

GOVERNMENT REGULATION VERSUS MARKET ORIENTATION IN SOCIAL HOUSING MANAGEMENT

Limitations and opportunities of European and Australian landlords

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Abstract

In the past ten to twenty years, governments in various countries have introduced or reinforced market principles in their housing systems. As a consequence, social landlords have increased opportunities to adopt a more market-oriented approach towards the management of their housing stock. Nevertheless, in many countries government regulations still have a substantial influence on the management of social rented housing. In this paper we analyse the government's influence on the management of the social rented housing stock in Europe and Australia, in order to assess to what extent government regulations help or impede the development of a market-oriented asset management.

We start with an overview of general arguments for government intervention on (housing) markets. We discuss if these arguments can justify intervention in the specific area of social landlords' asset management. Also, we discuss as the potential benefits of increased market orientation. Subsequently, we describe government restrictions to social housing management in eight European countries and Australia. We confront current policies with their implications and negative side effects regarding asset management on the one hand, and their legitimacy on the basis of fundamental reasons for government intervention on the other. From this confrontation we distract some general considerations for policy.

1. Introduction

Traditionally, housing markets have been subjected to government intervention. Particularly in welfare states, governments have used a combination of measures such as rent control and subsidisation to regulate or stimulate the housing market. As for example Dieleman (1994, pp. 448-449) points out government intervention is "grounded in the widespread conviction that this commodity cannot be efficiently and fairly allocated by the market process. According to this view, the provision of housing through the market inevitably leads to polarisation of housing services. Market forces leave an unattractive rental sector in their wake with high rents for sub-standard housing". In spite of its 'no-

ble' objectives, government intervention can be criticised as well. Campaigners for a free market will argue that government intervention can have a disturbing influence on the balance between supply and demand. Subsidisation can lead to inefficiencies in the production process and (therefore) to a higher cost price of services. Rent control can have a negative effect on the production of dwellings (de Geus en Geurts, 1996). Thus, one of the main problems in housing policies is to balance the extent of government intervention - which is deemed necessary to ensure a sufficient provision of decent, affordable dwellings - against the inefficiencies or negative side effects that may occur as a result of such intervention. In this paper we will analyse this balance in the specific context of social landlords' asset management, defined here as all activities that social landlords undertake to attune their housing stock to market demand and their social objectives (see van den Broeke, 1995, p.20). We do so from two perspectives. First we theoretically assess the potential benefits of market orientation in social housing management on the one hand, and the motives for government regulation in the areas of rent setting, allocation, sale, maintenance and renewal on other hand. Second, we conduct an empirical analysis of government restrictions to social housing management in eight European countries and Australia. We confront current policies with their implications and negative side effects regarding asset management and their legitimacy on the basis of fundamental reasons for government intervention. From this confrontation we distract some general considerations for policy.

2. Government control versus market principles in the social rented sector

In the past ten to twenty years, governments in many countries have reformed their housing systems to include market principles, as part of a more general trend towards privatisation, deregulation and decentralisation of sectors of public interest (e.g. Priemus *et al.*, 1999; Walker and Van der Zon, 2000; Priemus and Dieleman, 2002). As a consequence, social landlords have increased opportunities to adopt a more market-oriented approach towards the management of their housing stock (Boelhouwer, 1999; Gruis and Nieboer, eds., 2004). Nevertheless, in many countries government regulations still have a substantial influence on the management of social rented housing. Social landlords are restricted by various regulations regarding their rent setting, allocations, sales, maintenance and renewal policies. But there are significant differences between countries regarding the extent of control that governments exercise over the social landlords. Kemeny (1995, 2001), for example, distinguishes two general types of (social) rental housing systems, which are based on "two contrasting underlying philosophies in the state's role in housing provision in modern welfare states. In one philosophy, the state takes upon itself the direct responsibility of providing rental housing for households in need. To this end, non-profit rental housing is organised in the form of a state or local government monopoly. As far as possible, the non-profit sector is prevented from competing with private profit-seeking housing companies by hiving it off from the market into a command-economy public rental-housing sector. Access is in terms of 'need' - the definition of which varies over time and also between countries. The result is a 'dualist rental system' in which two distinct rental tenures are created, a 'public' command-economy sector and a 'private', and largely unregulated, rental market. In the other philosophy, the state is either not a

major provider itself or, if it is, access to such housing – often provided on a ‘not-for-profit’ basis – is not limited to households in need. Instead it is encouraged to compete with profit-rental housing on the open market for tenants and thereby set standards, ensure that all households have security of tenure and competitively hold rents down. The result is that the legal distinction between profit and non-profit is minimised and a ‘unitary rental market’ is encouraged to emerge. But again, like the ‘public housing only for those in need’ philosophy, wide variations are found in the extent of the competition and the degree of non-profit influence” (Kemeny, 2001, p.66; for further discussion see Kemeny, 1995).

The possibilities that social landlords have for developing a market-oriented approach towards their asset management are very different in both rental systems. There are more opportunities for market-oriented behaviour within unitary rental markets, while the extent of government control limits market orientation in dualist rental systems. Both systems have their advantages and disadvantages, which can be related, on the one hand, to the benefits of market orientation and, on the other hand, to the motives for government intervention.

