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Pathways of Dutch and German Social Renting

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Abstract
The pathways that Dutch and German housing policies took in the past decades resulted in two different rental markets. The Dutch policies have delivered the largest social rental sector in the Western world, while Germany has produced one of the largest private rental sectors in Europe. The latter implies that officially no social rental sector is operating in Germany, but a private rental sector of which some suppliers of housing are temporarily subsidized. On the other hand, social rental dwellings in the Netherlands are owned by non-profit organizations, whose public task is to provide affordable housing for those in need. Even though the systems of social renting are different, both countries had moved from providing affordable rental housing to large segments of the population to a more targeted system and from a nationally implemented to a more locally implemented policy. In the past decade, the Netherlands has effectively been limiting the supply of social rental housing, Germany is offering extra subsidies to increase the supply of affordable housing.

Keywords: Affordable housing, Housing affordability, Housing policy, Housing tenure, Tenure neutrality

Introduction

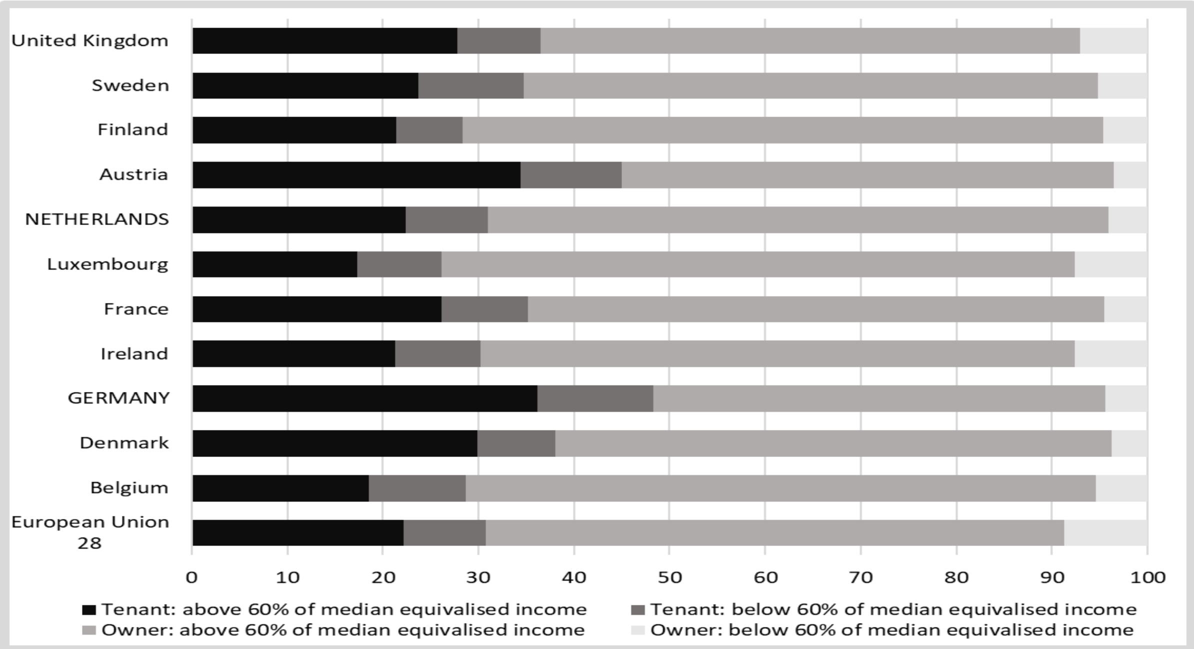
After the Second World War the private rental sector dominated the housing stock of the Western European countries (Haffner et al., 2008, 2009). In the post-war period, the market share of the private renting declined as a result of multiple reasons. One of the reasons for this was the growth in the shares of owner-occupation and/or social rental units, while regulation of rents and security of tenure characterized the private rental sector, sometimes up until the 1980s (Hoekstra et al., 2012; Haffner et al., 2018). The Netherlands can be regarded as an exponent of the sketched development, reaching one of the lowest market shares of private renting (9% in 2012). Germany will be the atypical case, where private renting amounts to more than 40% or even 50% of stock, depending on the definition (2011), one of the highest market shares (Bengtsson and Kohl, 2018; Haffner, 2018; Haffner, forthcoming). Nevertheless, both countries have been coping with renewed affordability problems in the rental sector (Elsinga and Haffner, forthcoming).

