

Financial and Social Return in Housing Asset Management, Theory and Practice of Dutch Housing Associations

Nico Nieboer

*OTB Research Institute for Housing,
Urban and Mobility Studies, the Netherlands*

OTB Research Institute for Housing,
Urban and Mobility Studies,
Delft University of Technology,
PO Box 5030,
NL – 2600 GA Delft, the Netherlands
E-mail: n.nieboer@otb.tudelft.nl

Vincent Gruis

*Faculty of Architecture,
Delft University of Technology, the Netherlands*

Faculty of Architecture,
Delft University of Technology, PO Box 5043,
NL – 2600 GA Delft, the Netherlands
E-mail: v.gruis@bk.tudelft.nl

**FINANCIAL AND SOCIAL RETURN IN HOUSING ASSET MANAGEMENT;
THEORY AND PRACTICE OF DUTCH HOUSING ASSOCIATIONS**

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Vincent Gruis* and Nico Nieboer**

* Faculty of Architecture, Delft University of Technology, PO Box 5043,
NL – 2600 GA Delft, the Netherlands
E-mail: v.gruis@bk.tudelft.nl

** OTB Research Institute for Housing, Urban and Mobility Studies, Delft University of
Technology, PO Box 5030, NL – 2600 GA Delft, the Netherlands
E-mail: n.nieboer@otb.tudelft.nl

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Abstract

In recent years, as part of developments towards a more business-like management in social housing, there has been widespread interest in performance measurement in the social rented sector. However, social landlords differ from 'regular' enterprises because the emphasis lies on the fulfilment of social objectives instead of financial return, although the latter is of importance as well (in terms of economic efficiency). Because of this multiplicity in their objectives, social landlords have to make difficult deliberations on the basis of factors that are hard to measure and to compare - factors which can be placed under the general headings of social and financial return. Our paper discusses how financial and social return can be measured in relation to the asset management in Dutch housing associations. We theoretically describe and assess the concepts of financial and social return and the indicators that can be used to measure them, focussing on decision-making concerning the management of the housing stock. Furthermore, we discuss the current practice on the basis of the results of an explorative survey among nine housing associations.

Our survey shows that practice varies considerably among the investigated associations. As far as the measurement of financial return is concerned, a few associations act in accordance with the theoretical 'ideal'. Many associations still follow a traditional book-keeping approach, which is not suitable for supporting asset management decisions. As far as social return is concerned, our survey indicates that associations collect a lot of data, but do not really evaluate their performance by comparing their output against preset targets or benchmarks.

1 Introduction

Performance measurement plays an important role in the strategic decision-making process and evaluation of organisations. Top-level managers need a limited set of targeted, measurable data to assess their organisation's performance without detailed involvement at the operational level. Shareholders and stakeholders need data to be able to evaluate the way in which organisations take care for their interests. Performance measurement has its origins in the private sector. More recently, attention has been given to performance measurement in the context of social or public housing management as well, as part of a more general objective to improve public sector effectiveness and efficiency through the introduction of business-like management principles. In England, for example, as part of 'New Public Management' reforms, local authorities and housing associations have had to implement systems of performance measurement, both for 'upwards' accountability towards their supervisors and financiers as for 'downward' accountability towards their tenants (e.g. Walker and Van der Zon, 2000; Smith and Walker, 1994). The Flemish Housing Company in Belgium and the Austrian Federation of limited-profit housing associations are both working on systems for benchmarking of the housing associations in their countries (Winters respectively Bauer in Gruis and Nieboer (eds.), 2004). And in France, the umbrella organisation for social landlords

'Union Nationale des Organismes HLM' has a long tradition in the collection of various ratios among its members in support of benchmarking (Pacolet and Mertens (eds.), 1998).

In the Netherlands, as a result of housing policy reforms in the late 1980s and 1990s, there is a widespread interest in performance measurement in the social rented sector as well. Two decades ago, Dutch housing associations could be typified as bureaucratic, task-oriented organisations. The activities of housing associations were largely controlled by the government, through financial support and (the associated) detailed regulations. Consequently, the associations were working as an annexe to the government with the task to provide social housing services. During the nineties, as part of a more general (inter)national trend towards deregulation, decentralisation and privatisation, the associations became much more administratively and financially independent. With the introduction of the Social Rented Sector Management Decree (BBSH) the detailed regulation of their activities was replaced by a system of retrospective accountability on the basis of (only generally defined) 'performance fields'. At the same time, direct financial support from the government was diminished and operating risks were transferred onto the associations (e.g. Priemus, 1996, 2001) The reforms in the Dutch housing system lead to an increased interest in performance measurement in two (interrelated) ways.

