INTERNATIONAL MONETARY FUND

Housing Supply in the Netherlands: The Road to More Affordable Living

NETHERLANDS

Andre Geis

SIP/2023/023

***IMF Selected Issues Papers* are prepared by IMF staff as background documentation for periodic consultations with member countries.** It is based on the information available at the time it was completed on December 16, 2022. This paper is also published separately as IMF Country Report No 23/034.

2023
FEB

SELECTED ISSUES PAPER

 SIP/2023/023

IMF Selected Issues Paper
European Department

Housing Supply in the Netherlands: The Road to More Affordable Living
Prepared by Andre Geis

Authorized for distribution by Bernardin Akitoby
February 2023

***IMF Selected Issues Papers* are prepared by IMF staff as background documentation for periodic consultations with member countries.** It is based on the information available at the time it was completed on December 16, 2022. This paper is also published separately as IMF Country Report No 23/034.

ABSTRACT: *With the supply of residential dwellings in the Netherlands having failed to live up to demand over the last decade, apprehension among the population about the availability of affordable housing has risen. Particularly spatial, regulatory, planning, environmental and supply chain constraints have kept a lid on construction. Recognizing the socio-economic challenges posed by inadequate housing supply, the government has embarked on an ambitious agenda with promising steps to boost the availability of affordable properties. To strengthen the traction of housing policies to reach its intended goals, a larger role for economic incentives and private sector involvement should be evaluated.*

RECOMMENDED CITATION: Geis, Andre. Housing Supply in the Netherlands: The Road to More Affordable Living. IMF Selected Issues Paper (SIP/2023/023). Washington, D.C.: International Monetary Fund.

JEL Classification Numbers: G21, G28, G51, H21, H24, H25, H42, H54, R21, R31, R38, R52
Keywords: residential real state; housing market distortions; housing supply; housing policies; social housing; rent control; housing taxation; housign subsidies; macroprudential policies
Author's E-Mail Address: AGeis@imf.org

SELECTED ISSUES PAPERS

Housing Supply in the Netherlands: The Road to More Affordable Living

NETHERLANDS

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHELANDS-THE NETHERLANDS

SELECTED ISSUES

February 8, 2023

Approved By
European Department

Prepared By Andre Geis

CONTENTS

HOUSING SUPPLY IN THE NETHERLANDS: THE ROAD TO MORE AFFORDABLE LIVING[1]

With the supply of residential dwellings in the Netherlands having failed to live up to demand over the last decade, apprehension among the population about the availability of affordable housing has risen. Particularly spatial, regulatory, planning, environmental and supply chain constraints have kept a lid on construction. Recognizing the socio-economic challenges posed by inadequate housing supply, the government has embarked on an ambitious agenda with promising steps to boost the availability of affordable properties. To strengthen the traction of housing policies to reach its intended goals, a larger role for economic incentives and private sector involvement should be evaluated.

A. Introduction

1. **Following an extended phase of contraction after the global financial crisis, the Dutch housing market has experienced a prolonged period of remarkable price increases.** After reaching a trough in mid-2013, house prices have nearly doubled, thereby also surpassing their previous peak seen on the eve of the global financial crisis by more than half. Demand was supported by a decline of mortgage interest rates towards historic lows, advantageous borrowing conditions, e.g., in the form of rather generous loan-to-value limits or the existence of interest-only mortgages, and a tax system strongly favoring the ownership of homes. In addition, net migration as well as the formation of new—and smaller—households have grown at relatively robust rates over the past decade, further contributing to sustained demand for living space. As a result, housing valuations in the Netherlands are among the highest in the euro area with model-based estimates indicating an overvaluation of 14 percent in 2022:Q2.[2] At the same time, residential properties are the least affordable when measured on the basis of price-to-income ratios which have risen by more than 50 percent since 2015.

2. **Aware of possible macro-financial and social-economic consequences of expensive and richly valued housing, various polices have been adopted to attenuate imbalances.** Since January 1, 2013, the authorities established legally binding rules that only up to half of a property's market value can be financed with interest only mortgages. In addition, it was decided to progressively tighten loan-to-value ratios to a 100 percent maximum by 2018 and introduce a framework for evaluating the debt-service-to-income burden of households. In January 2022, the Dutch central bank introduced minimum risk weights for mortgage loans. While these measures have primarily targeted the mitigation of macro-financial risks by preventing a further rise in elevated household indebtedness, they may have also contributed to dampening price increases by putting limits on the size and availability of mortgages. Moreover, taxation has been repeatedly

[1] Prepared by André Geis (EUR). The analysis benefitted from excellent research assistance by Yushu Chen (EUR) as well as helpful comments and suggestions by Bernardin Akitoby (EUR).