The contribution aims to develop an understanding of the pathways that Dutch and German housing policies took in the past decades resulting in two different housing markets and housing systems, while nevertheless both ending up with having to cope with increasing affordability problems in the rental sector. These affordability problems are briefly sketched in the next section. Thereafter, the term affordable housing is framed in each country's context, before the longer-term and more recent histories are described, as well as the impact of recent developments on the expected role of affordable renting in the housing market of the near future.

Affordability Outcomes in Germany and the Netherlands

As indicated in the previous section, Germany and the Netherlands can be considered opposite cases in the market share of private/commercial/market renting. However, the little over 30% sized total rental sector in the Netherlands amounts to about the average share of the 28 member countries of the European Union (EU), measured as share of population. The German private rental sector clearly is largest, even though not all EU member states are shown[1], only those considered comparable as western advanced economies. Both countries are more similar than different when comparing the shares of the at-risk-of-poverty population, those with an equivalized disposable income below 60% of median equivalized income[2]: together with Austria and Denmark, these countries house the lowest shares in owner-occupied dwellings.

Figure 1 Tenure structure by income group[2] based on population in the 11 Western European (out of 28) member countries of the European Union, 2016



Source: Eurostat (n.d.-a) (EU-SILC 2016 data base).

In the fight against poverty and social exclusion (Lisbon European Council, March 2000), since 2001 the 28 member states of the EU are drawing up National Action Plans for Social Inclusion. The database called EU Statistics of Income and Living Conditions (EU-SILC; European Commission, 2009) has been set up to monitor the progress. The data include data on housing affordability. Next to the subjective measure of the resident perceiving the housing costs as a heavy or very financial burden (on average about 70% of the EU-population), two ‘objective’ measures of affordable housing costs are used as indicators.

With their share of population with arrears on mortgage or rent payments or on utility bills, Germany and the Netherlands both score below EU-average (Figure 2). However, in Germany the lower income

[1] Former Eastern European countries, as well as the Southern European countries and the Baltic states are not shown.

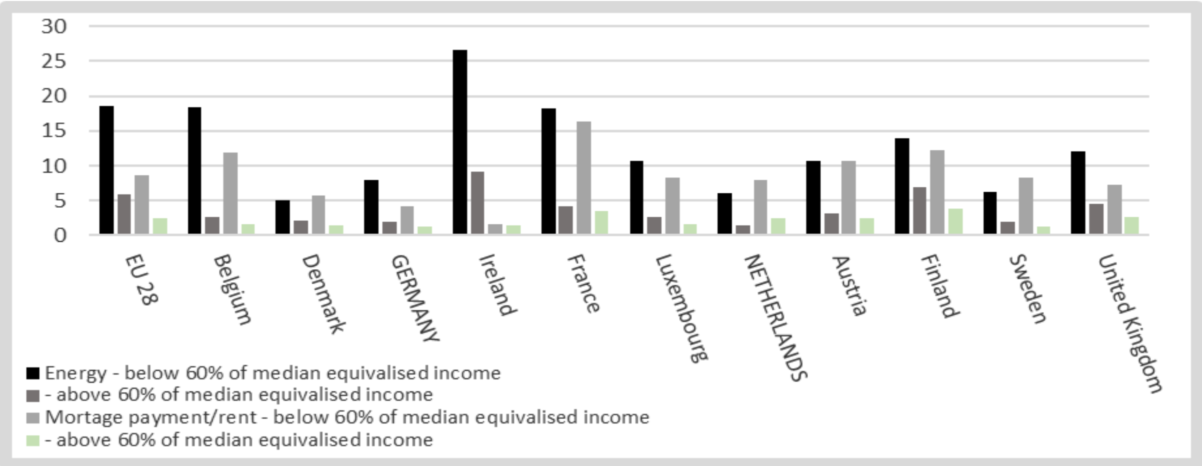
[2] The share of population with an equivalized disposable income lower than 60% of the median national equivalized income. 50% of households are below the median income and 50% are found above. Equivalized indicates that income is corrected for household composition.

population is more likely to be in arrears when paying energy costs, while in the Netherlands, it is about rent arrears.

