Competition between social and private landlords: Exploring landlords’ perceptions of rivalry and the barriers to a rivalrous relationship in local housing markets

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Christian LENNARTZ
PhD Candidate, OTB Research Institute for the Built Environment, Delft University of Technology, c.lennartz@tudelft.nl Tel.: +31-15-27-84120

Abstract:
Governments in many countries have required social housing providers to operate more market-orientated and engage in commercial activities. Conversely, public authorities in some countries have tried to strengthen the role of the private rental sector in the provision of housing for low-income households and homeless people. As a result, the once clear demarcation between the activities of social and private landlords appears to be shifting, which has possibly led to increased competitive pressure on both landlord groups. As part of a wider research project, this paper aims to shed light on the behavioral aspects of competition between social and private landlords. Drawing on data from thirty in-depth qualitative interviews with housing association managers, letting agents, and private landlords in two local housing markets, Coventry in England and Breda in the Netherlands, this study explores landlords’ perceptions of providers in the other rental sector, as well as the influence of the structure of the local rental market on these perceptions.

Key Words: Competition, interfirm rivalry, housing associations, private landlords, comparative housing research
1 Introduction

In the last two decades, there has been a surge of social housing privatization through transfers of public housing stock to private non-profit housing associations, tenant cooperatives, and profit-oriented landlords in most European countries (Scanlon & Whitehead, 2007). This shift in the supply structure has been accompanied by a change of housing policies from object subsidies to means-tested demand-side subsidies (Kemp, 2007). For that reason, policy makers have required social housing suppliers to operate more market-orientated in the social housing sector and have encouraged them to increasingly operate in commercial housing, including the market rental sector (Haffner et al, 2009a). Simultaneously, public authorities have tried to strengthen the role of private landlords in the provision of rental housing for low-income households and homeless people in various countries. This development has been facilitated by the relative increase of means-tested subsidies for private renters (Hulse & Pawson, 2010; Retsinas & Belsky, 2008; O’Sullivan and DeDecker, 2006). As a result, the once clear demarcation between the activities of social and private landlords appears to be shifting, which has possibly led to increased competitive pressure on both landlord groups. As part of a wider research project, this paper aims to shed light on the behavioral aspects of competition between social and private landlords.

To contribute to a better understanding of the process of increasing competitive pressures, various housing researchers have sought to give meaning to the notion of competition between social and private renting in a comparative perspective (e.g. Hulse et al, 2010; Haffner et al, 2009a; Kemeny et al, 2005; Atterhög & Lind, 2004). Here, the authors have primarily focused on structural and political aspects of competition between social and private renting. As a result, there remains a lack of understanding of how competitive pressures affect landlords themselves and how landlords shape a competitive relation through their own decisions in the rental market. It is therefore the aim of this study to explore and build explanations for the competitive relation between and competitive conduct of social and private landlords in mixed rental markets.

The paper proceeds as follows: First, the next section will juxtapose the two main economic approaches to competition between firms and will highlight why the business and management literature seems to be a superior approach when analyzing competition between landlords in mixed rental markets for the first time. Section 3 describes the qualitative and methodological approach of the study. Sections 4 and 5 present the empirical findings on how the two landlord groups perceive each other in local rental markets and what these perceptions are based on. The paper concludes on its main points.

2 Competitive behavior of firms in a theoretical perspective

The economics literature on interfirm competition can be divided in two main concepts, one emphasizing the competitiveness of the structure of a market and the other one focusing on the competitive conduct of individual firms. In neoclassical economics the behavior of the firm is a property of market structure, which means that each market form (perfect competition,
monopolistic competition, oligopoly) has its own equilibrium to which firms need to adapt if they want to avoid the risk of being driven out of the market. Accordingly, a theory of firm conduct becomes only interesting if a market is imperfectly competitive, because here firms are able to gain a superior position through, inter alia, pricing or marketing decisions. However, irrespective of the market form the idea prevails that there are optimal, profit-maximizing strategies; firms are therefore regarded to be limited in their decision-making processes (Martin, 2010; Tirole, 1988). Notwithstanding the clarity and predictive power of mainstream economic theory – particularly modern models of game theory, which can address issues such as bounded rationalities of market actors, stand out in this regard – there are two primary reasons why this more formal and theoretically abstract approach to analyzing interfirm competition seems to be of limited use in the context of competition between landlords in rental housing.

First of all, the whole traditional and also modern industrial economics strand is based on the assumption of rational, profit maximizing suppliers. The outcomes of the conventional models of competition analysis, e.g. Bertrand competition in a duopoly, stand and fall with profit-maximizing equilibrium pricing or output strategies. Yet, in mixed rental housing markets social and private landlords do not necessarily share the profit-driven business paradigm, which particularly applies to the social housing industry where nonprofit organizations share a more diverse set of objective functions. Here, the economics literature of nonprofit organization has shown that the existence of different objective functions among firms in the same markets has important implications for our understanding of how firms compete (Young et al, 2010; Hansmann, 1987).

Equally important, in the neoclassical notion of competition, managers are seen as anonymous actors who have to operate along prescribed structural settings. The processes and intentions that lead to strategic decisions on competitive pricing and investments, as well as managers’ views on competition tend to be neglected by the analysis. As a result, if we want to understand competitive behavior of individual landlords in rental housing markets a different path might be more useful. This paper argues that if one wants that get a better understanding of the competitive processes between social and private landlords, the explicit focus on competitive conduct in the concept of interfirm rivalry as presented in the business economics and management literature (see Nair & Selover, 2011) might provide a more useful theoretical framework.

