HOUSING MANAGEMENT IN THE NETHERLANDS: Convergence Between Social and Commercial Landlords?

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Abstract

In the Netherlands, developments in housing policy have lead to decreased government support, privatisation and increased market-orientation in the social housing sector. These developments influence the asset management of social landlords. They have to behave more and more as entrepreneurs do, adopting a more financially oriented strategy, anticipating market developments and adjusting their stock accordingly. Consequently, we may expect a convergence between the social and the commercial sector in their asset management. In this paper, we investigate whether this expectation is true for the Dutch housing associations by comparing their asset management practice with that of the housing investors from the commercial sector. Results from interviews and literature study show that the social and the commercial sector are still two separate worlds. Furthermore, despite professionalisation tendencies, asset management is still in its infancy, not only in the social sector, but in some respects, also in the commercial sector.

1. INTRODUCTION

Recent developments in the Dutch social housing policy have led to changes in social housing management. In the 1990s, the national government granted social landlords considerably more freedom of policy but also diminished the financial support of social landlords (see e.g. BOELHOUWER, 1997). Furthermore, demand for social housing decreased, partly due to a booming economy and changes in housing preferences towards homeownership. As a consequence, housing associations, which own nearly all of the social rented dwellings in the Netherlands, began to adopt business-like approaches in their housing management. This can be seen in approaches and methods such as ‘strategic business planning’, ‘portfolio analysis’, ‘benchmarking’ and ‘balanced score cards’, which are used to evaluate the performance of organisation and assets and to support developing management policy. In addition, many housing associations have merged in recent years (see PRIEMUS, 2001, p. 246), among others to cope better with their less certain environment and to achieve a size which allows them to set up a professional management and to formulate market-oriented strategies. From these developments we expect that:

- the (housing) asset management of Dutch housing associations increasingly shows similarities with the asset management of commercial landlords.
- portfolio strategies and rationalised, systematic ‘translation’ of these strategies into asset management options play an important role in investment decisions of housing associations.

To see if these expectations are correct, we held interviews among housing associations and real estate investors. In these interviews, we focussed on the ‘strategic’ aspects of housing stock management: strategy formulation and an assessment of the portfolio on the basis of these strategies. We looked at the process followed, the strategies formulated and the methods and instruments used to support sophisticated, rationalised decision-making. Our main research questions are:

- To what extent do housing associations and

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1 The interviews have been held by Nico Nieboer and Ad Straub from OTB Research Institute, and reported in NIEBOER (2003).
commercial real estate investors formulate strategies for the quantitative and qualitative development of their housing stock?
- How are these strategies translated into investment decisions on the estate level?
- To what extent do housing associations and commercial real estate investors use systematic methods and techniques supporting these investment decisions?
- What are the similarities and differences between housing associations and real estate investors, regarding the topics in the above questions?

This paper discusses the results of our research. It starts with a basic description and comparison of the types of landlords in our research: Dutch housing associations and real estate investors. Then, it discusses the theoretical framework for our research, which forms the basis for the hypotheses for our empirical research. Next, the results are presented. The paper ends with a comparative conclusion about the asset management of Dutch social and commercial landlords and with some recommendations for practice.

2. OVERVIEW OF DUTCH SOCIAL RENTED AND PRIVATE RENTED SECTOR

The social rented stock is managed by two kinds of social landlords: housing associations and municipal housing companies. Housing associations are by far the largest providers of social housing in the Netherlands. In 2001, there were 620 associations, owning more than 99% of the social housing stock and 35% of the total housing stock (MINISTRY OF VROM, 2002).

Dutch housing associations are not-for-profit organisations, which are obliged to operate in the interest of housing, in particular by providing decent, affordable housing to lower-income households. This is reflected in the Housing Act and the Social Rented Sector Management Decree (BBSH), which states the rights and obligations of Dutch housing associations. Within their activities, housing associations must give priority to accommodating target groups (mostly lower-income households), but they may also provide dwellings for others. Therefore, in the Netherlands, housing associations are often typified as ‘hybrid’ organisations, which carry out public tasks, but are independent, private organisations, having market driven objectives as well (see also PRIEMUS, 2001, pp. 247-249).

In the Netherlands, about 11% of the total housing stock (approximately 800,000 dwellings) is operated by private landlords (MINISTRY OF VROM, 2002). These landlords can be divided into three categories (KERSLOOT, 1999, p.7):
- real estate investors: mainly pension funds and insurance companies;
- other professional investors: (real estate) investment funds/trusts;
- individual private landlords.