The case for market orientation in the social rented sector

As stated in the introduction, many governments in Europe have transformed their housing systems to include or to reinforce market principles and, consequently, social landlords have been stimulated to increase their market orientation. In our view “market orientation within social housing management stands for following a (pro)active approach in attuning the housing stock and services to market demand and social housing needs. Furthermore, market orientation stands for seizing opportunities to make a profit (or at least to optimise financial return) where that is possible without endangering the fulfilment of the social objectives. Market orientation in social housing management must not be mistaken with market conformity in which maximising profits is the lead motive. Market orientation can be set against the traditional, task-oriented approach that many social landlords have followed – and still follow – in which they focus solely on the production and management of cheap and decent dwellings, with only a limited differentiation in rents, quality, tenure and target groups, and often without attuning these factors to each other” (Gruis and Nieboer, 2004, pp. 186-187). Increased market orientation in the social rented sector could have several benefits:

- *Increased effectiveness.* If landlords become more responsive to market demand and market dynamics they can become more effective in meeting their tenants’ preferences;
- *Increased efficiency.* Within current housing systems, there are numerous examples in which tenants pay the same for dwellings of a different quality, which can be seen as inefficient, but also as unfair. Moreover, some low-rent dwellings are allocated to more well-to-do households. Market orientation it could result a better relation between price and quality and inefficiencies in the allocation of financial means are less likely to occur. Furthermore, if social landlords have and use opportunities to raise (additional) money they can use this to improve their overall effectiveness as social housing providers (cross-financing);

- *Prevent stigmatisation and spatial segregation.* If social landlords can be active in other segments of the housing market, they would be able to loose or to avoid the image of being solely providers of housing for the poor. Furthermore, they will be able to contribute to differentiated neighbourhoods with a better social mix (Gruis and Nieboer, 2004).

Thus, increased market orientation can help to overcome the inefficiencies that are often associated with social housing, but it can have (other) social benefits as well. For social landlords to be able to pursue a market-oriented approach towards their asset management, they need a certain degree of freedom within their operations:

- Social landlords need to have some freedom in their rent setting to be able to adjust the price to the quality;
- There should be possibilities to allocate a certain amount of their dwellings to higher-income households in order to prevent stigmatisation and to optimise the allocation of financial means;
- They need possibilities to sell of some of their dwellings to meet household preferences and to generate additional financial means;
- They require freedom in their investment allocation for maintenance and renewal.

The case for government intervention on the housing market

In general, social landlords' room for manoeuvre is restricted by government regulation. The motives for government control of the social rented sector can be found in the fundamental reasons for government intervention on the housing market. Wolters and Verhage (2001), based on Nederhof (ed., 1997) and Bos (1995), state three general reasons for government intervention on markets:

- To facilitate and improve the functioning of markets (e.g. by laying down the basic rules such as property rights);
- To prevent or cure socially undesired outcomes of the market (e.g. by (re)distributing services or products);
- To prevent or to cure market failure, which occurs when the market does not lead to an efficient distribution of products and services.

All of these reasons are applicable to the housing market as well. The first reason (the facilitation of the market by legislation) is essential to the functioning of any market. The second reason is particularly relevant to products or services that traditionally have been associated with 'the public sector' (e.g. health, care, education, safety and welfare services).¹ Society considers a minimum level of accessibility to such products or services essential for all of its members. Housing is universally recognized as one of the basic necessities for people – in its most basic form as shelter, but generally some basic level of quality is aspired by societies as well. However, if housing would be left up entirely to the market it is likely that not everyone will be able to find housing that meets these basic standards. Market failure, which is the third motive for government intervention, occurs when:

¹ Public sector goods do not necessarily have to be provided directly by the government/public sector, but can be provided by (semi)private institutions as well, as is often the case in the social rented sector.

- one actor has a large influence on the price or production level, which occurs for example in case of monopolised markets or markets with a high pressure;
- there are (negative or positive) external effects on actors which are not directly involved on the market, for example by environmental damage;
- there is insufficient information to enable a proper functioning of the choice mechanism, which occurs for example when not all of the potential suppliers are known to the client (adverse selection) or when the client cannot assess the suppliers' behaviour after the deal is closed (moral hazard) (Wolters and Verhage, 2001).

The housing market is vulnerable to market failure for several reasons. In most countries, the housing market is still characterised by a general shortage, although there are substantial differences between submarkets (according to region, dwelling-type, price category etc.). This leaves many of the housing providers in a monopolised position and could lead them to increase their prices to an extent that this results in an insufficient supply of affordable housing. This, in turn, could lead to a socially undesired distribution of the housing stock. The housing market is also vulnerable to the occurrence of negative side effects. The production and the use of housing lead to environmental hazard. As Boon and Sunnika (2004) point out, the environmental sustainability of the housing stock is a key factor in attaining the greenhouse gas reduction targets in the Kyoto protocol. Additionally, there are dangers of spatial segregation and the occurrence of poverty neighbourhoods with low standard housing, which can have negative effects of their own, such as the occurrence of social conflicts, stigmatisation and decreasing housing values (resulting in the 'prisoners dilemma'). Adverse selection and moral hazard can also occur on the housing market. As Priemus (2000) points out, the housing market is far from transparent, among other reasons because of the heterogeneity of the housing stock and the low frequency of moving (once in every eight to ten years) which gives households few occasions to develop experience as active demanders on the market. Furthermore, it can be difficult for households to assess the quality of the housing services that are provided by landlords, among other reasons due a lack of (comparative) data about the landlord's performance.