**Competition as a process of interfirm rivalry**

The essence of rivalry is that there are at least two firms striving for incompatible positions in the market (Baum & Korn, 1996). To put it with Porter (1980), “firms feel the effects of each other’s moves and are prone to respond to them.” This definition of rivalry entails four major aspects: First, rivalry is relational as it is based on the actions and reactions of competing firms. It is thus a dynamic process, which is shaped by the conscious strategic choices of managers (Kilduff et al, 2010). Second, it takes place between firms directly, which means that a firm’s competitive actions are consciously targeted at their competitors in order to gain a competitive advantage; there are moves and countermoves (Chen, 1996). Third, managers have incomplete and biased
knowledge about markets and competitors and they have differing cognitive capacities to understand their markets and competitors’ actions. As a result, rivalry tends to be highly subjective (Nair & Selover, 2011). This in turn has two main effects: On the one hand, subjective psychological stakes can trigger individual managers to depart from rational economic behavior. On the other hand, there might be a cleavage between objective (as measured by structural criteria such as supply concentration) and perceived levels of competition (Paton & Wilson 2001; Porac, 1995) Interestingly, competition research indeed shows that perceptions of rivalry are stronger in concentrated than in highly competitive markets, since it is easier to observe the moves of competitors (Baum & Korn, 1996). Fourth, the subjective nature of rivalry means that it is not necessarily a reciprocal perception. In reality, one firm might see another firm in the market as a close competitor, while the other might not see any competitive relation at all. This can lead to rivalrous behavior of one firm, which does however not induce a rivalrous reaction of another firm (Chen, 2007).

Various authors have sought to analyze the conditions under which strong perceptions of rivalry and rivalrous behavior can prevail (e.g. Kilduff et al, 2010; Baum, 1996). Although these studies tend to make no direct connection to the industrial economics literature on market structure, one can observe some implicit analytical approaches to unfold how the structure of a market influences interfirm rivalry. Nair & Selover (2011) for instance that perceptions of rivalry and rivalrous strategic behavior are positively related to similar firm size – where similarly large firm sizes is a particularly strong driver of rivalry – as well as product similarity. Equally, Baum (1996) provides some evidence that rivalry is positively influenced by the market domain overlap of competing firms, which means that if firms operate in various identical market segments, the potential for multi-market contact increases, which in turn increases the chance that firms identify each other as rivals and direct their competitive actions against them. Nonetheless, the literature also provides evidence that the drivers of rivalry are not necessarily related to market structural issues. To give but two examples, Paton et al (2000) show that perceptions of rivalry tend to stronger among firms who have existed in the same market for longer periods. There thus seems to be a time component that makes rivalry a path dependent process. Chen (2007), on the other hand, shows that the capability, including financial and cognitive resources, to behave competitively is a major driver of rivalry.

**Rivalry between landlords in rental housing markets**

From an analytical viewpoint the concept of interfirm rivalry will be used as a yardstick for the competitive relationship between social and private landlords. Generally, this means that a competitive relation entails that landlords feel the pressures of landlords of the other sector and are prone to respond to them through their strategic behavior. The paper will investigate whether there is a relational, direct, subjective and reciprocal form of competition between social and private landlords in the two rental markets. In a second step the paper will engage in a discussion on the drivers of and barriers to a competitive relationship and rivalrous behavior in mixed rental markets. This will touch on the question of how structural conditions in the rental market are tied in with competitive behavior. Two sets of key questions will guide the empirical analysis:
1. What are the perceptions of social and private landlords on their competitive relationship? Do they perceive each other as rivals in the rental market? How do these perceptions influence landlords’ behavior in the rental market?

2. What are the drivers of and accordingly barriers to perceptions of rivalry and rivalrous behavior?

Notwithstanding the theoretical concept provides a compass in researching the inter-tenurial relationship between landlords, possible findings need to be interpreted with care. It still holds true that social and private landlords primarily serve different market segments and operate along differing business models, where the existence of different objective functions might complicate the analysis of rivalrous processes. Amongst others, Ritchie and Weinberg (2004) point out that nonprofit organizations are not only more inclined to behave more cooperatively from fully commercial firms, they are actually encouraged to do so by legislated, socially-sanctioned incentives. Furthermore, when nonprofits and for-profit firms have to predict the behavior and intentions of other nonprofit organizations in the market, they face the complication of having to ascertain what their rivals’ objectives actually are. In the context of the rental market this could mean that the existence of different objective functions is an in-built barrier to rivalry. It thus seems suggestive to address the nonprofit/for-profit dichotomy a prominent place in the analysis.

3 Methodology and data

To answer the key questions the methodological approach of this study is both qualitative and comparative. First, the qualitative method aims to give a precise account of landlords’ views on competition and competitors than a quantitative survey. In the housing literature ideas on how landlords compete in reality are not well-founded, which makes it difficult to derive hypotheses for the analysis of survey data. As a result, it seems that a more grounded theoretical, explorative approach to the subject can provide more coherent results. In order to build explanations for a rivalrous relationship between the two landlord groups (i.e. research question 2) this paper is also constructed as a comparative study. As part of a wider research project (see Lennartz, 2011; Lennartz et al, 2009), this paper makes a comparison between England and the Netherlands, which have been identified as appropriate country examples because of their differing roles of social and private renting – where social housing is more residual in the English context, and more inclusive in the Netherlands – and their different competitive settings from a structural viewpoint (see Elsinga et al, 2009; Haffner et al, 2009; Kemeny, 1995; Priemus, 2010). Interviewing landlords in these two countries is supposed to provide evidence on how different housing policies, regulatory frameworks and the prescribed roles of the two rental sectors might influence landlords’ thinking on rivalry and competition. In each country a case study city was identified for interview participant sampling in order to get a better understanding of how the structure of the local rental market impacts notions of competition and views on rivalry.
Accordingly, landlords’ behavior and perceptions are studied in the two local rental markets Coventry (EN) and Breda (NL) to control for identical demand, supply and geographical conditions.

