Chapter 10

The Smouldering Issue

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‘Hot Property’ is what De Nederlandsche Bank has called this conference proceedings and the seminar held on the 24th and 25th of May 2018. The Amsterdam housing market has indeed become overheated. As Alderman for Housing, I am the fire brigade, with the task of limiting the human risks, keeping adjacent parcels wet and preventing the fire from spreading.

1 Shifting Towards the Market for Two Decades

The Amsterdam housing market has changed enormously in the last quarter century. In the 90s, almost 90% of the supply of housing consisted of rental homes, largely in the affordable segment. Many of these rental homes were owned by housing associations. Until that time, the associations were an extension of the government, until they were privatized in the mid-nineties because the national government wanted to economize and believed that the building of homes should be left to the market sector. The owner-occupied sector was almost completely absent in Amsterdam. At the same time, the Municipality of Amsterdam had just started to provide a countervoice to the years of outflow of higher-income households to other parts of Noord-Holland and the new cities of Flevoland. The Municipality entered into competition with this suburbanization by building new districts on the edge of the city and on released port and factory sites. Mostly larger homes were built in the more expensive rental and owner-occupied segment, intended for households with a need for space (families) and higher incomes. The construction of owner-occupied homes was the means of keeping these households in Amsterdam. Such construction

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of owner-occupied homes has seen to it that over thirty per cent of the Amsterdam housing supply consists of owner-occupied homes. From a Dutch point of view, this is still a negligible share, but in terms of Amsterdam it meant a considerable change to the composition of the housing market. The sale of rental homes also contributed to this. In the nineties, many private rental homes were converted to owner-occupied homes. Housing association homes were already being converted into privately owned homes before the turn of the century (a few hundred each year), but as from 2003 the number of homes being converted increased to thousands of homes per year. In addition, substantial urban renewal had been taking place for years in the post-war residential areas of the city, during which many housing association homes were demolished, rebuilt in part, but also replaced by privately owned homes.

Reduction of the social rental sector and stimulation of the market sector, both privately owned and more expensive rental, had gained the upper hand for several decades. The municipal authorities carefully monitored whether this trend was still in line with the households and income composition of the Amsterdam population. The survey *Living in Amsterdam (Wonen in Amsterdam)*, which the Municipality conducts every two years together with the housing associations, provides a measurement for this. Before the economic crisis from 2008 to 2014, which had a substantial effect on the housing market in Amsterdam as well, it was already clear that the argument for reducing the social rental sector was starting to lose strength. The social rental sector was actually shrinking more quickly than the number of low-income households was decreasing, and the difference between the two started becoming smaller. During the crisis the number of low-income households appeared to increase again. Therefore the shrinking of the social rental sector is now being examined more critically in Amsterdam.

Characteristics of the Amsterdam Housing Market

In early 2017, Amsterdam had almost 428,000 homes: privately owned 33%, housing associations 43%, private rental 24%. Of these homes 29% are in the expensive segment (with purchase prices over €250,000 and rents over €971 per month), 16% in the moderately priced segment (with purchase prices between €156,000 and €250,000 and rents of €711 and €971 per month) and 55% in the cheap segment (with purchase prices below €156,000 and rents below €711 per month).

After the crisis, from 2014 an average of 6600 new homes were built per year. The average price of a privately owned home rose by 50% in the period 2014–2017 (the Netherlands: 10%) and is now €359,000 (the Netherlands: €244,000). The largest price rises were observed in the central city zone defined by the A10 Ring Road and the Northern IJ shore. The pressure on the Amsterdam housing market will continue unabated in the next few years. The number of residents of Amsterdam has increased in the last few years by about 10,000 people per year. Half of the growth is due to natural accretion

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(births minus deaths) and half is due to a positive migration balance. On 1 January 2018 Amsterdam had 856,000 residents. The demographic forecasts for 2030 vary from 922,000 to 1,019,000 residents.

Looking back two decades, in 1997 Amsterdam had 715,000 residents, 359,500 homes, of which 15% were privately owned, 57% owned by housing associations and 29% private rental.

