

# A Rental Culture vs. a Home ownership Culture

Bodine Beentjes

IE University, Madrid, Spain

E-mail: [Bbeententjes.ieu2016@student.ie.edu](mailto:Bbeententjes.ieu2016@student.ie.edu)

Published May 4, 2020

## Abstract

This paper aims to analyze the housing situation in the post-crisis years in Spain and the Netherlands. Both countries are highly developed European Union (EU) countries and have expanded their economies since 2013. Similarly, both are experiencing a housing crisis with rapidly increasing prices and shortages. Spain suffers challenges related to its decentralized and unorganized housing management structure when it comes to implementing new policies, and the Netherlands needs to motivate housing corporations to construct more housing. This paper looks at various studies and reports as well as news related to policy changes and their effects from 2015 to the present day. Furthermore, the concept of social housing and the effects of related policies on both the people and the market are analyzed.

Keywords: Housing Market, Real Estate, Netherlands, Spain

## 1. Introduction

Housing crises, meaning a state in which more and more people are losing the ability to afford and obtain housing, are happening all over the world. Cost of living in developed countries like Spain and the Netherlands are increasing, however, wages are not increasing proportionally<sup>1</sup>. Additionally there is a physical lack of housing available, especially in highly urbanized cities. The Netherlands has the highest share of social rentable housing in the European Union, 30% of its housing stock is dedicated to social housing, and still the country faces a housing crisis.<sup>2</sup> Spain, on the other hand, has a strong home ownership culture and social rent housing is significantly less established (2.5%) in comparison<sup>3</sup>. Social housing in Spain consists of “*Vivienda de Proteccion Publica*” and is offered primarily for ownership purposes and rarely oriented to rentals. While the Netherlands does not have a single definition for social housing, it refers to below market price housing targeted at families and individuals that suffer a financial disadvantage. Spain similarly defines social housing as the facilitation of housing accessibility to the most vulnerable groups in society.<sup>4</sup> The housing policies in Spain’s current Four Year Housing Plan aim at increasing the supply of actual housing

as opposed to social housing.<sup>5</sup> It is essential to note the effect that housing policies have on economic crisis risks and the capacity to recover from a crisis. The policies put in place have a substantial effect on the disposable income of households and expenditure on house-related costs. The following paper looks at the effects of housing policies on the market and households. It further analyses the impact of influential players on the implementation of these policies.

## 2. From the Past to the Present

European cities are lacking housing in terms of both affordability and availability. The reason why? Since the economic recovery from the Financial Crisis of 2007-2008, housing prices have increased quicker than average household income.<sup>6</sup> Governments are often criticized for doing too much or too little to address the housing issue. Leilani Farha, the United Nations Special Rapporteur on adequate housing, stated, “the time for excuses, justifications and looking the other way when access to justice is denied for the right to housing has long passed”.<sup>7</sup> Desire Fields in her paper on housing crises singles out government policies for being the driving force in the

<sup>1</sup> Desiree J. Fields and Stuart N. Hodkinson, “Housing Policy in Crisis: An International Perspective,” *Housing Policy Debate* 28, no. 1 (December 12, 2017): pp. 1-5

<sup>2</sup> Pittini, Alice. The State of Housing in the EU. *Housing Europe*, Sept. 2019.

<sup>3</sup> Pittini. The State of. 4-5

<sup>4</sup> Ana Arriba and Gregoria Rodriguez Cabrero, “PDF” (Luxemburg, July 2018))

<sup>5</sup> Pittini, Alice. The State of Housing in the EU. *Housing Europe*, Sept. 2019.

<sup>6</sup> Beioley, Kate. “European City Living Gets Less Affordable.” *Financial Times*, 30 May 2019.

<sup>7</sup> Gunnar Gunnar Theissen, “HCDH: States Are Failing Millions Mired in Housing Crisis, Says UN Expert,” HCDH | States are failing millions mired in housing crisis, says UN expert (United Nations Human Rights Committee), accessed January 29, 2020,

increasing inequality in housing distribution<sup>8</sup>. Housing markets are working in dysfunctional and geographically imbalanced ways, causing the displacement of low- and middle-income households from higher value areas, and blockages in housing production that are keeping supply low and markets tight.<sup>9</sup> In situations like this, it is low-income families in a society that suffer the overburden and have to spend more than 40% of their disposable income on housing costs.<sup>10</sup> These costs include rent, mortgages, tax, repairs, and utilities. That means the households have a smaller percentage of their disposable income available for saving or other expenses like groceries or leisure activities. The purpose of government intervention through housing policies is to meet the housing needs of these low-income families. Another threat that people face regarding affordability and decent housing comes from what Joe Beswick calls *global corporate landlords*.<sup>11</sup> These *landlords* are large multinational asset management firms that enter the market and buy up large amounts of properties where previous homeowners have defaulted. Both Spain and the Netherlands struggle with the fact that large private equity firms, located far away, have control over large market shares.