In our research we have focussed on the real estate investors, who own most of the professionally operated housing stock. Individual private landlords generally own only a few dwellings, which makes a rationalisation of housing management less relevant. The other professional investors could be interesting, but they constitute only for a small part of the commercially operated housing stock in the Netherlands. The amount of dwellings of real estate investors is approximately in the range of 200 to 250 thousand dwellings.

Table 1 summarises some of the characteristics of the Dutch social landlords and real estate investors. As we can see, the total housing stock of the social landlords exceeds the stock of the real estate investors by far. On the other hand, the average size of the investors’ housing stock is almost three times as big as the associations’ stock.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Housing associations</th>
<th>Real estate investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of dwellings</td>
<td>2.3 million</td>
<td>0.2 million</td>
</tr>
<tr>
<td>% of total Dutch housing stock (6.6 million dwellings)</td>
<td>35%</td>
<td>3%</td>
</tr>
<tr>
<td>Number of landlords</td>
<td>620</td>
<td>ca. 20</td>
</tr>
<tr>
<td>Average number of dwellings per landlord</td>
<td>3,800</td>
<td>9,500</td>
</tr>
</tbody>
</table>

Table 1. Properties of Dutch housing associations and real estate investors in 2001 / Sources: MINISTRY OF VROM (2002), ROZ/IPD (2002), own calculations
3. KEY-ASPECTS

In connection with the reforms in social housing management, the term 'strategic asset management' has been introduced in the Dutch social rented sector in the 1990s. This term is associated with the introduction of principles of asset management and strategic planning, originating from the commercial sector, into social housing management. The term has a very broad meaning, containing various elements. It is beyond the scope of this paper to present a full discussion of this variety (for this we refer to GRUIS et al., 2004). For the purpose of this analysis we have limited ourselves to a few key-aspects - especially those that are crucial with respect to strategy development and the application of these strategies to housing management in a less government-dominated environment. In formulating these aspects, we state in a normative way what we expect to find with the housing associations and the real estate investors (together indicated as 'landlords') that have participated in the research. The aspects are derived from literature on strategic planning (e.g. ANSOFF, 1984; AAKER, 1984; KOTLER, 1997) and adapted for use in housing management (following VAN DEN BROEKE, 1998). Our key-aspects and related hypotheses are as follows.

- Landlords formulate (long-term) goals and objectives for the quantitative and qualitative development of the stock (for instance in the form of a model portfolio); Statements about the desired composition of the stock are essential in this, as well as guidelines for the application of these statements on the estate level. This level is especially important, because in practice it is the central level in asset management decisions. In this paper, we concentrate on the formulation of goals on portfolio level and the 'translation' of them to the estate level.

- On the basis of these goals and objectives, landlords assess their present portfolios and the individual estates within it. In this paper, we discuss if this evaluation takes place and which aspects and methods are involved in these evaluations. We expect landlords to use rationalised, transparent methods and techniques for this assessment of estates (or other housing categories) (e.g. portfolio analysis and decision trees).

- As a consequence of privatisation and less government support, we also expect landlords to use systematic techniques to respond to market developments (for instance through a greater emphasis on market analysis, market forecasts and risk management). In this paper, we discuss whether landlords perform market analyses for their residential portfolio in support of their asset management. We also deal with the role of future market expectations in these analyses.

4. RESEARCH METHOD AND REPRESENTATIVITY

The above-mentioned expectations have been tested on the basis of 10 interviews with real estate investors and 11 interviews with housing associations, supported by literature search.

The real estate investors have been selected from a working group on housing of the IVBN. Owning over 120,000 dwellings, these organisations manage a majority of all housing in the hands of real estate investors. The results of this research are representative for this sector. In the social sector, we have not aimed at representativity: the 11 interviewed housing associations form only a little part of the whole sector, which counted (as we mentioned earlier) more than 600 organisations in 2001. The interviewed associations own about 150,000 homes, which is 7% of the total number in the sector. Expecting that strategic asset management is still rather unusual in the social sector, we have selected relatively advanced housing associations. Indications (from either literature or personal connections) for development of strategic asset management has been the basis for selection of these housing associations.

5. EMPIRICAL RESULTS

Goals and objectives regarding portfolio development

Not surprisingly, the goals that real estate investors formulate for their housing portfolios are related to (yearly) returns. Several investors formulate a desired profit (mostly in percentages, in one case in
an amount of money) or a desired rate between income and costs. If the actual performance does not achieve this level, changes in the portfolio must follow. Non-financial guidelines, concerning regions or dwelling types (tense housing markets and housing for the elderly are popular) are frequently used as well, but mainly for financial reasons. Contrary to the results for the real estate investors, the findings with the interviewed housing associations indicate that it is very uncommon for housing associations to use actual goals for the minimum return. Although the research shows some first signs of thinking in terms of return, risk and value development.

