Summary for non-specialists
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The housing market in the Netherlands

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This paper examines the Dutch residential housing market, which has been shaped by the mutual interaction of a wide array of policies, including substantial direct and indirect government subsidies and fiscal incentives, financial guarantees, zoning regulations and rent controls, as well as by the development of financing instruments with lower amortisation requirements and higher loan-to-value ratios. Over the last decades this had led to the gradual build-up of significant distortions in both the purchase and rental segment of the housing market, with impact on the wider economy.

Low taxation of home ownership and the very generous mortgage interest deductibility artificially raise housing prices, disproportionately favour high-income taxpayers and have ambiguous effects on housing tenure. In the rental segment, rent regulation and the extensive provision of social housing have resulted in a free rental market that represents a mere 7% of the total housing stock, thus limiting its capacity to buffer as an alternative to the regulated rent and purchase segments. Overall, explicit and implicit housing subsidies constitute a sizable burden for public finances; foregone revenues from mortgage interest deductibility alone amount to around 2% of GDP. In addition, through guarantees extended under different schemes to support home ownership, the government has accumulated very sizeable implicit liabilities.

Innovations in mortgage financing during the 1990s have played a particularly important role in driving developments in the housing market of the Netherlands, amplifying the impact of taxation policies: the availability of more diversified and lower cost instruments, with longer maturities and more flexible terms, considerably expanded the credit scope of Dutch households, enabling them to take up larger amounts of debt. The leveraging of household and bank balance sheets has increased vulnerabilities of the banking sector, although these are mitigated by a strong net asset position of households and low delinquency ratios in housing debt. In spite of the traditional bias towards housing loans with long maturities, a fair proportion of households have only short interest rate fixation periods. Hence, households could face an increased debt service burden should interest rates rise.

Although the current institutional set-up reflects past and present social preferences, the ensuing distortions weigh on the wider economy through negative wealth effects impeding the recovery, inefficient allocation of capital, undesired redistribution effects, lower-than-necessary labour mobility, unduly high household leverage and an increased vulnerability of

the banking sector. The prospects for the housing market and the need for policy changes have come to the fore of public discussion, which has intensified in recent years in the wake of the decline in house prices and the even sharper drop in the number of transactions.

Against this background, comprehensive reforms, addressing distortions in all segments of the housing market, are necessary to gradually reduce distortions and improve efficiency of capital allocation thus helping to increase economic growth and job creation. This requires a gradual redirection of policies, which would also limit the non-negligible burden on public finances. After reviewing the main policy options which are being considered in the wider debate among economists and civil society, we conclude the analysis of the housing market in the Netherlands by proposing some preferred directions for reform.