The main source for the analysis of the three topics perceptions of rivalry, rivalrous conduct and the link between market structure and conduct is a series of 30 semi-structured, in-depth interviews with both social and private landlords, as well as one interview with housing experts from the two municipal offices. To allow for an exhaustive exploration of the range of possible views on the topics, the sampling approach was as follows: In the housing association sectors, interviews were done with managers and other responsible persons in different departments of each association, such as lettings, developments, strategy, and commercial operations. In Breda participants were recruited from all three housing associations, while in Coventry all interview partners were recruited from the three largest housing associations. To cater for different market segments and business models in the private rented sector, the sampling in Coventry sought to target small-scale landlords and letting agents who are operating in the students market, the professionals market, as well as in low-income housing. In Breda, the participant recruitment targeted small-scale individual landlords, institutional investors, and letting agents who cater for both landlord groups. In both case study cities the sampling targeted managers rather than owners, which led to a relatively high share of letting agents among the participants.

In all interviews a topic guide was used which comprised similar questions for all kinds of landlords, while at the same time it allowed for country or city-specific issues (see Appendices 1 to 3). The themes revolved around the main activities of landlords, their products and the tenants they cater for, their views on the rental market in general, their perceptions of the other rental sector and its landlords, notions of competition, as well as views on rental policy on a national and municipal level.

The interviews were transcribed in full and subsequently coded with ATLAS.ti 6.2. For the actual analysis of the interviews I used a mix of description, interpretation and grounded theory methodology (see Ritchie & Lewis, 2000), which means that some codes were directly linked to the views of the interviewees, such as the description of the rental market or the landlord’s main activities, while the links between certain topics – e.g. why landlord A regards housing associations as a competitor or not – led to the creation of some genuine codes. With regard to (competitive) behavior of setting rents or deciding on investments the interview approach was complemented by data on rent levels and strategy papers for the housing association sector. This path was chosen to increase the reliability of the interview approach.

1 A preceding step to this paper was a review of policy documents and secondary data of local housing markets in England and the Netherlands. Coventry and Breda were identified as appropriate case studies due to city size and location, tenure shares, existing suppliers and the demand/supply relation in both sectors.

2 A majority of the actual interviewees were recruited through and with the help of the Private Sector Housing Department of the Coventry Council. This means that all participants were accredited landlords who fulfill certain dwelling standards prescribed by the local authority – in other words, so-called slumlords did not participate in the study.
4 Perceptions of social and private landlords on their (competitive) relationship

*Perceptions of social landlords in Coventry*

The general view of housing associations managers in Coventry is that the PRS consists of various relatively diverse market segments. Most social landlords identify three major segments: the student letting market, the market for professionals, and what they call low-income housing. Student renting is seen as the major field of activity of private landlords, while the market for professional households is perceived as a high turnover market that serves customers who are more affluent but are nevertheless not (yet) seeking to buy their own property. Finally, the bottom end of the market is considered to serve low-income households who often receive housing allowance. A recurring theme here is that at the lower end of the market the type of dwellings and the tenants that private landlords cater for are similar to social housing, which can be interpreted as a more or less substantial overlap between the two rental sectors from a product viewpoint.

These views on market segmentation product similarity/dissimilarity are generally in line with social landlords’ prevailing perceptions of rivalry. Housing association managers agree that there is no competitive relation with student housing and professional housing landlords in the city. On the other hand, perceptions of rivalry with landlords who operate in the low-income renting segment are more arbitrary. Interestingly enough, these differences are not only observable among managers of different housing associations, but also within different departments of the same associations. A common pattern is that participants who are responsible for the day-to-day tenancy management tend to see private landlords in the lower market segment as direct competitors. Interviewees who are general managers or have a position in the strategy department tend to do not observe such a relationship. The interviews imply that perceptions of competition are largely based on experiences with social tenants leaving the housing association for a dwelling in the PRS. Social landlords agree that it is not a problem for them in a way that private landlords can drive them out of the market; however, high turnover rates, intensified through moves to the PRS, lead to large costs for housing associations in the form of temporary vacancies and repair costs. In other words, perceptions of rivalry among these landlords are relatively weak because there is almost no risk to fail in their primary market; yet the fact that they lose tenants to the PRS is seen as a problem because it results in additional costs.

Furthermore, landlords seem to have a lack of understanding of competitive processes, i.e. moves of tenants. First, landlords express that they do not fully comprehend why these tenants leave to the PRS after all. One might interpret this as a general difficulty to recognize competitive advantages of certain landlord groups. Second, the interviewees do not present a shared view on what they are actually competing on. Although they tend to agree that competition does not take place on price and location (“we are where we are”), there are different accounts of competition on waiting time, or availability of dwellings in general, quality, repair services, or service charges. Third, social landlords only have a vague picture of what they are competing against. Private landlords are not only assumed to be more professional and better at marketing, but they are of course not very willing to share this knowledge. This lack of understanding leads to a lack of readiness to adjust their market strategies.

3 Rather than using the term rival, interviewees deliberately used the term competitor.
landlords are for them an anonymous set of market actors. This makes it difficult for the interviewed social landlords to describe the core of the competitive relationship and identify their rivals in the private rental market.

Another theme in the interviews is connected to housing associations’ activities in the market rental sector. When providing housing for professionals they perceive themselves to be in direct competition with private landlords. However, perceptions of rivalry are not strongly pronounced since these market rental activities only take place on a marginal scale. Housing association managers tend to agree that with increasing numbers of intermediate market rentals\(^4\) in recent years, there is more scope for competition in the commercial market segment; yet, since the three major associations either do not engage in this market segment at all, or only temporarily (due to the current housing market crisis), associations see any form of competition in the commercial market segment as rather unstable.