The so-called housing cost overburden rate by income group (Figure 3a) and by rental tenure (Figure 3b) is expressed as share of population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances). The costs include the energy costs, among others, as well as maintenance costs and rents. It is clear that the population at risk of poverty is more likely to be housing cost overburdened, more so in Germany than the Netherlands, as well the tenants paying market rent, less so in Germany than the Netherlands.

Last, but not least, Figure 4 shows the impact of housing costs on the at-risk-of-poverty rate. Housing costs clearly more than double the share of the population considered to live at risk of poverty, more so than the average in the 28 EU-countries. Therefore, housing costs on average push a larger share of population into living at risk of poverty.

Figure 2 Share of population with arrears* on mortgage payments, rent or utility bills by income group[2] in the 11 Western European (out of 28) member countries of the European Union, 2016



Source: Eurostat (n.d.-a) EU-SILC 2016 data base

*) Eurostat, (n.d.-b): “These arrears take into account the amount owed (bills, rent, credit/mortgage repayment…) which is not paid on schedule during the last 12 months for financial reasons.”

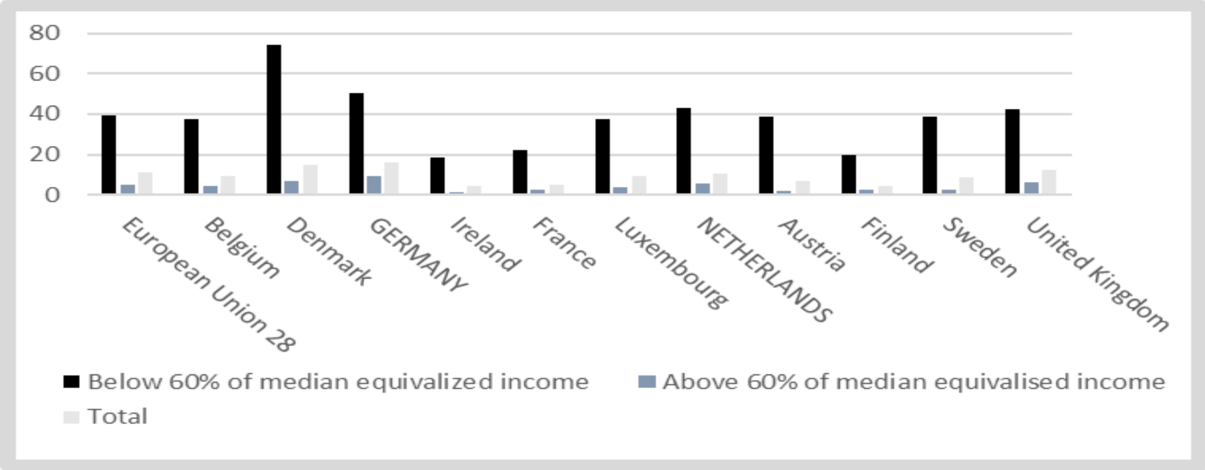
What is Affordable Housing?

The previous section shows different types of affordability indicators, all being based on some relation between housing costs and income. They show an impact on being deemed to live at risk of poverty, to be overburdened with housing costs or to be in housing arrears. Affordable housing as a term, however, is yet to be defined. Figure 3b defines affordable housing as housing that is rented against a reduced price or free of charge (in comparison to rent at a market price). Free housing generally is linked to employment; i.e., private sector employers, churches or armed forces.

The EU-SILC classification, besides not necessarily being clear in terms of respondent (tenant) in a dwelling subsidized by rent control and/or supply-side subsidies, also deviates from the terminology used in both countries, as ownership of the dwelling is often the basis for statistics (Oxley et al., 2010).

