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Position paper Country report 2020 - European Semester

Aedes, the Dutch association of social housing providers, holds the European Semester process in high regard. We see that the European semester is evolving from a macro-economic monitoring tool, to a broader tool that includes social and green aspects. It is a positive development that the semester has been linked up to the European pillar of social rights, the Sustainable Development Goals and the European Green Deal objectives.

In practice, the macro-economic elements are still dominating the semester, leading to reports that focus more on internal market aspects than social aspects. In the worst case this leads to reports that are, to an extent, ideological driven and not fully supported by facts.

The Country Report of the Netherlands 2020, included several elements that Aedes fully supports. However, it also included elements that were not sufficiently backed by data. In this position paper we will elaborate on both, give our own analysis of the Dutch housing market and provide an overview of the sustainability challenge the social housing sector faces.

1: Level playing field on the housing market

1.1 Fiscal subsidies of home ownership

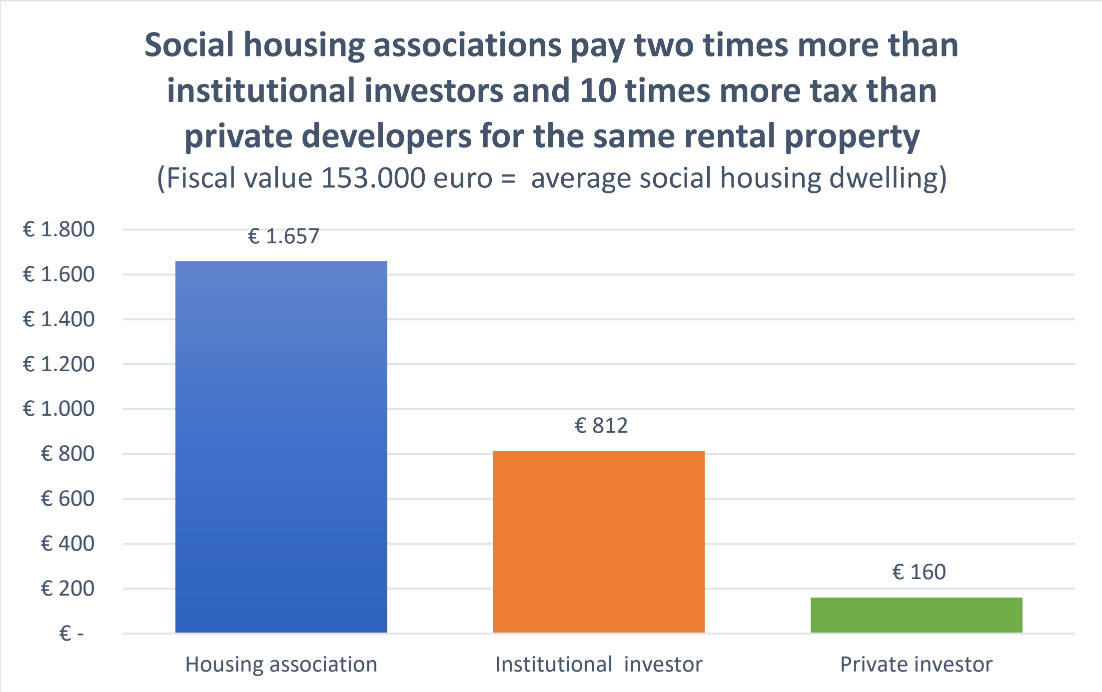
Aedes agrees with the assessment of the European Commission that mortgage interest deductibility remains an important distortion on the housing market. Subsidies to owner occupied housing have an upward effect on the price of houses. This is a well-established fact that has been concluded by the European Commission on several occasions. By deduction, it is also the case that land prices are artificially inflated, knowing that land prices follow housing prices. Interest rate deductibility may thus make it more challenging via inflated land prices, to develop a profitable business case for middle income private rental housing.

