

The competitiveness of rental market structures and its effect on landlord behavior – a methodological approach

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Abstract:

Governments in many European countries have required social housing providers to become more market orientated and work more efficiently. As a result, the demarcation between the activities of social and private landlords seem to have become more blurred, which has presumably led to increased competitive pressures on both landlord groups. In an attempt to create a better understanding of the basic conditions of a competitive relationship between social and private renting providers, this paper sets out the idea of a market structure in rental housing and makes a comparison between the situations in England and the Netherlands.

In economic theory, market structure is defined by the degree of supply concentration, existing barriers to entry and exit, and the extent of product differentiation. In the theoretical part of the paper it is discussed how those three components apply to rental housing and why some changes of the original concept of market structure seem to be inevitable.

The refined theoretical concept is then applied to rented housing in England and the Netherlands. On the one hand, the comparative approach will show that market structures can differ significantly across countries and with them the conditions for the competitive behavior of rental housing providers. On the other hand, it will reveal the methodological challenges that are involved with the analysis of rented housing, particularly private renting.

Keywords: Competition, social housing, private renting, market structure, landlord behavior

Introduction

In many European countries the structure of rented housing provision has changed substantially in recent years. Governments have sought to privatize social housing through the transfer of public housing stock to private non-profit housing associations or even to profit-oriented private enterprises. The changes in ownership structures have been complemented by a stronger market orientation of social housing policies, comprising significant cuts in public subsidies for the supply of social housing. Consequently, even though social landlords generally retain their non-profit business model, they need to operate in ways that enable them to be financially independent and viable. As a result of the diversification of their objective functions, social housing suppliers often seek to operate in rental market segments in which they can generate substantial profits – which are however fed back into the provision of unprofitable social housing. Arguably, those commercialization and privatization processes within the social housing sector do not only have an effect on social housing outcomes, but also on the rented market as a whole, particularly the relation between social and market rental suppliers.

In an attempt to characterize the relationship between social and market renting in various European countries, Haffner et al. (Haffner et al., 2009a; 2009b; Oxley et al., 2010; Elsinga et al., 2009) apply mainstream economic concepts such as rivalry between suppliers and substitutability of the products that are offered. At the heart of their approach is that they are able to classify the inter tenure relationship as either competitive or uncompetitive. What their work also shows it that the conditions for a competitive relationship differ significantly across countries, where the regulation of the two rental sectors is one of the key factors for those differences.

Lennartz, Haffner, and Oxley (2009) elaborate on this initial approach by developing a conceptual framework which can shed light on various aspects of competition between social and market renting, including the behavior of all types of suppliers and consumers of rental services, as well as the conditions for and effects of their behavior. Here, they adapt the neo-classical Structure-Conduct-Performance (SCP) paradigm to rental housing markets. Generally, the SCP analyses the functionality and interrelations of the three elements market structure, firm conduct, and industry performance (Oz, 1995). The underlying hypothesis of the SCP is that a stable causal relationship between the three elements exists: The structure of a market is exogenous; conduct and subsequently performance are structurally determined variables.

This paper continues the conceptualization of the SCP of rental housing as it takes a closer look at the link between rental market structures and social and private landlord conduct. Here, the focus lies on the question of how the impact of market structure on behavior can be assessed in research practice. More precisely, the main aim of the paper is to assess which methodological approach is necessary to unfold the relationship between structure and conduct in the SCP of rental housing.

The paper is structured as follows. Section 2 discusses market structure and how it affects firm behavior from the viewpoint of different strands in economic theory. Section 3

then translates the discussion on what market structure comprises into the context of rented housing. This section largely relies on Lennartz et al (2009). A discussion on how to assess the link between market structure and landlord behavior follows. The paper then continues with an application of the framework to rented housing in England and the Netherlands. This will entail the formulation of some hypotheses on the relationship between social and market landlords in the two countries. The paper concludes on its main points.

Market structure and its influence on firm behavior in economic theory

The variables of market structure in the SCP

In terms of the neoclassical Structure-Conduct-Performance paradigm, market structure consists of certain features of the market environment that influence the degree of rivalry between suppliers in the market, i.e. how competitive the industry is. The original SCP consisted of two generally recognized market structure elements: The number and market share of sellers expresses how concentrated the supply of a good or service is and thus gives firms an indication about their position in the market. The second major factor is the homogeneity of the product that landlords offer in the market; i.e. product differentiation. In a market where services have identical product characteristics they will be seen by consumers as perfect substitutes (Oz, 1995).

Later on, economists recognized the impact of the conditions of barriers to entry and exit on the competitiveness of a market. Yet, barriers to entry were first seen as a dependent variable of the number of incumbent suppliers; thus, in a market with a large number of sellers, entry would by definition be relatively easy (Caves, 2007). What barriers to entry and exit mean in business practice has been a long discussed issue. However, many scholars seem to agree that they comprise, *inter alia*, economies of scale and absolute cost advantages of incumbents, while barriers to exit are mainly defined as sunk costs that an incumbent firm will face when leaving a market (Shepherd, 1984).