## 2.1 The Netherlands

The Netherlands is unique when it comes to the subsidization of housing for low-income individuals. Vestia, a prominent social housing corp., put together an index on social housing where Netherlands comes in first.<sup>12</sup> Spain, on the other hand, has one of the lowest percentages in Europe of social housing with 2.5%. There is a significant issue for cities in highly demanded areas, where prices are increasing to unaffordable levels for both buying and renting. This creates a significant problem for people as they are not able to live in areas where there are job opportunities.<sup>13</sup> Important to note is that the prices of housing have grown since 2017. Before they were lower than the pre-crisis period. The low prices are explained through a generous tax regime allowing for mortgage tax reduction. While prices were low, people expected them to go up, resulting in a speculative bubble not attributed to underlying fundamentals.<sup>14</sup> In the years 2012 and 2013 several financial institutions decided to intervene for three main reasons. The Dutch Central Bank, the authority financial markets (AFM), and the Ministry of Finance intervened for three reasons related to mortgage debt; (A) size, (B) risk, (C) Funding.<sup>15</sup> In terms of debt, the IMF has

<sup>8</sup> Desiree J. Fields and Stuart N. Hodkinson, "Housing Policy in Crisis: An International Perspective," *Housing Policy Debate* 28, no. 1 (December 12, 2017): pp. 1-5

<sup>9</sup> Desiree J. Fields . "Housing Policy in Crisis 1-5

<sup>10</sup> OECD, Social Policy Division. "Housing Costs over Income" 13 Feb. 2019.

<sup>11</sup> Desiree J. Fields . "Housing Policy in Crisis 1-5

<sup>12</sup> 10 Large Social Housing Providers Across Europe," International Observatory on Social Housing, May 8, 2017,

<sup>13</sup> Pittini, Alice, et al. "The State of Housing in the EU 2017." *A Housing Europe Journal*, Oct. 2017

<sup>14</sup> Peter Boelhouwer, "The Role of Government and Financial Institutions during a Housing Market Crisis: a Case Study of the Netherlands," *International Journal of Housing Policy* 17, no. 4 (August 2017)

<sup>15</sup> Boelhouwer, The role of, 9

recommended reducing mortgage debt had doubled from 1999 to 2012.<sup>16</sup> This is important to firms and businesses as the credit rating can go down. High mortgage debt increases risk to the government, by losing out on mortgage tax deductibles and household's defaults. Lastly, since banks are required to increase their financial reserves, allowing for generous tax deductions is not in the interest of the banks<sup>17</sup>. In sum, there was reason for these three players to step up and intervene.

## 2.2 Spain

Where the Netherlands saw a sharp drop in real estate prices following 2013-2014, the Spanish real estate market saw a sharp increase. This is a general statement as there remains a high disparity in location, type, and value, however, the difference is recognizable<sup>18</sup>. One of the main challenges that the Spanish housing market faces today is the increasing supply of unoccupied houses. The government has experimented with a number of incentives to reoccupy these spaces. through urbanization, small villages are being deserted. This means that there is not a lack of housing, but a lack of housing in highly desired areas in cities like Madrid or Barcelona<sup>19</sup>.

Table 1 shows the increase in house purchases as of 2013. The factors driving this number up include and improvement in financing opportunities. Interest rates on

mortgage loans have decreased by 1% over the last five years while repayment periods have extended.<sup>20</sup> This has incentivised more purchases by both nationals as well as foreigners. The latter must not be forgotten as they represent an external influence on the results of this study. Regardless, the increase in purchases since 2013, is notable. Additionally, rentals have also slightly increased. To enhance the availability of rentals, the government has taken a two-pillar approach. Focusing first on promoting rental housing through subsidies and the promotion of rental housing stock. The second pillar focuses on restoration, regeneration, and urban renovation. Furthermore, the 2013-2016 State Housing Plan also emphasizes the need for public-private collaboration. This Housing plan has been aimed at correcting the inefficiencies in the system that have led to events like the 2007 crisis.