Figure 3 Housing cost overburden rate – share of population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances) – in the 11 Western European (out of 28) member countries of the European Union, 2016

3a) By income group[2]



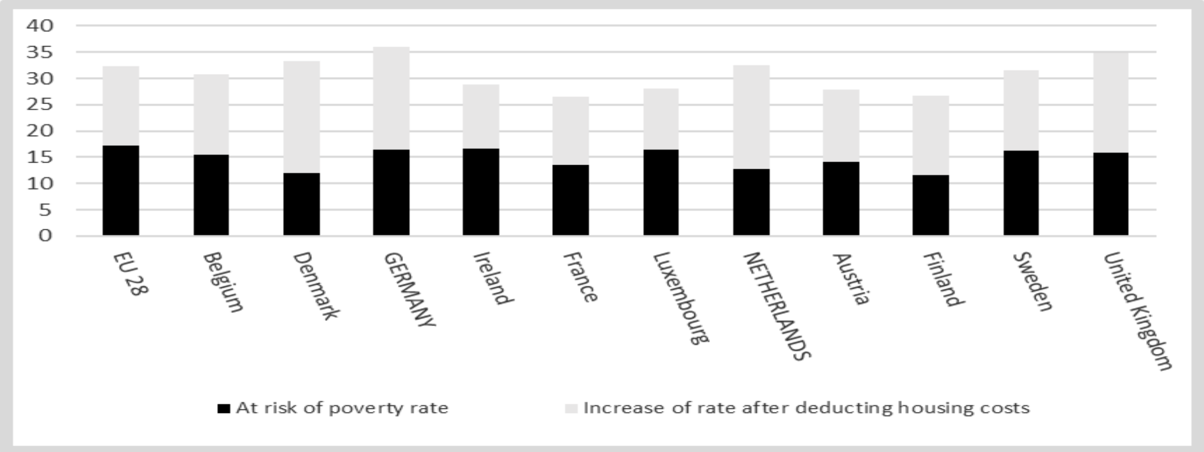
3b) by rental status

Source: Eurostat (n.d.-a) EU-SILC 2016 data base

Rental dwelling can be owned by private persons, private institutions or by public institutions. Those persons/institutions that are profit-oriented generally provide private, market of commercial rental dwellings, while those institutions that are non-profit or public generally provide social or non-market dwellings. In the latter case an administrative allocation system is needed to determine who is eligible for the below-market priced housing. In practice, public, social or non-profit landlords may also offer market, commercial of private rental dwellings, for which there will be no administrative allocation system in place.

On the other hand, rental dwellings in private ownership may be provided for 'social' purposes within a public institutional framework. Usually, governments will provide some type of bricks-and-mortar (or supply) subsidies and will set requirements about rents at the start of the rental contract, rent adjustment during the rental contract, tenure security, and an administrative allocation system implying rules to determine targeted households in housing need.

Figure 4 At-risk-of-poverty* rate and increase of rate after deducting housing costs from income in the 11 Western European (out of 28) member countries of the European Union, 2016



Source: Eurostat (n.d.-a) EU-SILC 2016 data base

*) population at risk of poverty is population with an equivalized disposable income below 60% of median equivalized income in a country

To summarize, ownership of a dwelling is not necessarily the key to determine whether it fulfills a social or public task in terms of providing affordable housing to needy households. Whether a dwelling allocation system (organizing who will be first in the queue, who gets which dwelling allocated) is in place may be the more reliable indicator of whether housing must be considered affordable.

Origins of Affordable Housing in Both Countries

Because Germany and the Netherlands made different choices after the Second World War, they constitute the case studies for this contribution (Boelhouwer and Van der Heijden, 1992; Haffner et al., 2009; Elsinga and Haffner, forthcoming). The Netherlands made the more usual choice at that time entailing the designation of certain organizations, e.g., non-profit housing associations (and local authorities as back up), thus creating something called a social rental sector. More unusual was the choice to put these organizations at arms-length: non-profit rather than public. Germany did not set about to create a social rental sector linked to ownership of the dwelling. Germany designed a subsidy system with the aim to temporarily subsidize any interested investor (public, commercial or non-profit) for providing subsidized housing for a limited period. Therefore, Germany does not have a formal social sector. It distinguishes between dwellings that are temporarily subsidized aiming to be offered with lower-than-market price (depending on relationship between building costs and market price in a location) and (rental, as well as owner-occupied) dwellings that are not subsidized and are provided offered based on market conditions.

