



Policy and practice

Social housing management: Concerns about effectiveness and efficiency in the Netherlands *

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Abstract. Recently a discussion flared up in the Netherlands on the effectiveness and efficiency of providers of social housing. Though most people feel that Dutch housing associations are run effectively, there are no data to underpin this conclusion. The government is not clear about the criteria for each housing association: most of the criteria are unquantified and, to some extent, contradictory. Nor is it clear whether every individual housing association has to meet these criteria to the same extent. Many more doubts have been raised about the efficiency of social housing providers, as housing associations do not act as if they want to maximize profits.

Several suggestions have been put forward to improve efficiency: periodical external visitations, benchmarking, the introduction of a Real Estate Index, and outsourcing a substantial part of the management and development activities. The main conclusion so far is that we are under-informed about the efficiency of housing associations. Some advisory bodies argue that the overall efficiency of housing associations would improve if they were transferred from the semi-public to the private sector. They claim that the demand side of the housing market could be strengthened by the introduction of housing vouchers and suggest that housing associations opt out of the public sector.

These options fail to take account of the fact that we are insufficiently informed about the efficiency of commercial players on the housing market and the inherent shortcomings of free housing markets when it comes to accessibility, affordability and quality for low-income households, external effects and the cherry-picking of tenants by commercial landlords. Hence, we conclude that until more information is available on the true effectiveness and efficiency of housing associations, there are good reasons to continue their current hybrid status, which combines public tasks and market activities.

Key words: effectiveness, efficiency, housing associations, housing management, social housing

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1. Introduction

The performance of market players is usually assessed along two lines:

- effectiveness = the degree to which the set goals are realized;
- efficiency = the costs that are incurred to realize the goals.

Effectiveness is measured only by determining whether and how far the goals have been realized. Efficiency is measured by determining the balance between costs and benefits.

This approach to performance assessment is also relevant for providers of social housing. As a rule, providers of social housing are required to fulfil a number of public tasks, but they also need to satisfy strict efficiency requirements: the goals must be realized at the lowest possible costs. This topic has recently sparked some discussion in the Netherlands (Hakfoort, 2002; Hakfoort et al., 2002). The Dutch government is questioning the effectiveness and – more importantly – the efficiency of housing associations. This is a crucial issue because, at 36%, the market share of the housing associations in the Netherlands is larger than in any other EU country. In 2000 there were about 700 housing associations with a housing stock of 2,464,000, representing a total operational value of €66.0 billion and a total estimated selling price of €236.6 billion (Ter Rele and Van Steen, 2001).

The question being asked in the Netherlands is: Just how efficient and effective are the providers of social housing? There is a general feeling that they are indeed effective. But is it justified?

Current Dutch debates are focusing more on the efficiency of providers of social housing. Market theorists maintain that the market mechanism imposes a discipline which usually ensures a high level of efficiency. Profit is a well-known criterion for commercial success. How can providers of social housing be cost-efficient, if they do not exhibit profit-seeking behaviour? How would the rented sector of social housing need to function in order to satisfy high standards of efficiency as well as effectiveness? These are the central themes of this paper, referring to current debates in the Netherlands.

In section 2, we describe various efforts in the Netherlands to promote the effectiveness and efficiency of housing associations by inspection, benchmarking, visitation, the introduction of a Real Estate Index, and contracting-out.

Section 3 summarizes the current debate in the Netherlands on how to bolster attempts to promote efficiency in housing management. It discusses opting-out strategies and the stimulation of demand through housing vouchers and contracts. We pay special attention to Wolters and Verhage (2001), who start by identifying the core business of a social housing provider and propose that the other business be outsourced to the market; in other words, they favour a partial opting-out strategy.

In section 4 we turn the argument around. We begin by considering landlords and housing investors purely as market players and then examine the market shortcomings that may be expected in housing markets. We address three issues: the affordability of housing for low-income households, the external effects of good and bad housing (especially in relation to urban renewal), and the issue of cherry-picking. Finally, in section 5, we put forward some conclusions and recommendations.