## 3. What types of policies are we talking about?

There are numerous ways that a government can intervene in the housing market. It can take fiscal measures such as subsidizing or granting tax exemptions. The government can also engage in direct provisioning of social housing by allowing rentals or sales to be below-market prices, or allocate housing using non-market allocation mechanisms. The first two require tax money paid by citizens. They can

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Pana Alves and Alberto Urtasun, "Recent Housing Market Developments in Spain," *Economic Bulletin 2/2019 Analytical Articles*, April 11, 2019)

<sup>19</sup> Alves, Recent Housing, 4

<sup>20</sup> Pana Alves and Alberto Urtasun, "Recent Housing Market Developments in Spain," *Economic Bulletin 2/2019 Analytical Articles*, April 11, 2019)

therefore quickly become controversial and require extensive analysis before they can be implemented. Legislation can be put in place to influence the housing market to increase quality and quantity. By giving tax

exemptions to property developers, creating new housing complexes can become an attractive investment opportunity. Minimum physical standards can be used to improve quality.

1 NUMBER OF HOUSE PURCHASES

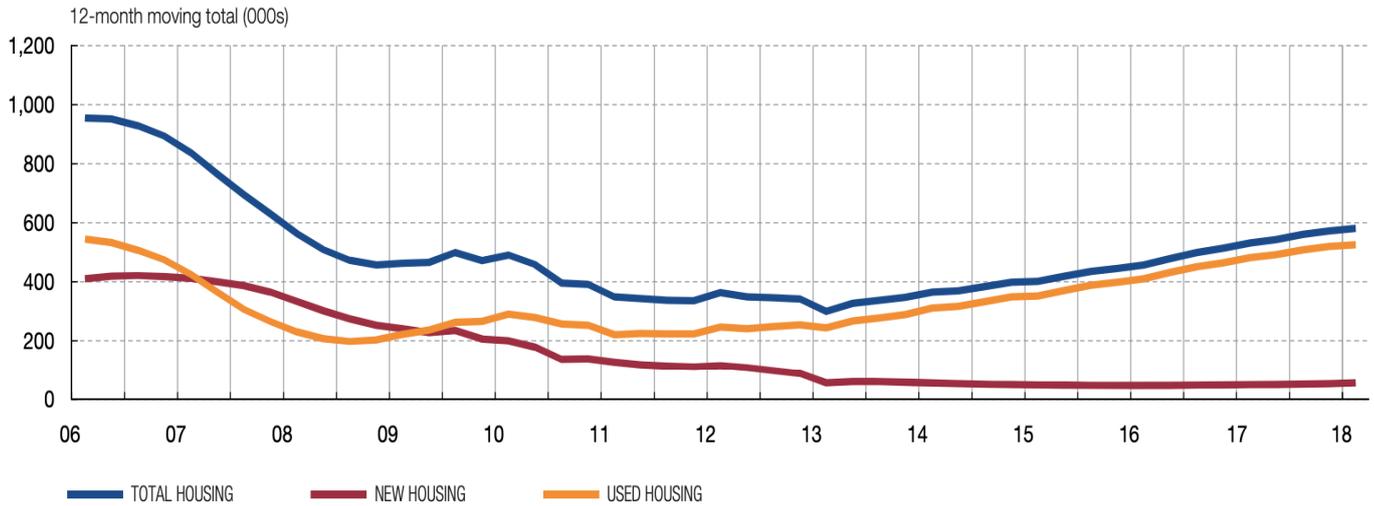


Table 1 “Number of House Purchases”

These policies may also result in undesirable side effects on not just the housing market but also markets such as the labor market, even years after their implementation. Studying them can allow policymakers to better understand the market and what it needs. It is important for them to understand the effects of the policies they implement for further improvement of the livelihood of citizens.

