staff and raw materials.

With regards to the financial feasibility of projects an important bottleneck remains the social housing tax. A tax levied especially to housing providers in the regulated sector. The dVi<sup>6</sup> demonstrates a direct link between the level of new construction and the introduction of the social housing tax.

**Structural drop in new construction since introduction of social housing tax**



During the last financial crisis housing production dropped to an all-time low and currently there is still a lack of sufficient capacity in the construction sector. For a large part this was caused by restraining the anticyclical investment role that social housing providers can take up during times of economic crisis. Aedes supports the suggestions made by Maarten Camps (secretary-general of the ministry of Economic Affairs and Climate) that housing corporations can compensate for part of the decline in the private sector production by building anticyclical<sup>7</sup>.

<sup>5</sup> Corporatiemonitor Nieuwbouw: <https://dkvwg750av2j6.cloudfront.net/m/1ba52dad0d83e010/original/Aedes-Corporatiemonitor-Nieuwbouw-februari-2019.pdf>

<sup>6</sup> dVi refers to 'de Verantwoordingsinformatie' (accountability information). A standardized dataset that housing corporations provide to various government institutions on yearly basis

<sup>7</sup> Nieuwjaarsartikel: Sturen op Economische Groei. <https://esb.nu/esb/20048899/nieuwjaarsartikel-sturen-op-economische-groei>



The annual State of the Housing Market report concludes, however, that the circumstances for such a policy are unfavourable. Since housing corporations became financial independent from the government in 1995, their investment decisions are based on business economic principles and financing conditions. The report presents the introduction of an income limit in 2011 and the introduction of the social housing tax in 2013 as obstacles to new construction plans and an anticyclical building policy<sup>8</sup>.

Given the fact that new construction of residential dwellings is highly needed and the economics prospects are faced with uncertainties, Aedes advocates decreasing the social housing tax in order to facilitate more new construction and an anticyclical building policy by social housing providers.

### **The European Pillar of Social Rights**

We applaud the European Commission for integrating the European Pillar of Social Rights into the Country Reports and it is good to see that the Netherlands performs well on most of the indicators on the Social Scoreboard. We would like to remind the Commission that the pillar also includes a principle that states that access to social housing shall be provided for those in need (principle 19a), which is unfortunately not reflected in the Social Scoreboard.

In line with the recommendations of the EU Urban Agenda Housing Partnership we recommend that an indicator on the affordability of housing is added to the Social Scoreboard of the European Pillar of Social Rights.

### **Investment needs**

We support the efforts of the European Commission to link European funding with the European semester. The Country Report rightly concludes that the energy transition and the reduction of carbon dioxide emissions requires substantial investments.

In the revised Energy Performance of Building Directive (EU 2018/844) members states are required to formulate and implement a long-term strategy for a (almost) carbon free housing stock in 2050. Aedes also envisions a climate neutral building stock and is willing to put words into action. It is our ambition to reach an average energy label B as sector in 2021.

In order to achieve an CO<sub>2</sub>-neutral building stock, substantial investments are needed. Recently the WSW<sup>9</sup> estimated that housing corporations would need to borrow an additional 6,9 billion euro in the next five years if they were to achieve energy label A in 2030. The same study concluded that many housing corporations do not have the financial strength to make these investments.

European funding, such as EFRD-funding, has had a positive impact in promoting energy efficiency measures and the use of renewable energy in housing. While the investment guidance on Cohesion Policy Funding (Annex D) mentions *projects in support of the low-carbon agenda*, we recommend to explicitly mention investments in energy efficiency measures and the renewable energy in housing as a priority investment area.

This safeguards that we continue the good work that was carried out under the current EFRD-programme and is in line with the ambitions of the European Commission as formulated in the revised EPBD.

### **Suggested Country Specific Recommendations**

- 1) *Take measures to improve the affordability of housing for middle income households, by facilitating social housing providers to build for this segment through either increasing the income limit for social housing or through the abolishment of the market test.*
- 2) *Take measures to improve the availability of housing by incentivizing the construction of residential dwellings and an anticyclical building policy. This can be achieved by decreasing the social housing tax.*

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<sup>8</sup> Staat van de Woningmarkt 2018

<sup>9</sup> Waarborgfonds Sociale Woningbouw: Investeren in verduurzaming DAEB-bezit kent grenzen