Developments in the Dutch BTL market

Focus on ABS

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Contents

Summary

- Covid-19 has impacted the Dutch BTL market in several ways. Less (foreign) students, expats and tourists have led to shifts in the supply of homes in the large cities.
- Meanwhile, house prices in Amsterdam appear to be losing some momentum whilst apartment prices declined in the majority of the large student cities, areas where BTL investors are typically quite active.
- On the regulatory front, policymakers are increasingly taking aim at the BTL segment. Several new measures were proposed earlier this year, including the possibility to ban property sales to BTL investors.
- Nonetheless, there are also some positives as certain proposals were weakened from their initial tough stance and the dreaded wealth tax reforms have also been scrapped.
- Overall, while worsening economic fundamentals due to Covid-19 and regulatory risks pose short(er)-term headwinds for the Dutch BTL market, the longer-term prospects remain favourable for the small but fast growing segment.

Introduction

Over the last few years, whilst still small, the Dutch BTL market has grown rapidly, with particularly private individuals starting to invest in BTL properties. In response, BTL mortgage products have also become more commonplace as leverage is fiscally attractive under the Dutch wealth tax framework. Taken together, the developments have culminated into a larger Dutch BTL RMBS market with for instance Domivest selling its debut deal last year. The relatively young BTL sector is however facing several challenges posed by Covid-19 and increased regulation. Both developments are discussed in this publication.

Covid-19 impact

The Covid-19 crisis has only had a relatively minor impact on the Dutch housing market thus far, but in the large (student) cities there has been a somewhat more noticeable impact. With a relatively large presence of BTL in these urban areas, the sector is more exposed to Covid-19 fallout. The pandemic has already resulted in less demand for rental properties from (foreign) students, expats and tourists, propagating a (temporary) shift towards longer-term rentals.

On the national level, figures from the real estate brokers association NVM show sentiment remains bullish (2.1% qoq price growth in Q2). There is regional disparity though as Amsterdam house prices declined by 2.8% qoq, largely driven by the apartment segment (-4.8% qoq).[1] The

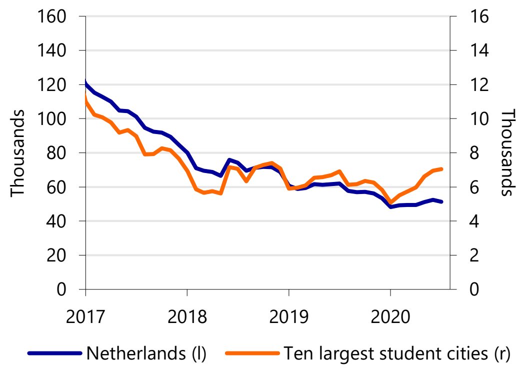
[1] The official Q2 figures from *Statistics Netherlands* for the entire Dutch housing market paint a different picture but they are lagging behind the generally more forward-looking *NVM* figures.

latter is seen elsewhere as well with 7 of the 10 largest Dutch student cities seeing apartment prices decline in Q2. (see Figure 2). While it is still too early to call it a trend, the price developments might be a first sign of wavering demand from BTL investors given they are generally more active in cities and predominantly purchase apartments.

Shifts in supply

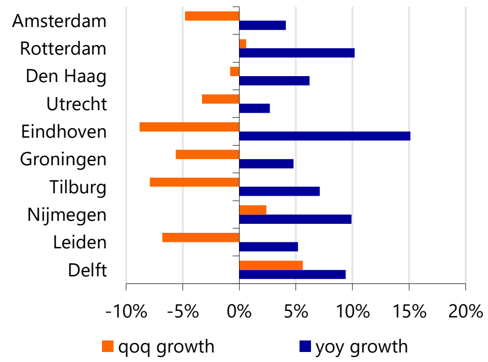
The absence of (foreign) students, tourists and expats has contributed to changing supply dynamics in the large cities since March. Housing website *Pararius.nl* reported strong increases in the number of rental homes on offer in April as landlords shifted to the longer-term rental market. In the second quarter overall, demand has been solid though as 25% more apartments (predominantly located in Amsterdam) were rented out. Aside from switching to longer-term rentals, landlords may also opt to sell the property. Data from owner-occupied home aggregation website *Huizenzoeker.nl* reveals there were roughly 23% more homes on offer in the ten largest student cities in July vs. March. Supply in Amsterdam even rose by a hefty 48% in the same period.

