

# The role of the Woningwaarderingstelsel in the housing policy of the Netherlands

The Woningwaarderingstelsel (Residential Assessment System) is an instrument which determines the quality of rental dwellings in the Netherlands. The Woningwaarderingstelsel (WWS) values the characteristics of a dwelling like size, dwelling type and its facilities with points. Based on these points, the WWS sets a maximum rent level. A landlord is not allowed to ask higher rents than this level. The WWS regulates the rent levels of 95 % of the total rental stock in the Netherlands.

The main objective of the WWS as a policy tool for rent control is to ensure the affordability of rental dwellings, particularly for those who belong to the target group which is mainly characterized by low income households. However, housing associations use the WWS also as a rent setting tool. Although it was never intended for that, housing associations regard the WWS as a practical and objective tool for that purpose. But there is also major criticism on the WWS by the housing associations. The most important objections primarily relate to the way the location of a dwelling is valued. Housing associations say that the location is valued too low by the WWS. The valuation of the location is not objective nor transparent in their opinion. Furthermore, the absence of price differences between regional markets is regarded as a deficiency of the WWS.

At the same time, the Dutch rental market is facing major problems regarding the availability and affordability of social rental dwellings. The Dutch rental market is characterized by 'skewed housing' (people live in cheap dwellings with regard to their income), long waiting lists and a low turnover rate. The choices are limited within the segment and the market of owner occupied dwellings does not provide a (feasible) alternative to a large group of households.

As such, the following research question is posed:

*Will the usefulness of the current WWS be improved by incorporating the willingness to pay for the location in the valuation?*

A statistical analysis is conducted in order to construct a model which measures the relationship between the characteristics of a dwelling and the willingness to pay. The willingness to pay for a dwelling is operationalized by the whole of a dwelling's characteristics and its locational characteristics. The WOZ-values of owner occupied dwellings are used as a proxy for the willingness to pay. The parameters of the model are used to estimate the WOZ-value of rental dwellings. The estimated values are used to formulate a new maximum rent level.

The main concerns of the landlords regarding the valuation of the location in the current WWS, are taken away by the regression model. The proportion of the location in the total valuation is bigger. The location is valued in a more transparent, objective and verifiable way than the WWS does at the moment. Still, the accuracy of the regression model can be improved by taking into account the phenomenon of spatial heterogeneity. Spatial heterogeneity refers to the fact that each location is valued differently. However, a model that takes into account the spatial heterogeneity conflicts with the demand of a generic valuation system. Tenant protection and formulating market rents are therefore hard to reconcile with the condition of a generic quality assessment system.

The effects of a new maximum rent level are mapped out for the Dutch rental market. As it turned out, the effects of a new maximum rent level based on the willingness to pay are observed especially in regions characterized by a tight market. The maximum rents in these markets will increase. A new maximum rental level which is based on the willingness to pay can take the pressure in a tight market. However, additional measures are needed to tackle the aforementioned problems in such markets.