In addition to the reasons that are stated above, government intervention can take place for reasons that are not directly related to the functioning of the housing market, for example in the form of price control as part of income politics or by the stimulation of the building production as part of employment policies (e.g. van der Schaar, 1990; Dieleman, 1994). In this paper we restrict ourselves to the reasons that can be related to the functioning of the market.

Government intervention in social landlords' asset management

The reasons for government intervention on the housing market can also be applied to the specific area of asset management within the social rented sector. Social landlords can be seen as instruments of market intervention. But, at the same time, social landlords can be seen as one of the suppliers on the market. They are more or less operating in competition with each other and other suppliers - depending on the housing system in which they operate (see Kemeny, 1995). And, therefore, their actions are subject to government control as well. The government can influence the rent setting, allocation, sale, mainte-

nance and renewal policies of landlords to ensure that they contribute to achieving a basic level of affordability, accessibility and quality, which are the “three basic criteria of social housing, all over Europe” (Priemus, 1997, p.556). Additionally, we argue that ‘availability’ is a key criterion as well, in so far this is not included in the criterion of accessibility. The government’s influence on asset management can take place:

- by specific regulation which affects one or more of the areas of asset management, for example through rent regulations or allocation criteria;
- by subsidisation and finance, for example of maintenance and renewal programmes;
- by general administrative regulations and policy directives, for example through general legislation in which the objectives of social landlords are laid down, or through policy memoranda and negotiations about the functioning of social landlords.

The first two of the above means are the most explicit ones. They have a direct impact on the policies of landlords. The third category is less explicit, but can have a significant impact on the asset management as well. In Table 1 we have given an overview of possible motives and means of government intervention according to the specific aspects of asset management and basic criteria of social housing. As we can see in Table 1, the fundamental reason for government control of the social rented sector is the prevention of socially undesired effects by ensuring universal access to decent, affordable housing. However, governments have to face a number of dilemmas when they determine the extent of their control. Some important dilemmas are:

- The occurrence of shortages and monopolisation in the social rented sector can be enlarged by the limitation of the rents in combination with the stimulation of quality;
- The stimulation of quality can be in conflict with the affordability of the dwellings;
- The limitation of rents for purposes of affordability can hamper new developments (availability) and renovation (quality);
- The restriction of the allocations by income criteria can lead to a marginalised social rented sector and the danger of stigmatisation and poverty neighbourhoods;
- Central government regulation, which can be supported by arguments of ‘equality’ and ‘transparency’ of the housing market, can be in conflict with local housing needs;
- Subsidisation of individual households through housing allowances or tax benefits can also be (mis)used as an implicit subsidy to the landlords, who can increase their rents while the dwellings remain affordable to the tenants (the increase is paid out of the housing allowance);
- On the one hand, general (brick-and-mortar) subsidisation of the landlords can lead to an inefficient allocation of public means, for example in cases in which higher-income households have access to subsidised dwellings. On the other hand, a strictly focused subsidisation and allocation of low-rent dwellings to lower-income households may result in spatial segregation and stigmatisation of the social rented sector.

In relation to this paper's issue the key dilemma is that government control can have negative side effects that are in conflict with the potential advantages of increased market-orientation within social landlords' asset management. We have summarised such possible negative side effects of government control in Table 1.

Table 1: overview of criteria, areas, motives and means of government intervention in social landlords' asset management

Basic criteria of social housing	Affordability	Accessibility	Availability	Quality
Primary determinants within asset management	Rent setting	Allocations	Sales	Maintenance and renewal
Fundamental reasons for government intervention	Prevention or cure of socially undesired effects, among others due to monopolisation and external effects	Prevention or cure of socially undesired effects, among others due to monopolisation, external effects and adverse selection	Prevention or cure of socially undesired effects, among others due to monopolisation	Prevention or cure of socially undesired effects, among others due to monopolisation and external effects
Possible means of government intervention	Rent regulation Housing grants to households Subsidisation of landlords General administrative regulations	Allocation rules Rent regulation Housing grants to households Subsidisation of landlords General administrative regulations	Restrictive or stimulating regulations for sales. General administrative regulations	Housing quality regulations Subsidisation of landlords General administrative regulations
Possible negative side effects due to restriction of market orientation in social landlords' asset management	Unfair price-quality ratios (e.g. same price, different quality) Inefficient allocation of financial means	Stigmatisation, spatial segregation Limited possibilities to generate additional financial means	Inefficient allocation of financial means Ineffective in meeting households' preference regarding tenure	Ineffective in meeting households' preferences regarding quality

3. Government restrictions in seven European countries and Australia: policies, implications and legitimacy

As stated in the previous section, the extent of government control, and (thus) the opportunities for market orientation in housing asset management, vary from country to country. In the following sections we give an overview of the government restrictions and their implications. We start with a general description of the social landlords that are operating within each country and their share in the housing stock. Then, we give an overview of the government restrictions to the social landlords' rent setting, allocations,

sales, maintenance and renewal strategies for each country. Furthermore, we will confront current policies with their implications and negative side effects regarding asset management on the one hand, and their legitimacy from the fundamental reasons for government intervention on the other. From this confrontation we will distract some general recommendations for policy. Our descriptions of policy and practice in various countries are based on Gruis and Nieboer (eds., 2004), with exceptions noted.