2. Promoting the effectiveness and efficiency of social housing providers: The Dutch situation

As hybrid organizations, housing associations in the Netherlands engage in market operations and perform public tasks. Both these activities involve financial risks. The public tasks are defined in the BBSH (Social Housing Management Order) of 1993, which is derived from the Housing Act. The Housing Minister has since announced a new Housing Act with a new specification of public tasks for housing associations.

The Housing Inspectors monitor the performance of the housing associations and are supposed to check whether they really fulfil their public tasks. The idea is that, from time to time, the local authority and each housing association agree on a performance contract which quantifies the public tasks of the housing association for the coming years.

The Central Housing Fund [*Centraal Fonds voor de Volkshuisvesting*] scrutinizes annually the financial performance of the housing associations and ascertains whether their financial continuity is safeguarded for the coming years. If not, it may provide loans (interest free) to safeguard the financial continuity and oblige the association to submit a plan of action for solving its problems by, for instance, selling some of the housing stock, or by merging with a financially strong housing association.

Although the government is far from precise about the criteria for the housing associations, my impression is that most Dutch housing associations are satisfactorily performing their public tasks. But there are no data to confirm this. This is complicated by the fact that the government is not at all clear about the criteria for each housing association. If the new Housing Act is passed, including the ten new public tasks (see Table 1), it will be even more difficult to determine whether a housing association is effective. That is because some criteria are contradictory, each criterion is difficult to measure and the government does not specify the required level of performance for individual housing associations. And this in a situation where there is no knowledge at all about the effectiveness of Dutch housing associations.

Table 1. Public tasks for housing associations, now and in the near future

Current public tasks (BBSH, 1993, adapted to 2002)	Public tasks, announced in the Housing Memorandum (2000)
1. Ensure financial continuity	1. The promotion of home ownership and management, in particular among lower-income groups
2. Tenant involvement in management and policy	2. Raise the levels of residents' participation in housing and residential environment issues, both in new housing developments and in the management of existing buildings
3. Promote the quality of the housing stock	3. More differentiation in the housing supply and improvements in the quality of housing
4. Priority to tenants in a vulnerable position	4. The creation of accommodation opportunities for the homeless, asylum-seekers, people who sleep rough and others in a vulnerable position
5. Investment in the quality of the housing environment	5. Raise the quality of the residential environment in districts and neighbourhoods and strengthen social cohesion
6. Provide housing and care arrangements	6. Strengthen the cohesion between housing and care services and broaden the range of housing services
	7. Improve the chances of success and widen the choice for home-seekers with a modest income
	8. Limit the housing costs for lower-income groups
	9. Develop sustainable, adaptable and energy-saving housing and residential environments
	10. Improve the workings of the housing market

Ministerie van VROM [Housing], 2000: 244–245; Ouwehand and Kuijpers, 2001: 16–17.

Whereas there is some uncertainty about the effectiveness of housing associations, there are considerably more doubts about the efficiency of providers of social housing (Hakfoort, 2002; Hakfoort et al., 2002). Several instruments have been developed or proposed to measure and increase the efficiency of housing associations. These include internal inspection, external reviews, benchmarking, the Aedes Real Estate Index, and outsourcing a substantial part of the management and development activities (Ouwehand and Kuypers, 2001: 20–21).

First, the housing associations have a Board of Trustees which concerns itself with *internal monitoring*, but is unlikely to be aware of the key performance indicators it needs to study. Second, Aedes, the umbrella organization of Dutch housing associations, is still promoting *external visitation committees*, based on a model for the evaluation of university research. But the criteria in this domain are fairly unambiguous: the number and nature of publications, the field-impact factor of journals in which articles are published, the number of citations in the citation index. However, there is no

such consensus on appropriate criteria in the realm of housing associations. The solvency of housing associations is indeed ascertained, but it is not linked to a norm.