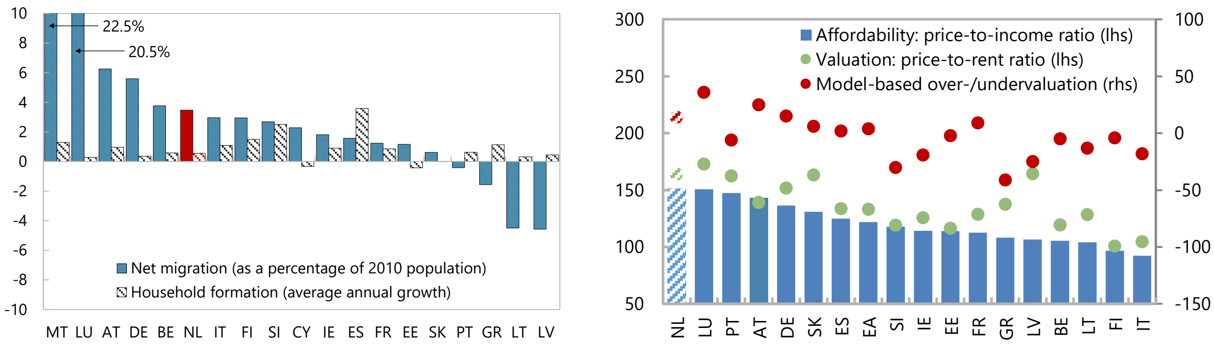
[2] For details about the methodology employed to estimate the model-based housing valuations presented in the chart, see ECB (2011) and ECB (2015).

modified from January 2013, including by limiting mortgage interest tax deductibility to amortizing contracts of up to a 30-year maturity and gradually lowering of the applicable rate for higher income households.[3] By reducing the attractiveness of the (debt-financed) acquisition of owner-occupied housing, such adjustments to the tax code may have helped to curb demand and prices. More recent tax changes, however, may have the opposite effect, such as the differentiation since 2021 of taxes for real estate transactions between individuals buying their first owner-occupied property, acquirers of their second or following home and investors in buy-to-let residential real estate, or gift tax exemptions in place since 2022 for the purchase of the beneficiary's own home. Lastly, the Netherlands maintains a large social housing stock and an extensive system of rent control, aiming to contain the rental expenses of households unable or unwilling to purchase a home.

Figure 1. Demographic Trends and Housing Valuations

Net Migration and Household Formation, 2011-2020
(Percentages)

Housing Affordability and Valuations, Q2 2022
(LHS: Index, 2015 = 100; RHS: Percent)



Sources: Eurostat and IMF staff calculations.

Sources: OECD and ECB.

3. Despite a tight residential property market, supply has lagged, heightening concerns about the availability of quality affordable housing. A large majority of Dutch households are living in rental accommodation or in a mortgaged home, reflecting the widespread accessibility of dwellings at below-market rents and tax incentives favoring an owner-occupied property carrying debt. At the same time, survey-based evidence is pointing towards apprehension about the affordability of homes of satisfactory quality among households, indicating perceived weaknesses regarding the functioning of the housing market. Indeed, the unresponsiveness of supply to price signals has been a long-standing characteristic of the housing market in the Netherlands, with the failure of many construction companies during the 2009–2013 downturn in house prices further hampering the provision of homes.[4] Against this background, the following analysis provides an overview of government polices meant to help renters and buyers of residential property to obtain a home and sketches some of their socio-economic implications. It then recaps medium-term

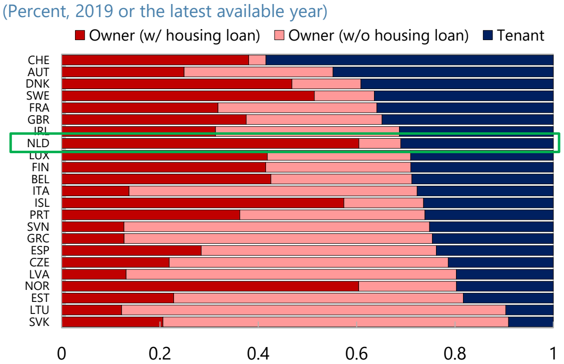
[3] Non-amortizing mortgages originated before 2013 remain eligible for mortgage interest tax deductibility.

[4] Various cross-country studies are putting the supply elasticity of housing in the Netherlands at the lower end of estimates. See, for instance Caldera and Johansson (2013) or, more recently, Inchauste et al. (2018) and Cavalleri et al. (2019).

developments in Dutch housing supply and some of the obstacles in the way of bolstering more construction. Lastly, it highlights the key policy proposals adopted by the government in office since January 2022 before developing some recommendations to deal with the challenges of an unbalanced housing market.

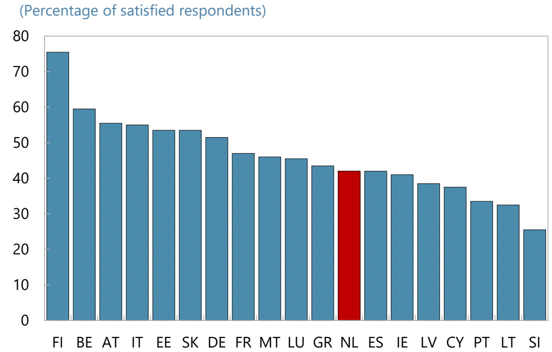
Figure 2. Tenant Structure and Housing Affordability

Tenure Structure Across Countries
(Percent, 2019 or the latest available year)



Source: EU-SILC.

Quality affordable housing availability, 2020-21
(Percentage of satisfied respondents)



Source: OECD.

B. Existing Government Housing Policies and Socio-Economic Implications

4. Rent controls and social housing are one of the planks with which the authorities strive to ensure the availability of affordable living. Rental dwellings in the Netherlands are classified with the help of an elaborate points system, ranking properties according to their market value as well as characteristics such as size, amenities or energy efficiency.[5] Homes falling below a certain point threshold are attributed to the rent-controlled (social) sector with monthly rents capped at a maximum amount and annual rent increases limited to wage growth agreed in collective labor agreements minus 0.5 percent.[6] Free market rentals above the threshold are subject to the same strictures for existing tenants but can be offered to new occupants without constraints.[7] Regulated rentals are constituting about three quarters of all rental properties in the Netherlands.[8] Non-profit housing associations are accounting for nearly four fifths of the supply of rent-controlled dwellings with eligibility primarily determined by household income.[9] Housing associations are

[5] For the current calibration of the framework, see https://wetten.overheid.nl/BWBR0003237/2022-07-01.