3.1 Social landlords

Social landlords can be public or private organisations. The share of social housing in private hands considerably differs among the nine countries in the research. In some countries (Australia, Latvia) local or state authorities are dominant in social housing, whereas in other countries (the Netherlands, Denmark, Belgium) a large majority of the social housing stock is managed by private organisations, mostly housing associations. In England, the quantitative balance between publicly and privately owned social housing is subject to a dramatic change due to the massive transformation of municipal housing companies into housing associations. A similar development takes place in Austria, but at a smaller pace.

The size of the social housing sector compared to the total housing sector considerably differs among the nine countries in the research. In Australia and Flanders (Belgium) the share of the social housing stock is 6%, whereas in the Netherlands 35% of the total housing stock belongs to the social rented sector (Table 2).

Table 2: Type of social landlords and their share in the total housing stock

Country	Percentage social rented sector (year)	Type of social landlords
Australia	6% (2002)	Mainly State Housing Authorities (79%) and five other types of landlords, among which Community Housing Organisations
Austria	22% (2000)	Municipalities (43%) and so-called 'limited-profit' housing associations (57%)
Belgium-Flanders	6% (2001)	Exclusively housing associations with a board of mainly municipal representatives
Denmark	20% (1998)	Private housing associations, governed by democratically elected tenants and persons appointed by the municipality
England	19% (2002)	Local authorities (60%) and housing associations (40%)
France	20% (1999)	Public landlords (departmental and municipal) (OPHLMs, 22%), semi-public landlords (departmental and municipal) (OPACs, 26%), private social housing companies (40%) and two other types of landlords
Germany	20%* (1998)	In theory: anybody – in practice: almost exclusively municipal housing companies and co-operatives
Latvia	30% (2000)	Almost exclusively (98%) municipalities
The Netherlands	35% (2002)	Almost exclusively (99%) housing associations

* Excluded social housing owned by private investors

Social landlords can be subject to detailed public regulation to ensure that they pursue public objectives such as building and maintaining decent homes that are affordable for lower-income households. This also applies to private social landlords, despite large differences between the countries. In some countries (Belgium, Germany) the board of the private social landlords mostly consists of representatives appointed by the local government. Nevertheless, there are considerable variations regarding the level of detail and the subjects involved. In the following subsections, we will examine the regulations more closely.

3.2 Rent setting

Government restrictions

In almost all countries, rents are strongly regulated by the central government (see Table 3). In some countries, there is some room for landlords to differentiate their rents (Belgium, the Netherlands, England, Germany, Austria), but this is considered to be small.

Table 3: Rent regulations for social landlords

Australia	Related to income; for the vast majority of tenants: ‘rebated’ rents of not more than 20% (State housing) or 25% (Community housing) of their income; market rents for higher-income tenants
Austria	Through maximum allowable rents; for housing associations there are also minimum allowable rents; based on repayment and interest of loans; maximum rent in this sector is fixed according to model of financing, little possibilities to raise rents
Belgium-Flanders	Rent and rent margins are based on income, household size and cost price; rent increase has to be approved by the VHM
Denmark	Through maximum and minimum allowable rents ² ; rents are derived from cost price minus subsidies; costs of improvement and renewal directly influence the rents; rent increase has to be approved by the tenants
England	Formerly large autonomy for local authorities and housing associations; new: nationally applied rent formula and target rents to be reached in 2010 ³ ; in practice, little possibilities for variation
France	Rents are subject to State regulations (maximum rents), depending on the subvention scheme; landlords are not free to increase the rent
Germany	The rent of subsidised dwellings is based on a normative cost-based rent, unless this is higher than the politically determined ‘allowable rent’ (“Bewilligungsmiete”); after a number of years (which vary according to subvention scheme) landlords have more freedom in rent setting
Latvia	Through municipal rent setting, rents can vary according to quality, location and tenant’s income
The Netherlands	Through a maximum rent based on points system and rent increase is limited for the vast majority of homes

Implications for practice and negative side effects

Due to the restrictive rent-regulations, the possibilities for social landlords to pursue their own rent policies are limited. Furthermore, housing allowances can mitigate differences

² additional information from Donner (2000)

³ additional information from Walker & Marsh (2003)

in the net rent level for the tenants. This means that a rent decrease has a limited effect on the net costs for tenants and, consequently, a limited effect on demand as well. Thus, there are considerable limitations to the use of price as an instrument within asset management. With regard to England it has been stated that the harmonisation of rents through the national policy of rent convergence hampers the landlords possibility to raise rents in areas of high demand or to lower rents in areas of low demand (Walker and Marsh, 2003; Thomas and Gruis in Gruis and Nieboer, eds., 2004).