4. What could possibly go wrong?

Having too much government influence can lead to several unfavorable outcomes. If the government implements rent caps and sets a limit on the amount of rent a landlord can

charge, then this could lead to a black rental market where the landlord may proceed with leasing without a contract<sup>21</sup>. Rentcaps can be unfavorable to the owner as he/she is not able to charge the value of a property. Through renting without a contract a landlord as well as the tenant is able to behave as they please. A landlord may refuse to make reparations when appliances break down and a tenant may cause unnecessary damage. If a landlord can only collect a certain amount of rent, he or she may choose minimal property maintenance services for the tenant. Lastly, the landlord may choose to sell the property when potential future rent income does not outweigh a

<sup>21</sup>Allison Conley (Department of Urban Design and Planning, 2018), pp. 31-33)

sale. The people favored in rent caps are the tenants already living in a property, apartment, or other form of housing. Newcomers to the market, however, will have a hard time finding housing as there will be less movement. Finding a balance between policies like rent ceilings and construction subsidies is tricky and controversial and can lead to public resentment if not implemented correctly, such as the Organization Platform for People Affected by Mortgages (PAH) in Spain. The PAH was formed out of a shared belief in unfair convictions. As these policies have long term consequences, it will take at least another five years until the real results are seen.

## 5. Country comparison on policy outcome

The five years following the implementation of a set of policies in both Spain and the Netherlands, saw the impact of those policies. Here two countries of similar geographic location, political stability, and economic strength are compared. It is evident when powerful players act on their own interest long term consequences will follow that are tough to undo.

### 5.1 Netherlands

The Dutch policies implemented in the years 2013-2014 have resulted in an increase in housing prices and consequently a reduction in purchases. This further translated into a reduction in construction as well as a loss

of jobs in the construction sector<sup>22</sup>. There was a high number of bankruptcies reported. Loans for households were tougher to approve and obtain and employment in the construction sector fell.<sup>23</sup> This was the result of influential players fearing loss of credit rating and also being recommended by the IMF to make adjustments. Peter Boelhouwer in his case study on the Netherlands concludes by suggesting a “two fold policy”. This means the government needs to look at major cities and small villages with a different approach, as they have different needs.

### 5.2 Spain

As the data shows for the Netherlands, the number of purchases has decreased and prices have gone up<sup>24</sup>. Spanish data shows the opposite. Here there were two approaches to housing policy as well as the influences on shaping that policy. The Dutch government was influenced by three major actors; the central bank, the ministry of finance, and the AFM; who all saw their interests in jeopardy. The Spanish leniency on tax reduction and repayment extensions have given people more incentive to invest. Since 2012-2013 there has also been an increase in investment in construction. Spain is above the EU average in housing investment as a % of GDP.<sup>25</sup> These rates are not yet back to pre-crisis levels but they are showing improvement in the last five years. The market is also seeing an increase in the number of housing approvals. Again not as high as pre-crisis

<sup>22</sup> Peter Boelhouwer, “The Role of Government and Financial Institutions during a Housing Market Crisis: a Case Study of the Netherlands,” *International Journal of Housing Policy* 17, no. 4 (August 2017)

<sup>23</sup> Boelhouwer, The role of, 9

<sup>24</sup> “Existing Own Homes; Purchase Prices, Price Indices 2015=100,” CBS Statline (Centraal Bureau voor de Statistiek, January 21, 2020),

<sup>25</sup> Pana Alves and Alberto Urtasun, “Recent Housing Market Developments in Spain,” *Economic Bulletin 2/2019 Analytical Articles*, April 11, 2019)

levels but the trend is increasing. The challenge to reoccupy smaller villages in Spain remains. This will require a greater set of policies relating to work opportunities.

## 6. Conclusion

The currently implemented housing policies are far from flawless, and many improvements can be made. The Netherlands is struggling with slightly different challenges than Spain. Spain needs to increase the rental proportion in the housing market to balance out with the homeowner sector while dealing with a decentralized system. The Netherlands needs to incentivize housing corporations to construct more affordable housing for low-income families. Additionally, the increasing cost of housing for middle-income households is presenting another challenge because household incomes are not increasing proportionally. While battling powerful interest groups and acting in the good of society, the Dutch government needs to put together a set of policies that will make mortgage loans easier to obtain. Like Spain it could lower interest rates and extend the repayment period. The Dutch have one of the lowest default rates, meaning this could policy is definitely of interest to the Dutch government.<sup>26</sup> It is argued that making lending easy can lead to excessive borrowing which led to the global crisis in 2008<sup>27</sup>. It is the job of regulators to monitor this trend of excessive borrowing and step in at the right time.

