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# Two Types of Rental System? An Exploratory Empirical Test of Kemeny's Rental System Typology

Joris Hoekstra

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## Abstract

The organisation of the rental market varies from country to country. Kemeny draws a distinction between societies with an integrated rental system (relatively minor differences between the non-profit and the profit rental sectors) and societies with a dualist rental system (relatively major differences between the non-profit and the profit rental sectors). In this exploratory paper, Kemeny's typology is tested against data from the European Community Household Panel (ECHP). The tentative conclusion is that integrated rental systems and dualist rental systems do indeed exist, but there are signs of increasing convergence between the two.

## 1. Introduction

A great many international comparative housing studies concentrate on the developments in one particular tenure category and thus have a clear tenure-oriented focus (see, for example, Boelhouwer, 2002; van der Heijden, 2002; and Priemus and Maclennan, 1998). In most of these studies, the rental sector is divided into a social rental segment (dwellings let by landlords with a non-profit character) and a private rental segment (dwellings let by profit-oriented landlords). There are few cross-national studies that analyse the rental market as a unity. This

might be due to the fact that, in some countries, especially in the English-speaking regions, the social and the private rental sectors are two separate worlds. Apart from having different owners, social and private rental dwellings are often subject to different regulations and may even house different kinds of tenant. However, there are also countries in which the differences between social rental and private rental dwellings are less sharply defined. In Germany, for example, it is very hard to distinguish between social and private renting. Here, both profit and non-profit landlords can provide social housing with subsidies making up the difference between a

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'social' rent and a commercial rent (Stephens *et al.*, 2003, p. 772).

The international differences in the characteristics and the segmentation of rental markets formed the inspiration for the theoretical research of Jim Kemeny. In *From Public Housing to the Social Market* (1995), Kemeny develops a theoretical framework which explains the development of rental markets and which he connects to the more general characteristics of the housing system and the welfare state. This theoretical framework, which has been further refined in two recent articles (Kemeny *et al.*, 2005; Kemeny, 2006), is largely based on reasoned arguments and on the linking of different theoretical concepts. Kemeny makes strong assumptions about housing policy, rent regulation and rental finance, assuming that different types of rental system exist at the national level. As far as this is concerned, Kemeny draws a distinction between societies with an integrated rental system (relatively minor differences between the social and the private rental sectors) and societies with a dualist rental system (relatively major differences between the social and the private rental sectors). The differences between these two types of society are reflected in the state housing policies and in the housing outcomes (characteristics of the dwellings and their residents).

In his book, Kemeny uses case studies to provide evidence for the housing policy aspects of his theory. However, the housing outcomes are largely ignored. It therefore remains unclear whether the assumed differences between integrated and dualist rental systems really have an empirical basis. In this exploratory paper, we attempt to shed more light on this issue. We compare the tenure distribution, the housing quality, the income characteristics of residents and the rent levels in both the social and the private rental sectors in six European Union countries on the basis of data from the European Community Household Panel (ECHP). We then

draw some tentative conclusions on the validity and applicability of Kemeny's rental system typology. These conclusions may serve as a starting-point for further international comparative research on rental systems.

This paper consists of an introduction and four sections. Section 2 deals with the theoretical and conceptual issues. It defines the concepts of 'social rental sector' and 'private rental sector' and describes Kemeny's theoretical framework in more detail. Section 3 'translates' this framework into four hypotheses which are tested with the aid of data from the European Community Household Panel (ECHP). Section 4 describes the research results (hypotheses testing) and section 5 sets out the conclusions.

## 2. Theoretical and Conceptual Issues

### 2.1 Defining Social Rental and Private Rental Housing

Various researchers (Ruonavaara, 1993; Barlow and Duncan, 1988) have demonstrated how difficult it is to come up with a universal definition for the different tenure sectors. Some countries have forms of tenure that do not exist in other countries and ostensibly similar housing tenures may be intrinsically dissimilar in different types of society.

According to Ruonavaara (1993), there are only two main tenure categories: owning and renting. The cardinal difference between the two lies in the right of disposal. Homeowners always have right of disposal regardless of practical or administrative restrictions, whereas tenants do not (Ruonavaara, 1993, p. 12). Given his focus on disposal rights, Ruonavaara does not make a further distinction between the private rental and the social rental sectors. Nevertheless, this distinction is very common in mainstream housing research, especially when this research is based on statistics. In most official statistics,

the distinction between the social and the private rental sectors is drawn on the basis of the characteristics of the landlord. Landlords with a non-profit character, such as local authorities, voluntary agencies, co-operatives and housing associations, are identified with the social rental sector, whereas all other types of landlord are identified with the private rental sector.

Although some economists disagree with this assumption (as indicated in Elsinga *et al.*, 2005), Kemeny expects that, in the long term, the rents of dwellings that are let by social landlords (who do not have to make a profit) will be lower than the rents of *comparable* dwellings that are let by profit-oriented private landlords (Kemeny, 1995; Kemeny *et al.*, 2005). However, the extent of these differences depends on the type of rental system that is in force in the country in question and the so-called level of maturation of both the social and the private rental sectors. Maturation can be defined as the debt-to-market value of the housing stock (see also section 2.5). If the level of maturation is similar for non-profit and profit-oriented landlords, the non-profit landlords will be able to set lower rents than the profit-oriented landlords because they only need to cover their costs, whereas profit-oriented landlords also have to make a reasonable profit (Kemeny, 1995, Kemeny *et al.*, 2005).

Kemeny (1995) prefers to speak of 'non-profit renting' and 'profit renting' rather than social renting and private renting. In his definition, non-profit renting encompasses all rental housing, irrespective of ownership, with rents which are 'profit-free'; roughly speaking, the rents cover only the costs that are actually incurred for a stock of dwellings. Social rental landlords are the main providers of non-profit rental housing although private rental landlords can also provide such housing—for example, in exchange for state subsidies. In Kenemy's terms, profit renting refers to housing with landlords who try

to maximise their profits. Profit rental housing tends to be provided by private rental landlords, although social rental landlords can also rent out part of their stock for profit-oriented rents.