Market structure and its link with firm conduct

Analyzing the three variables supply concentration, product differentiation, and entry barriers allows for an assessment of which market form prevails. In neoclassical terms – under the condition that all actors have complete information – a market is perfectly competitive when the number of sellers is high, products are homogeneous and entry and exit barriers are low. The effect then is that suppliers and consumers are price takers and cannot influence the market price of the product. They have to set prices independently to the marginal costs of production, which according to economic theory leads to an efficient market and is welfare-optimal (Tirole, 1988). In all other market forms, from monopolistic competition, where suppliers compete on differentiated products, to a monopoly, where only one provider exists, suppliers have market power and can price above marginal costs.

Within the SCP paradigm and in mainstream economics in general behavior of the firm is thus a structurally dependent variable. Each market form – comprising the three components of market structure – has its own equilibrium to which suppliers and consumers

adapt. Suppliers are seen as profit-maximising actors who behave rationally. Competitive forces will see that those suppliers who do not act rationally and deviate from the equilibrium face the risk to be driven out of the market. From an economic efficiency point of view perfectly competitive markets are thus superior since they guarantee a welfare-optimal outcome (ibid, 1988). The SCP also assumes that collusive behavior in price setting processes is facilitated in markets with a low number of suppliers (Caves, 1986).

In short, in the SCP paradigm conduct of the firm is equated with rational behavior by profit-maximizing firms, being in accordance with the equilibrium that develops out of the market structure. Nonetheless, mainstream economics does acknowledge that markets are in reality never perfectly competitive. Rather, perfect competition is seen as a tool to analyze situations that deviate from that ideal state of market; for instance, what happens if barriers to entry are high, the number of sellers is low, information is imperfect, or a combination of those. This has largely been analyzed through new models of imperfect competition in game theory, as a sub-field of mainstream economics (Jaquemin, 2000).

Undoubtedly, market structure has a decisive impact on the behavior of suppliers. But studies in all fields of social sciences have shown that the case about the behavior of suppliers made by mainstream economics in general and the SCP in particular is not that straightforward. The criticism is based on several grounds. First, it has been pointed out that market structure is almost never exogenous in reality, but is significantly altered by firm behavior over time. For instance, merger and investment behavior alter seller concentration; strategies affect product differentiation, and so on and so forth (Schmalensee, 1989). Second, the theory of contestable markets (see Baumol, 1982) has dismissed the idea that the ease to enter or exit a market is a dependent variable of the number of suppliers. Rather, it says that in a highly concentrated market the absence of barriers to entry and exit requires suppliers to behave competitively. Third, economists claim that the single focus of the SCP on price mechanisms is not helpful, as they point out the importance of non-price competition in various markets (Jaquemin, 2000).

Most importantly, mainstream economics neglects that there are institutional constraints on what individuals and organizations are allowed to do in a market (North, 1990). However, literally every market has a framework that can be described as the rules of the game, limiting the choices that firms can make and structuring the interactions between them. Generally, the neo-institutional economics strand retains the idea of competitive markets, i.e. suppliers strive for resources and costumers, and the most efficient firms will be successful. However, it dismisses the idea of rational behavior. In the neo-institutional approach – in this part it builds on the insights of behavioral economics – individuals make choices based on subjectively derived models that diverge among individuals. Information is per se incomplete and unequally distributed so that in most cases their subjective models are diverging. Translated into firm behavior this means that each organization deciphers the market environment differently, i.e. different perceptions on how competitive their environment is and who their competitors are. This in turn then leads to differences in firm behavior, which can deviate significantly from the market equilibrium (Simon, 1986; Paton & Wilson, 2000).

Finally, neoclassical economics erroneously assumes that all suppliers of a product are necessarily profit-maximisers. What one can observe in practice however is that the suppliers can have different, non-pecuniary motivations, such as altruism and social mandates (Ricketts, 1994).

Market structure in rented housing

Market structure of rented housing

If we want to adapt the idea of market structure and how it impacts the behavior of providers when analyzing competition between the two rental tenures several aspects need to be taken into account. Basically, the two sectors have a very different impetus in how they are allocated and adjusted. Market renting is allocated by supply and effective demand. Social housing on the other hand, is allocated by some politically or administratively forms of housing need. Usually, the supply of social housing is appointed and regulated by governments (Oxley, 2000).

Within this basic framework, the conceptualization of market structure further considers that not all rental providers are profit-maximizing organizations. Social housing is primarily provided by non-profit organizations, often public authorities, while many small-scale individual landlords in the private rental sector do not work along strictly commercial lines. Therefore, an assessment of the motivations of landlord groups within both sectors is required. Moreover, different providers might have different norms and goals in the provision of rental services. It seems evident that those differ among social and market landlords, but even within the two sectors there might be significant differences among landlord groups. Furthermore, it is considered that formal rules and regulations of the provision and consumption of social and market rented housing services can be very different and thus have a decisive impact on how the two tenures are related.

Market structure in the SCP of rented housing consists of four components: ownership structures, supply concentration, entry and exit barriers, and product differentiation. Ownership structures deals with the questions of which types of landlords provide which rental service. It is accounted for the different financial models that landlord groups have, how landlords' activities are funded, and where and on which scale landlords are active in either sector.