---

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

## Bibliography

- “Aantal Vergunde Nieuwbouwwoningen Neemt Wederom Af.” Centraal Bureau voor de Statistiek. Centraal Bureau voor de Statistiek, August 21, 2019. <https://www.cbs.nl/nl-nl/nieuws/2019/34/aantal-vergunde-nieuwbouwwoningen-neemt-wederom-af>.
- Alves, Pana, and Alberto Urtasun. “Recent Housing Market Developments in Spain.” *Economic Bulletin 2/2019 Analytical Articles*, April 11, 2019.
- Arriba, Ana, and Gregoria Rodriguez Cabrero. “PDF.” Luxemburg, July 2018.
- Beioley, Kate. “European City Living Gets Less Affordable.” *Financial Times*, 30 May 2019.
- Boelhouwer, Peter. “The Role of Government and Financial Institutions during a Housing Market Crisis: a Case Study of the Netherlands.” *International Journal of Housing Policy* 17, no. 4 (August 2017). <https://doi.org/10.1080/19491247.2017.1357399>.
- Brandsen, T. & Pape, U. *Voluntas* (2015) 26: 2267. <https://doi.org/10.1007/s11266-015-9646-3>
- Conley, Allison. Department of Urban Design and Planning, 2018.
- Crites, J. (2017, May 8). 10 Large Social Housing Providers Across Europe. Retrieved from <https://internationalsocialhousing.org/2017/05/08/10-large-social-housing-providers-across-europe/>.
- Crites, J. (2017, May 12). Public Housing in Spain: The Basics. Retrieved from <https://internationalsocialhousing.org/2017/05/12/public-housing-in-spain-the-basics/>.
- Cournède, B., Sakha, S., & Ziemann, V. (2019, August 9). Housing-related policies matter for economic resilience. Retrieved from <https://oecdecoscope.blog/2019/08/09/housing-related-policies-matter-for-economic-resilience/>.
- Dutch News. (2019, August 22). Permits for new homes reach three-year low as housing shortage grows. Retrieved from <https://www.dutchnews.nl/news/2019/08/permits-for-new-homes-reach-three-year-low-as-housing-shortage-grows/>.
- “Existing Own Homes; Purchase Prices, Price Indices 2015=100.” CBS Statline. Centraal Bureau voor de Statistiek, January 21, 2020. <https://opendata.cbs.nl/statline/#/CBS/en/dataset/83906ENG/table?ts=1580562607079>.
- Fields, Desiree J., and Stuart N. Hodkinson. “Housing Policy in Crisis: An International Perspective.” *Housing Policy Debate* 28, no. 1 (December 12, 2017): 1–5. <https://doi.org/10.1080/10511482.2018.1395988>.
- “Public Housing in Spain: The Basics.” International Observatory on Social Housing, May 12, 2017. <https://internationalsocialhousing.org/2017/05/12/public-housing-in-spain-the-basics/>.

- Llop, Nuria Lambea. "Social Housing Management Models in Spain." *Revista Catalana De Dret Public*, no. 52 (June 2016): 115–28. <https://doi.org/10.2436/20.8030.01.69>.
- Mendo, Lalaine C. "Dutch House Price Boom Continues!" *Global Property Guide*, July 15, 2019. <https://www.globalpropertyguide.com/Europe/Netherlands/Price-History>.
- OECD, Social Policy Division. "Housing Costs over Income" 13 Feb. 2019
- Pieters, Janene. "Housing Market Crash A Major Risk Says Dutch Central Bank." *NL Times*, October 15, 2019. <https://nltimes.nl/2019/10/15/housing-market-crash-major-risk-says-dutch-central-bank>.
- Pittini, A., Koessler, G., Dijol, J., Lakatos, E., Ghekiere, L., & Goudis, M. (2017). *The State of Housing in the Eu in 2017. The State of Housing in the EU in 2017*. Brussels: Housing Europe.
- Pittini, A., Dijol, J., Turnbull, D., & Whelan, M. (2019). *The State of Housing in the Eu*. (M. Goudis, Ed.) *The State of Housing in the EU*. Brussels: Housing Europe, the European Federation of Public, Cooperative and Social Housing.
- UN Human Rights. (2019, March 4). HCDH: States are failing millions mired in housing crisis, says UN expert. Retrieved from <https://www.ohchr.org/FR/NewsEvents/Pages/DisplayNews.aspx?NewsID=24249&LangID=E>.
- "10 Large Social Housing Providers Across Europe." *International Observatory on Social Housing*, May 8, 2017. <https://internationalsocialhousing.org/2017/05/08/10-large-social-housing-providers-across-europe/>.
- Stability Programme Update 2019-2022, Stability Programme Update 2019-2022 (N.D.).