RENTAL CAL

European Rental Housing Framework for the Profitability Calculation of Energetic Ret rofitting Investments

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The Netherlands - Financial and Market Framework

When considering an energy efficiency retrofit within your national housing market, a wide plethora of consideration needs to be made. Below, we list key findings to facilitate your analysis of the retrofit investment. More details and backgrounds can be found on the website www.rentalcal.eu.

The analysis of investment barriers, split incentives and policies in the Netherlands show:

- The Netherlands aims to reduce CO2, relative to 1990 levels, with 20% and 40% by 2020 and 2030 respectively, establish 20% renewables by 2020 and facilitate a 2% improvement in energy efficiency of households.
- There are several market related energy efficiency investment barriers observable in the Netherlands:
    - One of the main barriers to energy efficient retrofits is the split incentive associated with the party that incurs cost and others that benefit.
    - In addition, social tenants or low income households cannot afford rental increases or other investments, unless the possibility of compensation in total housing cost is available.
    - The economic situation in the Netherlands contributed to a shift towards renting rather than ownership, due to the decline in disposable income and consumer spending, reducing the willingness to renovate homes.
    - Homeowners need to be inspired as there is no perceived added value associated with whole house retrofits.
    - Another country specific barrier revolves around core housing stock agreements (Weevers & Go 2010). Agreements between municipalities and corporations about the minimum number of affordable homes in an area combined with agreements on maximum rents, constraining investment capacity by maintaining homes with low rents but poor energy performance.
- Thinking in total housing costs, instead of rent expenses, creates the opportunity to compensate higher rents with lower energy bills.
- A more public approach to bridge barriers includes regulation that enforces ending market failures (Cohen & Winn 2007). Currently prominent market failures include:
    - Flawed pricing mechanisms.
    - Treating fossil fuels as endless sources of energy.
    - Ignoring or not including externalities in the energy price calculation.
- Further regulation should take the form of price incentives, where higher energy prices and fuel tax increase the financial incentive for retrofit investments over the long run (Cohen & Winn 2007).
- Further policy initiatives should enforce a minimum energy label to reduce the low rent but high energy cost pitfall.
- Efforts towards promotion and communication are fundamental to ensure continuous information flow and best practice sharing with regards to retrofit investment projects.

The analysis of "green-premiums" for energy efficiency in the Netherlands show:

- In the Netherlands, the housing rents have grown moderately over the past 5 years (2011-2015) with an average yearly rate of 3.4%.
- Conversely, the average sale price index has decreased over the past 5 years with an average annual growth of negative 2.4%.
- Similarly, the major cities in the Netherlands show small differences in total return over the last few years.
- The market downturn between 2009 and 2014 also led to significant increases in initial yields – ranging from 8.72% in The Hague to 5.36% in Amsterdam.
- Vacancy rates are relatively low in the Dutch rental market with an average 2.5% reported in 2015.
- Gas and electricity are the common fuel types in rental units in the Netherlands. Energy prices have been relatively stable over the past five years, the electricity prices have decreased slightly and the gas prices have increased on average over the years 2010 through 2014.
- Information on empirical rental premium or lower vacancy rates is currently not available in the Dutch private rented market. Yet preliminary analysis by Aydin et al, 2016 points to green rental premiums for properties with favorable energy performance labeling:
    - In terms of sale prices, Brounen & Kok (2011) report that in the Netherlands, residential properties with a "green" label rated A, B and C command sale price premiums of 10%, 5.5% and 2.2% relative to properties rated D.
- Besides these price premiums, the sale time is reduced when labels are available. The average labelled dwelling sells 20 days quicker, than when the label is absent.

The analysis of grants and other subsidies in the Netherlands show:

- Landlords are able to pay 6% VAT on labour for painting, plastering and insulation of the property, opposed to the usual 21%.
- Private landlords pay 0% VAT on the total cost, i.e. purchase and labour cost, of the PV investment.
- The ISDE program is a subsidy scheme in supporting private households and business in generating own renewable energy.
- The STEP program allows housing corporations or private landlords, in the regulated rental sector, a maximum subsidy of € 7 500 000 per application.
- The FEH program consists of loans targeted on landlords who run very ambitious retrofit projects for a minimum of five dwellings.
- Apart from public grants and subsidies, banks provide discounted interest on mortgages, but are subjected to how energy efficient a dwelling is. The mortgage loan amount can also be higher for more energy efficient dwellings.

The analysis of financing conditions in the Netherlands show:

- Energy efficiency retrofits can be financed by either public or private funds. For example, the National Energy Savings fund offers loans of up to € 25,000 per landlord for energy savings investments such as isolation, new HE boiler, PV panels. The terms are 7 years fixed interest rate of 2.6%, 10 years fixed interest rate of 2.9% and 15 years fixed interest rate of 3.3%.
- Public financing options are also available via the Fund Energy savings Rental sector (FEH) offering € 15,000 per dwelling under the following terms: Housing Corporation with dwellings under the liberalisation cap: Fixed interest rate of 0.5%. Housing Corporation with dwellings above the liberalisation cap: Fixed interest rate of 1.9%.
- The typical LTV limit in Netherlands is 75% LTV with a fixed interest rate of 1.24% p.a.

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