Supply concentration is about the number of providers and their individual market shares in each sector. Here, the use of letting agent services in the market sector and the formation of group structures in the social sector should be considered as they might signify higher supply concentration than an assessment of ownership shares in a rental market implicates.

Entry barriers look at the relation of the two sectors from the viewpoint of how accessible the social sector is for private landlords and vice-versa. Entry barriers therefore largely cover regulatory aspects on who is allowed to provide what to whom in which locality. The main questions are: Can landlords operate in both sectors, and if so what are the preconditions to do so? Do they have access to the same resources, particularly – if available

– to public subsidies? What are the rules on the duration of an engagement in the provision of social and market renting? Finally, and most significantly, do the same kinds of tenants have access to both sectors, or are there implicit income barriers in the private sector, explicit income limits in the social sector, or waiting lists that impede easy and fast access? (Lennartz et al., 2009)

Product differentiation generally is about the substitutability of market and social rental services. It covers the aspects of existing differences between rent/quality bundles in the social and market sector. Furthermore, product differentiation comprises quality and rent regulation practices, security of tenure in both sectors, and the availability of housing allowances to social and market tenants (see Haffner et al, 2009b).

What is a competitive market structure?

In contrast to the neoclassical approach, there is no straightforward answer to this question, since the SCP of rental housing relies on different parts of social science theory. However, some preconditions need to be fulfilled: The two services need to possess at least some similar characteristics. Second, providers need to be able to target similar customers. Furthermore, with regard to each single component we can make several assumptions. The more commercialized social housing suppliers are the more competitive is the market environment. Similarly, the more concentrated each sector is with regard to the number of suppliers, the less competitive the market structure. With respect to entry barriers we can assume that if accessibility is high on all the given aspects, then the market structure is more competitive. Considering the homogeneity of social and market rented services, consumers, or at least some consumer groups, need to consider them as possible substitutes. If social housing providers offered services that were completely different on all the given aspect from those provided by market landlords it is hard to envisage a situation on the rental market where tenants would really consider substituting one rental service for the other.

From a theoretical point of view, however, it seems to be difficult to make meaningful statements about the competitiveness of market structure when taking into account all four variables. Is a market structure competitive when products are similar but providers are not allowed to access the same resources? This question needs to be addressed in the assessment of the influence of market structure on the competitive behavior of landlords.

How to assess the link between market structure and landlord behavior?

I have pointed out that particularly in rental housing, where there are two more or less similar products, the two rental sectors have different roles and allocation principles and the suppliers of social and rental services can be very dissimilar, it is not clear that market structure X leads to behavior Y. In our conceptual framework – the SCP of rental housing – it indeed holds true that “If [...] we accept the proposition that both the knowledge and the computational power of the decisionmaker are severely limited, then we must distinguish between the real world and the actor’s perception of it and reasoning about it. That is to say, we must construct a theory (and test it empirically) of the processes of decision” (Simon, 1986, p. 211).

What this means is that the first crucial step in assessing the link between rental market structure and conduct of landlords in the context of a competitive relationship between the two sectors is to find out whether social and market landlords see each other as rivals for the custom of tenants, or at least certain tenant groups, and if they see the risk to lose tenants to the other sector. This entails that we must understand how social landlords see their products in comparison with the products offered by private landlords, and vice-versa.

My contention is that most promising for finding out about the perceptions of landlords on their position in comparison with the other rental sector is a qualitative research approach. More precisely a series of in-depth interviews and possibly focus groups with both types of landlords seems to be meaningful in unfolding the link between structure and firm conduct. The conceptualization of such an interview should be guided by the following research questions:

1. What are the perceptions of landlords on their relation with landlords of the other sector? Do they perceive themselves to be in competition?
2. How does market structure affect the perceptions on competition of social and market landlords?
3. How are those perceptions transferred into landlords' decisions on rent settings and investments?

To sum up, the crucial aspect in this research approach is the perception of landlords, which can be seen as some kind of mediating force between structure and behavior. Appendices 1 and 2 show how these three research questions might be translated into an actual interview topic guide with social and market landlords. It shows that most of the actual interview questions focus on the first – perceptions of other landlords- and the third– influence on decision-making processes – research question.

The impact of market structure on landlords' perceptions and thus decision-making can primarily be assessed through the sampling method of interview participants. First of all, the described research approach should be applied in an internationally comparative context. It can well be claimed that the regulatory framework, social and private rental policies, as well as the roles of the two rental sectors vary significantly across countries. Hence, if social and market landlords are interviewed in at least two different countries, it seems to be possible to get a better understanding of the influence of product differentiation, as well as entry and exit barriers on perceptions and behavior. As shown in the appendices I consider it to be helpful when landlords are asked directly about how they see the regulation of their sector and whether it forestalls or promotes competition between the two sectors. This should give some interesting insights on which factors of product differentiation and entry barriers are the most influential variables.

Furthermore, in order to assess the impact of supply concentration on landlord conduct, interviews should be conducted in various local housing markets in the two countries. Interviewing landlords in different local markets does not only ensure an assessment of supply concentration, but also enables to take a closer look at how the supply

and demand relation, i.e. whether a local market is under pressure or more relaxed, influences perceptions and decisions of landlords.