As a consequence of rent regulations, rents are not market-oriented in most countries. In some they are not even related to the quality of the dwellings (Latvia, Belgium). In the Netherlands and England, where there has been some leeway for housing associations to determine their own rents, social landlords have developed their own methods for assessment of the quality and/or market-position of their dwellings to support their rent policies. Recently, however, government regulations have become much stricter in both countries (Gruis and Nieboer, eds., 2004). These policies reduce the need for individual landlords' rent-setting policies.

The regulation of rents can also have negative side effects to the maintenance of the dwellings. Especially in Australia and Latvia, rental income have been stated to be too little to be able to finance sufficient maintenance of the housing stock (see respectively Flood and Tsenkova in Gruis and Nieboer, eds., 2004). In England, the harmonisation of rents through the national policy of rent convergence will lead to a real reduction in rents of some landlords, which in some cases could hamper maintenance and other investments (see e.g. Walker and Marsh, 2003; Gruis *et al.*, 2004).

Legitimacy of policy

The restriction of rents seems logical from the fundamental reason of central government to place restrictions on prices in markets for 'public goods' that are characterised by a high pressure. In all of the investigated countries there is pressure on the social housing market. In most cases this pressure is due to a general housing shortage (or shortage of decent, affordable dwellings), such as Australia, Belgium and Latvia. But, in other countries the pressure on social rented housing is (partly) due to the relatively favourable price-quality ratio in the social rented sector (compared to other sectors), combined with unrestricted access criteria, such as in Denmark and the Netherlands (Gruis and Nieboer, eds., 2004). Within such cases, one strategy to reduce the pressure on social rented housing could be to give social landlords more opportunities to bring the price-quality ratio more in line with the general housing market. However, we argue that such a policy would only be recommendable if the general housing market is in a state of equilibrium or surplus. If not, (lower-income) households could be faced with unacceptable living expenses. Nevertheless, in relation to the negative side effects that have been stated above, it could be worthwhile to pursue a policy that combines a general restriction to rents with some possibilities for social landlords to relate the rents to the quality of their dwellings. This has been the case in the Netherlands during a part of the nineties under the so-called rent-sum approach. In this approach, central government sets a maximum to the yearly rent increase of the total housing stock of individual landlords as well as a higher maximum to the rent increase of individual dwellings (e.g. Boelhouwer *et al.*, 1997). Within these general boundaries, landlords are free to differentiate the rental increases for each dwelling.

3.3 Allocations

Government restrictions

In most countries, the government (mostly the local government) sets income limits for households to be eligible for a social rented dwellings (see Table 4). This means that the social sector is not accessible for higher-income households. In other countries social landlords are allowed to allocate their properties to higher-income households, but at the same time national, general directives exist to prioritise the allocation of housing to low-income households (e.g. the Netherlands, Australia) or to special target groups such as the elderly or the disabled. In Denmark, the local authority has the right to allocate every fourth vacant home, normally for persons with a special housing need.

Table 4: Regulations concerning allocation of social housing

Australia	No specific national regulations, but allocation to low-income households is highly prioritised in general administrative regulations ⁴
Austria	Through income limits for subsidised dwellings
Belgium-Flanders	Through income limits depending on family situation, chronological waiting lists with priority rules
Denmark	There are no income limits, but an obligatory division between external and internal waiting lists (sitting tenants have priority when moving within the housing associations' stock); ¼ of vacancies can be allocated by the municipality
England	Allocations must be on the basis of 'need', which is only roughly defined by the national government; housing associations have a duty to cooperate with local authorities
France	On the basis of income ceilings revised by the government every year and varying per region and financial support scheme
Germany	On the basis of income limits varying per region and subvention scheme and under limitations and approval of municipality
Latvia	Priority for low-income households and (other) disadvantaged households with special needs (single parents, elderly, orphans etc.)
The Netherlands	Through a general directive of central government to give priority to low-income households; under most local arrangements dwellings under a certain rent level must be allocated to low-income households.

Implications for practice and negative side effects

In countries in which government regulations allow it, landlords have developed or chosen their own allocation system and criteria, often in cooperation with the municipalities and other locally operating landlords. In the Netherlands, advert models (or choice-based lettings) have become most popular during the 1990s, replacing the more common system of waiting lists. But, while in England the advert model is also being introduced, it is already under discussion in the Netherlands and some Dutch housing associations have begun to experiment with lottery systems and the abolishment of allocation criteria. In other countries, allocations are strongly influenced by central regulations, although landlords in Flanders have been stated to “make creative use of any available margin to pursuing their own allocation policies” (Winters in Gruis and Nieboer, eds., 2004, p. 70).

⁴ additional information from Milligan (2003)

In Table 1, we have stated that a possible negative side effect of restricting allocations could be that this could lead to stigmatisation and spatial segregation. Van der Heijden (2002) provides some comparative data about the distribution of households in the social rented sector by income, for five of the eight countries involved in our research. (see Table 5). His findings show a (logical) relationship between the relative focus of the landlords on low-income households and the concentration of low-income households in the social rented sector. The social rented sectors in Great Britain and Belgium are characterised by a relatively large concentration of low-income households, while France is characterised by a relatively even spread of households according to income deciles. Within the Belgian social rented sector “many are currently calling for a more flexible allocation policy, in particular in order to respond to quality-of-life problems and to achieve a better social mix” (Winters in Gruis and Nieboer, eds. 2004, p. 70).