Kenemy's aim in using these definitions is to shift attention from the owner of the housing because, he argues, most housing research focuses too strongly on tenure. However, although Kemeny's definitions are attractive from a theoretical point of view, they do not lend themselves to concrete international comparative housing analyses. International comparative data on the way in which rents are calculated are not generally available. This is why the more 'traditional' and better-known concepts of social and private rental housing are used throughout this paper. For the record, it should be stressed that there are no fundamental differences between the latter concepts and Kemeny's definitions with respect to the countries in our analysis. Basically, as far as these countries are concerned, non-profit rental housing equals social rental housing and profit rental housing equals private rental housing.<sup>1</sup> That is why this paper uses the terms social rental and non-profit rental and private rental and profit rental interchangeably.

## 2.2 Kemeny's View on Rental Systems

Kemeny (1992, 1995, 2006) explains internationally divergent housing developments mainly by referring to differences in the social and political structures between countries. He assumes that these differences are associated with differences in ideology and, more specifically, with the degree of privatism as opposed to collectivism. Tendencies towards collectivism and privatism are expected to manifest themselves in the housing system in two important respects: the social forms which emerge around tenure and the spatial consequences of the dominance of one or more dwelling types (see Hoekstra, 2005,

for more information on the second aspect). In his 1995 book, Kemeny works out the first aspect: the social forms that emerge around tenure. He translates the collectivism–privatism continuum of the social structure into a distinction between integrated rental systems (collectivist ideology) and dualist rental systems (privatist ideology) and maintains that each of these rental systems is informed by a specific view on how markets operate and is the product of different kinds of power structure (Kemeny, 1995; p. 5, Kemeny, 2006).

### 2.3 Dualist Rental Systems

Dualist rental systems are found mainly in countries with an ideology of privatism and economic liberalism and a hegemonic position for right-wing political parties. The most obvious representatives of this group are the Anglo-Saxon countries. In these societies, the state endeavours to steer clear of markets because it is generally believed that government involvement in markets undermines fair competition. However, there are still some population groups who are simply unable to buy welfare services on the free market. For them, the government provides a public-sector safety-net. To prevent direct competition with the commercial markets, this safety-net is set apart and run as a residualised state sector. Privatist societies are therefore characterised by a dualism between largely unregulated profit-driven markets on the one hand and a tightly controlled state sector on the other (Kemeny, 1995, p. 9).

Kemeny maintains that this dichotomy is also clearly visible in the rental markets of privatist societies. The government separates the social rental sector from the private rental sector and uses it as a kind of safety-net. Consequently, the social rental sector is reserved primarily for low-income groups and has regulated low rents. This gives it a residual character and a certain degree of

stigma. This also reverberates on the other tenure sectors. As access to the social rental sector is, in effect, restricted to households with a low income and as the private rental sector usually charges high rents and offers limited or no tenant protection and rent regulation, one could say that dualist rental systems ‘push’ households into the homeownership sector (see Ronald, 2004, for more information on push and pull explanations). Consequently, the homeownership rate in dualist rental systems tends to be relatively high.

### 2.4 Integrated Rental Systems

Integrated rental systems, sometimes also called unitary rental systems,<sup>2</sup> originated in the social market model, which first appeared in Germany in the 1930s. This model

attempts to construct markets in such a way as to strike a balance between economic and social priorities and thereby ameliorate the undesirable effects of the market from within (Kemeny, 1995, p. 11).

The social market model is therefore based on the principle that intervention in markets is both necessary and desirable, but that it must be market-compliant. In other words, markets should be constructed in such a way that they incorporate important social goals (Barry, 1993). An important part of this strategy is the encouragement of competition between profit and non-profit forms of welfare provision. Kemeny states

To use an analogy, non-profit organizations are not separated off from the economy in the way that fat is separated from meat. Rather it is ‘marbled’ into the meat. The skill of managing this political economy lies in achieving this ‘marbling’ to maximise the benefits of both competition and social security (Kemeny, 1995, p. 15).

These ideas have clearly shaped the welfare state in post-war Germany, but they have

also had an influence in the Netherlands, Denmark, Sweden and Austria (Kemeny, 1995, p. 15). This influence has been visible in all segments of the welfare system, but particularly in housing, where the social market policies have resulted in a so-called integrated rental system in which housing policies are geared towards direct competition between the profit and the non-profit rental sectors. This implies that governments are actively involved in the development and regulation of rental markets.

Kemeny states that direct competition between profit and non-profit renting can benefit the rental market as a whole. As the social rental sector generally ensures a steady supply of new housing, the rental sector is less susceptible to economic cycles. Moreover, the non-profit rent levels in the social rental sector may have a dampening effect on the commercial rent levels in the private rental sector (Kemeny, 1995, p. 18). The extent of this effect depends mainly on the size of the social rental sector compared with the private rental sector and the conditions in the housing market. In a tight housing market, this effect will obviously be less profound than in a more relaxed housing market (Kemeny *et al.*, 2005, p. 859). Furthermore, integrated rental systems are often characterised by universal rent regulation regimes that put a limit on rent setting and rent increases in both the social and the private rental sectors (or at least a substantial part of the latter sector). Thus, not only the direct competition but also the rent regulation suppress the differences in rent levels between the two rental sectors. The rather strict rent regulation offers protection to the tenants but may have a negative effect on the yields and investments of the landlords in the private rental sector (Elsinga *et al.*, 2008a). This can further enhance the dominant position of the social rental sector in integrated rental systems. Finally, the state may grant subsidies to the social rental *and* the private rental sectors provided that certain criteria are

fulfilled for housing quality, security of tenure and sometimes rent levels (Hulse, 2003, p. 31). All these characteristics make the rental sector of integrated rental systems attractive (and accessible) to relatively large segments of the population.