2 Agreements with Housing Associations are at the Forefront

In the meantime, several things have changed, owing to which the Municipality of Amsterdam has no longer been able to take charge of the development of the affordable part of the housing supply as well as before. Until 2013, the sale of homes owned by housing associations and transfer of controlled rental homes to the profit rental market was a matter of sensible consultations with the housing associations, but since that year the Landlord Levy imposed by the national government on housing associations has influenced the policy of the housing associations. We found this for example in the high number of housing association homes sold in 2014 and 2015 (more than 5000 in these 2 years together). Housing associations felt compelled to earn money by selling in order to pay the Landlord Levy. The other change is the amendment of the House Pricing System.¹ Because of this the WOZ value counts to a substantial degree in the number of quality points and therefore determines the potential amount of the rent. This is mainly significant for the tens of thousands of rental homes of private landlords who because of this change are easily able to transfer them from the rent-controlled segment to profit rental market. And this is where the link is found to the overheating of the market. The WOZ value of homes has risen enormously in the last few years. During the housing market crisis the prices on the market of privately owned homes in Amsterdam experienced a fall, but now that the crisis is over, the selling prices are breaking records. The price development on the privately owned market also has an effect on the value of rental homes.

The financial situation of housing associations has meanwhile calmed down somewhat. The possibility to ask higher rents has provided enough money to enable

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¹Since 1 October 2015 the national system has been changed by which it is determined whether a rental home belongs to the rent-controlled segment (<€711) or to profit rental market. The determining factor is whether the number of quality points of a home is below or above a certain number. Until 1 October 2015 quality characteristics such as the surface area of the home were strongly determinative of the number of points. After this date the location has also counted to a significant extent. The location variable is derived from the WOZ value (value for the purposes of the Valuation of Immovable Property Act), and this is relatively high in Amsterdam.

them to abandon a large number of sales, and housing associations have now become more careful with their possessions. In the last cooperative agreements between the Municipality, housing associations and tenants (2014) the number of homes to be sold has meanwhile been reduced to a maximum of 2000 per year and the number of homes to be converted to the profit rental sector to 1000 per year. But the housing associations are striving for considerably lower numbers. In addition, it has been agreed with the housing associations not to allow the number of housing association homes with a monthly rent up to €711 to fall below 162,000, with the aim of staying far away from that lower limit. Housing associations are being forced more and more by government policy to limit themselves to the management and rental of rent-controlled homes, i.e. homes with a maximum rent of up to €711 per month and primarily intended for low-income households.

3 Overheating of the Amsterdam Housing Market

Privately owned and rental homes are rapidly becoming more expensive in Amsterdam at present. Since 2014 the average WOZ values of homes have risen by about 50% and the prices are already far above the level of before the crisis on the housing market (2007). This is making the homes increasingly more unaffordable for low and middle income households. This is no problem for households that already live in Amsterdam as long as they do not wish to move house. But it is difficult for families with children to find an affordable larger home. Consequently they remove more and more often to a regional municipality. And it is difficult for starters to capture a spot on the Amsterdam housing market. Young people seek refuge in shared homes or, for those who can afford it, small studios.

The demand for profit rental homes has surged in the past few years. This is the result of the labour market becoming flexible, stricter mortgage requirements and internationalization. Temporary employment contracts are making it increasingly difficult to obtain a mortgage. In addition, the mortgage requirements have been toughened since the economic crisis, owing to which starters on the housing market may borrow less and have to repay more than households that already have a privately owned home and may take their existing type of mortgage along to a new home. Moreover, Amsterdam is growing to an increasing extent through the influx of international students and more highly educated foreign starters. This group mainly seeks homes in the profit rental segment because they are often quickly available and provide the flexibility this group needs. This rapidly growing demand has caused the prices of rental homes to rise more quickly in many parts of Amsterdam than those of privately owned homes. In the profit market segment of the private rental sector the average rent in 2017 was €1248 per month, according to the survey *Living in Amsterdam 2017*, whereas this was €1185 on average per month in 2015. The rents on the profit rental market are therefore reaching values that are no longer feasible for middle-income households.

Another consequence of the demand for expensive rental homes, combined with the low interest rates which make buying attractive, is that (smaller) private investors are buying homes to let, so called buy-to-let. Exact numbers of these homes are not available, but the impression exists that this phenomenon will gain ground quickly in Amsterdam.