[6] For 2023, the maximum monthly rent in the rent-controlled sector was set at €808.06.

[7] From May 1, 2021 to May 1, 2024, however, the government has also imposed restrictions on permissible rent increases for free market rentals, first following the inflation plus 1 percent rule applicable to rent-controlled housing yet replacing it with a wage increase plus 1 percent approach from 2023 if wage developments remain below inflation.

[8] With the recent announcement of plans by the government to broaden the scope of the points system, about 96 percent of rental properties will be subject to rent control.

[9] In 2023, housing associations will have to allocate at least 92.5 percent of their rental property supply to households with an annual income of less than € 44,035 (single-person household) and € 48,625 (multi-person household). The remainder could be allocated to households above these thresholds.

subject to a public service mandate, obliging them to offer affordable homes, including for priority groups such as the elderly, and to contribute to livable neighborhoods. In turn, they benefit from a state guarantee on their borrowing and municipalities may give them preferential access to land at below-market prices. The remaining fifth of rent-controlled dwellings is provided by for-profit and individual parties, chiefly because the points attributed to their properties fall below the eligibility threshold for the free market, due to, for instance, the small size of single-occupant offerings. For low-income tenants with limited assets, a monthly allowance to subsidize rental payments is available.[10]

5. Generous tax subsidies and borrower-friendly mortgage market characteristics favor owner-occupied dwellings. Although the taxation of owner-occupied housing has been tightened in recent years, its tax status remains favorable. Housing continues to be subject to taxation in Box 1 of the Dutch income tax code where taxes paid on a comparatively low level of imputed rent are more than compensated for by tax expenses claimed for mortgage interest, leaving housing (wealth) much more advantageously taxed than other forms of savings or investment that are subject to taxation in Box 3.[11] While reducing the rate at which mortgage interest can be deducted from 52 percent in 2018 to 37 percent by 2023 is diminishing the benefits accruing to home owners, they are at least partly offset by the parallel decline of the share imputed rents constitute of a property's value, from 0.70 to 0.35 percent, as price increases in houses have outpaced corresponding rises in rents over the same period.[12] In addition, the government waves the 2 percent transaction tax for first-time buyers of a home with a value of up to €400,000 who are aged between 18 and 35 years and maintains a tax exemption for gifts up to €106,671 for recipients aged between 18 and 40 years if the proceeds are used for the purchase or renovation of an owner-occupied home.[13] Likewise, loan-to-value limits on mortgage lending, at 100 percent, are among the highest in the euro area which, particularly in combination with still generous mortgage interest tax deductibility, makes borrowing against housing collateral an attractive proposition. Moreover, half of a home loan can be financed with an interest-only mortgage, requiring no amortization, although tax advantages for such funding arrangements have been abolished in 2013.

6. Housing market polices of the government to make access to rental or owner-occupied properties more equitable and affordable seem to fall short of their desired goals. Indeed, the share of disposable income Dutch households need to allocate to housing is

[10] For current eligibility requirements, see https://wetten.overheid.nl/BWBR0008659/2023-01-01.

[11] For an overview of the Dutch capital income tax system, see, for example, Klemm et al. (2021). For a particular focus on the taxation of housing in the Netherlands, also in comparison to other countries, see Geis and Luca (2021).

[12] See OECD (2021b).

[13] On January 1, 2023, the home value for which the transfer tax exemption applies was raised to €440,000. At the same time, the transfer tax for purchasers of owner-occupied properties who are not first-time buyers remained at 2 percent while it increased from 8 percent to 10.4 percent for acquirers of buy-to-let housing. After an evaluation of the scheme, the gift tax exemption was lowered to €28,947 on January 1, 2023 and will be abolished from January 1, 2024.

comparatively high. Particularly renters face much steeper costs than the euro area median while the burden for owners with a mortgage has closely followed the trend decline seen in the median euro area country. Moreover, rental expenditure as a share of total household consumption is elevated in a euro area context, driven by both actual rentals (third highest share) and, to a lesser extent, imputed rentals (seventh highest share). Such discrepancies between owners and renters also bear on distributional equity. For owners whose home serves as collateral for a mortgage, housing cost burdens ranged from 15 percent of disposable income for the top quintile of households to 24 percent for the bottom quintile in 2010 but had gotten compressed to a 12–15 percent span by 2020. By contrast, renters spent between 17 percent (top quintile) and 36 percent (bottom quintile) in 2020 against 14–32 percent in 2010, signaling worsening inequality between owners and renters as well as among renters over time, further aggravated by multi-year waiting periods for admission to rent-controlled social housing.[14] In addition, home ownership rates in the bottom two income quintiles are far below the median country in the euro area and have not improved since 2010, suggesting that most of the tax benefits of owning a property are accruing to better situated households.