1.2 Tax benefits as subsidy

The European Commission also concludes that on the demand side, house prices are supported by the favorable tax treatment of owner-occupied housing. In the words of the Commission 'these tax benefits represent a significant subsidy that favors owner-occupied housing over other investment opportunities as well as over rental housing'.

Aedes agrees to this. However, it is important to stress that the private rental market benefits from several tax benefits as well. From a letter from former Secretary of State Menno Snel[1], it can be concluded that the tax burden of social housing providers over an identical dwelling is twice as heavy than commercial investors and 10 times (!) as heavy than on private investors.

1 See: https://www.rijksoverheid.nl/documenten/kamerstukken/2019/11/13/brief-schriftelijke-beantwoording-vragen-plenaire-behandeling-pakket-belastingplan-2020



The landlord levy is a major driver for this difference, but also corporate tax, and the new addition to this, ATAD play a major role in these excessive differences. The landlord levy is only paid for dwellings with rents below 737 euro, which means that dwellings with higher rental levels are implicitly exempted from the landlord levy creating an uneven playing field. It is not surprising that 95% of the landlord levy is paid by social housing providers and that the tax burden on commercial and private developers is less heavy, as can be concluded from the letter from the secretary of state.

3 Affordability

3.1 A housing crisis is happening
The Dutch housing market is characterized by steep increases in housing costs. Especially in cities rental prices are increasing, making it difficult to find affordable housing at market prices[2]. In the four largest cities the average rent in the private sector in 2019 was €1.156 [3].

There has been an increased recognition at the European level that there is currently an affordable housing crisis that includes affordability issues for middle income tenants. Commissioner Schmit addressed this issue in a plenary session of the European parliament and stressed that a lack of social housing is one of the drivers of the housing crisis. We find it surprising that, despite these developments and the ongoing housing crisis on the housing market, the country report 2020 still seems to imply that the social housing sector in The Netherlands is too large. This statement seems to stem from preferences regarding the type of tenure, not from facts.

2 European Semester Country Report 2019: The Netherlands
3 Rabobank: Te Vroeg om te Juichen om Groei Middensegment

3.2 Squeezed middle income tenants

The Country Report argues that the Dutch housing market is characterized by large social housing and owner occupied sectors. The reports states that the private rental sector is the only non-subsidized sector (which is contestable as is explained in in paragraph 1.2) and remains underdeveloped which leads to poor availability of rental housing and high rent levels.

We challenge the assessment of the Country Report that poor availability and affordability in the private rental sector has anything to do with the size of the social housing sector. In 2009 limitations were imposed upon the social housing sector by the introduction of an income limit and a maximum rent level of 738 euro (the deregulation limit, 2020).

The supply that the market offers simply does not match with what middle income tenants can afford. In theory, supply in the deregulated segment should start at 738 euro. In reality, average rents for the private rental sector in 2018 were 1.045 euro[4]. In the four largest cities of the Netherlands (Amsterdam, Rotterdam, Utrecht, Den Hague) this was even 1.156 euro[5].

The supply of affordable rental housing in de deregulated sector is limited as the table below demonstrates. The exception here are social housing providers offering rental housing in the deregulated sector as a non-SGEI activity.

Starting rental price (€)	Housing associations	Institutional landlords	Private landlords	Other landlords
Less than 800	50,1	18,1	28,5	25,4
800-850	11,8	10,1	13,1	10,2
850-900	7,4	16	8,2	13,9
900-950	8,4	14,6	7,3	9,1
950-1.000	4,2	12,2	8,1	9,2
1.000 or more	18,1	29,0	34,9	33,2
Recently moved households	35.000 (100%)	33.000 (100%)	76.000 (100%)	38.000 (100%)

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4 Rabobank Research: Te Vroeg om te Juichen om Groei Middensegment
5 Rabobank Research: Te Vroeg om te Juichen om Groei Middensegment
6 This table is based on data of WoOn2018, has been edited by Rabobank Research and was translated by Aedes