In both countries ‘market’ or private rental dwellings, however, implied rent price regulation, as well as ‘indefinite’ tenant security entailing indefinite rental contracts and a limited number of eviction reasons contained in the legal framework for those rental dwellings that can be labelled private rental dwellings (Haffner et al., 2008, 2009).

Germany

Important for the housing policy design in former West Germany was the social market economy philosophy (Boelhouwer and Van der Heijden, 1992; Haffner et al., 2009; Elsinga and Haffner, forthcoming). After the Second World War, Germany put into practice that social welfare is best served by bringing about economic progress and government intervention is designed to support the market forces (Busch-Geertsema, 2004, 2000). Implementation entailed in the first place designing housing policy as tenure neutral in order to prevent favourable treatment of one tenure above another. An example from the past here is the depreciation deduction which was available in personal income tax and corporate tax for any investors in housing; e.g., homeowners, private person and institutional landlords (Braun and Pfeiffer, 2004; Leutner, 1990). Housing allowances still are also available, irrespective of the status of the occupier, being tenant or owner-occupier.

Next to tenure neutrality (homeownership and renting), temporary government intervention was the second criterion of policy design, which also characterized the design of bricks-and-mortar or supply-side subsidies for housing (Leutner, 1990; Haffner et al., 2009). Next to making the subsidy available to any actor, any person, private or public institution, a subsidy period was also set, which lasted up to five decades in the early days of subsidization, while it was reduced to 10-15 years more recently (Cornelius and Rzeznik, 2014; Kofner, 2017).

The law of 2001 overhauled the law of 1956, but kept the mechanisms intact (Busch-Geertsema, 2000; Haffner et al., 2009; Haffner, 2011; Oxley et al., 2015; Elsinga and Haffner, forthcoming). Either low-cost loans or interest subsidies could be received in the rental sector in exchange for limitations on initial rent levels and agreement about rent increases in combination with dwelling allocation rules to those with a lower income. The system of bricks-and-mortar subsidies is therefore designed as a concession model, temporarily ring-fencing subsidised dwellings from the rest of the housing market under a special regime. Once the subsidy period ends, the dwelling moves to the unsubsidized rental sector. Since the law of 2001, the subsidy system moved towards targeting low-income and other vulnerable groups and towards ‘buying’ rights of access to existing stock private rental (strengthening neighborhoods) rather than newly-built stock (Bundesministerium für Verkehr, Bau- und Wohnungswesen 2001; Bundesregierung, 2006; Brech, 2014; Kofner, 2017).

The supply-side subsidy system required all levels of government of the federal country to cooperate: the national/federal government, the governments of the 16 (federal) states, and local governments (Haffner et al. 2009). The local governments negotiate about subsidized housing with the local actors. In the past the national government formulated the legal framework for the system (Bundesregierung, 2009; Haffner, 2011; Elsinga and Haffner, forthcoming). This changed in 2006 when the national government transferred its powers for the subsidisation, including the regulation of prices/rents and allocation, to the federal state governments. This transfer was to allow federal states to design their own ‘social’ housing investment policies within urban and spatial policies in response to different developments in population growth and decline. Furthermore, flexibility allowed states to take advantage of subsidized loans from the central state-owned bank (*Kreditanstalt für Wiederaufbau*), while others have used federal government funds, such as the modernization of buildings (Kofner 2014).

The shift in responsibility from national government to federal state government was accompanied by a financial compensation paid annually by the federal government until the end of 2013; later extended until to the end of 2019 (Bundesgesetzblatt, 2013; Bundesregierung, 2009; Haffner, 2011; Oxley et al., 2010, 2015; Kholodilin, 2016; Kofner 2017; Elsinga and Haffner, forthcoming). The national government remained responsible for the demand-side subsidies for homeowners and tenants: housing allowances for those in work and housing support for those not employed. Regardless of public funds made available to finance subsidized housing, Bundesinstitut für Bau-, Stadt- und Raumforschung (2012, p.4) concluded based on a seven-city case study that subsidised rental housing has become largely the domain of so-called housing companies of which the stock is owned by local authorities nowadays rather than of commercial investors/developers/landlords. Bottom line, returns from subsidised rental dwellings will be considered too low (Oxley et al., 2010, 2015). The corporate income tax depreciation deductions that compensated for lower returns have become less attractive than they were in the past. Kofner (2017) observes that in the past most subsidized projects were large-scale projects and also located outside of city centers. The smaller and scattered projects of today do not facilitate the provision of affordable nowadays.