7. Government policies to support tenants and owners involve sizeable budgetary costs, heighten financial vulnerabilities and aggravate housing market distortions. According to OECD figures, foregone revenues due to mortgage interest tax relief amounted to 1.3 percent of GDP in 2019 with spending on housing allowances requiring outlays of 0.5 percent of GDP in 2020.[15] Furthermore, the tax-advantaged status of owner-occupied housing incentivizes households not only to acquire their home but also to leverage their investment to the maximum extent possible to make full use of the benefits implied by mortgage interest tax deductibility. As a result, the debt burden of Dutch households is among the highest in the euro area with about two fifths of the outstanding mortgage stock accounted for by interest-only products, raising risks for macro-financial stability in the event of a housing market downturn. Lastly, the subsidization of social and owner-occupied housing has contributed to a crowding out of the private rental market since the end of the World War II even though there have been some signs of a reversal in recent years.[16] Such limited availability of private rental offerings is burdening tenants who are ineligible for social housing and unable or unwilling to buy a home with hard-to-find and pricey accommodation.

C. Challenges to Revive a Flagging Housing Supply

8. Residential investment has trailed the euro area average, particularly in the years since the global financial crisis and the 2009–2013 bust in the Dutch housing market. While real

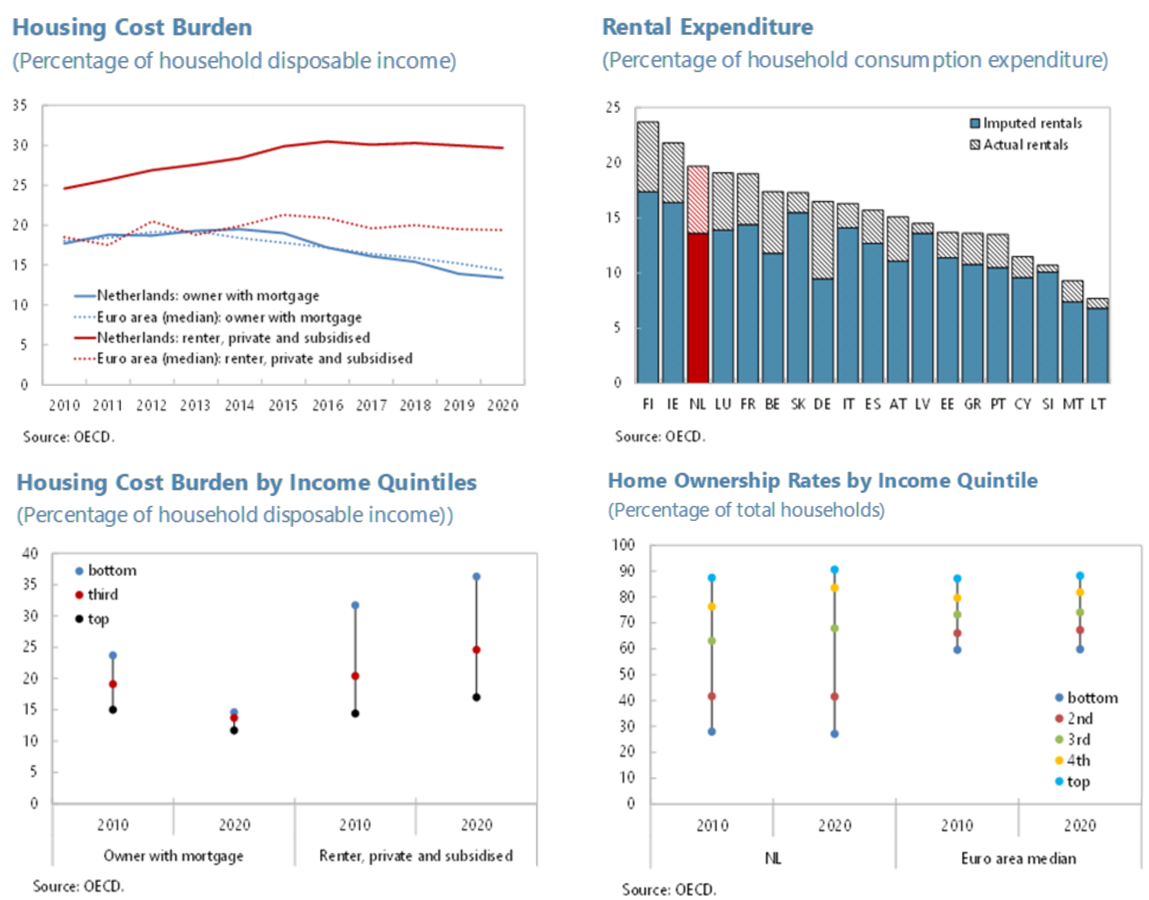
[14] Kromhout and Wittkämper (2019) show that, depending on the region, waiting periods for social housing can last from 2.0 to 13.7 years.

[15] See OECD Questionnaire on Affordable and Social Housing, various vintages (https://www.oecd.org/housing/data/affordable-housing-database/).