A third line of responsibility is *benchmarking*. On this point, the Central Housing Fund (public organization which supports housing associations in financial straits) has recently taken the initiative; it now publishes periodic data about the best performing housing association in each category. Crucially, housing association managers must compare their performance data from time to time with that of other associations in the same category and make sure they know which one heads the league.

Finally, the Aedes Real Estate Index (Aedex) was set up recently; Arnoud Vlak has published an article about this in the Aedes Magazine (Vlak, 2001). The Aedes Foundation was inspired by the Real Estate Index used by the members of the Association for Institutional Investors in Real Estate in the Netherlands [*Vereniging voor Institutionele Beleggers in Vastgoed Nederland*] (IVBN). The results of investments in housing, offices and shops are periodically recorded in this index. Each investor can project his own investment results onto the average results in the same investment category and the results of the best performing investor. On this basis, the Board of Directors of a real estate investment company with mediocre results would have to answer for its figures to the Board of Commissioners.

The Aedes Real Estate Index implies that a similar approach would be possible for housing associations; correction factors may be introduced for agreed public tasks. The argument is that some of these tasks, such as the construction of new rented homes in the social housing sector, would justify lower investment results. The Aedes Real Estate Index is intended as a benchmark that enables one housing association to compare its performance with that of others. The index also makes clear the financial effects of their public tasks. In 2001 the average return of investment was 4.3%. In addition a societal return on investment of -1.8% was calculated (Cobouw, 2003). Strangely enough, these rates are related to the estimated selling prices of the properties.

This offers the managers of housing associations insight into the results of their own portfolios and the financial effects of their purchase and sales policy. It shows how the public commitments of a housing association relate to its commercial results, e.g. the effect of a rent lower than the market rate, or expenditure on the living environment in a neighbourhood. The benchmark produces results for the average, the worst, and the best performance expressed directly as net income set against the average invested capital.

The Aedes Foundation has signed a contract for constructing the benchmark with the Investment Property Databank (IPD) in London; this British

company has produced authoritative benchmarks for the institutional real estate sector for some 15 years.

The initiatives to measure and increase the efficiency of housing associations merely highlight our ignorance about the current efficiency of different housing associations (Ter Rele and Van Steen, 2001). We are not even well-informed about the efficiency of the commercial landlords, property developers, maintenance contractors and other market players that are in competition with the housing associations. There is an urgent need for better information, in order to determine whether the efficiency of some or many housing associations could be considerably improved.

3. Three roads to more efficient housing management

The MDW *Werkgroep Woningcorporaties* (2000) (Working Party on the Market Operations, Deregulation and Quality of Legislation for Housing Associations) advised the Dutch government on how to improve the position of housing associations with a view to increasing their effectiveness and efficiency as hybrid organizations (semi-public, semi-market) for the next 5–10 years. The focus is not so much on the individual housing association, but on the performance of the social housing sector as a whole. This advice was followed by the Secretary of State for Housing, Johan Remkes, in his Housing Memorandum (Ministerie van VROM, 2000). But the MDW Working Group also presented some alternatives which are still being debated in the Netherlands:

- the complete transfer from a supply- to a demand-led market, in which *housing vouchers* are the only public instrument for providing affordable housing;
- the opportunity for housing associations to relinquish the specific hybrid status of acknowledged institutions (opting-out) and to become normal market players, entering *contracts* with national or local government to settle public tasks in a market-compliant way.

Two OTB researchers, Wolters and Verhage (2001), have proposed a third solution, namely, to *outsource* a substantial number of activities to the market and to concentrate the specific hybrid status of the housing association in its function as an investor in social housing. Each of the three options – promoting consumer sovereignty through housing vouchers, contract management with public authorities after opting-out, and outsourcing activities to the market – are elaborated in the following subsections.