4 Exerting Counterpressure on the Market

Overheating has seen to it that more and more groups that previously had easy access to the Amsterdam housing market are now excluded from it. This is putting pressure on the old ideal of the undivided city in which rich and poor live amongst one another. Amsterdam politicians therefore decided in 2017 to exert counterpressure on the market developments. The Housing Agenda 2025 has been adopted, in which it is stipulated that the target for new construction is 40% controlled rent (rents up to €711 per month), 40% moderately priced rent or purchase and 20% market-value homes. It was agreed as well that the share of social rentals in the different parts of the city may not end up below 35%. The main means of management of the Municipality of Amsterdam is new construction; for the existing supply of housing, the Municipality is dependent on national legislation. The Municipality of Amsterdam owns approximately 80% of the land in the Municipality and issues it under long-term leases. This gives the Municipality private law instruments in addition to public law instruments to manage the development of property in the city. The land is also issued under long-term ground leases in the event of new construction. This working method makes it possible by applying private law to include requirements for designated use (for example rental in a specific segment) in the long-term lease.

Together with the Housing Agenda, new policy was developed in 2017 for the construction of moderately priced rental homes. The basis of this policy is the possibility to set requirements by way of the issue of land under a long-term lease. The starting points of the policy are as follows:

- Construction of at least 1500 moderately priced rental homes per year by way of new construction or transformation (in case of transformation of buildings on leasehold land the Municipality can also set out agreements for the new designated use in the long lease because in case of transformation it will be necessary to amend the long lease);
- 25-year rental in the moderately priced rental sector (rents of €711–€971 per month, price level 2017);
- Inflation-related rent increases;
- No required purchase of a parking space;
- No more than 50% of homes assigned to persons moving on from the social sector;

- Other homes are assigned to households with an income up to 1.5 times the average income;
- The possibility exists, contrary to the market, to construct larger moderately priced rental homes.

The first four sites where moderately priced rental homes have been planned under these conditions have now been put on the market by way of tenders. There is much interest from the market in tendering for them.

In 2017 the Municipal Council also asked to have research done on the possibilities to manage the market for privately owned homes. This study was conducted² and shows that in a booming economy, a choice can best be made of measures that increase the supply of moderately priced privately owned homes. According to the study, the measures with the best chance of success are the additional construction of privately owned homes on market terms, entering into discussion with housing associations about offering privately owned homes under conditions (*KoopGarant*), introducing an obligation to occupy and experimenting with purchaser's cooperatives. In addition, the researchers advise entering into discussion with the national government about national legislation concerning the purchase market. One can think of raising the limit of the National Mortgage Guarantee in Amsterdam and making it possible to assign homes in the privately owned sector.

Further to these outcomes, the Municipality is now going to examine in what way the obligation to occupy in combination with an anti-speculation clause can be established for newly constructed homes. The Municipal Council has also asked if it is possible to establish an obligation to occupy for existing privately owned homes. The study of the feasibility of this is still in progress at present.

5 Limits on the Management Possibilities of Municipalities

As stated, taking charge of new construction is one of the Municipality's main management instruments. We can eventually use it to make an important contribution to keeping the housing market accessible. For the construction of homes, however, the Municipality is also dependent on market players: the Municipality provides development sites and indicates on which schedule they can be constructed; the market builds. Present price developments have caused the new homes to be increasingly smaller, in the social sector as well as in the moderately priced and expensive segments. This has made increasingly less room for families and there is a risk that these small homes will lead to a shorter duration of occupation and

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²This study, commissioned by the Municipality of Amsterdam, was conducted by the research agency Rebel Strategy and Development BV in collaboration with the Research Institute OTB of the TU Delft.

negligible social cohesion. These market developments can only be adjusted to a limited extent.

A great impact will have to be made in the short term by measures for the existing housing supply, which is many times larger in size than the annual construction carried out. In the Netherlands, the municipalities are responsible for housing policy, but not for the legislation and the funds, and that is pressing. For instance, rental policy is the same for all locations in the Netherlands, whereas the high market pressure in Amsterdam requires a customized local approach. One can think of raising the profit market threshold, which will cause more homes to end up in the rent-controlled segment. Amsterdam also argues in favour of allowing housing associations to invest in the moderately priced segment again. In conclusion, Amsterdam will benefit from measures that prevent excesses such as conversion into houses in multiple occupation, holiday rental and buy-to-let.

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