As the system of supply-side subsidies is designed as a concession model, the dwellings move to the unsubsidised rental sector when the subsidy period terminates. As the subsidy terms have decreased in time, as well as funds provided resulting in less new supply, Cornelius and Rzeznik (2014) estimate the share of social rental stock at four per cent in 2011 and Kofner (2017: 62) at 3.3% (see also Bundesamt für Bauwesen und Raumordnung, 2007; Kofner, 2014).

Netherlands

In contrast to the developments in Germany, with the 1901 Housing Act the Netherlands had established legally the development of a social rental system enabling social landlords, which consisted of housing associations—registered (licenced, accredited) private non-profit housing providers or organizations (Boelhouwer and Van der Heijden, 1992; Haffner, 2002; Elsinga et al., 2005, 2008; Elsinga and Haffner, forthcoming). They were to obtain supply-side subsides from the national government. The choice for non-profit organizations rather than public organizations fitted well with the liberal spirit at that time (Van der Schaar, 1986).

After the Second World War the reduction of the enormous housing shortage was the aim (Van der Schaar, 1987). On the one hand, strict rent control in light of wage policy was to keep the Dutch economy competitive. Supply-side subsidies were then needed and introduced to increase housing production, on the other hand. As the national government determined the locations of new-built and the eligibility conditions, housing associations in fact turned into implementation organizations rather than independently operating entrepreneurs. The supply-side subsidy system was designed as annual revenue or management subsidies which the national government paid for 50 years to the social landlord from the moment a dwelling was constructed. This subsidy closed the gap between rent level set by government and norms for costs set by government.

The following decades, government undertook several attempts to decrease the role of government (Boelhouwer and Van der Heijden, 1992; Haffner, 2002; Elsinga et al., 2005; Elsinga and Haffner, forthcoming). Nevertheless, housing remained a subsidized service in the social rental sector, as well as by tax breaks for homeowners. In the rental sector, however, neutrality in policies existed legally for private as well as for social landlords: the same rent regulation was effectuated by the national rules for rent setting, rent adjustment, indefinite rent contract, and restricted number of reasons allowing for eviction (Haffner, 2018). Furthermore, the supply-side subsides that were available for the housing associations were also available to private landlords (almost the same conditions). As the take-up required some administrative capacity, only private organisation landlords/investors took advantage of them.

Nevertheless, this package of housing subsidies with a paternalistic foundation, left out the private person landlords and therefore heralded the decline of private renting to less than 15% by 1985, starting from a share of 60% in 1947 (Van der Heijden et al., 2002). Although financial support for social rental housing changed over the years, the supply-side subsidy regime as such remained intact until the early 1990s. The social rental stock increased from 12% in 1947 to its highest market share of 42 percent in 1986, contributing to affordable housing stock for lower- as well as middle- and higher-income households. The model that had been in place since the Second World War, came to an end by the mid-1990s due to privatization notions permeating government policies. It turned out to be a costly model building up subsidy obligations for 50 years for each newly-built rental dwelling that was subsidized, while the Netherlands as the EU member countries had to fulfill EU financial requirements concerning government budgets in preparation of the introduction of the common currency unit (which later facilitated the introduction of the Euro, the currency of the EU) (Elsinga et al., 2005; Haffner et al. 2009, 2014). In the 1990s all the government future subsidy obligations were calculated as net present value and paid in one amount to the social and private landlords, respectively. This was called the grossing and balancing operation, as the national government traded in its outstanding government loans that it had provided to social landlords to finance their investment.

This operation cut the financing and subsidy link between the government and the social/private landlords. Social landlords were to learn to operate as social entrepreneurs, acting in a commercial way, without supply-side subsidies for new construction, but fulfilling their public task of providing affordable housing for those in need. They were still registered non-profit organizations created for this public task. Financially, they were to operate as a revolving fund, earning revenues from renting out dwellings, selling dwellings, etc. and using those revenues in turn for improving the quality of their stock and building new social rental dwellings. To steer and support the social landlords a new institutional framework was formulated by the Social Housing Management Order which prescribed the tasks (Elsinga et al., 2005; Elsinga and Lind, 2013; Haffner et al. 2009, 2014; Elsinga and Haffner, forthcoming).