## 2.5 The Mechanisms behind Dualist and Integrated Rental Systems

Integrated and dualist rental systems do not come into being overnight. They are the result of a long-term interaction between the economic development of rental housing stocks on the one hand and long-term strategic policy-making designed to influence and channel that interaction on the other. The key question is whether or not renting is segmented into compartmentalised and segregated markets. In other words: to what extent do state housing policies differentiate between the social and the private rental sectors?

Whereas housing policies differ from country to country, the economic processes that shape the rental sector are essentially the same everywhere. As far as this is concerned, the so-called maturation process is an important factor (Kemeny, 1995, p. 41). Maturation reflects the widening gap between the outstanding debt-per-dwelling on the existing stock and the average new debt-per-dwelling which is built, acquired or renovated. This gap is caused by inflation in the costs of construction and land acquisition. Each year that new dwellings are constructed, the difference between what it costs to build the first houses erected by the housing organisation and those currently being constructed increases. As debt-servicing usually accounts for a large share of the total housing costs, maturation keeps the costs of providing old housing well below the costs of building new housing.

The impact of maturation is expected to differ between social rental and private rental housing. In social rental housing, maturation

should result in relatively low rent levels in either the oldest parts of the housing stock (if historical costs determine the rent levels) or within the housing stock as a whole (if rent pooling is in use, which is usually the case). In the private rental sector, the private landlords with older dwellings benefit from maturation because it allows them to charge rents that are well above the actual incurred costs, provided that the conditions in the housing market allow for this. Thus, in the private rental sector, the maturation process leads to higher profits for the landlords and not to lower rents for the tenants. The possibilities of asking rents that are well above the cost-price level are, however, considerably less in an integrated rental system (where competition from the social rental sector and rent regulation limit the scope for rent increases) than in a dualist rental system (where there is virtually no direct competition from the social rental sector and rent regulation for private landlords tends to be limited). Maturation is not solely a product of inflation; it also depends on other factors such as the rate at which new dwellings are added to the stock (degree of front-loading) and the extent of the investments in renovation in the older dwelling stock (Kemeny, 1995, p. 44). Furthermore, the maturation process may be temporarily reversed if older housing stock is remortgaged—for example, in the case of stock transfer (housing associations buying old municipal housing stock, a phenomenon that is quite common in the UK). Maturation is not the only factor that can strengthen the financial position of the social rental sector. The sale of social rental dwellings, coupled with the fact that the lifespan of these dwellings is generally much longer than the 50 years for which they are usually registered in the bookkeeping, may play a role as well. Since social rental landlords do not have to make a profit, the yield from these processes often stays in the rental sector

where it is reinvested in renovation or new housebuilding

As a result of these processes, the social rental sector sooner or later reaches a point at which it begins to compete strongly with commercial renting and owner-occupation. This is reflected in falling real rents and growing waiting-lists for social rental housing which, in turn, put pressure on the policy-makers (Kemeny, 1995, p. 47). There is a clear difference between the policy response for integrated and dualist rental systems. Effectively, one could say that they are fundamentally distinct.

In a (future) dualist rental system, the government normally tries to repress and counteract the maturation process in the social rental sector by, for example, forcing social rental landlords to sell off their dwellings with large discounts for the buyers. In a (future) integrated rental system, the government would allow the social rental sector to expand so that it could continue to compete with the private rental sector.

## 2.6 Tenure and Welfare: The Really Big Trade-off?

Kemeny assumes that a close relationship exists between the tenure policies and the tenure distribution in a society and the way in which the welfare state of this society is structured. As far back as the early 1980s (Kemeny, 1981), Kemeny argued that high rates of homeownership impact on society via various forms of privatism, such as a lifestyle based on detached housing and a high degree of car ownership (Kemeny, 2005, p. 61). These tendencies towards privatism also affect the nature of the welfare provision. If owning a home and a car are top priorities for newly established (middle-class) households, it is more than likely that the high taxes that are necessary for a universal welfare state will encounter strong resistance. After all, such taxes might delay or hamper the

acquisition of homes or cars. The other side of the coin is that a poorly developed welfare state will result in relatively low state retirement pensions and poor public welfare for the elderly. Consequently, people will be forced to set aside resources from early adulthood in order to accumulate personal capital for a secure old age. Homeownership is an effective way of achieving this aim as it cuts down the housing costs in old age and offers possibilities of realising hard cash via trading down or remortgaging. Thus, Kemeny (1980, 2005) posits that a negative relationship exists between levels of homeownership and the development of the welfare state. As explained above, this relationship may work in two directions, an aspect which has also been confirmed in a statistical analysis by Doling and Horsewood (2005).

In 1998, Kemeny's thesis was taken up by political scientist and welfare state researcher Frank Castles. Castles (1998) examined the relationship between levels of homeownership and various indices of public welfare and found clear negative correlations, although the strength of these correlations diminished somewhat between 1960 and 1990. Be that as it may, Castles' work obviously supports Kemeny's hypothesis. As far as the relationship between housing and welfare is concerned, there do indeed seem to be two types of society. On the one hand, there are countries in which a somewhat minimalist model of welfare provision goes hand-in-hand with a high rate of homeownership; the dualist rental systems. On the other, there are countries that have a fairly well developed welfare state and a substantial rental sector that offers an alternative to homeownership; the integrated rental systems.