Finally, with regard to the influence of varying ownership structures the sample of interviewed landlords should comprise all different types of social housing suppliers and different types of market landlords. This should provide a better understanding of how, *inter alia*, financial motivations, funding models, and the size of organizations influence the perceptions of landlords on their relation with landlords of the other sector.

Of course, the interview approach is but one aspect of the whole research methodology. In this study a closer look is also taken at official policy documents, as well as secondary data and business reports of landlords in order to be able to put their statements into a broader context.

In this paper I go a bit further than just proposing a certain type of methodology that seems to be suitable to answer a series of research questions. I am not able to provide a full-fledged analysis of the topic; however, a step that seems to be meaningful in this paper is to apply the idea of market structure to two specific countries, allowing for the formulation of some hypotheses, which in turn can be tested through the in-depth interviews.

In my PhD research project, England and the Netherlands have been identified as suitable case studies when examining the link between market structure and the behaviour of landlords. This is due to several reasons: Kemeny (1995) shows that the roles of social and private renting are diverging between the two countries. He classifies England as a dual rental system, while the Netherlands is deemed to be a unitary market, where social and private renting competes with each other. Furthermore, Haffner et al. (2009b) point out that there is a large gap between the two sectors in England and a small gap in the Netherlands with regard to the substitutability of social and market rental services. Finally, Elsinga et al (2009) demonstrate that competition between the two sectors is stronger in the Netherlands than in England. Their research approach is similar to the SCP of rental housing on some aspects; however, the authors do not investigate landlords' perceptions and behavior.

Market structure of rented housing in the Netherlands and England – assumptions on perceptions and behavior

So far, the paper has been on a strictly theoretical and methodological basis. Yet, in the following section an application of market structure to rental markets in England and the Netherlands should give the reader a better understanding of how the concept applies in more practical research. The primary notion of this section is that the application sets the ground for the in-depth interviews by formulating a number of hypotheses, allowing for an assessment of the link between structure and conduct within the whole SCP of rental housing.

Ownership structures

The Netherlands

In the Netherlands, social housing is almost entirely owned and managed by housing associations. In 2008, they owned 2.25 million social housing dwellings. Housing associations were created by voluntary organizations as not-for-profit organizations already in the mid-19th century, with the aim to create decent housing conditions for the industrial workforce in urban areas. In 1901, they were given the status of approved institutions in the Housing Act. Housing associations are private organizations that rely on private finance. Being organized as revolving funds, they finance all investments through private loans, thus there is no need for public subsidies. Accordingly, they can be labeled as commercial non-profit organizations or as social entrepreneurs. Housing associations largely differ in size – there are small associations owning only a couple of hundred dwellings, while the biggest ones own more than 50,000 units. Their areas of operation are diverse as well: Some operate on a local level, while others are regional or even national housing associations (Elsinga & Wassenberg, 2007).

Table 1: Ownership structures in England and the Netherlands

	Landlord group	% within sector	Ownership	Funding	Financial motivation	Area of operation
Social housing (2008)						
England	Local authority/ALMOs	51	Public	Public	Non-Profit	Local level
	Housing associations	49	Private	Mixed	Non-Profit	Traditional HA - local/ regional/national LSVT – primarily local
	Private person or company	Marginal	Private	Mixed	Profit	Mainly local
Netherlands	Housing associations	100	Private	Private	Non-Profit	Local, regional, national
Market renting (2006)						
England	Individuals & couples	73	Private	Private	Profit	Local
	Private companies	13	Private	Private	Profit	Local, regional
	Other organizations	14	Private	Private	Profit	
	Housing associations	Marginal	Private	Private	Non-profit	
Netherlands	Individual & couples	40	Private	Private	Profit	Local
	Private companies & institutional investors	60	Private	Private	Profit	National

Market landlords can be categorized either as small-scale private individuals and companies or private companies, particularly institutional investors, such as pension funds, and insurance companies (Elsinga et al., 2007). Table 1 shows that private companies own about 60 percent of the private rented stock – of which 22 percent is owned by institutional investors, while individual persons and small businesses own 40 percent of the stock (WoON, 2006). Private companies work along strictly commercial lines and are profit-maximising firms. They tend

to operate in the more expensive market segments. They operate on a national level, but are mainly to be found in the major cities of the Netherlands. Small-scale individual investors can have other motivations than just the profit maximising premise. For instance, they might aim at a return on investment which enables them to repay a mortgage rather than making large profits. They often target specific tenant groups, such as the student population. They are mainly found in urban areas and tend to operate on a local level. Some of them own several dwellings while others might only own a single unit (Elsinga et al., 2007).

England

Generally two types of landlords can be distinguished in the social sector, councils and housing associations. Although the relative importance of local authorities has decreased in a long-term process of demunicipalization (Malpass, 2001), it still holds true that a high number of local authorities provides social dwellings, either directly or through an Arms-Length-Management-Organisation (ALMO). Half of the social housing stock in England is provided by council suppliers (CLG, 2009). Municipalities directly own the assets and their primary goal has ever since been the provision of socially acceptable housing conditions for the poorest households. The operations of council landlords are publicly funded. If councils want to enlarge their housing stock, they either have to make use of municipal borrowing (Gibb & Maclellan, 2006), or they have to set up an ALMO - a semi-autonomous company which runs the council stock - to qualify for additional public funding through the Homes and Communities Agency (Pawson, 2006). Finally, with regard to their area of operations and the size of individual council suppliers it can be said that some authorities, most evidently in the bigger cities, own more than 50,000 dwellings, while others only supply a relatively small number of dwellings. It is self-evident that local authorities primarily own housing stock within their own boundaries (Cave, 2007).