“We are seeing increasing competition from the private rented market, particularly over the last five years where there has been a shift to a lot of individuals buying properties and then let privately. Also, we can see that our rents have gone up, while their rents have come down, so we are closer together these days.” (Coventry, social landlord)

“I wouldn’t say we compete with the private sector. We’ll never struggle to rent out our homes unless they are of very poor condition.” (Coventry, social landlord)

“You almost don’t see it as competition. Two landlords don’t have a banner above their properties. You also don’t see private landlords except for what you see in the windows of estate agents. So you can’t see what you are competing against.” (Coventry, social landlord)

Perceptions of social landlords in Breda
Similar to the situation in Coventry, social landlords in Breda do not see private renting as one coherent sector but as a set of different market segments which are served by different types of private landlords. Interestingly enough, their classification of market segments in the PRS is less vague than the one of social landlords in Coventry, since they use the official distinction between regulated and deregulated dwellings to distinguish between the lower-rent segment and the (middle and) higher segments.\(^5\) It seems that the deregulation threshold is besides its practical function in the rental market a psychological barrier, which helps landlords to classify the rental

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\(^4\) Intermediate rentals mean that the tenant pays 80 percent of the dwellings market rent.

\(^5\) Rent regulation in the Netherlands stipulates that each dwelling with a monthly rent of below €652 is bound to a quality evaluation system. Based on dwelling and location factors each dwelling receives a number of points, which equal the maximum rent level. Each dwelling with a rent level of more than €652 is free of rent regulation (see Haffner et al, 2009b)
stock and market segmentation. In the interviews participants did seldom use the terms low-income housing or high-rent segment, but stuck to the terminology regulated and deregulated market. The prevailing perception is that the largest share of all private renting is to be found in the deregulated, high rent market segment, whereas the provision of housing in the regulated, more affordable is only marginal. An interesting trait is that when describing the more expensive segment, social landlords exclusively talk about the provision of large-scale institutional investors, although evidence from property websites and other sources show that individual landlords are fairly active in this market as well, particularly through the provision of inner-city apartments for younger, high-income households. The perceptions of private rental housing in the regulated market are quite diverse. Two participants claim that there is no provision at all, while others see at least the student lettings market as an important part of low-income renting in Breda. Similarly, there are only few landlords who mention the deregulated rental stock of institutional investors as part of the PRS – which is rather revealing for the self-perception of housing associations, since institutional investors own at least several hundred dwellings in this market segment, which is with regard to locations, the quality of dwellings and tenant profiles almost identical to the social housing sector.

The perceptions of rivalry and competition are rather different among social landlords in Breda. In line with their view that private landlords predominantly operate in the deregulated market segment, all interview participants do not perceive any competitive relation with private landlords for low-income and other vulnerable households. On the contrary, one association in Breda goes as far as cooperating with private landlords in the city, as they refer prospective social tenants to certain private landlords for whom they practically function as a letting agency. This service covers both the regulated and deregulated market segment and is, in my view, very revealing for how this specific association sees the private sector in the entire rental market, namely as complementing its own provision.

However, there are strong perceptions of rivalry with private landlords in other market segments. On the one hand, private landlords who provide student housing are classified as rivals. The interviewees state that they do only have periodical problems with vacancies in their student halls; yet, they see themselves in a weak competitive position, since private landlords tend to provide more desirable products; i.e. rooms in shared houses in attractive city-center locations. On the other hand, perceptions of rivalry in the commercial market segment are dependent on whether the housing association operates in the deregulated market segment. Two of the three housing associations in Breda have grown and do further grow in the deregulated sector. Here, managers share the perception that private landlords are their direct competitors, where this particularly applies to large corporate investors – small-scale individual landlords are less clearly identified as competitors. According to the interviewees, competing on the turf of private landlords takes place on rent and quality levels, as well as on building sites for new developments. Finally, when housing associations entered this segment they saw a lack of demand, which led to very low vacancy rates and relatively secure rental incomes. However, in recent years increasing supply of both social and private landlords have increased business risks, where housing
associations see their inexperience in providing commercial rentals under harsher market circumstances as problematic.

“My impression is that they [student landlords] are very competitive compared to our product, particularly because they are in city-center locations. That is where the average student wants to be. We have some student halls that are a bit off the beaten track. That can give you a difficult position.” (Breda, social landlord)

“The letting agents and private landlords never took as seriously, because it has always been a small segment for us. But our deregulated supply grows substantially; so all associations together will have 1,500 deregulated dwellings. I think that we are going to be a major factor for them.” (Breda, social landlord)

**Perceptions of private landlord in Coventry**

Private landlords’ perceptions of social housing in Coventry are mainly steered by negative stereotypes and stigmatization of both social landlords and tenants. Particularly landlords in the student and professionals markets state that social landlords do not take care of their dwellings leading to deteriorating stocks and areas, have very poor repair services and are highly ineffective in using public resources for the provision of social housing. The views on social tenants, or low-income households in broader terms, are equally negative as there is a general suspicion of antisocial behavior and non-payment attitudes. Private landlords tend to not know who the major providers of social housing in Coventry are, neither do they make a difference between the former council stock transfer association and traditional housing associations. Most revealing was the statement of a letting agent who suggested that social housing is still provided by the council, although in reality the council’s stock had been sold to a newly established housing association already in 2001. Accordingly, landlords in the middle and more expensive market segments see no overlap between private renting and social housing, and it seems that some of them try to define themselves by being as far away from social housing, both with regard to locations and tenants they cater for. There is, however, a smaller group of low-income housing landlords in Coventry whose views on social housing are informed by personal experiences in dealing with social landlords – e.g. they might have bought houses that were acquired under the Right to Buy and had been repossessed- and former social tenants. This is not to say that their perceptions of social housing are much more positive, since they also claim that dwelling and location maintenance by social landlords is meager and repair services are inefficient. Furthermore, these landlords are aware that locations and dwelling types can be quite similar; nonetheless, they see large rent differentials.