Kemeny (2005) doubts, however, whether this divergence will continue to prevail in the future. He observes that most integrated rental systems have been retrenching their welfare states and suggests that this may 'push' people into the homeownership sec-

tor, because owning a home is perceived as a kind of insurance against poverty and social deprivation in old age. Kemeny (2005) illustrates this point with the Swedish case. In the 1990s, Sweden downwardly reviewed its pension system and cut back on residential care and home-help for the elderly. Kemeny argues that this might steer the tenure preferences of young and newly formed households in the direction of homeownership. Over time, these changes in tenure preferences will become visible in the tenure patterns. In most integrated rental systems, the rental sector is already declining. In the Netherlands, for example, the share of the rental sector declined from 55 per cent in 1990 to 45 per cent in 2003 (National Board of Housing, Building and Planning, Sweden/Ministry for Regional Development of the Czech Republic, 2004).

Nevertheless, the presumed relationship between the growth in homeownership and the decline of the welfare state—and, more particularly, the reduction in welfare services for the elderly—needs to be scrutinised more closely before firmer conclusions can be drawn. For instance, one should also look at possible alternative explanations for the growth in homeownership, such as changing ideologies, a decline in returns from alternative investments in, say, private pension schemes or the stock market, and the influence of housing policies that promote homeownership (Boelhouwer and van der Heijden, 2005; Doling and Horsewood, 2005; Sommerville, 2005), such as generous tax benefits for homeowners.

## 2.7 Kemeny's Typology in International Comparative Housing Research

Three main approaches, each associated with a different level of generalisation, can be discerned in international comparative housing studies. At the highest level of generalisation are studies that try to demonstrate that basically all housing systems are driven



by the same underlying imperatives (Kemeny and Lowe, 1998). These studies, which fall under the heading of the 'convergence approach', apply an overarching perspective that explains why all countries are—or are becoming—essentially similar (Doling, 1997). This perspective can relate to explicit theories (for example, Marxism), but it can also be more vague, relating to broader trends such as economic development, privatisation or (sub)urbanisation (Boelhouwer and van der Heijden, 1992).

The convergence approach has been heavily criticised for failing to take sufficient account of political, cultural and institutional differences between countries. Indeed, it is partly as a result of this criticism that the *divergence* approach saw the light of day. The theories that fit into this approach, also called middle-range theories, attempt to strike a balance between generalisation on the one hand and attention to differences on the other. They tend to use housing system typologies derived from cultural, ideological or political theories as the basis for understanding differences between groups of societies (Kemeny and Lowe, 1998). In housing research, Kemeny's typology of rental systems, the theoretical framework of this paper, is a clear example of the divergence approach.

However, the divergence approach also necessarily involves generalisations in which categories such as 'homeownership' and 'renting' are abstracted from their specific historical and geographical context and made the subject of general propositions. Some researchers (for example, Sommerville, 2005) find this unacceptable and argue that tenure-related concepts are irrevocably culture-specific with different meanings in different places and at different points in history. In order to do justice to this specificity, a new strand of international comparative housing research has recently emerged in the form of micro-scale comparative studies (Matznetter,

2006). These studies (for example, Quilgars *et al.*, 2008; Steinführer, 2005) share a number of characteristics: they focus on rather small geographical entities, they are actor-oriented and they often apply constructivist methodology and qualitative research methods, thus allowing case studies to be accepted in comparative research (Haworth *et al.*, 2004; Matznetter, 2006).

### 3. From Theory to Housing Outcomes

Kemeny's theoretical framework has not been fully tested against empirical data. In his book (1995), Kemeny presents a number of case studies in which the UK, Australia and New Zealand are presented as examples of dualist rental systems and Germany, the Netherlands, Sweden and Switzerland are regarded as typical examples of integrated rental systems. In these case studies, Kemeny presents some data on the maturation process and interprets the way in which the different national governments deal with the social and the private rental sectors. However, he does not analyse any statistics on housing quality, resident characteristics or rent levels. Consequently, his book does not make clear whether the differences between dualist and integrated rental systems really lead to differences in empirical housing outcomes. The same goes for Kemeny *et al.* (2005), in which only integrated rental systems are analysed.

This paper attempts to fill this void by investigating the relationship between the type of rental system on the one hand and the housing outcomes on the other. An empirical test of Kemeny's rental system typology is conducted on the basis of an analysis of data from the European Community Household Panel (ECHP). For this purpose, Kemeny's typology has been deductively translated into four hypotheses. Because of the specific epistemological status of Kemeny's typology,

which is based on reasoning rather than on a positivist approach, this translation was not always straightforward. The reader should therefore be aware that the hypotheses formulated in this section are based on the author's own interpretation of Kemeny's typology and do not necessarily represent Kemeny's vision.

### 3.1 Towards Hypotheses

The main characteristics of dualist rental systems and integrated rental systems have already been described in section 2. In this section, we translate these characteristics into measurable housing outcomes. This delivers four hypotheses which are summarised in Table 1. It should be noted that the four hypotheses only cover part of the housing outcomes that can be expected on the basis of Kemeny's theoretical framework. One important aspect of integrated rental systems that could for example not be included in the hypotheses is the geographical distribution of tenure types and housing quality segments. According to Kemeny, true competition between the social rental and the private rental sectors is only possible if the social rental sector offers a viable alternative to private rental dwellings and vice versa. This implies that, in

integrated rental systems, social and private rental dwellings need to be available in the same segments of the housing stock and in the same geographical areas. Unfortunately, this condition could not be adequately tested with the ECHP, as it does not provide representative data on a narrow geographical scale.

**Hypothesis 1: share of the owner-occupancy sector.** Kemeny states that the housing policies in dualist rental systems steer residents far more in the direction of the owner-occupancy sector (see also section 2.3) than the housing policies in integrated rental systems. If this is true, one may expect dualist rental systems to have a larger owner-occupancy sector than integrated rental systems.

