Renting in the United States: 
A Dutch Perspective

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Introduction

One positive consequence of a credit crisis is that academics and other experts shift their attention somewhat from owner-occupied housing to rental housing. All over the world, the general effects of the financial crisis on housing markets are apparent: less residential mobility, fewer home sales, lower home sales prices, and a shift in demand from expensive to cheaper housing and from owner-occupied to rental housing. Reinhart and Rogoff (2009) showed that home sales prices fell by an average of 35.5 percent during a period of 6 years in the aftermath of credit crises in the postwar era.

Priemus and Maclennan (forthcoming) are preparing to address the theme of the credit crunch and the resilience of housing systems for a special issue of the Journal of Housing and the Built Environment. They argue that, ceteris paribus, the most resilient national housing systems are usually those with a lower percentage of home-owning households. This argument seems a plausible conclusion: when, as a result of a credit crisis, the demand shifts from owner-occupied housing to rental housing, it is important to have a substantially sized, differentiated rental housing sector that is capable of absorbing the increased demand. Relatively speaking, the housing markets in Switzerland, Germany, and the Netherlands are currently faring much better than those in Spain, Ireland, the United Kingdom, and the United States.

The United States and the European Union

The European Commission has no direct political responsibility for housing. Conversely, in the United States, the federal responsibilities for housing that were introduced by the New Deal in the 1930s are still in place, albeit changed over time. Housing researchers often criticize American housing policy, but they must acknowledge that the U.S. government is much more active in the area of housing than the European Commission. Of course, most European Union (EU) member states are much more proactive in their housing policies than individual states are in the United States.

The European Commission has the potential to exert a strong indirect influence on housing markets in the EU by adopting EU environmental standards, coordinating national building regulations, and—last but not least—enforcing EU fair competition policy. The European
Commission promotes the operation of markets in general by monitoring a level playing field and by prohibiting unsanctioned state aid (Gruis and Priemus, 2008). In December 2009, the European Commission decided that housing associations in the Netherlands (landlords of socially rented housing with a 32-percent share of the total housing stock) were eligible for state aid. But state aid for housing associations is sanctioned only when they allocate at least 90 percent of all available socially rented dwellings to households with a maximum taxable income of 33,000 euros—which amounts to about 43 percent of all Dutch households. Curiously, the European Commission has currently approved this crucial rule only for the Netherlands, leaving 26 other EU countries without clear guidance.

The United States and the Netherlands

Dutch academics and politicians are somewhat bewildered by some of the features of the rental housing system in the United States. U.S. experts undoubtedly feel a similar level of bewilderment about the rental sector in the Netherlands.

The rental sector in the Netherlands covers about 41 percent of the total housing stock: of that, 32 percent is socially rented housing and 9 percent is commercially rented housing. Housing associations are nonprofit, private providers of socially rented housing. They develop and manage a housing stock with far more differentiation, a much more varied social/economic occupancy, and less social segregation and stigma than the U.S. public sector housing stock. About 95 percent of all rents are regulated, including a substantial part of the commercially rented housing sector.

Housing associations have not received property subsidies since 1995 (Priemus, 1995). Associations still invest in housing, although the economic yield is modest, starting with an upfront loss of 50,000 to 100,000 euros per dwelling. Associations finance their investments with cash flows from rents but also (and increasingly) from the sale of rented dwellings—usually to households that want to own the home and, in exceptional cases, to landlords of commercially rented housing. As a result, the market share of housing associations shrank from 42 percent in 1992 to 32 percent as of January 1, 2011, and will continue to do so in the near future.

In the Netherlands, a wide gap also exists between the opinions and policies of politicians and the findings and recommendations of experts. In 2010, the Social Economic Council (SER) Expert Commission (Priemus, 2010; SER-CSED, 2010) published a report titled Towards an Integral Reform of the Housing Market, which advocated a gradual increase (from 2015 through 2040) toward market rents (also in the socially rented housing sector), a gradual reduction of mortgage interest tax relief, and total abolition of the current transaction tax to make the housing market much more market compliant. To safeguard the affordability of decent housing for low-income households, the Commission argued for housing allowance equity for tenants and owner occupants alike. The Dutch Constitution, more or less, entitles housing to every Dutch household: the demand rationing effect of rent and price equilibrium is not accepted. When a housing need exists, income-related housing support will be supplied as an entitlement. One-third of all tenants are currently eligible for a housing allowance. This fraction may increase when rents rise.
Current housing policies in the Netherlands are chaotic and are not moving in the direction recommended by the SER Expert Commission. In the short term, changes to mortgage interest tax relief are not likely because the housing market is still perceived to be weak in the wake of the credit crunch. Landlords of both socially and commercially rented housing are heavily taxed (a combined 750 million euros annually) and their allowable rent increases are capped. As a result, renting out housing is simply not profitable. Investments in rental housing are expected to sour, inflicting heavy losses to the building industry and employment levels.

When Dutch experts look at the U.S. housing voucher system in relation to European policy (Priemus, Kemp, and Varady, 2005), the first recommendation from a Dutch perspective would be to transform housing vouchers into an entitlement. The housing vouchers would then shed their lottery character (see the observations by Quigley, this issue). Even so, the rental housing sectors in the United States and the Netherlands would still be worlds apart. The broad scope of Dutch housing associations will never be accepted in the United States. And a narrowly targeted, small socially rented housing sector will never be introduced in the Netherlands. In the Netherlands, a general desire to disentangle general public responsibilities from specific housing interests turns the focus to providing socially rented housing through private institutions instead of public. The housing markets in both the United States and the Netherlands would function far more effectively if tax benefits and subsidies for owner occupants were gradually phased out over a period of 20 to 30 years and if rents in both socially and commercially rented housing sectors were to reach free-market levels in the same period. Such a development can occur only if housing vouchers guarantee affordability for every modest-income household. This perspective supports the first recommendation formulated above—transforming housing vouchers into entitlements is the highest priority.

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References