From a legal viewpoint all housing associations are private entities and are neither owned nor directly controlled by the central or local government. Generally, all housing associations are non-profit organizations and belong to the voluntary sector (Gibb & Maclellan, 2006). Their status as a not-for-profit, however, means that they are responsible for managing their own finances and for guaranteeing their long-term financial viability. A mixed funding system exists for them, which means that if housing associations want to build new social housing dwellings they are required to take private loans on the capital market in addition to the public capital grants. Due to this funding model, associations had to adopt a more business-oriented organization and culture (Whitehead, 2007). Notwithstanding all housing associations share these characteristics the governance models of traditional associations, comprising general needs and special needs associations, and stock transfer associations slightly differ. Many traditional associations have expanded into new geographical areas and have generally become more risk-seeking in their business operations (Malpass, 2001). Stock transfer associations differ from both traditional housing associations and their local authority predecessors. First, they do not share the traditional association's history as voluntary charitable organizations. Second, even though many of the LSVT associations belong to the largest associations overall and are comparable in size with the largest traditional housing

associations, they are bound to local boundaries and tend to retain their close ties with the local authorities. Third, since LSVT associations inherited a relatively poor housing stock and a tenant mix that was very much dominated by the lowest income stratum of the local population, there has been a strong impetus to grow in size and to invest into the housing stock (Pawson, 2006).

With regard to landlordism in the market sector Kemp notes that “Private landlords do not form a homogeneous group. On the contrary ‘The term private landlord encompasses a wide range of types of individuals and organizations and includes some who would not recognize that term as a description of themselves’” (Crook & Kemp as cited in Kemp, 2004, p. 94). By and large, I follow Kemp's sub-categorization of private landlordism, which identifies three main groups. First, informal landlords are those landlords that see their property as a sideline investment. Many of them are not strictly commercial and are not necessarily profit driven. They rather engage as landlords to be able to repay their mortgage on the property. Informal landlords are mostly couples of individuals. Second, investor landlords are a wide range of individual landlords and companies, many of which are Buy to Let landlords (see Rhodes, 2006). They are characterized by a good knowledge of the local housing market conditions, are more commercially oriented, and their portfolios can range from a couple of dwellings to several hundred properties. Many of them depend on the rental stream as their main source of income. Third, commercial landlords are a smaller group of landlords that comprises large private and public residential property companies or commercial property companies with large residential property portfolios. They tend to own several thousands of dwellings throughout the country, while they operate on a strictly profit-driven business model. In numbers those landlords are however a rare breed in the UK

Supply concentration

The Netherlands

455 housing associations were registered in the Dutch housing market with an average stock of 5,222 units by the end of 2007. On a national scale a strong concentration process has taken place since the early 1990s. As a result of the merging practice, the number of housing associations managing more than 10,000 housing units increased significantly in the last years. This means that an increasing concentration process in a decreasing market with professionalizing housing associations has taken place in recent years (CFV, 2009): Table 2 shows that, in 2007, the 50 largest housing associations almost owned half of the social housing stock. On a local level the social housing supply can be described as oligopolistic. In the largest cities there might be more than 10 associations operating in the social sector. The number of dwellings they own can however differ significantly.

Table 2: Concentration of the housing association stock (2007)

Number of dwellings	Number of housing associations	Total housing stock in size range
> 50,000	3	180,239
25,000 – 50,000	13	468,736
12,000 – 25,000	34	519,040
6,000 – 12,000	70	533,556
3,000 – 6,000	86	365,902
1.500 – 3,000	93	201,625
< 1.500	156	106,954
Total	455	2,376,070

Source: VROM, 2009a

Concentration in the market rented sector is very low on a national level. Even in local markets the supply structure tends to be atomistic. Yet, it can be observed that particularly institutional investors have their stock located in more expensive neighborhoods, while small-scale individual landlords make use of letting agent management services. Therefore, concentration in the market rental sector might be higher than the ownership structures actually imply (Haffner et al., 2009a).

England

The housing association sector in England is on a national scale relatively deconcentrated. More than 1,800 associations own about 1.8 million dwellings. However, there are large differences between local authorities. Where council suppliers still exist or the council stock has been transferred to a single LSVT association, the market tends to be dominated by a single supplier. Furthermore, it is worth mentioning that the entire housing association sector was affected by a rapidly increasing number of inter-landlord collaborations into higher administrative units and alliances in the last two decades.

Supply concentration of market renting is very low in England. Although there are some providers who might own several hundred dwellings in one local authority, such as private companies who provide student housing, the number of landlords is generally high in all locations. However, similar to the situation in the Netherlands, there is a frequent usage of letting agent services, implying that supply concentration is higher on a local level than ownership structures suggest.