3.3 Deprived neighbourhoods
The stricter income limits in The Netherlands led to a concentration of low income tenants in social housing neighbourhoods. Social housing neighbourhoods increasingly house vulnerable and socially ‘at risk’ households. The concentration of vulnerable groups and increasing problems with nuisance and insecurity are most visible in neighbourhoods where liveability is already under pressure. The cheapest houses can be found there and the rate of change is highest. The inflow of vulnerable groups is therefore the largest there. In addition, there is a greater outflow of higher incomes in these neighbourhoods and a reduced inflow of more promising households.

The result of the concentration of lower income and vulnerable households is that, as of 2012, the liveability of neighbourhoods has been reducing[7].

This concentration of vulnerable groups in the social housing sector has increased further in the last two years. A large proportion of these tenants have limited self-sufficiency leading to a lack of neighbourhood cohesion as well. While recognizing the fact that housing low income and vulnerable people is a primary task of social housing providers, we advocate that socially mixed neighbourhoods have a positive impact on the liveability of an area.

2 New construction

2.1 Reduced new construction
Aedes shares the concerns expressed by the European Commission on the low levels of new construction. Indeed the rising construction costs, lack of staff with municipalities and construction companies, lack of building sites and the nitrogen crisis are causing this despite of massive consumer demand in all segments.

For the social housing sector, the operational cash flow is very important as well. New construction by social housing providers typically has an unprofitable top, which implies that only a part of new investments can be financed by loans, the other part must be financed with equity. At the same time, investments in the energy performance of buildings, are usually financed with equity as well. These investments do not generate a return on investment as Dutch social housing operators operate on the principle of cost neutrality for the tenant. Again, stressing the importance of operational cash flow.

This operational cash flow is under pressure due to the heavy fiscal burden for social housing providers (which includes a 1.7 billion landlord levy only for affordable housing). The Dutch Housing Authority calculated that in 2018 the operational cash flow has fallen with 22% and stated that ‘’due to the declining earning capacity, it is uncertain whether housing associations can continue to sufficiently fulfill their tasks”.[8]

7 Rigo: veerkracht in het corporatiebezit
8 Autoriteit Woningcorporaties: Staat van de Corporatiesector

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4 Housing reforms

4.1 Proposed reforms by Aedes

Aedes assesses that the Dutch housing market currently is in a perfect storm. On the demand site we see that fiscal subsidies drive up the price of homeownership, the private rental sector is unable to build sufficient affordable housing for middle income tenants and the social sector is simply not allowed to do this.

Aedes classifies this situation as market failure and finds it legitimate, under state aid legislation, that social housing providers may develop housing for middle-income households as an SGEI-activity.

On the supply side cyclical and structural bottlenecks are indeed hampering new construction, which is reinforced by the nitrogen crisis. In the social housing sector, pressure on operational cash flows, caused by the heavy fiscal burden, further slows down new construction.

In order to find a solution to the housing crisis we advise policy makers to take a number of measures including increasing the income limits of social housing, abolishing the market criterion and repealing the landlord levy.

The first two measures would help social housing providers to build dwellings for income groups that are currently not being served by the market, while the last measure would provide them with the operational cash flow that is needed to finance new construction. Next month Aedes will publish a report that demonstrates how this will enable new construction.

4.2 The market criterion

We are surprised by the critical point of view taken by the European Commission to the simplification of the market criterion. The Commission argues that in the short term, against the backdrop of capacity constraint in the construction sector, this appears unlikely to create significant more rental housing supply. This is poorly motivated at best and a fallacious argument at worst. Since supply follows demand, capacity in the construction sector may actually increase if social housing providers would build more middle income dwellings.