**Hypothesis 2: level of housing quality.** Although he does not explicitly say so, Kemeny seems to accept that, in both dualist and integrated rental systems, the better-off households have a preference for the owner-occupancy sector. Consequently, the quality of owner-occupied dwellings is generally higher than the quality of rental dwellings. However, the extent of these differences is expected to vary between the two types of rental system.

**Table 1.** Differences between integrated and dualist rental systems: four hypotheses

	<i>Dualist rental system</i>	<i>Integrated rental system</i>
1. Share of owner-occupancy sector	Relatively large	Relatively small
2. Level of housing quality	Relatively large differences in housing quality between the owner-occupancy sector and the social rental sector	Relatively small differences in housing quality between the owner-occupancy sector and the social rental sector
3. Income distribution of tenants	Relatively strong residualisation in the social rental sector	Relatively limited residualisation in the social rental sector
4. Rent levels corrected for housing quality	Large differences between social rental and private rental dwellings	Small differences between social rental and private rental dwellings
Countries	UK, Ireland, Belgium	The Netherlands, Denmark, Austria

Integrated rental systems are characterised by a relatively large social rental sector and housing policies that are relatively favourable for renting. Consequently, the social rental sector not only offers dwellings at the lower end of the housing market but also caters for middle-income groups by including a relatively large number of dwellings of a somewhat higher quality and price. As a result, the differences between the housing quality in the social rental sector and the owner-occupancy sector are expected to be relatively small.

In dualist rental systems, one can assume that the social rental dwellings are of a relatively low quality, as they serve merely as a safety-net and therefore only 'need' to meet basic standards. Accordingly, fairly large differences may be expected between the quality of housing in the social rental sector and the owner-occupancy sector.

**Hypothesis 3: income distribution of tenants.** In dualist rental systems, access to the social rental sector is largely restricted to households with relatively low incomes. This implies that a large part of the social rental housing stock is occupied by households from lower-income groups. The concentration of low-income groups in a particular tenure sector is often referred to as residualisation.

In integrated rental systems the social rental sector is bigger than in dualist rental systems, the means-testing is less severe and social renting is not stigmatised. Consequently, the social rental sector is attractive for both low- and middle-income households and is therefore less residualised than in dualist rental systems.

**Hypothesis 4: rent levels.** In dualist rental systems, one can expect rather large differences between the rents in the social and the private rental sectors. After all, these systems are characterised by a limited and tightly

regulated social rental sector in which the rents are relatively low and a private rental sector where rent regulation is either non-existent or limited, thereby implying that the rents are relatively high.

In integrated rental systems on the other hand, one might expect the differences between rents in the social and the private rental sectors to be small. This is due to the fact that the two sectors are in direct competition and are often subject to the same kind of rent regulation.

### 3.2 Selection of Countries

Six countries were selected for the analysis presented in this paper: the UK, Ireland, Belgium, the Netherlands, Denmark and Austria. Kemeny considers the first three as representative of dualist rental systems and the latter three as representative of integrated rental systems (Kemeny, 2006, p. 10). If Kemeny's typology is correct, the housing outcomes are expected to differ clearly between these two groups of countries.

Sweden and Germany, two typical integrated rental systems according to Kemeny, do not feature in the analysis. Sweden has been excluded purely for pragmatic reasons: some of the housing questions were not answered in the Swedish version of the ECHP. In Germany, the distinction between social and private rental landlords is very indistinct as both can let rental dwellings with a non-profit rent (due to a specific subsidy system, see for example, Stephens *et al.*, 2003, p. 771). Although, in principle, this can be regarded as a logical characteristic of an integrated rental system, it could seriously complicate the interpretation of the research results. This is why Germany is omitted from the analysis.

Obviously, there is a limit to which one can generalise about such a small number of countries. After all, individual countries also follow their own specific path and pursue their own approach within each of the two

rental systems (see Kemeny *et al.*, 2005). Nevertheless, if Kemeny's typology is valid, the differences between the two types of rental system should be greater than the differences within them.

### 3.3 Data

Most of the data used in this paper come from the European Community Household Panel (ECHP). In the ECHP survey, residents from all the 'old' EU countries (EU 15) are interviewed about their work, their economic situation, their health and their housing. Since this is conducted in a uniform manner (the same questions are asked in each country), the ECHP is a useful source of data for international comparative research. The sample sizes range between 2000 and 6000 households per country.

It should be noted, however, that the ECHP is not an optimal data source for housing research. In certain cases, housing figures produced on the basis of the ECHP have turned out to be a bit dubious. For example, for some countries, the tenure distribution derived from the ECHP is slightly different from the tenure distribution in the 'official' statistics. We have corrected this with a re-weighting procedure.<sup>3</sup> The data limitations were not considered an insurmountable problem for the exploratory analyses conducted in this particular paper. However, better data would be needed for more detailed and more contextualised international comparative research on rental markets.

### 3.4 Testing the Hypotheses

All the hypotheses explicitly refer to a comparison between integrated rental systems and dualist rental systems. The hypotheses are tested on the basis of some basic descriptive statistics. Statements relating to acceptance are not based on formal statistical testing but on the author's interpretation. This fits in well with the character of the paper, which

aims to explore broad differences between integrated and dualist rental systems and is not a formal statistical testing of Kemeny's typology.

## 4. Results

In this section, the four hypotheses (Table 1) are explored on the basis of the ECHP data. A separate section is dedicated to each hypothesis.