In line with the dominant their general views of the position of social housing in the city, the interviews with private landlords for student and professional do not provide any evidence for perceptions of rivalry. Indeed, they state that they do not have any relationship at all; rather the provision of social landlords is seen as completely different businesses. Asked about their
feelings about the provision of market and intermediate rentals of housing associations, private landlords state that they are not aware of these housing association activities. Hypothetically, it would however not be an issue for them, since the interviewed landlords who operate in the market for professionals are relatively confident that an increase in supply does not lead to higher risks for them to be driven out of the rental market. They claim that the high quality of their dwellings guarantees them strong demand.

On the other hand, landlords in the low-income rental segment do not see social landlords as rivals in the rental market either, but their perceptions are more elaborated. They have a relation with the social housing sector that might not be called competitive; yet, since they provide housing in similar locations for similar types of households, they are aware of the possibilities of inter-tenure moves of their own tenants, and similar to social landlords they are very much in favor of keeping turnover rates low. However, a common theme is that they are not capable of competing with housing associations, since low-income households prefer to live in a social dwelling if it was available. In brief, there seems to be an awareness of a competitive relationship of some form, but this is not translated into the primacy of direct rivalrous behavior.

“Interviewer: You just described that there is a competitive relationship with other private landlords. Do you see a similar relationship with social landlords in the city?

Landlord: No, no, they can get as many tenants as they want. My tenants would go to Whitefriars if they could get a place that is similar to what they have got now.

Interviewer: Is that a problem for you, people leaving to the social housing sector?

Landlord: It hasn’t been when it happened. People move on. It is an accepted problem. If they pay 500 for my dwelling and can have a Whitefriars’ dwelling for 250, it is a no brainer.

[...]

Interviewer: What about the costs when people leave?

Landlord: Oh, don’t get me wrong. I do not like high tenancy changes, but I am not able to compete with Whitefriars on rents and keep those tenants. It’s a problem, but it’s not something I can address, it is just not solvable”

Perceptions of private landlords in Breda
It seems that private landlords have a rather good knowledge of the structure of social housing in Breda. They are able to distinguish between the three housing associations, know where they are located and are well informed about their recent development activities. They concede the major role housing associations in the provision of rental housing for low-income households and tenants with special needs. Their views on the performance of social landlords in this segment is predominantly positive, which relates to their perception of a relatively high quality of social dwellings and the fact that there is less stigmatization of social tenants by private landlords in
general. Surprisingly, even though they are aware of the very dominant position of HAs in the deregulated market segment, they see a lack of provision in the sector and they seem to regard an increasing supply of social landlords rather than of private landlords in the deregulated sector as a positive thing – maybe this links to the view of one individual landlord that housing associations are better prepared to deal with ‘more problematic tenants’. The perceptions of private landlords on the commercial activities of housing associations, i.e. the provision of market renting in the deregulated sector but also the development of apartments for sale, are more arbitrary. The interviewees do not have general resentments against commercial operations. However, they predominantly express that housing associations seem to have lost their rightful balance between social and market (rental) activities, as associations are regarded to have lost sight of their genuine social housing goals.

Although the private landlords who operate in the regulated more affordable rental sector see housing associations in a dominant position, they do not regard them as competitors. Similar to the views of social landlords, all types of private landlords express the idea that the demand for affordable rental dwellings is so large that they do not have a problem with finding tenants for their properties. There are thus no competitive pressures that would make them see associations as rivals in the market, leading to the notion that their provision complements the supply of the three housing associations. In the student and the deregulated markets perceptions of rivalry certainly exist but they tend to differ among landlords. Landlords and letting agents of student housing primarily said that they see themselves in a favorable competitive position; nonetheless, considering the vivid building activities of social landlords, they foresee a more difficult market environment in which enduring vacancies might occur. The commercial rental activities of social landlords are widely regarded as a new form of competition in the deregulated sector. They see it as a problem that housing associations have entered the market with numerous relatively cheap dwellings. Particularly the older institutional investor stock might be affected by structural vacancies. Housing associations are considered to deliver a strong product with modern facilities that might make corporate investors’ units from the 1980s and 1990s relatively undesirable.

A last theme in the interviews is that the provision of commercial renting by housing associations tends to be seen as unfair competition. Interestingly, the non-profit business model of housing associations is seen as the main problem here, since their paradigm to keep rents low even in the deregulated sector, puts some pressure on private sector rents. It should not be neglected, however, that not all agents and landlords share this view. One letting agent who operates in the high end market segment for individuals expresses the perception that housing associations are not operating in this segment, and if they are it must be on a very small scale.

“Just assume that we want to buy a dwelling in a location where we have this [more expensive] association stock. When we make a taxation of the rent that we can ask, their provision becomes a major factor. Let’s say I think our dwelling could make 900 Euro and the association asks 750 for their dwelling, we got a serious problem
as an investor. [...] Yes, their thinking that they want to accommodate people without exhausting the maximum market rent is a problem” (Breda, institutional investor)

“If I got it right, associations are going to build a lot of new student halls next summer. I could imagine that we are going to feel that in the next years.” (Breda, letting agent student housing)

5 The driver of and barriers to a rivalrous relationship

The previous section unfolded the questions of how social and private landlords perceive each other from a rivalry and competition point of view and has further given a flavor of how strongly the position of landlords of the other rental sector influences the strategic choices of social and private landlords. In this section the focus shifts to the question of the drivers of and accordingly barriers to a competitive relationship and perceptions of rivalry. Here, the analysis of landlords’ perceptions proposes that a general distinction should be made between the rivalrous relationship in the low-income rental segment and the commercial market segment – after all, the distinction between market segments, or more literally between ‘our turf and their turf’ was a recurring theme in the interviews.