Entry barriers

The Netherlands

Social housing regulation stipulates that the provision of social housing is an exclusive task of approved institutions. Private landlords or companies who wished to provide social housing would therefore have to become such an institution. Housing associations on the other hand, are allowed to operate in the market rental sector and ask market rents for their dwellings. As an approved institution housing associations have to act in terms of the Social Housing

Management Decree (BBSH), which stipulates that housing associations are obliged to give priority to the official target group of social housing (see VROM, 2009a). The newest rule says that 90 percent of all new allocations in the social sector must be appointed to tenants which have an income of less than € 33,000. There is thus an income barrier for tenants. Another barrier for tenants to access the social housing sector is the long waiting lists. In some cities applicants for social housing might have to wait for about 10 years before they are entitled to move to a social dwelling.

Accommodation in the market rental sector is theoretically available for all income groups. Nonetheless, there is some income discrimination, since for more exclusive dwellings providers often ask prospective tenants to have a net income that exceeds the net rent by four to five times. Furthermore, almost all market dwellings are offered via letting agents, which means that there are high transaction costs for prospective tenants. Finally, with regard to the activities of social landlords in the market rented sector, they do not seem to face genuine risks, since they can use the indirect subsidies (see Haffner et al., 2009a) to cross-finance their market operations; as a result, a level playing field between housing associations and traditional private landlords is forestalled in the market sector (Priemus, 2008).

England

All types of landlords can supply social housing in England. Housing associations who want to be eligible for public funding need to become Registered Social Landlords. Profit-oriented private companies or individuals can register with the regulatory body, the Tenant Services Authority, as well. If they do so they are eligible for funding as well (TSA, 2009) Grants for the construction of new dwellings are allegedly given to the most efficient organizations – where efficiency is based on a nationwide monitoring system. There are thus genuine risks to fail as a supplier of social housing. Housing associations are allowed to operate in the market rental sector. Those activities are solely financed through private loans.

With regard to the accessibility of tenants to either sector it can be observed that most local authorities have a common register for available social dwellings. All sorts of can apply for a vacant social dwelling. However, there are explicit income barriers – diverging between local authorities – on who can apply for a certain dwelling. Generally, housing need is the main criterion of allocation; therefore, middle and higher income households will hardly succeed in attaining a social dwelling (Elsinga et al., 2009). Explicit and implicit income discrimination exists in the market sector. Similar to what one can observe in the Netherlands, the extensive use of letting agents by landlords and the consequent high transaction costs for tenants can act as an implicit income barrier. On the other hand, some landlords explicitly state that they won't accept tenants who receive a housing allowance (Rugg & Rhodes, 2008).

Product differentiation

The Netherlands

The rent regulation system in the Netherlands is determined by the Rent Act and the Rent Decree. It stipulates that all rents above the deregulation limit of € 647 per month are subject

to negotiations between landlords and tenants. In practice, only 5 percent of all dwellings fall under this scheme and they are typically offered by market landlords, institutional investors in particular. All social and market dwellings below this limit are subject to the rent regulation system, which stipulates a maximum rent for each dwelling based on a quality point system (VROM, 2009b). Furthermore, the government controls rent increases for all dwellings below the deregulation limit as well (Haffner et al., 2008).

Considering that rent regulation applies to a majority of all rental dwellings it seems unsurprising that average rent levels in both rental sectors are comparable. In the market sector the average net rent was €469 per month in 2006, while social rents averaged €397. This difference might be explained by the fact that social landlords charge rents that are about 70 percent of the maximum rent, whereas market landlords apply actual rents that come up to about 85 percent of the maximum rents. Moreover, the gap between social housing rents and rents for dwellings provided by institutional investors (€486 per month) is higher than the gap between social housing rents and rents charged by small-scale landlords (€408) (WoON, 2006).

Generally, there is no quality regulation in the Dutch rental sector. With regard to the quality of the dwelling both housing associations and market landlords offer a wide range of accommodation and according rent levels; yet, the difference is that social landlords tend to have portfolios which comprise different types of dwellings, while market landlords tend to specialize in a certain quality segment. Contradicting the similarity of the accommodation quality, tenant satisfaction surveys demonstrate that the quality of location is more often evaluated negatively by social than by market tenants. Indeed, social dwellings can more often be found in deprived neighbourhoods of metropolitan areas that suffer from a lack of upkeep and have the stigma of insecure and problematic areas among residents and non-residents (Priemus, 2003).

Security of tenure applies to both sectors and says that tenancy agreements exist for an indefinite period of time, and that landlords are not allowed to cancel such an agreement without the approval of the tenant. In the market sector it is common practice that temporary contracts are agreed for a period of one year; after this 'introductory' period the contract is indefinitely valid. This security of tenure system only applies to tenancy agreements that fall under the regulated rent system.

Housing allowances in the Netherlands are defined as entitlements for low-income households living in relatively expensive dwellings. They are available on a similar basis for social and market tenants. The level of the allowance depends on the household income, household composition, and the rent level. There is no subsidization for tenants who live in a deregulated dwelling, and it is stipulated that all households, irrespective the level of the allowance, have to cover a basic rent of €205 per month (Priemus & Elsinga, 2007).