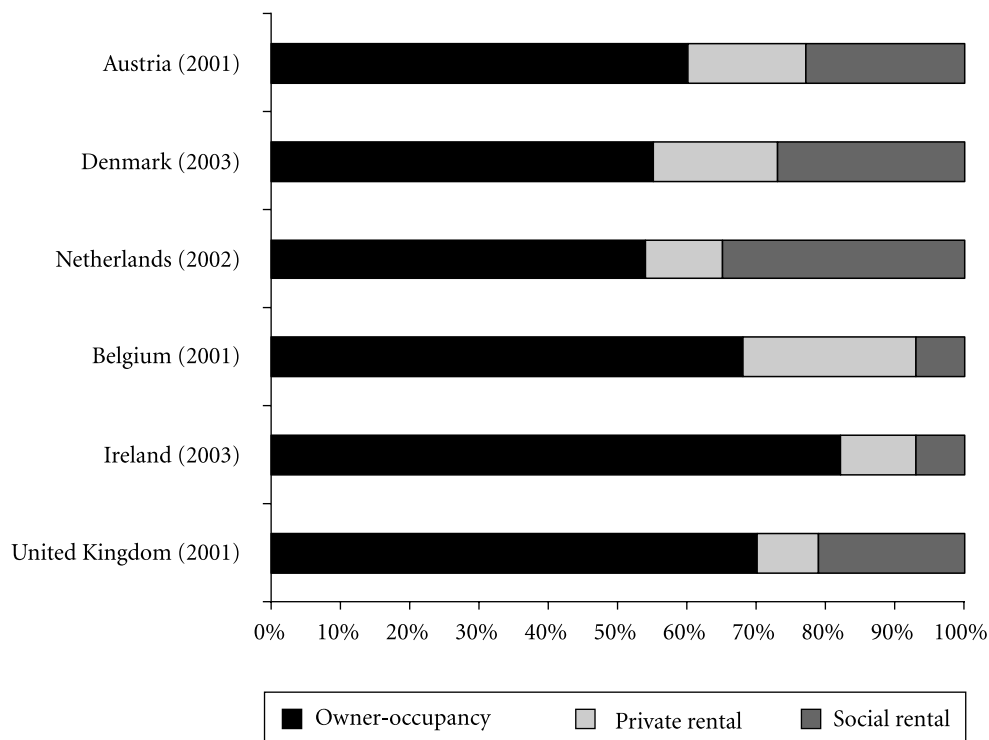
### 4.1 Hypothesis 1: Share of Owner-occupancy Sector

Figure 1 provides insight into the share of the owner-occupancy sector in the six EU countries. The figure shows that the presumed integrated rental systems do indeed have a slightly lower share of owner-occupancy dwellings than the presumed dualist rental systems. This supports the first hypothesis in Table 1.

### 4.2 Hypothesis 2: Level of Housing Quality

Quality of housing is a broad multidimensional concept. The ECHP contains a number of questions with regard to the condition of the dwelling and the liveability in the neighbourhood. Although these questions may not cover all relevant housing quality aspects, they are expected to give a reasonable indication of the housing quality in the various countries.

The housing quality dimensions that are measured by the ECHP questions have been integrated into a housing quality index. Table 2 shows how this index has been constructed. The maximum score on the housing quality index is 10. It should be noted that the variables in the index are based on self-reported data (respondents' answers). Cultural differences arising from differing interpretations of the same question-and-answer categories (Healy, 2003, p. 414) may therefore



**Figure 1.** Tenure distribution in the six selected EU countries (as a percentage of the total housing stock)

Sources: for Austria, Scanlon and Whitehead (2004); for all other countries, Norris and Shiels (2004).

**Table 2.** The construction of a housing quality index

Variable	Points
Presence of a separate kitchen?	1 point if present
Presence of a place to sit outside?	1 point if present
Noise pollution from neighbours or outside?	1 point if no noise pollution
Lack of light?	1 point if no lack of light
Lack of adequate heating?	1 point if no lack of adequate heating
Leaky roof?	1 point if no leaky roof
Humidity problems?	1 point if no humidity problems
Rot?	1 point if no rot?
Pollution in the neighbourhood?	1 point if no pollution in the neighbourhood
Crime in the neighbourhood?	1 point if no crime in the neighbourhood

affect the reliability of the index. This is, however, inevitable in any kind of survey-based international comparative research.

Table 3 shows the mean score on the housing quality index for the three different tenure sectors. A ratio was worked out to quantify

the differences in housing quality between the owner-occupancy sector and the social rental sector (average housing quality owner-occupancy sector: average housing quality social rental sector). On the basis of this ratio, one can conclude that the housing quality

**Table 3.** Mean score on the housing quality index for owner-occupied, social rental and private rental dwellings, 2001

	<i>Owner-occupied</i>		<i>Social rental</i>		<i>Private rental</i>		<i>Owner-occupied/ Social rental</i>
	<i>Score</i>	<i>n</i>	<i>Score</i>	<i>n</i>	<i>Score</i>	<i>n</i>	
Austria	9.48	1260	9.08	520	8.60	363	1.04
Denmark	9.58	1162	9.21	563	8.90	351	1.04
The Netherlands	9.22	2288	8.76	1386	8.35	345	1.05
Belgium	9.21	1504	8.36	149	8.51	536	1.10
Ireland	9.55	1374	8.79	114	9.07	176	1.09
UK	9.34	3043	8.81	907	8.42	361	1.06

Source: European Commission, Eurostat, European Community Household Panel, 2001 (UDB).

differences between the two tenure sectors tend to be slightly greater in presumed dualist rental systems than in presumed unitary rental systems. This observation is in line with the second hypothesis that was formulated in Table 1.

### 4.3 Hypothesis 3: Income Distribution of Households

To measure the degree of residualisation, the income distribution of the households was divided into three groups of 33.3 per cent. Figure 2 shows which percentage of the social rental sector in the six countries is occupied by households that belong to the first 33.3 per cent (lowest income group). The figure shows that the social rental sectors in Belgium and the UK, both presumed dualist rental systems, have the highest degree of residualisation. Austria has the lowest. Residualisation in the relatively large social rental sectors of the Netherlands and Denmark is also lower than in the UK and Belgium. Ireland is an exception, where the residualisation is less pronounced than one would expect on the basis of Kenemy's typology. All in all, there seems to be reasonable support for Hypothesis 3.