To facilitate and safeguard financial independence, two organizations were created. The Central Public Housing Fund, as safety net, was to step in when housing associations ran into financial problems (bankruptcy). All paid a fee for this service. The Guarantee Fund for Social Housing Construction backed by government was to provide a guarantee to banks for loans taken out by housing associations in order to reduce the risks, and therefore constituted the main new subsidy instrument. Furthermore, local authorities often provided subsidies lowering the price of land for the new construction of social rental housing. Meanwhile government had made the switch to housing allowances (demand-side subsidy) as main instrument of subsidy in the rental sector.

After a period of allowing actors to ‘experiment’ with the new system, in which the local authority and social landlord worked together to realize social rental housing and a sector system of evaluation was developed, the national government changed its policy. The balance in the housing market was to be restored with a move more towards market activities and away from social renting; particularly to stimulate more private-commercial rental supply to help solve shortages in rental housing in the medium price segment in the urban markets (Elsinga et al., 2008; Haffner et al. 2009, 2014). An income limit for the allocation of social rental dwellings was introduced by 2011, which entails explicit targeting of the sector to lower-income groups. It came about based on ‘state aid’ legislation (to achieve level playing fields on markets across suppliers) and negotiations with the European Union (Elsinga and Haffner, forthcoming; see also Elsinga and Lind, 2013).

Furthermore, rent price regulation, which was largely the same for private and social rental dwellings (most of the rental market) has been adapted to be more in line with the market rents, rent price regulation has also been made stricter for social landlords than for private landlords (Haffner, 2018). Furthermore, possibilities have been introduced to sign temporary tenancy agreements in certain situations, instead of permanent rental contracts in the rental sector (Huisman, 2016), while the income limits have been lowered for the allocation of social rental dwellings (Priemus and Haffner, 2017; Haffner et al., 2014; Haffner, 2018). Last, but not least, the social landlords are also paying corporate income tax, while a new ‘property’ tax was introduced in 2013 for dwellings with a low rent level. Particularly, the latter levy lowers social landlords’ investment volumes.

These measures all contributed to the slow, but steady decline of the social rental sector reaching 30% in 2015, down from 42% in 1985 (Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, 2016).

Even though the cutting of financial ties between government and the rental sector went almost hand in hand with the creation of a rental segment where government no longer regulated rent levels, the private rental sector continued its decrease in market share to eight per cent of dwelling stock in 2009 (Haffner, 2018).

Impact on affordability of housing

The (incomplete) country descriptions show that even though the models of affordable rental housing provision that Germany and the Netherlands have implemented are different – one permanent, the other temporary – both are coping with similar trends: decrease in subsidization, (relative) decrease in affordable rental housing and marginalization of the subsidized/social rental sector income wise (Bundesregierung, 2009; Oxley et al, 2015; Kholodilin, 2016, Kofner, 2017; Elsinga and Haffner, forthcoming). Furthermore, both countries are targeting the sector more on lower income households and vulnerable households and subsidized/social rent levels are closer to market than they used to be.

The context in both countries is different in the countries. For example, Germany has already had to cope with the problem of shrinking and growing areas, more so than the Netherlands, while in both countries the question arises how to provide affordable housing in growing metropolitan areas. Meanwhile, because of the conversion of subsidized rental housing into private rental housing once the subsidy scheme ends in Germany, many households with a low income are being housed in the private rental sector (with possibly a system of rent price regulation is in place, if organized).

The Netherlands seems to be following suite with its most recent policies of giving more room to market actors. Indirect legal measures, such as limiting rent control increasingly to the cheaper rental stock and setting a lower income limit in the social rental housing allocation system, help to limit the role of social renting, while they potentially open up opportunities for investment in the middle- (and higher-) priced segment of the private rental market (Oxley et al., 2015; Haffner, 2018).