[16] See Scherpenisse and Schilder (2018).

investment in homes as a share of real GDP has recovered from its late 2013/early 2014 trough, it remains some way off the euro area average and noticeably below the level in neighboring economies, such as Belgium, France, or Germany. Likewise, residential building permits have yet to return to the numbers prevailing in the decade before the global financial crisis. As a result, the rise in the Dutch housing stock per head has stayed among the lowest in the euro area, falling short of demographic requirements, both from a national and an intra-regional perspective.[17]

Figure 3. Housing Cost Burdens and Distributional Equity Implications

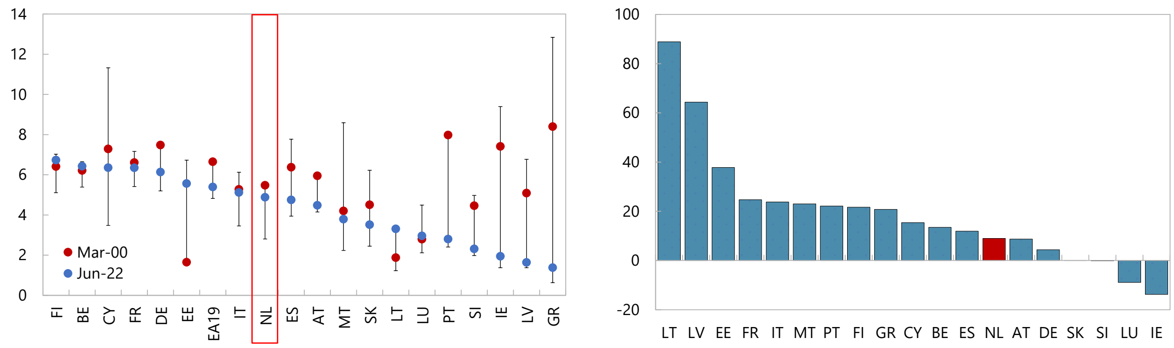


[17] Öztürk et al. (2019) find that house prices in the Netherlands show a much higher sensitivity to income shocks in municipalities with strong as opposed to weaker supply constraints, pointing towards notable heterogeneity of the Dutch housing market and the important role played by supply constraints for the development of house prices.

Figure 4. Housing Investment

Real Residential Investment
(Percentage of real GDP)

Change in housing stock, 2011 to 2018
(Dwellings by 1,000 inhabitants)



Sources: Eurostat and IMF staff calculations.

Source: OECD.

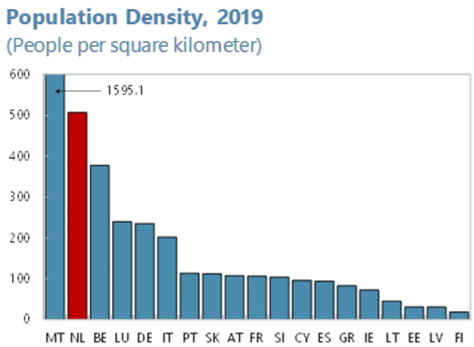
9. Improving the supply of housing in the Netherlands is confronting a confluence of challenges, including spatial, regulatory, planning, environmental and supply chain constraints. After Malta, the Netherlands are the most densely populated country in the euro area, limiting the scope for residential development and the associated infrastructure, also reflecting competition from other uses, such as agriculture, industry or commerce. Consequently, building plans, codes and regulations are striving to meet multiple desirable goals, such as ensuring a high degree of livability, environmental sustainability, a balanced social fabric and the preservation of cultural heritage. However, such considerations are also lengthening permit procedures and are increasing the complexity of construction projects, particularly when pursued in a decentralized fashion at the level of individual municipalities. They are therefore prone to raising the costs for developers with the potential to undermine incentives for the provision of housing. Moreover, the capacity for planning and executing real estate projects appears to have dwindled in the private and public sector in recent years, partly as a result of the prolonged housing market downturn in the early 2010s, including construction personnel and staff familiar with planning and land use policies.[18] More recently, labor market shortages and other supply bottlenecks have aggravated the situation, also contributing to a steep rise in construction costs. Lastly, environmental factors have gained in prominence. In particular, improving the sustainability of existing buildings will draw away resources from the provision of new housing.[19] Besides, breaching thresholds for nitrogen emissions, primarily

[18] By mid-2022, around 400,000 people were employed in the Dutch construction sector, far below the 520,000 at the end of 2008. In their extensive review of the Dutch housing market, Hekwolter of Hekhuis et al. (2017) mention a lack of planning capacity as one of the obstacles preventing a stronger response of housing supply to rising demand.

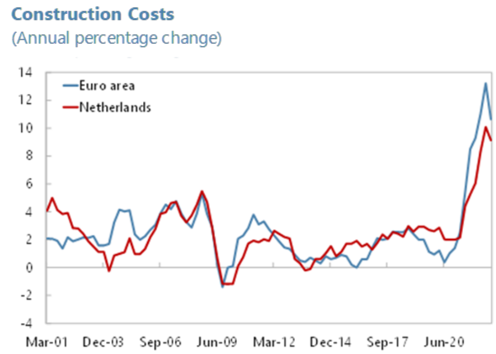
[19] As part of reaching the ambitions of its “Fit for 55” agenda, EU (2021) proposes minimum energy performance standards, requiring the worst-performing 15 percent of the building stock of each Member State to be upgraded from Energy Performance Certificate Grade G (=least efficient) to at least Grade F by 2027 for non-residential buildings and by 2030 for residential buildings. New (public) buildings must be zero-emission by 2030 (2027). In the Netherlands, about 30 percent of the building stock is ranked E or below.

by the large agricultural sector, has also affected lesser emitters, such as the building industry, thereby putting a halt to some construction projects.[20]