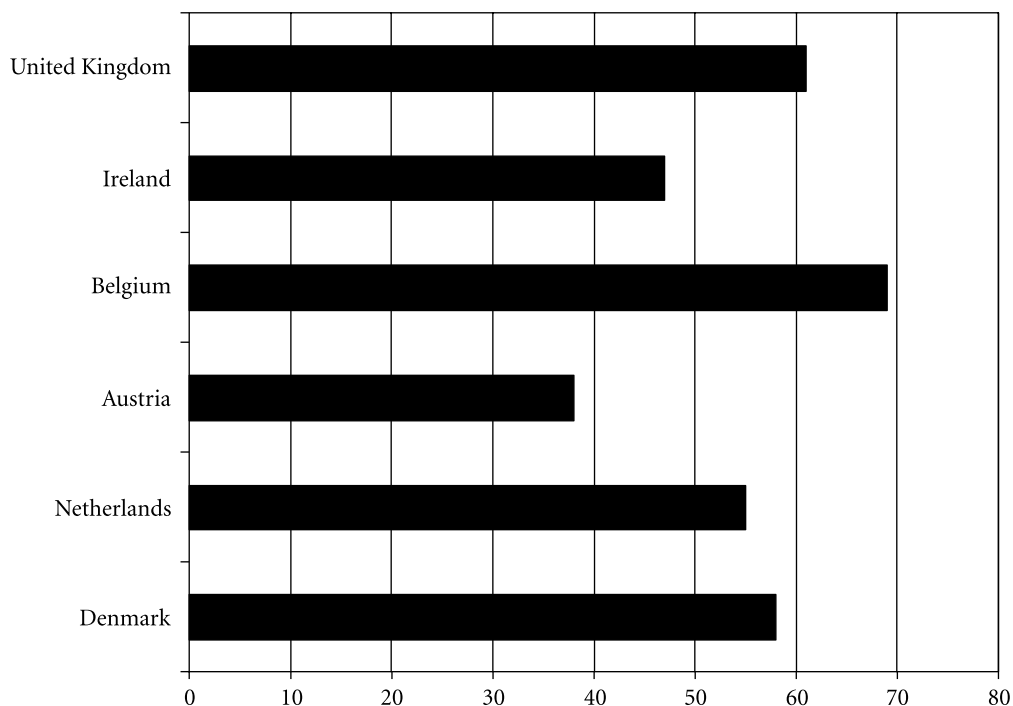
### 4.4 Hypothesis 4: Rent Levels

Figure 3 shows the gross monthly rent in the social and the private rental sectors of the six EU countries.<sup>4</sup> Given the data limitations of

the ECHP (see section 3.3), this figure should be considered as indicative. Nevertheless, a clear pattern emerges. In all the countries except Denmark, the rents in the private rental sector are higher than the rents in the social rental sector.<sup>5</sup> However, the differences in rent levels between social rental dwellings and private dwellings are considerably greater in the presumed dualist rental systems than in the presumed integrated rental systems.<sup>6</sup> This supports Hypothesis 4.

## 5. Summary and Conclusions

Kemeny assumes that a close relationship exists between the social structure and the ideology of a given society and the way in which the rental market in this society is organised. He draws a distinction between societies with an integrated rental system (the social rental sector and the private rental sector compete with each other in one and the same market and are largely subject to the same kind of rent regulation) and societies with a dualist rental system (compartmentalisation of the rental market, no direct competition between the social rental sector and the private rental sector, strong regulation of rents in the social rental sector, limited or no rent regulation in the private rental sector). The differences between these two types of rental system are reflected in the government's housing policies on the one hand and in the



**Figure 2.** Percentage of households from the lowest 33.3 per cent income group in the social rental sector of the six EU countries, 2001

*Source:* European Commission, Eurostat, European Community Household Panel, 2001 (UDB).

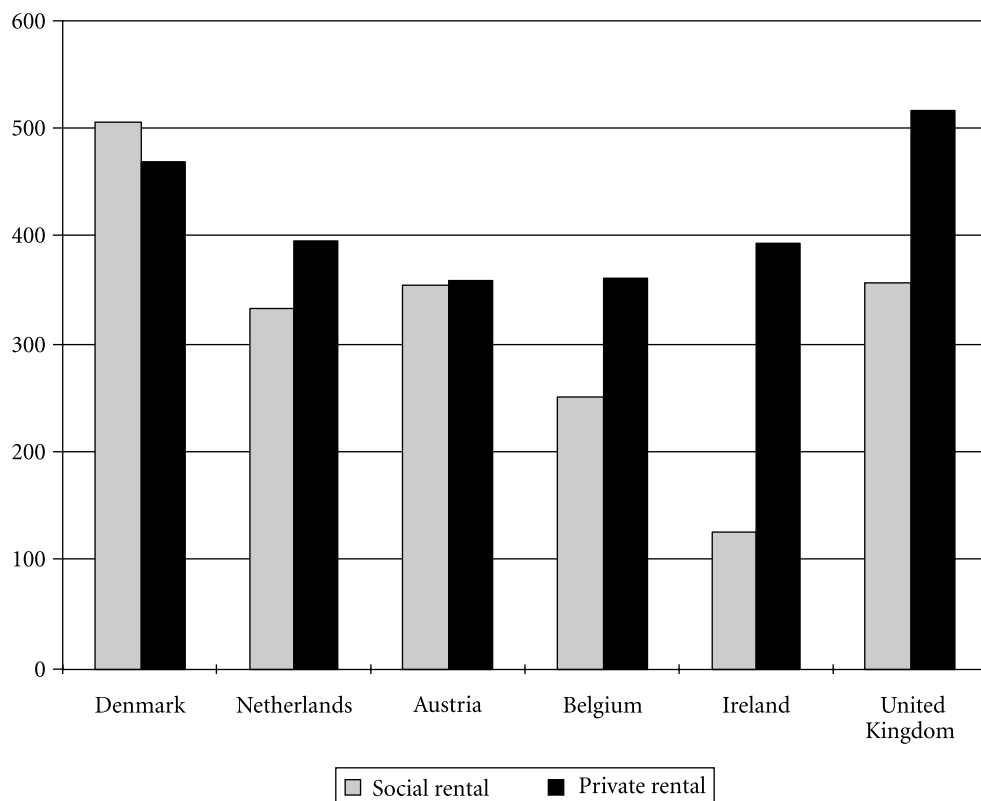
characteristics of the dwellings and their residents on the other. Kemeny focuses on the former aspect (housing policies) and provides only circumstantial evidence for the latter (housing outcomes). Thus, one could say that Kemeny only offers a partial underpinning for his typology.