While the Netherlands still has the largest social rental sector in the European Union, Germany is most likely to have one of the smallest shares of subsidized rental housing on offer and has been discovering (2009/2010) that the share may be too small to cope with the recent growth of rent levels in a number of cities, as signals of increasing demand (Cornelius and Rzeznik, 2014.; Kofner, 2017). For example, Berlin had stopped to provide subsidies to social housing in 2010 (Kofner, 2014). Each city now seems to try to develop own models of realizing affordable housing. For example, Munich has developed the Munich model of affordable housing (which is not aiming at the most needy, but at lower to middle income households) that found some followers in other cities (Cornelius and Rzeznik, 2014). In this model planning gains need to be partially used for realizing affordable housing, similarly to the British Section 106 model. A big diversity in uses and schemes exist, while evaluations about effectivity and efficiency are scarce (Cornelius and Rzeznik, 2014; Kofner, 2014).

Next to the activities in the growing cities, the national government has reversed its decision to pull out of the financing of subsidized housing and increase budgets with substantial amounts for the period 2014-2019 to tackle the shortage in affordable housing (Oxley et al., 2015; Kholodilin, 2016; Kofner, 2017; Elsinga and Haffner, forthcoming).

Conclusions

The country descriptions in this contribution analyze how the supply-side subsidy models of affordable rental housing provision that Germany and the Netherlands have implemented since the Second World War have not changed their core characteristics and mechanisms. They can be described as path dependent systems with incremental changes; the German system being steered by the market in combination with the societal/political identified social needs, while the Dutch system has survived for a long time on an (implicit) political agreement in Dutch society, which subsidized most housing from a paternalistic point of view that realizing decent housing could not be left at the mercy of the population.

The supply-side subsidy models of affordable rental housing provision in Germany and the Netherlands were and still are different in an important way: the latter entails an ownership model, creating a more permanent social rental stock, and the former a temporary subsidized rental stock, depending on the length of the agreed subsidy terms. Regardless of the model type, both have been coping with similar developments: decrease in funds for subsidized/social renting and (relatively) in affordable rental housing, as well as marginalization of the subsidized/social renting income wise. In Germany, these results are due to the temporary system that is not set up as a revolving fund. In the Netherlands, the focus of the government has been moving towards more market.

Even though the market share of these types of affordable dwelling differs (very large in the Netherlands, very small in Germany), both countries are expected to increasingly housing the needy in the private rental sector, where investments are driven by commercial motives. Germany is clearly further along this trajectory than the Netherlands, which more recently started betting on the market. The balance between regulation to protect the tenant and allowing enough space for commercial investors to invest in rental housing turns out to be delicate, as the German example shows. With complementary regulation (tax breaks) less attractive for investors than in the past, and higher alternative returns to be earned elsewhere (in non-subsidized residential real estate; Oxley et al., 2015), commercial investors are no longer investing in subsidized rental housing. This is a task which is left to be picked up by housing companies whose stock is owned by local authorities.

The subsidized rental dwelling has become a scarce product, particularly in Germany. Because affordable housing is back on the agenda, new investments are needed. The national government has had to support again the provision of social renting, reversing an earlier decision to stop its financial support. The federal states and the local authorities are the actors, however, that determine how these extra funds, coupled with their own funds will be put to use in realizing new affordable housing. Diversity in uses and schemes exist, while evaluations about effectivity and efficiency are scarce.

With a more ‘permanent’ stock of social dwellings provided and managed by social landlords within an institutional framework that makes the provision of affordable housing a public task, will allow for a stronger protection of the tenant, but also for stronger insider benefits, when the extension of rental contracts are not means-tested. Furthermore, a sector system of evaluation of the social landlords exists. Any profits will have to be reinvested in the sector, as linked to the accreditation status of the housing associations in the case of the Netherlands. However, the public task of providing affordable housing in the Netherlands has lost political support and a move towards ‘more’ market followed, as well as extra property taxation of the lower-priced rental stock for which central government regulates annually the rent increase.

Both the Dutch and German system allowed for some extent of freedom of operation. In the Dutch case, social landlords experimented with social entrepreneurship, combining the commercial and social dimensions of residential real estate management. The Germany supply-side system is based on negotiations are taking place between investors and the subsidy providing local authority about the conditions under which subsidized housing will be realized. The cases both show that cooperation is a must in order to realize affordable housing (in urban areas), but also government support.

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