**Barriers to rivalry between social and private landlords in low-income renting**

The interviews in both case study cities propose that high demand for social housing is the single most influential barriers to rivalry between the two landlord groups in low-income renting. With 10,000 (Coventry) and 8,000 (Breda) actively searching applicants for social housing there is no need to gain a competitive edge above other landlords and vie for customers. Since social housing is a scarce good in the two local markets, housing associations – except for small accommodation in the very worst locations in Coventry – have a continuously high demand for their dwellings. Private landlords, on the other hand, have found a niche in this market segment, which has emerged from the inability of social housing providers to accommodate all its potential customers.

The demand barrier to a rivalrous relationship directly ties in with the rent/quality relation of social and private rental services. In reality, there are relatively large rent differentials for similar dwellings in both cities (see Lennartz, 2011). In practice, landlords are convinced that the higher the difference between social and private rents, the lower the propensity that tenants stay in a social dwelling, even if they had the desire to move to another dwelling. This might seem relatively obvious; yet in reality it plays out differently in the two housing markets, since actual rent levels have to be analyzed in the context of rent regulation and housing allowance rules. Social landlords in Coventry do not have any influence on their rent levels since the exact rent is stipulated by the rent formula (Tang, 2008) and thus do not have any possibilities to account for or react to private sector rents. Similarly, based on the differences in how Housing Benefit in social housing and the Local Housing Allowance in private renting are calculated preclude
product similarity and can thus form a barrier for tenants to substitute one rental product for the other. One interview participant gives a precise account of how housing allowance ties in with the idea of competition, showing how independent competitive behavior might be undermined by exogenous political decisions.

“What the government is saying that rather paying the 50th quartile they are paying the 30th quartile. So the amount of Housing Benefit they are paying in the PRS has come down, which from our point of view is a good thing, looking at it totally self-interested. Because if people can’t get rent allowances in the PRS, our offer, our product, if you want to call it that is more attractive in that balance. If you are paying 70 pounds with us but can get a 110-pound house in a better area, even if you are on benefit, why wouldn’t you go? If this becomes more difficult because of lower benefits and they can only leave to cheaper areas that might not be better, they might not leave us.” (Coventry, social landlord)

The interviews with social and private landlords in Breda propose that rent regulation generally impedes competition between landlords, or rivalrous behavior in a more narrow sense; yet in a different way than in Coventry. The dual system of rent regulation with a highly regulated sector below 652 Euro of rent per months and an almost completely deregulated sector provides various incentives for landlords to operate in different market segments, which severely limits the scope for competitive behavior. Here, primary data on rent levels in the association sector suggest that social landlords keep rents artificially low, as they offer dwellings in the regulated sector that given their quality points could be offered as deregulated dwellings – most likely the non-profit orientation of housing associations rather than competitive strategy contemplations steer these decisions. On the other hand private landlords have a strong motive to operate in the high-end market segment, particularly when investing into new dwellings, since this guarantees higher profits and lower bureaucratic burdens than in the regulated segment.

Unsurprisingly, besides the rent-related barriers in the two case-study cities, there are some general accounts of how the differences in the qualities of social housing and private renting locations and dwellings impede a competitive relation. First, both social and private landlords in Breda emphasize that the relatively high quality of existing social housing impedes investments of private landlords in the deregulated sector. Even if they decided that they could make a profitable investment here, they had to build relatively expensive dwellings in order to provide a product that could match the standards of social landlords. In the context of quality valuation rent regulation system, the construction of very low quality dwellings is no option for private landlords either. In contrast, private landlords in Coventry face a social housing stock that is of relatively low quality, which enables them to invest into low quality housing and still get a satisfying rent level. From the social landlords viewpoint this relates the problem that they can only deliver highly standardized, minimally equipped dwellings when offering social housing. Social landlords in Coventry claim that the need to keep social housing investments as cheap as possible leads to a mismatch between their dwellings and the products of landlords (excluding the
specifically mentioned slumlords) who can offer modern facilities and furnished dwellings. This is seen to give private landlords an inherent competitive edge. Likewise, social landlords in Coventry are highly constrained in their competitive behavior by their existing stock. Poor quality of a substantial share of social dwellings, as well as a large proportion of dwelling types such as bedsits and one-bedroom apartments which do not have sufficient demand. Interestingly, there are also various statements conveying the importance of property rights for tenants as an important factor of a competitive relationship between social and private renting. Housing associations in Coventry claim that higher security of tenure for social tenants gives them a competitive advantage over private landlords. It does not directly restrict landlords in behaving as rivals, but for tenants who are considering a tradeoff between higher rents and less security of tenure for a more desirable dwelling, the excess of property rights in the social housing sector gives tenants an incentive to stay.

Another category of barriers to rivalry directly relates to structural aspects of rental housing supply. In neoclassical economics deconcentrated supply is a sign of a competitive market. However, from a rivalry viewpoint it seems that the small-scale structure of private renting is a limiting factor. In both rental markets all types of landlords claim that it is difficult for individual landlords to operate in the low-income sector, as they are more vulnerable to dealing with problematic customers. They might not have the resources to deal with anti-social behavior, and most likely they are struck harder by rent arrears. As a result, small-scale landlords refrain from becoming active in the low-income segment. On the other hand, the deconcentrated supply structure in the PRS makes it difficult for social housing landlords to target them as their rivals in the rental market. Unlike in a duopoly, social landlords do not recognize single providers as their rivals, whereby direct moves and countermoves become highly improbable.