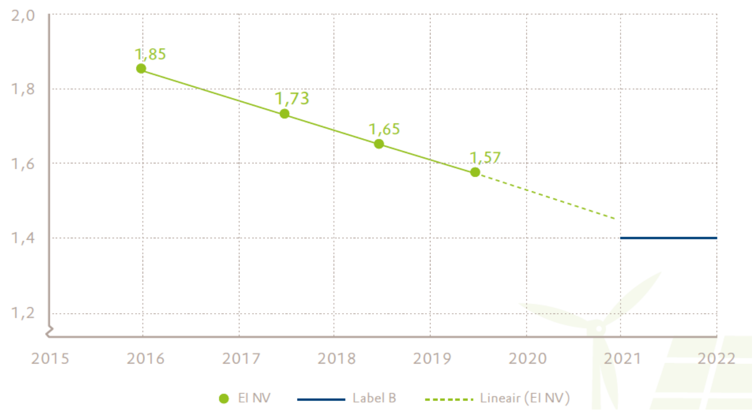
The Commission furthermore expresses her concern that, in the long run, these measures risk crowding out the role of the private sector. This is particular interesting since social housing providers that would build homes for middle income households under a simplified market criterion regime, would actually do that as a non-SGEI activity.

Meaning: they would not use state aid for these activities and would in fact act under exactly the same conditions as private developers. The European Commission should not have a preference whether social housing providers would do this or private developers, when acting under the same conditions.

5 A European Green Deal

We compliment the Commission's services for the European Green Deal initiative. It is impressive that, within the first 2 months of taking office, the Commission published communications on the European Green Deal (EGD), it's investment plan and the social dimensions of the transition. This shows the commitment of the European Commission to the EGD objectives

The Dutch social housing sector is willing to contribute to the EGD objectives. The energy performance of buildings in the Dutch social housing stock has improved, as the graph below demonstrates. In 2019 the average energy-index decreased to 1,57. Continuing this line would imply that an average label B will be reached on sectoral level in 2021[9].



Key elements in the Dutch approach include:

- A decentralized stakeholders dialogue (as was demonstrated in the Dutch climate pact)
- Upscaling and bundling of volumes (see for example Energiesprong/Transition Zero and the Starting Engine project)
- Upfront dialogue and long term corporation with construction companies, and tender procedures that focus on outcome rather than output
- A transition to district heating

We encourage the European Commission to promote and facilitate these best practices at the European level as well.

5.3 Annex D: investment needs

The transition to a CO2 neutral and circular building stock is a tremendous challenge for social housing providers. A large majority of tenants need to consent to the retrofitting of a complex. Furthermore, housing providers consider it to be their core task to offer affordable housing. Due to both reasons, investments in the energy performance of buildings happens at least at cost neutrality for tenants. For social housing providers these investments are actually costs, financed by (already pressured) operational cash flows.

9 Aedes Benchmark 2019

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We strongly recommend the European Commission and regional management authorities to prioritize investments in the energy performance of buildings in the allocation of EU funding, such as structural funds. It is essential that these investments are included in the operational programs of the ERDF.

Furthermore we recommend to explicitly mention investment in the energy performance of buildings in the scope of eligible investments summed up under article 4 of the proposed regulation for the just transition fund. As the Commission often states a large part of the energy consumption and CO2 emissions comes from buildings.

Furthermore, investments in energy efficient housing will help lower tenants energy bills, enabling them to address the economic impact of the transition towards a climate neutral economy. Investment in fighting energy poverty will lower tenants energy bills and improve their living conditions, enabling them to address the social, economic and environmental impacts of the transition towards a climate neutral economy'. Finally investments in energy renovations while provide employment in regions from which upskilled and reskilled workers can profit.

While recognizing that EU funding will not be fully able to finance the transition to a climate neutral building stock in the Netherlands, we would like to remind the Commission that our own resources do not do so either. Only a combination of different financing methods (European, national, private) will help achieve the European Green Deal objectives, stressing the importance of also allocating sufficient EU-funding for renovating the Dutch housing stock.

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