Another side effect of restrictive allocation policies is that social landlords do not have opportunities to generate additional financial means to finance their core activities. If landlords are allowed to allocate dwellings to higher-income households, they can become active in the development of more expensive rental and owner-occupied dwellings. In the Netherlands, we have seen that the housing associations have become relatively more active in these more lucrative areas of housing development during the nineties. This was done partly in order to generate extra financial means by themselves, in reaction to the abolishment of property subsidies (see Priemus, 2001; Gruis and Nieboer, forthcoming).

Table 5: The distribution of households in the social rented sector, by income groups (percentages)

Country	Low income (deciles 1-3)	Middle income (deciles 4-7)	High income (deciles 8-10)
Belgium (1992)	52.4	34.6	13.0
France (1992)	38.2	45.5	15.9
Germany (1993)	44.0	42.5	13.5
Great Britain (1996)	61.8	33.5	4.7
The Netherlands (1993)	44.3	42.4	13.3

Source: van der Heijden (2002, p. 334).

Legitimacy of policy

The fundamental motive for government regulation of allocation is to ensure that all households have access to housing. Within a free market, there is the risk of cherry picking. As Priemus (2000, p. 26) points out: “Problematic tenants, unemployed tenants, poor tenants and tenants who belong to an ethnic minority group, constitute a risk for the landlords.” Therefore, private landlords often select their tenants on the basis of socio-economic characteristics. By targeting the social rented stock to low-income households, these ‘weaker’ actors on the housing market are given access to housing. Another motive for allocation rules is that the government strives towards an efficient allocation of its financial support of housing, by ensuring that cheap, subsidised houses are allocated to low-income households. But, in the light of the implications that we stated above, it can be argued that these policy motives should be achieved by applying allocation rules to the individual dwellings (as is the case in Germany), rather than by placing general restrictions on the landlords’ scope of households at company level.

3.4 Sales

National housing policies concerning sales of social rented dwellings are quite different. In some cases there is (or has been) an explicit policy to promote the sale of social rented dwellings, varying from ‘soft’ stimulation of landlords (France, the Netherlands, Australia) to outright privatisation policies, including the ‘right to buy’ (Latvia, England, and Austria under certain circumstances). In Denmark, on the contrary, the sale of social housing is prohibited (see Table 6).

Table 6: Regulations concerning sale of social housing to tenants

Australia	Sale to tenants is allowed and encouraged by the national government, but at market value (and not less)
Austria	‘Right to buy’ after 10 years for tenants that have co-financed the cost of land and/or construction; sale is possible
Belgium-Flanders	Sale is allowed
Denmark	Sale is forbidden, but is now under consideration by the national government
England	Sale is allowed for local authorities and housing associations; ‘right to buy’ for tenants of municipal housing
France	Sale is allowed and encouraged by the national government
Germany	Sale is allowed
Latvia	Massive privatisation of public housing; ‘right to buy’ for tenants
The Netherlands	Sale is allowed and encouraged by the national government

Implications for practice and negative side effects

The sale policies of social landlords reflect the national regulations to some extent. In some countries, sales do not take place due to central restrictions and in countries where a right to buy has been established one can hardly speak of a sale policy of the landlord. However, in France, the Netherlands, Austria and Germany where sales are allowed and sometimes even stimulated (but not forced), social landlords do not sell their dwellings in large quantities. In France, the private housing companies have sold 6,000 dwellings on average during recent years, while the government target was to sell about 30,000 dwellings. In the Netherlands, sales have increased during the nineties, but the peak (in 1999) has remained below 1% of the housing stock. Since then, in parallel with the increasing pressure on the social rented sector, sales have dropped considerably, in contrast to the targets of the former State Secretary of Housing. On the one hand, these low numbers of sales can be explained by the lack of good market-opportunities, but on the other hand they can be explained from the social objectives and tradition of these landlords, which lead them to be restrictive in their sale policy. In Austria and Germany, social landlords are reluctant to sell dwellings from the existing stock, among others because of the management problems associated with mixed-ownership. In Australia the State Housing Authorities are forced to sell parts of their stock, despite the high pressure on the public housing sector, to cope with their financial shortages.

The obligation to sell (through the right to buy) as well as the restriction of sales can have negative side effects. One of the key problems that has resulted from the right to buy in Latvia and to a lesser extent in England is that it has led to an ageing housing stock of relatively poor quality in estates with mixed (public and private) ownership, with

limited financial and human resources for maintenance and renewal among public and private owners.

The potential negative side effect of a restrictive sale policy is that it could lead to an inefficient allocation of financial means, by letting social rented dwellings to households that can afford to buy it; and by reducing the landlords' own possibilities to generate additional financial means. Furthermore, it does not have to fit with the households' preferences (some might prefer buying the dwelling). There is little evidence among our cases to support these assumptions, because sale is only restricted in Denmark. Within Denmark a government proposal has been under consideration to allow for sale. Regarding this proposal Engberg states: "Amongst tenants opinions differ, some are attracted to the potential capital gains but most do not support a privatisation strategy" (Gruis and Nieboer, eds., 2004, p. 89). However, it is important to note that Engberg's remark reflects the Danish tenant management boards' opinion and not necessarily the preferences of individual households.