3.1 *Vouchers*

Since the 1970s Dutch housing policy has included an ever-growing system of subsidies which make the rents of social and commercial housing affordable for low-income households. About one in every three tenant households receives an annual state subsidy which promotes the affordability and the quality of housing for households with a modest income, and – because of the impact of supply – may also increase the accessibility of the rented sector.

The US system of housing vouchers, which is budgeted and has a much narrower scope than Dutch housing allowances, is based on the idea that financial support for both tenants and owner-occupiers strengthens the demand in the housing market and stimulates competition among suppliers, both social and commercial landlords. Housing vouchers, housing benefits or housing allowances could bring consumer sovereignty a few steps closer in the housing market. The idea is that specific social housing institutions are redundant when all the public support is given to the demand side of the housing market.

3.2 *Opting-out and contract management*

The current Housing Act states that if a housing association ceases its activities, the local authority automatically becomes the new owner. In practice, the local authority would probably find another housing association to take over the management of the housing stock. The new Housing Act will provide housing associations with the opportunity for deliberate opting-out, allowing them to relinquish the hybrid status and become market players. It is not yet clear how this change would be effected. If the housing association were obliged to repay all the subsidies it received in the past, its funds would be so depleted that it would have a very difficult start on the free housing market. On the other hand, if the housing association is given the opportunity to start as a solvent, solid market player, some of the public funds previously tied to the social housing function would inevitably leak away to the free market as a substantial unsolicited gift from the State! This dilemma is yet to be resolved by the government.

If housing associations were able to act as free market players – which most economists consider the best condition for efficiency (see Hakfoort et al., 2002) – and if the local authorities were willing to issue a housing guarantee to people with a weak negotiating position (low-income households, ethnic minorities, the disabled, the elderly and infirm, the homeless, and so on), they could invite bids from market suppliers (former housing associations and housing providers active in the free market for some time) to implement this guarantee. The most attractive bid could form the basis for

a contract between the local authority and the housing provider and the deal could then be settled. Such a deal could cover a period of, say, five years, after which a new tender could be arranged. In such a system the specific status of a hybrid housing association would seem redundant. The remaining problem is the risk of cherry-picking, which is associated with commercial housing providers and which is not readily solved by contract management.

3.3 *Outsourcing activities; investment in social housing as the core business*

Wolters and Verhage (2001) argue that the best strategy for a housing association that wants to compete on the open market is to split its business into several activities located in different markets:

- *housing maintenance*: different building contractors are active in the housing maintenance and renovation markets. The part of the association engaged in these activities could be made independent and join the maintenance market as a normal player;
- *housing development*: private development companies have considerable experience in property development. The development section of the housing association could be made independent and become a normal market player in the property development sector;
- *day-to-day management*: housing managers have long experience in day-to-day management in both the private rented sector and the apartment sector. This part of the housing association could be made independent and become active in housing management. One complication here is that the cherry-picking of tenants would not be allowed according to the former public task of the new company.

Inevitably, all of this raises the question of whether it would not be just as well to make all the activities independent and transfer them to the free market. Wolters and Verhage (2001) argue that housing associations have one – essentially public – core task, namely, to invest in social housing. This core task must remain in the public domain in order to safeguard the housing not only of the better-off, but also of people with a weak negotiating position, whilst at the same time preventing stigmatization and spatial segregation and supporting urban restructuring. The approach of Wolters and Verhage (2001) can be perceived as a partial opting-out strategy in which the core role as an investor in social housing remains in the public or hybrid (semi-public) domain.

4. Shortcomings of free housing markets

People who claim that the free market offers the best system for realizing efficiency on the housing market tend to ignore the specific shortcomings of this market. Housing markets are imperfect because houses are tied to a location, have a very long life expectancy (often a century or more), cost more than other consumer goods, and have a vital function for which virtually no substitutes exist. Together these specific characteristics mean that the housing stock dominates both supply and demand, that supply responds to changes in demand only after years have elapsed, that mobility on the housing market is problematic, that both the demand side and the supply side are hampered by serious information problems, that external effects cannot be excluded, and that for some households the free market causes problems of accessibility and affordability.