Figure 1: Number of owner-occupied homes for sale



Source: Huizenzoeker.nl, Rabobank

Figure 2: Median weighted sales price of apartments



Source: NVM, Rabobank

Meanwhile, *Pararius.nl* reported that average rental prices in Q2 2020 declined yoy in the unregulated sector in cities such as Amsterdam, The Hague and Eindhoven. They note that landlords turning to the longer-term rental market likely lowered rents to make it attractive for non-expat tenants, potentially contributing to the decline in average rental prices.

Relatively limited impact on rent payments thus far

The financial impact of Covid-19 on tenants so far appears to be relatively limited. A 2 June survey from private investor association *Vastgoedbelang* reported that 2% of tenants in the private rental market had trouble paying rent due to Covid-19. In 75% of those cases, a solution was reached with the landlord, either through a partial rent postponement, a temporary rent discount or a structural decrease in rent.

Increased regulatory scrutiny of the BTL market

Given the structural housing shortage and an overheated market, there is increased scrutiny from policymakers on BTL investors and their influence on the housing market the past year(s). The concerns relate to first-time buyers in particular given they are more often in competition with BTL investors. Hence, policymakers have recently proposed various rental market reforms. On the positive side though, some measures ended up being less extreme than initially proposed. Moreover, the dreaded reforms of the Dutch wealth tax framework were also scrapped, marking a significantly positive surprise for private BTL investors (see next page).

Regulatory bullet dodged: Dutch wealth tax reforms scrapped

Last September, the Dutch government proposed an overhaul of the Dutch wealth tax framework. Amongst others, the deductibility of debt from financial wealth was to become more limited, which would also affect BTL mortgage debt. However, at the end of June, the reforms were officially scrapped by the junior minister for tax affairs. Instead of splitting wealth into deposits and non-deposits, the plan is now to simply raise the tax-exempt amount of wealth/savings to €50k per person (currently €31k). The scrapping of the reforms was a surprise for BTL investors but a very positive one at that. As a result, private BTL investors can continue to subtract mortgage debt from their overall wealth, making leveraging with a BTL mortgage still fiscally attractive for a relatively large share of the BTL investor base.

Table 1: Overview of measures

Measure	*Status*
Possibility to ban property sales to BTL investors	Announced, no legislative proposal yet
Limiting property value's weight in determining maximum rents in regulated sector	In legislative process
Raising stamp-duty to 8% for BTL investors	Leaked proposals, no official announcement yet
Cap on annual rent increases in the non-regulated sector	In legislative process
Longer temporary rental contracts	Announced, no legislative proposal yet

Source: Dutch government and parliament, Rabobank

Banning BTL investors from purchasing properties

There is currently a law proposal being prepared that will offer municipalities the **possibility to ban the purchase of a home for BTL purposes** in specific neighbourhoods. It is however not a blanket ban as municipalities will retain the flexibility to hand out rental permits. This could for instance be the case for a property designated for the mid-tier rental segment, i.e. rent roughly between €737-€1,000. The ban would initially be in place for a period of three years. Overall, the changes could have far-reaching implications as they can effectively reduce demand from (a part of) the BTL investor base for certain properties.

Property value to receive less weight in determining maximum rents

Recently, it was proposed to **reduce the weight of the value of the property (fiscal appraisal value or "WOZ") in the calculation of maximum rents** under the point scoring system for regulated properties. The proposal is to limit the property value to 33% (currently no cap) of the total available points for non-regulated properties and regulated properties that can potentially be liberalised (points ≥145). For regulated properties with <145 points, no cap would apply.[2]

Firstly, the cap could result in **non-regulated properties being reclassified as regulated** in areas with relatively high prices, e.g. the large cities, once there is a change in tenant. Hence, landlords can be exposed to **indirect rent decreases** as reclassification would likely lead to lower rents. According to *ABF Research*, 28% of the privately-owned (i.e. not owned by social housing associations) non-regulated properties in Amsterdam could be reclassified at some point. For Rotterdam and The Hague, it's 10% and 4%, respectively.

Secondly, it will be **harder to move a property from the regulated to the non-regulated sector** (i.e. "liberalising" it), predominantly in Amsterdam. Moreover, *ABF Research* estimates that

[2] A second exemption applies to certain small properties (<40m^2) in Amsterdam and Utrecht and surrounding areas.

the cap can result in **direct rent decreases** for 40% of the privately-owned regulated properties with liberalisation potential in the Dutch capital. Overall, the effects of the cap would be limited to the G4 cities but the impact can be quite significant there.