First, as part of the decentralisation policy, the responsibility for adequate housing was transferred from the central government to the local governments and the housing associations. In doing so, the municipalities and associations are depending on each other. The municipality has, among others, legislative power to (co)decide over the use of land and houses. Initially, they were also given the responsibility to carry out the supervision on housing associations, although later on these tasks were transferred back to the central government and, as far as the financial supervision is concerned, to the Central Housing Fund (CFV). The housing associations are the primary owners and providers of social rented housing in the Netherlands. This situation has lead municipalities and associations to work out performance agreements which describe the mutual, shorter and longer term, tasks and intentions of both parties. Thus, as Dieleman (1999) points out, these performance agreements were introduced more or less spontaneously and were not foreseen in the BBSH, although they have been included in the slightly altered Decree since 1998.

Second, the administrative freedom also brought housing associations the responsibility to make strategic decisions for themselves. They had fundamental questions to address, such as what dwellings need to be improved, what dwellings can or should be sold, what rents should we ask for which dwellings (of course, all within remaining legal boundaries)? This situation has lead housing associations to reorganise their management and to incorporate principles and approaches derived from the private sector, such as strategic business planning, benchmarking and balanced score cards. Focussing on their core activity - the management and development of dwellings with a social objective - much attention has been given to the measurement of the performance of their housing stock as part of strategic asset management (e.g. Gruis et al., forthcoming). This has resulted among others in the (perhaps remarkable) introduction of a benchmark for the financial performance of the housing associations' stock - the Aedex/IPD property index for Dutch housing associations (see section 3).

Despite (or given) current interest and developments, many important questions remain to be answered. Although social landlords' management can be inspired and potentially improved by implementation of private sector approaches, many of these approaches have been built around the (implicit) assumption that they have to contribute to improving a company's financial performance. This is, of course, not the primary objective of social landlords. As for example Van Dijk et al. (2002) point out, social landlords are concerned first of all with 'People' and 'Planet', where 'People' stands for the interests of (sitting) tenants, while 'Planet' stands for the wider interests of the society. Although 'Profit' (financial performance) is relevant as well, this is mostly in terms of economic efficiency (not costing too much), rather than in terms of making money. Because of the multiplicity in their objectives, the social landlords have to make deliberations between factors that hard to measure and difficult to compare. These factors could be placed under the general headings of social and financial return. Thus, an important question is: how can social landlords measure social and financial return in support of their asset management?

In this paper we will address this question in relation to current practice of Dutch housing associations. We argue that the Dutch case is interesting to investigate for several reasons. One reason is that the multiplicity in the objectives of social landlords is particularly evident in the operations of Dutch housing associations. Seen from an international perspective, they operate a fairly wide variety of dwellings (concerning price and quality) for a large group of households (see e.g. van der Heijden, 2002, van der Flier and Gruis, 2002). Although they are focussed on low-income households, they provide housing for a relatively large group of middle and higher-income households as well. During the nineties, among others as a result of the housing policy reforms, the associations have become more active in the (lucrative) development of higher-rent and owner-occupied dwellings (e.g. Priemus, 2001; Gruis and Nieboer (eds.), forthcoming). Therefore, they have been typified as 'hybrid' organisations which combine market activities with the fulfilment social housing tasks (Priemus, 2001). Another reason why the Dutch housing associations are interesting to investigate is that they have been recognised as (arguable) international front-runners in the development of strategic asset management in the social rented sector (Gruis and Nieboer (eds.), forthcoming). Thus, one could expect that performance measurement is relatively well developed within their asset management as well.

Our paper starts with a theoretical discussion of the possibilities and limitations of performance measurement within social housing (asset) management. Then, we define the concepts financial and social return and make an inventory of the indicators that could be used to measure the financial and social return of the housing stock. Subsequently, we discuss current practice of Dutch associations on the basis of the results of an explorative survey among nine housing associations.

2. Performance measurement within social housing management

Performance is a general term which cannot be expressed by a single measure, certainly not within social housing management (e.g. Kemp, 1995). Therefore performance is usually expressed in two or more 'E's. Often, in the most simple form, a distinction is

made between effectiveness and efficiency. Priemus (2003, p. 270) for example states: “The performance of market players is usually assessed along two lines: effectiveness = the degree to which the set goals are realised; and efficiency = the costs that are incurred to realise the goals”. Within the context of social housing management, Smith and Walker (1994, p. 610) state: “The concept of performance has three distinct yet related elements: “economy (the purchase of resources at lowest cost consistent with a specified quality and quantity), efficiency (a specific volume and quality of service using the least resources capable of delivering the specification), and effectiveness (providing the right service to enable the [social landlord] to implement its policies and objectives). Some have argued that a fourth ‘E’ should be added: equity to ensure a fair and equitable distribution of resources and outcomes for different groups (Mullins, 1991)”. Pearl (1997) also takes into account the ‘E’ of evaluation, although this relates to the actual monitoring and analysis of performance and not to the kind of performance that is being measured.