Legitimacy of policy

From the fundamental motives for government intervention, the primary motive for restriction of sales is to ensure the availability of sufficient social rented housing. In many cases, sale is a financially more attractive option than social renting. Thus, if the landlords would let their asset management be driven by financial motives, they could choose for a massive sale, which could lead to a marginalisation of the sector. An additional motive for restriction of sales is that it could lead to a leaking away of government subsidies. The primary motivation for stimulation of sales is that it ensures that the households' preferences are met. Social or public landlords could be reluctant in selling their dwellings, so the right to buy can be a means of combating their 'monopolised' position. But, sometimes, government stimulation of sales seems to reflect an ideology of the government rather than a real market demand. And, sometimes, sale is mostly a way to compensate for cuts in government subsidisation.

In relation to the motives for either restriction or stimulation of sales it is important to notice that landlords do not seem to be eager to sell of a large quantity of their housing stock, even if they have the freedom to do so (see the landlords' sale policies in France, Germany and the Netherlands). So there seems to be little reason for governments to restrict sales. On the other hand the obligation to sell must be met with care as well, as we can see from the cases of Latvia and England. The government should take into account the possible consequences for the marginalisation and future management of the housing stock. Furthermore, the government should have evidence that many households would rather buy, but are restricted solely by the lack of supply on the social landlords' account - is the stimulation of sales really necessary to combat a market imperfection? Thus, a general policy recommendation could be that governments should neither restrict nor force sales. In case of subsidised dwellings arrangements should be made that sales are done either on the condition that the dwelling itself remains bound to its social housing purpose by legislation (as is the case in Germany) or that (a part of) the subsidy is paid back.

3.5 Restrictions to maintenance and renewal

Central government regulation of landlords' maintenance policies is limited. Besides national building regulations that contain minimum requirements for the quality of dwellings in general, there are few specific regulations for social landlords. Nevertheless, rent regulations and government budget constraints can have a considerable impact on the level of maintenance that a landlord can afford. In Australia and Latvia, funds for future repairs have been stated to be inadequate. In Austria some municipal pre-war apartments still wait for basic improvements. In Belgium, many associations do not meet the VHM requirement that 10% of the rental income is reserved for maintenance and renovation. In England, the government has implemented the 'Decent Homes Standard', which contains minimum requirements for the quality of the dwelling stock. Local Authorities and housing associations are required to quantify the level of non-decent housing in their stock, develop an investment strategy to tackle this and to measure progress towards the elimination of non-decency in 2010. In April 2001 the government introduced a Major Repair Allowance for local authorities, which is a subsidy allowance paid by the government to represent the cost of maintaining the current condition of the stock.

Regulation for renewals consists mostly of targeted subsidisation and investment programmes. Except Australia and the Netherlands, all countries in the research directly support new building or maintenance in the social housing stock (see Table 7). In some countries there are no subsidisation and investment programmes for social housing renewal (Latvia, Belgium) or the programmes are not specifically targeted at social housing (e.g. the Urban Renewal Investment Fund ("Investeringsfonds Stedelijke Vernieuwing") in the Netherlands). In Denmark, renewal is partly financed through the National Building Fund ("Landsbyggefonden"), which is filled by annual contributions from rental payments.

Table 7: Government funding of social landlords' maintenance and renewal

Australia	Grants from the Commonwealth to the States
Austria	Subsidies for new building and for maintenance
Belgium-Flanders	Subsidies for new building and renovation; loans must be approved by the VHM
Denmark	Government funds in the 1990s for strengthening the position of the social sector; re-financing schemes, annual contributions of tenants through the National Building Fund
England	Local authorities: 'single pot' per region for housing investment; housing associations: mixed capital and public funding, no government guarantee;
France	Subsidies for new building and renovation, plus low-interest loans
Germany	Mixed public and private funding for new building; some subsidies for specific purposes, like energy saving measures, construction for the handicapped, and renewal or demolition of inferior pre-fabricated housing
Latvia	No national support, little funding from local authorities
The Netherlands	Guarantee structure; subsidies for local urban renewal programmes, no brick-and-mortar subsidies

Implications for practice and negative side effects

The lack of specific regulation of maintenance seems to have little negative side effects, in a sense that the landlords neglect their housing stock. On the other hand, our research

indicates that there is little occurrence of market-oriented behaviour in social landlords' maintenance policies either. In general, social landlords seem to have an 'operational' approach towards their maintenance. Maintenance is either carried out on the basis of merely technical reasons and surveys or follows the complaints of costumers. In some cases, maintenance is restricted by the lack of financial resources (see e.g. Australia). Renewals seem to be determined mostly by subsidisation and investment programmes, rather than by initiatives from the social landlords themselves. But there are notable exceptions. In the Netherlands, housing associations have begun to implement market-oriented or client-oriented maintenance policies, aiming to increase the diversity of their housing stock and tenants' satisfaction. And in England, France and the Netherlands, some social landlords have taken on a leading role in the renewal of problematic neighbourhoods.