In an attempt to fill this void, this paper has examined whether Kemeny's typology of rental systems is supported by empirical data on housing outcomes. For this purpose, the typology was translated into four hypotheses on how integrated rental systems and dualist rental systems should differ from each other. The hypotheses were explored with the aid of data from the European Community Household Panel (ECHP). Six EU countries were included in this deductive exploratory analysis: three were presumed

integrated rental systems (the Netherlands, Denmark and Austria) and three were presumed dualist rental systems (UK, Ireland and Belgium).

It emerged that

- (1) Dualist rental systems have a larger owner-occupancy sector than integrated rental systems.
- (2) The housing quality differences between the owner-occupancy sector and the social rental sector are slightly greater in dualist rental systems than in unitary rental systems.
- (3) Residualisation of the social rental sector is greater in dualist rental systems than in integrated rental systems (although the data for Ireland deviate from the anticipated pattern).



**Figure 3.** Gross monthly rent in the social rental and the private rental sector in the six EU countries in 2001 (in Euros)

Source: European Commission, Eurostat, European Community Household Panel, 2001 (UDB).

- (4) In dualist rental systems, private rental dwellings have a higher rent than social rental dwellings. In integrated rental systems, only limited differences exist between rent levels for private rental dwellings and social rental dwellings.

All in all, one can conclude that the results reported in this paper provide reasonable empirical support for Kemeny's rental system typology. The housing outcomes in the presumed dualist rental systems are indeed different from the housing outcomes in the presumed integrated rental systems. This shows that divergence theories, such as the rental system typology that was tested in this paper, are applicable and relevant.

At the same time, some important questions remain unanswered. Why is the residualisation in Ireland lower than one would expect on the basis of Kemeny's typology? Do these research findings indicate a potential flaw in Kemeny's typology or are they due to the data limitations of the ECHP? In order to answer the latter question, more detailed research in the countries concerned is needed.

Furthermore, the results of this analysis do not necessarily mean that the theory that underlies the rental system typology is completely valid. To test this theory thoroughly, one should not only analyse the housing outcomes, but also the housing policies, economic processes and institutional strategies that underlie these housing outcomes.



Do these correspond with the mechanisms predicted in Kemeny's theory or are there different processes at work? Some research has already been carried out in this domain by Hoekstra (2003) and Elsinga *et al.* (2005 and 2008b) but only in relation to the Netherlands. Broadening this research to other countries is therefore desirable.

Last but not least, the question remains as to whether the observed differences are structural or temporal. Are the differences between dualist rental systems and integrated rental systems widening (divergence) or narrowing (convergence)? As section 2.6 shows, there are some clear signs that the integrated rental systems in particular are being 'threatened' by the reorganisation of the welfare state and by specific housing policies that prevent them from developing further. Another perhaps equally important threat lurks in the rules of the European Union. Integrated rental systems appear to be at odds with the 'free market' envisaged by the European Union. After all, the basis of an integrated rental system is full competition between the non-profit social rental landlords (which often still enjoy some form of state support) on the one hand, and the profit-oriented private rental landlords on the other. There are indications that this competition is unequal, as the conditions are often not the same for both types of landlord. In economic terms: there is no level playing-field. In the summer of 2005, the European Commission wrote to the Dutch government, indicating that the Dutch social rental sector should limit its size by focusing more on the lowest-income groups. Even though it is far from clear whether the European Union is really empowered to demand a reorganisation of the Dutch social rental sector, this letter indicates beyond doubt that integrated rental systems in Europe are under mounting pressure. Only time will tell whether they will be able to maintain

their special position, or whether they will be 'forced' to develop in the direction of a dualist rental system.

## Notes

1. This observation refers to the social and the private rental sectors as a whole, but not necessarily to all individual landlords in both sectors. In the Netherlands, for example, some housing associations let a limited part of their housing stock on a profit basis. Despite this, the Dutch social rental sector as a whole can still be described as non-profit.
2. The terms 'integrated rental system', 'integrated rental market', 'unitary rental system' and 'unitary rental market' are often used interchangeably in the literature. However, in this paper, I consistently apply the term 'integrated rental system'.
3. In this reweighing procedure, we used data on the tenure distribution from Scanlon and Whitehead, 2004 (Austria) and Norris and Shiels, 2004 (all other countries).
4. It should be noted that the rent levels in the Belgian and Irish social rental sectors are dependent on the income of the tenants.
5. The rent levels for the private rental sector in the Netherlands have been reweighed according to the Dutch national housing demand survey 2002.
6. It should be noted that differences in housing quality might contribute to this as well. Table 3 shows that, in presumed integrated rental systems, the social rental sector has a higher housing quality than the private rental sector, whereas it is the other way around in presumed dualist rental systems (with the exception of the UK).

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