“In the past I have provided housing for those that are a bit outside of the mainstream society, but I have to say that this has gone wrong every single time. For us it is really difficult to make such a tenancy work. I think that this is better handled by the housing associations” (Breda, private landlord)

A recurring theme in the interviews was the way allocation systems in the two sectors generally limits a competitive relation between landlords. Surely, all types of landlords share the notion that the needs-based allocation in social housing and ability to pay based allocation in private renting generally undermines the idea of competition when looked at it from a tenants’ choice perspective. However, the interviews propose more detailed barriers to rivalry. Managers of housing associations in Coventry constantly note that the choice-based letting scheme restricts them in offering more desirable products and keeping tenants from moving to private sector by, for instance, offering a bigger dwelling in a better location.

“For us as a business it [a more flexible letting system] would make it easier, and give us the possibility to keep our customers much more happy. There is no way we can keep it for the person that we want it to have. We might have a customer for ten
to twenty years who is really happy with us. Suppose they get a child and need a bigger property. Circumstances mean that they’d have to go back into the system, whereas in the PRS they can look for it themselves. We have to let them go. There they can negotiate on things, provide something that we can’t. This also means that they cannot move to another social landlord, cause we are all in the CBL.” (Coventry, social landlord)

Moreover, from a practical viewpoint the stigmatization of low-income households limits the scope for rivalry between the two landlord groups significantly. If more private landlords saw the same business opportunities in the low-income private rental sector as some incumbent landlords, the competitive pressures on social landlords would be further increased. However, with the prevailing negative perception of this tenant group, these pressures remain relatively low.

A final topic that seems to be a significant barrier to rivalry is policy of local authorities towards the development on new dwellings in low-income housing. On the one hand, private landlords in Breda identify the problem that the local authority tends to ask the maximum market price for building sites. This ties in with their view that the absence of direct and indirect subsidies for private landlords to develop low-income housing further limits the chances that they will re-enter this market segment. On the other hand, the local authority in Coventry is considered to have a policy that favors non-profit housing associations as developers of new social housing. Nonetheless, in both cities local authorities have come to implement the policy that at least 30 percent of all dwellings in within one development scheme need to be social housing. Interestingly, this supports cooperation between social and private parties in the development process, but creates more scope for competition between landlords as spatial proximity is increased on a general level.

Figure 1 gives an overview of all the themes that have been identified as barriers, or understood the other way round drivers of, a competitive relationship (and rivalrous behavior in more specific terms) in the low-income rental sector. What the figure is trying to illustrate is that these barriers can be divided into three main categories: First, as pronounced by the industrial economics literature, market structural aspects, such as supply and demand conditions, have a strong impact on how social and private landlords see and mediate their competitive relation. Second, there are several accounts of how regulatory and policy related issues – i.e. institutional constraints - drive the extent to which competition and rivalrous behavior is possible. Third, there also seem to be strong barriers to rivalry that are directly related to the business strategies and goals of both landlord groups.
Barriers to rivalry in commercial rental housing

The discussion on barriers to rivalry in the commercial sector generally has a different tone than the one in low-income renting. Since the provision of either landlord group is bound to identical regulatory conditions, rivalry then becomes more or less a matter of the aims and scope of housing associations in commercial rental housing. Indeed, the in-depth interviews suggest that competition between social and private landlords in the market rental sector largely depends on
demand conditions and how strong social landlords have moved into this segment. Barriers to rivalry can therefore be basically equated with the idea of barriers for housing associations to enter market rental housing.

Social landlords in both case study cities see the current property slump as a major limitation to increase their commercial renting operations. The main reason here is that besides the aim to have a high and continuous rental income stream, the development of market rental dwellings strongly aims at capital appreciation. In times of more than uncertain house price developments, social landlords see this market segment as too risky. Social landlords in Coventry add that even if they wished to grow in the high- and middle-income market segment, they could not do it in current times due to constraints in the availability of capital. They claim that banks have become particularly hesitant in providing money for these operations.

Second, social landlords in Breda note that a lack of experience in the commercial market forms a barrier to enter the segment even stronger. In times of increasing supply from both social and private landlords, uncertainties and risks of long-term vacancies are growing. They identify the problem that they are not sure on how to behave in a market where these risks prevail; here they see themselves in a disadvantage since corporate investors have ‘weathered similar storms’ before.

Third, numerous landlords in both cities say that their social business paradigm forms a barrier to new investment in commercial renting. Entering the market rental sector requires large capital investments that might then be no longer available for their social housing activities. To put it in the words of one social landlord in Coventry, commercial renting activities may dry up the cash flow that is necessary for running and investing in the social housing business. Since social housing is their very reason for existence, many housing associations, particularly those in Coventry thus largely abstain from market rental operations. This ties in with the notion that there are conflicting strategies of commercial housing operations. The fact that market renting requires long-term capital investments is an incentive for some associations to become primarily active in other commercial housing sectors. Indeed, most interviewed housing associations have chosen the path of developing houses for sale, which entails that they engage in commercial renting only as long as possible property slumps exist.