In our research, we found only two investors producing model portfolios that indicate the desired composition of the stock (according to region and type) and, consequently, which types of dwellings are overrepresented or underrepresented. These model portfolios are based on data about for instance regional economic development, return-risk ratio and housing demand. In both cases, this line of working is approximately five years old. Similar portfolio models have not been found with the housing associations.

Common criteria for portfolio management in the social sector are minimum levels of technical quality or minimum numbers of affordable dwellings. Apart from this, there is a general tendency to raise quality standards in order to meet housing demand. Besides, many housing associations indicate to enlarge the number of properties that is accessible and appropriate for elderly people. However, these policy statements have mostly not been worked out nor quantified, so that they do not have a direct impact on investment decisions on estate level.

**Market orientation**

One of the characteristics of strategic asset management is its considerable attention to market factors and market analysis. For real estate investors market orientation plays an obvious role in their asset management. As has been indicated before, real estate investors ‘translate’ market aspects into financial factors such as return, risk and value development. It is not market developments as such, but the financial consequences that matter.

In a survey held in 1997, housing associations were asked to indicate the importance of several factors in their stock management, such as technical quality, equipment (e.g. central heating, insulation), availability of subsidies, tenant preferences, lettablity, exploitation benefits and property value. Among these factors, lettablity was mentioned to be the most important one, followed by equipment (STRAUB, 1997, p. 36).

Both real estate investors and housing associations make periodical reports on present lettablity and vacancies. Some interviewed housing associations have indicated that they started to do so because of vacancy problems in the past. However, these problems have now disappeared, mainly due to an enormous rise in prices of owner-occupied housing. As a consequence, lettablity is only a modest factor in asset management decisions. Nevertheless, our research indicates that lettablity is still regarded important.

Based on theory on strategic business planning (e.g. ANSOFF, 1984), it has been suggested that housing associations can use a portfolio analysis of the market position in support of management decisions (VAN DEN BROEKE, 1998). In such an analysis, estates are assessed on the basis of their current market position (e.g. on the basis of vacancy and turnover rates) and their future market prospects (e.g. on the basis of housing market research). The outcome of this analysis may be translated directly into suggestions for basic strategies to follow (e.g. ‘grow’ or ‘cherish’ when market position and prospects are good and ‘divest’ when market position and prospects are bad). In this way, portfolio analysis may contribute to a systematic approach to formulate strategies for the housing stock (cf. VAN DER FLIER AND GRUIS, 2002). Our research, however, has identified only one landlord, a housing association, that uses a kind of marketing portfolio analysis as part of its stock management. This gives the impression that this technique is rarely used in practice. For housing associations, this may be partly explained by the fact that portfolio analyses have been designed initially for commercial businesses and therefore cannot be applied directly to social housing management. For real estate investors, we expect that many would use a financial portfolio analysis, in which their estates are
set against each other on the basis of risk and return. Our research indicates that this is true as far as the size of the real estate portfolio or the housing portfolio is concerned. Use of financial portfolio analysis to determine the composition of the housing portfolio is, however, limited. This may be partly explained because it uses stochastic measures for risk and return ('mean, variance'), which are often stated to be difficult to apply to real estate, among others because there is no historical data on which to base the expectations (e.g. XU, 2002).

An earlier survey among Dutch real estate investors by DE WIT (1994) showed that the use of stochastic criteria in real estate investment is (highly) uncommon. Little seems to have changed, at least in respect to housing investments.

Although landlords have a lot of information about the present market situation, insight in future market situations is less developed. Forecasts of market situations, if there are any, do mostly not contain information on the appropriate geographical scale, thus leaving a lot of uncertainty about the future market situation of a landlord's portfolio. Moreover, several landlords have indicated that they regard the market too dynamic to rely on these forecasts, even if these would specifically be made for their property. For this reason, future market prospects are more based on past experiences and subjective knowledge than on systematic calculations. This, in turn, may partly explain the rare application of portfolio analyses.

**Estate assessment**

All interviewed real estate investors evaluate their estates on a regular (mostly yearly) basis to decide what (dis)investments should be carried out. In general, these evaluations are carried out in workshop-like meetings, in which all relevant persons take part. In the social sector, this kind of evaluation is far from common. Two interviewed housing associations will soon start to carry out a periodic, integral evaluation of its estates; three associations have just started. In these three cases, external advisors have conducted the process of information gathering and combining, and, in doing so, prepared the evaluation. The housing associations intend to repeat these actions periodically in the future.