A free housing market may suffer the following flaws:

- (1) Problems of accessibility, affordability, and quality for low-income households;
- (2) External effects which could obstruct a successful approach to housing restructuring and urban renewal;
- (3) Cherry-picking of tenants by commercial landlords.

First, there are low-income households for whom there is not enough housing that is both affordable and of an adequate standard. Social housing institutions, such as local housing authorities (UK), municipal housing companies (Sweden) and housing associations (the Netherlands) concentrate primarily on this target group. This group can actually be more easily subsidized via the subject than the object, where stigmas are all too readily created and the balance of the housing market is disturbed.

The second factor is the external effects which may, for example, preclude an effective approach to urban renewal and housing restructuring in a free market. This factor can constitute a reason for introducing specific urban renewal subsidies either directly or via the local authority. Subsidy conditions can be introduced as a means of imposing public restrictions on the dealings of private players.

Finally, there is the cherry-picking argument: market parties usually select the least risky tenants so that – despite housing subsidies – low-income households, the unemployed and ethnic minorities may still be discriminated against.

Housing subsidies and vouchers and tendering by local authorities could resolve some of these problems, but cherry-picking is a tricky issue because it is so difficult to monitor. What is needed is transparent and accountable housing management and motivated housing officials who support applicants

with a weak position on the housing market. This attitude is not that of the commercial landlord; it certainly exemplifies the ethics of social housing providers in the Netherlands and many other European countries.

If all public tasks are to be guaranteed by contracts, the local authorities will be required to play an alert and efficient role. This prerequisite seems to overestimate the qualities of local politicians and officials and brings day-to-day housing issues too much into the local public realm. Local government could easily become overburdened.

Finally, urban renewal and housing restructuring are transformations on the supply side with a strong commitment from local and national public policy. Housing allowances and vouchers can support these supply-side interventions, but it will be difficult to guide such interventions only through demand support.

Contracts between government and market players can bring about a public restriction by demanding priority for weak target groups. Compliance with this restriction would be difficult to monitor. The introduction or maintenance of social landlords for whom this priority is self-evident would probably be a more effective alternative. In that case, inspection by the Ministry of Housing would probably be simpler to implement.

5. Conclusions

The common-sense conclusion of observers is that the effectiveness of housing associations is probably satisfactory, but there are no data to underpin this conclusion. The effectiveness of housing associations could in any case be improved if the government were to define public tasks more distinctly and explain how they could be measured and quantified for individual housing associations. Local authorities have to make multi-year performance covenants with housing associations. Their performance must be published and monitored. Often, causality problems arise; for example, if a task stipulated in the covenant is unfulfilled, does the blame lie with the housing association, or changes in the housing market, or the side effects of national or local policies? At all events, the aim must be to link sanctions to failures by housing associations on this count. In addition, housing inspectors need to assume a proactive role in order to ascertain whether the housing associations properly fulfil their public tasks.

The efficiency of the housing associations can be stimulated and improved by a larger role for market operations within a public framework. Housing allowances or vouchers are crucial in strengthening the position of low-income households on the housing market. Contracts between local authorities and housing associations – if possible after a call for tenders from social

and commercial landlords – can safeguard specific public tasks. Competition between housing associations and commercial landlords could be stimulated by providing a level playing field for these housing providers and by outsourcing, amongst others, housing management, housing development, and broker functions on the market.

Social housing associations should retain their current hybrid status to prevent cherry-picking and to stimulate an adequate approach to such complicated and risky challenges as housing restructuring and urban renewal. The only way that housing associations can demonstrate the credibility of this conclusion is by conducting their public tasks professionally and transparently and by combining them with efficient, market-oriented behaviour in which their strategy is led by current and future demand. If housing associations are unable to demonstrate their added value, they will forfeit their specific status and lose ground to traditional market players.

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