Legitimacy of policy

The fundamental reason for government intervention in maintenance and renewal is to ensure that the quality of the housing stock remains above a socially acceptable minimum. But, if there are adequate general building regulations for the quality of the dwellings, there seems to be little need for specific regulations for social landlords. Governments only need to intervene if the resources and/or activities of social landlords in the renewal of the housing stock are deemed to be inadequate. However, particularly in cases in which the landlords' budgets are determined by the government to a large extent, governments should take care that they are not causing problems themselves through excessive budget cuts. Therefore, one recommendation could be that social landlords should be granted a more financially independent position - independent from politically sensitive public budgets. For example: nearly all housing associations in the Netherlands are in a sound financial state, although they no longer receive direct financial support. The guarantee structure for capital loans, the possibility to sell dwellings and to develop dwellings for the purpose of sale, the low interest rate and the subsidies in the past capital have contributed to this situation (see Priemus, 2001; Gruis and Nieboer, forthcoming). Within this situation, the landlords probably have a better guarantee that they will be able to finance their maintenance than landlords that have to depend on politically determined budgets.

4 Conclusion

One of the main problems within housing policy is to find a balance between the benefits of the 'free market' and government intervention. This question also exists in relation to the extent of government regulation of social landlords' asset management. In this paper we have analysed the potential benefits of increased market orientation in the social rented sector as well as the reasons for government regulation of social landlords. Furthermore, we have analysed the government regulation of social landlords in seven European countries and Australia. We have also formulated considerations for policy, based on the confrontation of current policies with their negative side effects to the development of market orientation within social landlords' asset management on the one hand,

and their legitimacy from the fundamental reasons for government intervention on the other. Now we will summarise our findings.

The main arguments for allowing social landlords to develop their market orientation are that this can lead to a more effective and efficient provision of housing – effective in terms of meeting their clients’ preferences and efficient in terms of reaching a better relation between price and quality and obtaining a more economic allocation of financial means. Furthermore, increased market orientation could help to combat spatial segregation and stigmatisation. The main reason for government control of the social rented sector is the prevention of socially undesired effects by ensuring universal access to decent, affordable housing.

To be able to increase their market orientation, social landlords need to have a certain extent of freedom to determine their own rent setting, allocation, sale, and maintenance and renewal policies. Government regulation, of course, restricts the freedom of the social landlords. Thus, an obvious negative side effect of government regulation is that it hampers market orientation and its potential benefits. We have specified our analyses of regulations to the areas of rent setting, allocations, sales, maintenance and renewal. Looking at the government regulations in these areas of asset management, its underlying motivations and negative side effects we have concluded the following:

- In general, rents are strongly regulated by the central government. The restriction of rents seems logical from the fundamental function of government intervention to place restrictions on the price of scarce ‘public’ goods. Nevertheless, the extent of government regulation can lead to illogical price-quality ratios. Furthermore, in some cases the rent regulation restricts the possibility to use price as an instrument to increase demand for unpopular estates. Therefore, it should be considered to pursue a policy that combines general restriction to the rents at company level with some room for landlords to differentiate the rents of their individual dwellings;
- In most countries allocations in the social rented sector are restricted by income limits, to ensure that social rented dwellings are allocated to those households for whom the sector has primarily been designed. Nevertheless, it could be worthwhile to give social landlords more opportunities to allocate dwellings to higher-income households as well, to achieve a better social mix and to generate additional financial means. This could be done by applying allocation rules to individual dwellings rather than by placing general restrictions on the landlords’ scope of households at company level;
- In some countries, the government promotes the sale of social rented dwellings, while in other countries sale is prohibited. The primary motive for stimulation of sale is to ensure that households’ preferences regarding tenure are met. The primary motive for restriction of sales is to ensure the availability of sufficient social rented housing. Restriction of sales seems hardly necessary if we take into account the practice in France, Germany and the Netherlands, where social landlords have the freedom to sell, but are not eager to do so. However, forcing sales through outright privatisation policies should be done with care as well, taking into account the potential problems of mixed, low-income ownership in estates of low quality. Thus, a general policy recommendation could be that governments should neither restrict nor force sales;

- Central government regulation of the social landlords' maintenance is limited. Nevertheless, rent and budget restrictions can have a considerable impact on the maintenance. Governments should consider stimulating the financial independence of social landlords in order to make their investment possibilities less vulnerable to political priorities.

Our recommendations are aimed at enlarging the opportunities for social landlords to develop a more market-oriented approach to their asset management in a sensible manner – without endangering the fulfilment of social objectives. But, implementation of our recommendations does not necessarily mean that landlords will actually begin to develop their market orientation. Due to the general (social) housing shortages, there may not be sufficient incentives for market orientation from the market itself. And, the tradition of many social landlords as (semi) public, bureaucratic organisations that work in a highly political environment could hamper the development of market orientation as well (see Gruis and Nieboer, eds., 2004). Thus, along with giving landlords some space to manoeuvre, governments and supervisors may have to stimulate the market orientation of social landlords more explicitly, for example through the implementation of 'new public management' principles in the social rented sector.

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