The outcome of the evaluation in terms of stock policy depends, of course, on the criteria that landlords 'impose' on their estates, and also on the way in which they 'weigh' the relative importance of these criteria. We expect connections between these criteria on the one hand and the choice of policy options on the other.

Most real estate investors use minimum return percentages to evaluate their estates. In principle, estates that do not meet the minimum percentage are pointed out for sale. By the way, this does not always mean that sale will be effectuated. Reinvestment possibilities, tenants' willingness and ability to buy, and agreements with local governments or other parties play a role as well. Especially the lack of reinvestment possibilities can be hindrance for real estate investors to sell their properties.

Because one criterion, namely return, is dominant, weighing of heterogeneous interests does not play an important role in asset management decisions of real estate investors and is not considered a problem. Thus, it is not surprising that we have not found rationalised techniques other than financial calculations to weigh competing signals and interests.

As we stated earlier in this paper, housing associations regard other than financial factors (technical quality, affordability, lettable etc.) equally or even more important. As a consequence, the factors to be weighed for decision making are much more dissimilar. However, techniques to rationalise this process, like decision trees and marketing portfolio analyses, are hardly used. Although analysis of estate characteristics/performance in support of management decisions is common, none of the interviewed housing associations uses clear connections between the outcome of the analysis and (a set of) policy options. In one case, an external advisor has related estate characteristics on lettability, market expectations and price-quality ratio on the one hand to policy options on the other hand, but it is unclear whether this method will a play a role in decision making in the future. As far as we know from our experience, similar exercises have been carried out at several other social landlords, but always by external advisors and not by landlords themselves. Some interviewed landlords have even stated that a systematic weighing of relevant
6. CONCLUSION

In the past decades, housing management has changed due to influences from the market and policy. In the social rented sector, reductions in government regulation, financial government support and social housing needs have brought Dutch housing associations in need of concepts to develop asset management strategies. In this paper we have investigated, what methods and techniques are used within the asset management of a indicative selection of Dutch housing associations, and have compared them with the practice of a representative selection of commercial real estate investors. From our evidence, we conclude that our hypotheses are not confirmed.

- Especially in the social sector, the goals and objectives are formulated in a general form, and poorly ‘translatable’ into investment decisions on the estate level. Portfolio models, which can be helpful in this, have only been found with two real estate investors.
- Financial forecasts play an important role with the real estate investors. With the housing associations, market orientation is concentrated on present lettability. Insight in present market situations is well developed, insight in future market situations is less available. The landlords in the research base their market expectations more on past experiences and subjective knowledge than on systematic calculations. The use of market portfolio analysis has only been found with one housing association.
- Periodic and comprehensive estate assessment in workshop-like meetings is usual with real estate investors, but not with housing associations. Transparent criteria for weighing of different signals and interests is absent in both sectors, and even felt to be unrealistic.

Looking at the innovations in asset management as described above, the results indicate little convergence between the social and the commercial sector. It is true that integral and periodic evaluation, which is common among real estate investors, gets more and more usual in the social sector. Initiatives to give return and value development serious roles in stock policy are, although probably scarce, also signs of convergence to real estate investors. Nevertheless, convergence is modest - not in the least because the use of some rationalised techniques is not so common among real estate investors as we had expected from the rather commercial nature of these elements (such as the formulation of strategies, the use of market prospects or the use of a decision model). Besides, considerable differences in aims and objectives remain: stock policy of real estate investors is mainly based on financial considerations, whereas housing associations must meet a number of legally imposed tasks (e.g. supplying affordable housing for lower-income households). This difference affects the type of information needed, the way this information is used to make decisions and, consequently, the decisions themselves.

In general, we may conclude that, despite professionalisation tendencies, asset management is partly in its infancy, not only in the social sector, but in some respects also in the commercial sector. In the social rented sector, not much seems to have changed over the past five years. An in-depth research by VAN DEN BROEKE (1995) into the asset management practice of supposed fore-runners among housing associations in 1994 showed similar results, such as a weak relation between central objectives and actual strategies, the lack of a systematic approach in the form of a process model, and limited deliberation over alternative strategies.

The results for the real estate investors may be considered as somewhat remarkable, since the professionalisation has been stated to take place over a longer period. It may well be, that this professionalisation has been taken place mainly in their portfolio management (which the allocation of investments to basic categories such as shares, bonds and real estate), while it seems that the professionalisation of asset management has just begun. One of the reasons for this can be that real estate management is often stated to be concerned with intuition and ‘soft factors which is are not easily combined with a rational, systematic decision-making process.
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