Figure 5. Population Density and Construction Costs



Sources: Eurostat



Sources: Eurostat and IMF calculations

D. The Way Forward: Government Proposals and Policy Recommendations

10. Acknowledging the role of inadequate housing supply, the Dutch government has embarked on an ambitious agenda to start tackling an imbalanced market. Proposals contained in its "Programma Woningbouw" foresee the building of 900,000 homes by 2030 at a pace of 100,000 units per year.[21] To achieve some of the desired upscaling of the housing stock, housing associations committed to construction targets and ensuring the sustainability of existing homes, helped by the abolishment of the landlord levy for rent-controlled properties on January 1, 2023 which had sapped funds from investment in affordable dwellings and may create space for lowering rents.[22] Furthermore, the central government's role in guiding housing policy is to be strengthened by the adoption and monitoring of enforceable performance agreements with provinces, regions and municipalities setting out construction targets aligned with national plans. In addition, lead times between conception and completion of housing projects, averaging 10 years, are to be reduced, helped by the identification of bottlenecks, the streamlining of building regulations, the shortening of legal procedures and the enhancement of relevant expertise across various government bodies. Moreover, financial support will be made available to induce municipalities to develop land for the provision of housing. As a complement to boosting the supply of housing, affordable living remains a key concern for the government. Its "Betaalbaar Wonen" program stresses expanding the scope of rental regulation, facilitating market access for acquirers of owner-occupied properties as well as better protection of tenants and buyers of homes.[23]

---

[20] For a detailed overview of the challenges posed by the large nitrogen emissions of the Dutch agricultural sector, see Batini et al. (2021).

[21] See Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2022a).

[22] Since 2013, providers of rent-controlled accommodation owning more than 50 dwellings have paid a landlord levy based on the value of their buildings as determined by the Valuation of Immovable Property Act.

[23] See Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2022b).

11. While the government's plans hold promise for alleviating housing market pressures, a larger role for economic incentives and private sector involvement could be explored. Encouragingly, a lack of supply has been recognized as one of the key factors driving imbalances in the Dutch housing market. Furthermore, working towards a greater centralization of housing development by improving co-ordination between national and sub-national government entities is welcome, as are efforts to accelerate planning and building, measures to prompt municipalities to bolster residential construction or policies to ensure the affordability of homes. However, some of the avenues pursued seem to run counter to achieving the desired objectives and could benefit from a fuller examination of the appropriate calibration of economic incentives, also to leverage private sector participation towards accomplishing the government's aims. In particular,

- The dominant position of housing associations in the Dutch residential property market and their prominent engagement foreseen in the government's program for expanding the housing stock deserves re-consideration. While such institutions have a role to play in offering affordable housing to less advantaged groups, their non-profit status and the numerous subsidies they enjoy tilts the playing field against other providers of homes. In fact, it is striking that housing associations, in conjunction with owner-occupied accommodation, have nearly completely crowded out the private rental sector in the Netherlands since the end of World War II, notwithstanding some signs of a reversal in recent years. Consequently, the benefits and costs of their activity should be carefully evaluated, especially with regard to households that are ineligible for their services but need or want to live in rental accommodation and concerning their ability to fulfill their mandate as waiting times for social housing appear disproportionally long.

- The extensive rent control system should be revisited. At present, the value and quality of a property govern whether a dwelling is subject to rent control, thereby establishing ceilings particularly for smaller properties positioned at the lower end of the market. Such ceilings, however, restrict supply as potential providers may retrench for lack of an adequate return on investment, a gap that is currently not sufficiently filled by housing associations. As a result, households who cannot gain (immediate) access to social housing due to lack of eligibility or long waiting times are forced to rely on the narrow free rental market or to buy their own home, implying considerable welfare costs from an allocative outcome that is unlikely to be pareto-optimal.[24] Indeed, recent OECD estimates are indicating that the Netherlands is one of the countries that could benefit most from the deregulation of its rental market.[25] Therefore, the scope for gradually narrowing the number of rent-controlled accommodations should be investigated to create incentives for the private sector to offer sorely needed living space, thereby complementing the efforts by housing associations to advance the government's agenda. The possible drawbacks of such a strategy, like higher rents in some segments of the

[24] Plans of the government to expand the system of rent control to encompass more properties on the free rental market may improve the supply of affordable rental dwellings for households that are ineligible for social housing. At the same time, however, they may further blunt the incentives of private providers of housing to bolster supply.

[25] See OECD (2021a).

market, could be cushioned by a more generous, yet rigorously means-tested, configuration of the existing housing allowance framework. Absent broader reform, at least some of the parameters of the prevailing rent control system should be modified. For instance, once a dwelling is assigned to the rent-controlled sector, it cannot be re-allocated to the free rental market, even if interim changes to its value or characteristics would suggest otherwise, as long as its current tenant remains in place. Where possible, such rules should be made more flexible as they create lock-in effects by inducing renters to stay in an accommodation for which they effectively underpay which also constrains the supply of properties that are suitable for lease in the free rental market.

- The eligibility criteria applied to the social housing sector should be reviewed. Currently, the income thresholds guarding access to social housing are notably above the income of the median Dutch household, opening the sector to large parts of the population. Such leniency appears only justified in the context of an undersupplied free rental market and fuels demand for an already scarce resource. Against this background, the recent announcement by the government to loosen eligibility further, complemented by an expansion of the share of dwellings subject to rent control, seems ill-advised. Rather, eligibility should be limited to groups for which the provision of housing on below-market terms is necessary out of socio-economic considerations, yet only once an adequate offer of affordable rental properties outside the social housing sector has been assured. In addition, more regular means-testing of eligibility for social housing is advisable. In the moment, income is only assessed for compliance with the thresholds for social housing at the time of rental contract signature, discounting any improvement thereafter, and household wealth is not taken into account. Although opportunities have been widened for housing associations to raise rents at a faster pace than suggested by the rule applicable to rent-controlled dwellings, such mechanisms are hardly used and could be strengthened to entice better situated tenants to transition to the free rental market.