The choice for the number of ‘E’s and their definitions are partly dependent on the objectives of the performance measurement. Equity is, of course, taken into account explicitly on the basis of social objectives. Therefore, Pearl (1997) places equity in the ‘welfare’ model of housing management. Within private sector housing management - or, as Pearl argues, within ‘contractual’ models of housing management - equity is much less self-evident to occur as part of performance measurement. Efficiency and economy have a place in both welfare and contractual models, but have gained importance in the past decades as part of a more general concern or preoccupation with the performance of (semi)public organisations. However, the distinction between economy and efficiency is often hard to make. For example, when we look at Smith and Walker’s definitions above we can see that both economy and efficiency could be calculated on the basis of the costs that are involved in the delivery of the product or the service.

Performance measurement can have various functions. It can be used for internal purposes to inform management within an organisation and it can be used for external purposes, to inform the direct stakeholders (tenants and supervisors). Furthermore, performance measurement can be done *ex post*, to assess and render account of past performance, or *ex ante*, in support of management decisions and quantification of future targets. In Table 1 we have given an overview of the various purposes of performance measurement, divided into upward, inward, downward, backward and forward ‘accountability’.

Within this paper we focus on the measurement of the social and financial return of the housing stock in the context of ‘social landlords’ asset management. Thus we look at performance measurement for purposes of inward, backward and forward accountability, employing a simple division between effectiveness and economic efficiency. Social return can be related to the effectiveness of asset management in terms of the provision of adequate housing. Financial return can be related to the economic efficiency of asset management, in terms of the economic costs that are attached to the provision of housing. In the following section, we will discuss the concepts and indicators of financial and social return in more detail.

Table 1: objectives of performance measurement within social housing management according to perspective and target group

Perspective	Backward	Forward
Target group		
Upward	Retrospective supervision	Prospective supervision
Inward	Policy evaluation	Policy making
Downward	Tenant information	Tenant participation

3. Financial return: definition and indicators

The financial return of social rented dwellings can be expressed in the same measures that are used in the private sector. Basically, the definition of financial return is very simple. The financial return that is realised over a certain period is equal to the net proceedings that have been realised during the period, related to the initial amount of capital that has been invested (e.g. Rust et al., 1995). Expressed in a formula:

$$r_{t-1,t} = \frac{(CV_t - CV_{t-1}) + NI_{t-1,t}}{CV_{t-1}}$$

where:

- r = financial return
- CV = capital value
- NI = net income
- t = period

The above formula is the basic formula of within financial mathematics. Nevertheless, during the course of time, many different measures of financial return have been developed, each of which are calculated in a different way. More common measures of financial return are (e.g. Rust et al., 1995):

- the gross or net return from income (direct return): the proceedings realised over a certain period divided by the initial investment or capital value at the beginning of the period. For dwellings this would mean the years' gross or net (minus exploitation expenditure) rental income;
- the capital (indirect) return: the growth (or decline) in capital value which is realised over a certain period, divided by the capital value at the beginning of the period;
- the Total Rate of Return (TRR): the sum of direct and indirect return within a certain period;
- the Internal Rate of Return (IRR): the financial return that is being realised 'on average' during the whole period of exploitation of a dwelling;

- the Net Present Value (NPV): the discounted or present value of the expected net future proceedings.

In addition to these general rates of return, many housing associations in the Netherlands look at the value of their dwellings on the basis of the historic cost price. Furthermore, some associations have begun to look at the market value of their dwellings as well and have joined the AEDEX/IPD index for housing associations. Below we will discuss the relevance of all of these measures within the context of asset management in the social rented sector.

The Net Present Value as most relevant indicator

The income, capital and total return are all used to express the financial performance of an asset over a short period of time (usually one year). They can all be subject to significant periodical fluctuations, for example due to concentration of maintenance expenditure or periodical growth or stagnation in capital value of a dwelling due to market circumstances. However, social landlords, as well as many private housing investors, usually operate their dwellings with a long-term perspective. For them, the financial performance measured over the entire exploitation period of the dwellings is much more relevant. And, even if they are considering to sell or demolish a dwelling within a short period of time, it is much more relevant for them to compare the proceedings (or costs) from disposal with the financial return of the alternative of continuing exploitation. Thus, for social landlords' asset management the IRR and the NPV are the most interesting indicators of financial performance, since they measure the financial proceedings during the entire future period of exploitation.