On 20 July a consultation for the draft proposal ended, but in our understanding no next steps in the legislative process have been taken yet. In the proposal, the entry of force date was listed as 1 July 2020, but no new date has been given so far.

Stamp-duty to be raised to 8% for BTL investors

Recently, part of the Dutch government's 2021 budget plans were leaked to the press. The official plans for 2021 will be announced on 15 September though. Amongst the leaks were significant changes to the stamp-duty (currently 2%) on house purchases. As of 1 January 2021, **first-time buyers (between the ages of 18-35) are to be exempt from stamp-duty** whilst it will be **raised to 8% on house purchases for non-owner-occupied purposes (e.g. BTL, second homes)**. Whilst such measures have been hanging over the market for quite some time already, it is still surprising as a report commissioned by the Ministry of Finance concluded that the measure would be rather ineffective in helping first-time buyers.

The fourfold increase in stamp-duty would in general make BTL a less attractive investment. However, it's not clear how many BTL investors would actually be affected as serious questions have been raised regarding how effectively the measures can be implemented, i.e. it's difficult to verify whether someone is a first-time buyer or an investor. The research report also noted that certain (fiscal) constructions could be used to avoid the higher rate for instance. Finally, the changes can also result in more competition from first-time buyers, though the effects may be more limited in the relatively more overheated large cities where BTL is typically more active.

Capping annual rent increases in the unregulated sector

For non-regulated properties, there is currently no limit on annual rent increases for existing tenants. However, back in May, a law proposal was submitted to **cap the maximum rent increase for unregulated properties at inflation (CPI) +2.5% for a period of 3 years**. The impact is expected to be fairly limited though as many landlords currently raise rents for existing tenants by less than this maximum already. Moreover, rents can still be raised without any constraint when there is a new tenant. The proposal is currently still making its way through the legislative process.

More flexibility in rental contracts

Finally, a more positive proposal wants to make it possible to rent out a property using temporary rental contracts for a longer-period before being extended to an indefinite period (or cancelled).[3] The changes will allow for a maximum duration of 3 years and also allow for one or two extensions, i.e. extending a 1-year temporary contract two times for instance. The changes should be positive for both landlords and tenants as more flexibility is allowed.

Temporary Covid-19 measures: contract extensions

The government introduced emergency legislation in early April to allow for a 3-month extension of temporary rental contracts that expired between 1 April and 30 June. Given the duration of the Covid-19 crisis however, the measure has been extended to contracts expiring before 31 August with a maximum extension until 1 November. Landlords can only deny the extension under certain conditions such as if a sales agreement was already in place or demolition is scheduled.

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[3] Currently, a temporary rental contract can be offered for a maximum duration of 2 years, but is not able to be extended on a temporary basis once agreed upon.

Amsterdam banned tourist rentals in three neighbourhoods

Amsterdam has introduced a **ban on tourist rentals**, e.g. AirBnB, in three neighbourhoods as of 1 July. The affected neighbourhoods are *Burgwallen-Oude Zijde*, *Burgwallen-Nieuwe Zijde* and *Grachtengordel-Zuid*. Additionally, in the rest of the city, renting a property out to tourists now requires a permit and properties are only allowed to be rented out for a maximum of 30 days a year (and to no more than 4 persons at a time).

Outlook for the Dutch BTL market

There are several challenges facing the Dutch BTL market in the short(er) term. The economic repercussion of Covid-19 will eventually filter through to the Dutch housing and rental market. Aside from potential declines in rental income and higher vacancy rates, BTL investors are also exposed to lower property prices. We expect the housing market to be hit at the end of the year with several consecutive qoq declines in house prices, ultimately totalling a decline of 5-6%. Furthermore, regulatory risks cannot be ignored with several proposals put forward by policymakers, even as some measures turned out more favourable than initially expected.

Notwithstanding these headwinds, the longer-term fundamental prospects for the Dutch BTL market are quite positive. Demand for (non-regulated) rental accommodations is expected to increase with a rising number of households (particularly single-person households), a persistent housing shortage and an owner-occupied market that is increasingly out-of-reach for first-time buyers.

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