Finally, and most interestingly, in both cities one can observe differences between traditional housing associations and those that run the former council stock. In practice, the stock transfer has brought these two associations in a weak competitive position, since they face high debt levels as well as an impetus to invest into their existing social housing stocks, which in both cases have the lowest quality of all dwellings in both cities. They are therefore largely restricted in their possibilities to invest into commercial market renting, much stronger than other housing associations in the two markets. We can thus say that rivalry in the commercial market segment has a strong element of path dependency.
6 Conclusion

The main aim of this paper was to shed light on the competitive relationship between social and private renting from the viewpoint of landlords in both rental sectors. This was approached from two different perspectives: First, landlords' awareness of a competitive, rivalrous relationship, and second, the drivers of and barriers to perceptions of rivalry and competitive behavior in the two rental markets of Coventry and Breda. The empirical analysis showed that that although there are some signs of a competitive relationship, perceptions of rivalry and accordingly rivalrous behavior are generally weak in low-income housing in two rental housing markets. Where some managers of housing associations in Coventry vaguely see private landlords as competitors, and social landlords in Breda have strong perceptions of rivalry and motives to behave rivalrous in commercial market segments, private landlords in both case studies see their products as a sort of supplement to social housing in the low-income rental sector – indeed, it seems that the two landlord groups have found a tacit arrangement of how to coexist in the market. Here, the interviews propose that private landlords see some limitations in engaging in a true competitive relationship, since they are obviously not able to compete against social rent levels. On the other hand, private landlords and letting agents in Breda tend to see housing associations as competitors in the commercial market, where their non-profit orientation is seen as a serious threat to the profitability of their own business.

Explaining the obviously weak competitive relationship in the low-income rental market, the paper showed that there are institutional (political and regulatory), market structural, and business-related barriers to rivalry at work in both case study cities. Here, the interviews propose that product similarity – including regulatory aspects such as the similarity of rent regulation and housing allowance schemes –, balanced supply and demand relations in both sectors, and the structure of supply are particularly strong drivers of a competitive relationship. Moreover, the inflexibility of choice-based letting schemes and fixed rent setting seem to be the main barriers to actual rivalrous behavior and reactions to increased competitive pressures for housing associations. Most interestingly, the analysis provides evidence that whereas policy- and regulation-related barriers are stronger in Coventry, the main barriers to increased competition between social and private landlords in the regulated segment in Breda are of a structural nature. Finally, in the commercial market segments, institutional barriers to competition and rivalry are relatively low; nonetheless, business-related issues such as the non-profit paradigm among social landlords form barriers to increasing supply and therefore increasing competition.

With these findings in mind it is possible to discuss the value of the concept of interfirm rivalry as a theoretical tool to analyze competition between landlords in mixed rental markets. The empirical analysis suggests that competitive processes (which do exist in both cities) are less relational and direct of the concept interfirm rivalry assumes. On the other hand, we have found some accounts of subjective views of competition, a non-reciprocal nature of competitive perceptions, and strong path-dependency in the awareness of competition, as well as in the motivation and capability to behave competitively. To conclude, the concept of interfirm rivalry is generally suitable for determining competitive processes and giving meaning to the notion of
competitive behavior in rental housing. Nevertheless, there are some unresolved issues: First, it is at times difficult to make a distinction between competitive processes and rivalrous behavior. The question remains of how to fully understand the moves of tenants between the two sectors, which should be interpreted as competitive processes from a theoretical viewpoint, but does not entail direct and relational entail rivalrous responses from landlords. Here, the wider research approach hopes to shed light on this cleavage by researching the intentions to and reasons for moves of tenants between the two sectors. Second, it seems suggestive to shed more light on actual rivalrous behavior. Hence, in a following step, this study will try to provide more detailed evidence of how perceptions of rivalry are transferred into the strategic decisions of the two landlord groups, showing how the decisions of private landlords are transferred into the strategic choices of social landlords and vice-versa.

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Appendix 1

Theme List – interviews housing associations

1. Your position within the association
2. The housing association
   a. Main activities
   b. Where active?
   c. Why Coventry?
3. Characterization of rental market
4. The position of your association in the rental market
   a. Description of your tenants and your housing services
   b. Comparison with other landlords
5. Relation with other landlords
   a. Observing their activities
   b. Forms of cooperation
   c. Are there any competitors?
   d. Forms of competition
6. The role of the government in a competitive relationship between rental tenures
   a. Should competition be enforced?
   b. The possibilities for other landlords to enter your market
   c. Your challenges when setting up new business activities
7. Your principles in decision making on rent levels and rent increases
8. Your principles in maintenance investments and investments into new dwellings
9. Your plans to develop your housing stock
   a. Plans to operate in other market segments
   b. Plans to provide market rental accommodation
Appendix 2

Theme list – Interviews private landlords

1. Your personal background
   a. Career as a landlord
   b. Motivations to operate as a landlord
2. Your properties
   a. Which market segments
   b. Type of dwellings/description of the stock
   c. Types of tenants you cater for
   d. Where active in the city
3. Characterization of the rental market
4. Your position in that market
   a. Comparison with other private landlords
   b. Relation with other letting agents
5. Decision making processes
   a. Rent setting / rent increases
   b. Investment decision
   c. Relation with letting agents/What is their influence
6. Your view on the relation of private renting and social housing
   a. Comparison of the products and tenants
   b. How can the relation be described?
   c. Is there competition?
   d. If so, what is competition based on?
   e. If not, why not?
7. The role of local and national government
   a. The barriers of competition between the two sectors
   b. Challenges for private landlords to enter new business segments
Appendix 3

Theme list – Interviews letting agents

8. Your position in the enterprise
9. The letting agency
   a. Main activities
   b. Types of tenants and landlords you cater for
   c. Where active in the city
10. Characterization of the rental market
11. Your position in that market
   a. Comparison with other letting agents
   b. Relation with other letting agents
12. Your influence on decision-making processes of landlords
   a. Rent setting / rent increases
   b. Investment decision
13. Your view on the relation of private renting and social housing
   a. Comparison of the products and tenants
   b. How can the relation be described?
   c. Is there competition?
   d. If so, what is competition based on?
   e. If not, why not?
14. The role of local and national government
   a. The barriers of competition between the two sectors
   b. Challenges for private landlords to enter new business segments