- The scope for complementing housing-related performance agreements between government entities with additional pecuniary incentives for municipalities, landowners and real estate developers should be explored. As highlighted in the government's "Programma Woningbouw", municipalities do insufficiently benefit from new construction while bearing a large part of its economic and political costs, e.g., by having to provide the needed infrastructure or confronting entrenched interests against additional building. As a remedy, options for municipalities should be contemplated to capture a larger share of the extra tax revenue created by more populous communities or to seize some of the increase in value once publicly owned land gets authorized for development.[26] Likewise, privately owned land that is designated for residential construction yet is left to lie idle could be subjected to more onerous land value taxes to encourage productive use.[27] Finally, the transaction tax hike introduced for acquirers of existing, not owner-

[26] See Bani et al. (2022) for a proposal.

[27] See Frayne et al. (2022) for a suggestion.

occupied properties from January 1, 2023 could be usefully accompanied by tax incentives for developers of new housing.

12. In addition to measures tailored towards the supply of affordable rental dwellings, policy levers to steer the owner-occupied housing market should be forcefully deployed. The subsidization of owner-occupied properties via generous mortgage interest tax deductibility, favorable transaction taxes and liberal mortgage borrowing constraints are costly and distort the market. Specifically,

- Efforts to phase out the subsidization of owner-occupied housing should continue, preferably at an accelerated clip. Ideally, housing should be moved to Box 3 of the Dutch income tax code, to ensure taxation in line with other forms of investment while recording an appropriate level of imputed rent as income. The reform of Box 3 taxation demanded by the Dutch Supreme Court in December 2021 appears to open a window of opportunity in this regard. In the event of an unchanged tax treatment in Box 1, phasing out mortgage interest deductibility at a faster pace than currently intended while lifting imputed rent to a more realistic level should take priority. The fiscal outlays implied by the present framework of subsidization are large and could be better used to address shortcomings in other parts of the housing market, particularly since they benefit better off households to a substantial degree. According to OECD estimates, eliminating mortgage interest rate deductibility could reap considerable rewards in terms of affordability.[28]

- Macroprudential regulation of mortgage borrowing should tighten. Employing relatively loose settings of loan-to-value ratios and availing the use of interest only debt to facilitate housing affordability appears second best as it enables buyers of owner-occupied properties to outbid each other in a supply-constrained market, raising prices and heightening macro-financial vulnerabilities. Therefore, loan-to-value ratios of 100 percent should be reduced to levels more in line with international practice[29], the possibility to allow for a 50 percent interest only component in mortgage lending should be curtailed and the setting of debt-service-to-income ratios could be made more sensitive to financial stability considerations.

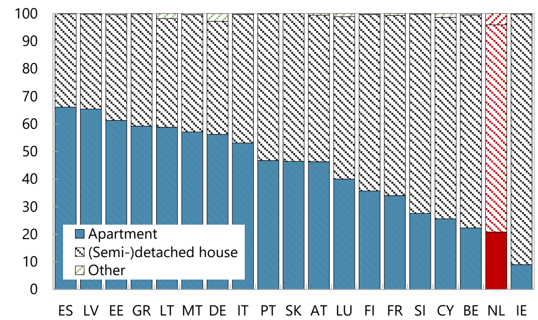
13. Lastly, possibilities to streamline land use policies and building regulations should be examined, jointly with the continued pursuit of innovative ways to create more living space. The largely decentralized model followed by The Netherlands puts responsibility for the development of housing primarily with municipalities, leading to local considerations taking precedence over national priorities in the provision of dwellings and a fragmentation of building codes. Thus, the performance agreements between different echelons of government foreseen in the “Programma Woningbouw” are a step in the right direction to ensure that long-term housing

[28] See again OECD (2021a).

[29] Alessie et al. (2022) find only limited adverse effects from a lowering of loan-to-value ratios for first-time buyers of homes, thereby weaking an argument frequently made against their reduction.

supply is aligned with demand at the country level. In addition, a stronger focus on the harmonization and simplification of frameworks applying to land use and the construction of residential properties may help to shorten permitting procedures and imply economies of scale for developers of housing. Besides, untapped potential for residential densification warrants study. Compared to other euro area countries, the current composition of the Dutch housing stock seems to reveal a preference for living in (semi-)detached houses rather than apartments, despite a very high population density. Therefore, strengthening efforts to split existing residences into smaller units or to entice households to move to properties more appropriate for their size may help alleviate some availability and affordability constraints. Finally, advancing construction in areas further away from difficult to develop urban centers may also contribute to lessen housing shortages if combined with efficient transport infrastructure to exploit desirable job and leisure opportunities.

Residential Dwelling Stock by Type
(Percentages)



Source: OECD.

14. To maintain political and public support for interventions in the housing market, policies need to be appropriately phased and carefully calibrated. The Dutch housing market is characterized by substantial complexity and extensive regulation. Consequently, modifying policies will create winners as well as losers, requiring the strategic adjustment of measures, conscientious timing and clear communication. For example, eliminating rent controls and tightening eligibility criteria for social housing appears inconceivable in a market where an alternative supply of affordable rental accommodation is hardly available. Therefore, the government's overarching focus on measures to boost supply in its agenda for the housing market is welcome. Still, an eye should be kept on gradually removing market-distorting policy settings over time that impose non-negligible welfare costs on Dutch households and the economy.