England

Rents in the market sector are determined by market forces, thus can be negotiated freely between landlords and tenants. Social housing rents on the other hand are strongly regulated by the government with the aim to keep them at an affordable level (Pawson, 2006). The

current social rent policy is determined by the Housing Green Paper 2000 and basically says that until 2012, all social dwellings have to apply a rent that reflects local manual worker earnings, as well as the size, locality and condition of the dwelling (Whitehead, 2007).

Arguably, the different rent policies in the two sectors have led to the strongly diverging rent levels of social and market rented housing. On average social housing rents are about 40 percent lower than average rents in the market sector: Social tenants have to pay £72 per week, while market tenants pay about £136 per week. Furthermore, there is a moderate difference between council rents (£68 per week) and rents charged by housing associations (£77) per week (CLG, 2009).

The previous New Labour government also stipulated that all owner-occupied and rental dwellings in England should meet a minimum quality standard. It thus developed the Decent Homes Standard, which stipulates that all dwellings should be in a reasonable state of affair, have modern facilities, and have a sufficient degree of thermal comfort (Whitehead, 2007). By this measure particularly housing association accommodation seems to be of relatively high quality expressed through a non-decency rate of 25 percent. The council housing stock shows a non-decency rate of 32 percent. Researchers have argued that this is a direct outcome of the relatively young age of the housing association stock, being built and also modernized mostly in the last three decades. The market rental sector on the other hand shows a very high-level of non-decency; almost every second dwelling fails to meet the Decent Homes Standard (CLG, 2009). Kemp (2004) points out that the high age of the private rented housing stock is probably the main reason why the sector is in a worse condition than other tenure forms. When quality of location is expressed through measures of tenant satisfaction, it can be observed that market tenants are more often satisfied with their neighborhoods, while social tenants are more likely to experience upkeep and utilization problems, particularly those living in (former) council housing estates (Hills, 2007).

Property rights for tenants differ significantly between social and market renting, but also between council housing and the housing association sector. Council tenants have the largest property rights, comprising the Right to Buy their dwelling. Tenancies in the RSL sector are less secure, since housing associations can evict tenants more easily than councils (TSA, 2009). Security of tenure has widely been eroded in the market rental sector, except for those tenancies that began before January 1989. The common tenancy is assured shortholds, which stipulate the first six months are regulated. When the fixed term expires, landlords can repossess the dwelling any time they seek to do so (Haffner et al., 2009a).

Means-tested housing allowances are based on the same principles, albeit with some differences in how the payments are arranged and administrated. Housing Benefit in the social sector is based on the net household income, the household composition and the rent level. It is ensured that households that their post-rent incomes do not fall below the social assistance benefit rate. The Local Housing Allowance (LHA) in the market sector is based on the local rent level, the household income and the household size. This enables tenants to shop for the best rent/quality options in the local market. Furthermore Housing Benefit is paid to the association or council, while the LHA is paid to the tenant (Stephens, 2005; Kemp, 2007).

Table 3: Product differentiation of social and market services in England and the Netherlands

	England	The Netherlands
Quality - accommodation	Social Housing – improving quality standards Market renting – depending on submarket	Relatively high quality in both social and market renting
Quality – location	Social housing – often concentrated in deprived areas Market renting – depending on the submarket	Social housing – more often concentrated in deprived areas, subject to large-scale urban renewal projects Market renting – often concentrated in city-centre areas
Quality regulation	Decent Homes Standard applies to both sectors	No quality regulation
Rent level	Large differences between rent levels – market rents almost twice as high on average	Relatively small differences between the two sectors
Rent regulation	Social sector – regulated rents	Both sectors are subject to the same rent regulation – only applies to rents up to € 645 per month
Tenure security	Social sector – relatively high security of tenure (differences between housing associations and local authorities) Market sector- tenure security very low	Extensive property rights for tenants in both sectors
Housing allowances	Means tested – available to both types of tenants. However, private tenants can decide on how much they want to spend on housing, while social tenants can't	Means-tested – available to both types of tenants in the same way

The similarity of social and market renting in the two countries

The description of market structure has shown that England and the Netherlands differ significantly with regard to the characteristics of the two rental services, where at least from a theoretical viewpoint social and market renting in the Netherlands might be seen as better substitutes in the Netherlands. Furthermore, with regard to the question what kind of tenants social and market landlords cater for, we have to distinguish between the two tenures. Market renting has similar tenant groups in both countries. All sorts of households are accommodated by private landlords; however, we have seen that different types of landlords specialize in certain market segments. Social landlords in England target customers who are mainly characterized by low incomes. In the Netherlands the target group of social housing is much broader and thus more similar with the target group of market landlords.

Other than in England, there is a more or less clear separation of who can become a social or private landlord in the Netherlands. Consequently, social and private landlords do not necessarily have access to the same sources. In England, at least in theory, there is a more open market with regard to who can provide which kind of rented service. Public subsidies, and thus resources are also available to all kinds of organizations, apart from council suppliers who have not set up an ALMO. Yet, although possible, the social sector in England has not seen a noteworthy influx of private sector landlords.

Assumptions in the in-depth interview approach

What do those findings mean for the in-depth interview approach? To put it differently, what are the hypotheses that can be tested through the interviews with social and private landlords in the two case study cities?

With regard to landlords' perceptions on competition with landlords of the other rental sector I want to test the following hypotheses.

- Due to the smaller differences between social and market rental services, perceptions on competition with the other sector will generally be stronger in both rental tenures in the Netherlands.
- Due to the fact that social housing has a rather narrow function in England, competition for the custom of tenants will solely take place at the bottom end of the market.
- In the Netherlands housing associations and landlords who provide dwellings with a rent level of below the deregulation limit will consider each other rivals for the custom of tenants. Those tenants can be both low income as well as middle income groups.
- In the market rental sectors, the perceptions on competition with the social sector will be stronger among small-scale individual landlords than among institutional investors
- In England perceptions will largely differ between different sorts of landlords in both sectors. In the social sector, traditional housing associations' perception on competition will be stronger than those of stock transfer associations. The perceptions of stock transfer association will in turn be stronger than those of council suppliers.
- In the market sector perceptions on competition with social landlords will be the strongest for investor landlords, operating on a small and mid-sized scale. The perceptions of sideline investors and commercial companies will be less strong.
- With regard to competition within the English social sector, landlords will see each other as competitors for the funding of new social dwellings. The relation between housing associations in the Netherlands is more cooperative in kind.

Considering the impact of those perceptions on decision-making on rent setting and investment decisions, the following hypotheses are made.

- In England, decision-making processes of both landlord types on rent levels and investments are less affected by the provision of the other sector than in the Netherlands.
- As a result of more competition with the market sector in the Netherlands, housing associations will try to distinguish themselves from other social and market landlords through new investments. In England, traditional housing associations will seek to invest more into innovative and more profitable products than stock transfer associations and council suppliers.
- In the market rental sector, private landlords who perceive themselves to be in competition with the social sector will seek to offer more attractive services to prospective tenants, either by decreasing rents or through quality investments in the existing stock.

Conclusions

The main aim of this paper was to show how the link between market structure and the behavior of landlords can be assessed in research practice when analyzing a competitive relation between social and market rented housing.

The main contention here was that neoclassical economics and thus mainstream competition analysis tools offer an insufficient and sometimes misleading view on how economic and social structure is related to the behavior of firms. In the context of rented housing, I thus demonstrated that we have to modify the conventional approach by taking into account the basic differences between the two sectors, including the different organization models and regulatory frameworks. Within the context of a modified market structure, it was then possible to discuss in more detail which research methods should be applied to get a better understanding of how market structure impacts landlord conduct when analyzing the relationship between the two sectors. Taking into account that the perceptions of landlords on the structure of the market, on who their competitors are, and why they are perceived as competitors, are the key to understanding the link between structure and conduct, I suggested a series of qualitative in-depth interviews with social and market landlords in an international comparative context. An application of the model to rented housing in England and the Netherlands has shown that the market environment seems to be more competitive in the Netherlands. This suggests that the perceptions of landlords on competition with the other sector are stronger in Dutch rental markets. However, how perceptions exactly differ between the two countries and landlord groups and how this affects landlord behavior, and can only be answered until after the interviews have been conducted.

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Appendix 1

Theme List – interviews social landlords

1. The position of the interview participant within the organization
2. The social housing organization
 - a. Main activities
 - b. Where active
 - c. Why are they active in certain localities
3. Characterization of local rental market where they are active
4. The position of the organization in the rental market
 - a. Description of tenants and your housing services
 - b. Comparison with other landlords – what distinguishes the organization with regard to the products they offer and the tenants they cater for
5. Relation with other landlords
 - a. Other social landlords - forms of cooperation
 - b. Private landlords
 - c. Who are main competitors?
 - d. What does competition mean?
 - e. Why are they competitors?
 - f. What do you compete on?
6. Principles in decision making on rent levels and rent increases
7. Principles in maintenance investments and investments into new dwellings
8. Future plans to change the profile of the stock
9. Plans to diversify activities
 - a. Plans to operate in other markets
 - b. Provision of market rental accommodation
10. Views on the regulation of social renting
 - a. What could governments do to stimulate a competitive relationship between social and market renting?
 - b. Should they do it?

Appendix 2

Theme List – interviews private landlords

1. The position of the interview participant within the organization (if bigger company)
 - a. Why active as a landlord?
 - c. Main activities
 - d. Where active?
 - e. Why active in certain localities?
2. Characterization of local rental market where they are active
3. Their position in the rental market
 - a. Description of tenants and housing services
 - b. Comparison with other landlords – what distinguishes the organization with regard to the products they offer and the tenants they cater for?
4. Relation with other landlords
 - a. Other private landlords
 - b. Social landlords
 - c. Who are main competitors?
 - d. What does competition mean?
 - e. Why are they competitors?
 - f. What do you compete on?
5. Principles in decision making on rent levels and rent increases
6. Principles in maintenance investments and investments into new dwellings
7. Future plans to change the profile of the stock
8. Plans to diversify activities
 - a. Plans to operate in other market segments?
9. Views on the regulation of private renting
 - a. What could governments do to stimulate a competitive relationship between social and market renting?
 - b. Should they do it?