E. Conclusions

15. The Dutch housing market is characterized by persistent imbalances with long-standing supply constraints one of the key determining factors. Despite a range of policies adopted over the last decade, primarily to reduce debt-financed demand for owner-occupied properties, housing valuations have risen while affordability and availability have declined as supply has not kept pace. Spatial, regulatory, planning, environmental and supply chain constraints have kept a lid on the construction of dwellings following the housing market downturn in the early 2010s.

16. Recognizing the socio-economic challenges posed by inadequate housing supply, the government has embarked on an ambitious agenda to provide more affordable living. Whereas the very gradual phase-out of the generous tax treatment of owner-occupied properties begun in 2018 is set to continue, leaving substantial parts of the population eligible for rent-controlled social housing remains one of the planks of government policy. Additional efforts are centered on the construction of new homes by improving the co-ordination of housing development at the national and sub-national level, facilitating building-related regulations and procedures, enhancing public sector capacity to plan and execute projects, and offering financial support to municipalities to foster the supply of dwellings.

17. The scope for economic incentives and private sector involvement to strengthen the traction of government housing policies should be evaluated. Specifically, the substantial role attributed to housing associations in the residential property market could profit from a full-fledged cost-benefit analysis. Likewise, an in-depth assessment of the impact of liberal eligibility criteria for social housing and extensive rent control on economic welfare seems warranted as prevailing imbalances and market distortions suggest substantial room for improvement. Indeed, relaxing rental regulation and narrowing access to social housing in conjunction with ascertaining a better supply of properties on the free rental market, also by setting appropriate incentives for municipalities, landowners and developers, should be contemplated. Furthermore, the phase-out of generous taxation and borrowing arrangements favoring owner-occupied dwellings should be accelerated due to considerations of social equity and financial stability. Lastly, possibilities to harmonize, streamline and simplify provisions guiding construction as well as the use of land and buildings should be exploited to a maximum extent to facilitate the creation of sufficient and affordable living space for a growing number of households.

References

Alessie, R., Biesenbeek, C., de Haan, J. and M. Mastrogiacomo (2022): "The Effect of Introducing a Loan-to-Value Limit on Home Ownership", DNB Working Paper No. 741, March.

Bani, M., Barendregt, E., Bezemer, D., Blom, M., Boelhouwer, P., Bokeloh, P., Boot, A., Groot, E., Groot, S., Jacobs, B., van der Krabben, E., Lejour, A., Needham, B., Phlippen. S. and D. Schoenmaker (2022): "Economisch Perspectief voor een Grondige Renovatie van de Woningmarkt", June.

Batini, N., Black, S., Luca, O. and I. Parry (2021): "A Comprehensive Greenhouse Gas Mitigation Strategy for The Netherlands", IMF Working Paper No. 21/223, August.

Caldera, A. and Å. Johansson (2013): "The Price Responsiveness of Housing Supply in OECD Countries", Journal of Housing Economics, Vol. 22, No. 3, pp. 231-249, September.

Cavalleri, M. C., Cournède, B. and E. Özsöğüt (2019): "How Responsive are Housing Markets in the OECD? National Level Estimates", OECD Economics Department Working Papers No. 1589, December.

EC (2021): "Proposal for a Directive of the European Parliament and of the Council on the Energy Performance of Buildings (Recast)", 15 December 2021.

ECB (2011): "Tools for Detecting a Possible Misalignment of Residential Property Prices from Fundamentals", Financial Stability Review, pp. 57-59, June.

ECB (2015): "A Model-Based Valuation Metric for Residential Property Markets", Financial Stability Review, pp. 45-47, November.

Frayne, C., Szczypińska, A., Vašíček, B. and S. Zeugner (2022): "Housing Market Developments in the Euro Area: Focus on Housing Affordability", European Economy Discussion Paper No. 171, September.

Geis, A. and O. Luca (2021): "Real Estate in the Netherlands: A Taxonomy of Risks and Policy Challenges", IMF Working Paper No. 21/206, August.

Hekwolter of Hekhuis, M., Nijskens, R. and W. Heeringa (2017): "The Housing Market in Major Dutch Cities", DNB Occasional Studies Vol. 15-1.

Inchauste, G., Karver, J. G., Kim, Y. S. and M. Abdel Jelil (2018): "Living and Leaving: Housing, Mobility and Welfare in the European Union", World Bank Group, November.

Klemm, A., Hebous, S., and C. Waerzeggers (2021): "Capital Income Taxation in the Netherlands", IMF Working Paper No. 21/145, May.

Kromhout, S. and L. Wittkämper (2019): "Stand van de Woonruimteverdeling: Wachttijden en Verdeling in de Praktijk", RIGO Research en Advies Report, March.

Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2022a): "Programma Woningbouw", March.

Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2022b): "Betaalbaar Wonen", May.

OECD (2021a): "Brick-by-Brick: Building Better Housing Policies", OECD Publishing, May.

OECD (2021b): "OECD Economic Surveys: Netherlands 2021", OECD Publishing, June.

Öztürk, B., van Dijk, D., van Hoenselaar, F. And S. Burgers (2019): "The Relationship Between Supply Constraints and House Price Dynamics in the Netherlands", in: Nijskens, R., Lohuis, M., Hilbers, P. and W. Heeringa (Eds.): "Hot Property: The Housing Market in Major Cities", pp. 141–152, Springer.

Scherpenisse, R. and F. Schilder (2018): "Policy and Practice: Affordable Housing in the Netherlands", Planbureau voor de Leefomgeving, December.