The NPV and the IRR can be measured using similar formulas (see below). However, application of the IRR to existing dwellings is problematic because the initial investment is already in the past. For the purpose of supporting asset management decisions (forward accountability) proceedings from the past must not be taken into account, because of the simple fact that they can not be influenced by today's decision. Therefore, we recommend the NPV as an indicator of financial performance (see e.g. Gruis, 2002 for a fuller discussion of the calculation of the NPV in the context of social rented housing).

Formula NPV:

$$NPV = \sum_{t=1}^n \frac{NI_t}{(1+i)^t} + \frac{RV}{(1+i)^n}$$

Formula IRR:

$$0 = \sum_{t=1}^n \frac{NI_t}{(1+i)^t} + \frac{RV}{(1+i)^n} - I_0$$

where:

NI_t = net income per period (rent minus expenditure on maintenance, taxes, etc)

n = number of periods the dwelling is let out (usually years)

RV = residual value (the value at the end of the letting period)

I_0 = initial investment

i = discount rate (input NPV formula) or IRR (output IRR formula)

Economic loss as indicator of economic efficiency

The NPV is determined for a large part by the landlords' policy (maintenance expenditure, exploitation period, rent setting). This characteristic of the NPV makes it very suitable for expressing the financial consequences of policy. However, one of the limitations of using the NPV as indicator of the financial return on its own is that it does not provide information of the additional proceedings which could be realised if policy would be different. This makes it hard to determine if a NPV is 'good' or 'bad'. For example: the NPV of a dwelling could be relatively low, but if there are few opportunities to positively improve the proceedings (for example because of the poor quality of the dwelling), the current policy may be a good alternative from a financial perspective anyway. Usually, the NPV is calculated under the assumption of continuing social rent, but often the maximum proceedings which could be realised if the landlord would act market conform (the market value) is (much) higher. The difference between the NPV on the basis of current policy and the market value can be seen as a measure of the economic opportunity costs of current policy. Of course, this economic loss is often justifiable from the social objectives, but if it becomes very high one could wonder if one is being efficient – are the costs of providing the social housing service not too high? In some cases, for example, it may be better to sell some dwellings and use the proceedings to finance social housing services in a more efficient way. Thus the economic loss, measured as the ratio between the NPV under current policy and the market value, provides a useful indicator of economic efficiency (see also Gruis, 2002; Van der Flier and Gruis, 2002).

The irrelevance of the value on the basis of the historic costs

Many of the Dutch housing associations provide insight in their financial position and the value of their dwellings on the basis of the historic cost price. Within this method, the value of a dwelling is set equal to its purchase of production price costs less depreciation. The yearly amount of depreciation is determined at the beginning of the exploitation of the dwelling. However, from a financial-economic point of view, the value of an asset is determined by its future proceedings. At the time of the investment, the value of a dwelling based on the historic cost price is still related to the expected income, because the investment is usually based upon this income. But, after the dwellings have been brought into use the relationship with the expected income becomes increasingly coincidental because there is no connection for changing circumstances during the use or erroneous estimates at the start of the use. Thus, the value on the basis of the historic cost price provides no information of the actual expectations concerning future proceeding and nothing about the financial consequences of asset management decisions. Therefore it is not a relevant indicator as part of performance measurement (see also Gruis, 2000, 2002).

The Aedex/IPD Social Housing Index

As mentioned above, Dutch housing associations (collaborating in the foundation *Stichting Corporatie Vastgoedindex Aedex*) have developed a property value index in association with the Investment Property Databank (IPD). The principle of the index is that the associated landlords provide information about the development of the value of their housing stock. This information is then collected into a databank, from which averages are calculated which can be used as benchmarks by the individual associations.

The main results of the Aedex concerning average return and value are published yearly (downloadable from www.aedex.nl), but more detailed information is gathered and made available to the participating housing associations. The first publication of the index concerned the value and return of the property of 13 housing associations in 2000. The most recent publication concerns the property of 24 housing associations in 2002. Together, these associations owned about 17% of the total housing stock. Thus, the Aedex represents a minor, but growing, proportion of the social rented sector in the Netherlands.

The Aedex follows similar principles to the ones of the ROZ/IPD index for commercial investors in the Netherlands (co-produced by the IPD as well; see www.rozindex.nl). The total return is calculated as the sum of capital growth (net of capital expenditure) and net income, expressed as a percentage of capital employed during the year, using the following formula (Aedex/IPD, 2003):

$$T = \frac{CV_t - CV_{t-1} - C + NI}{CV_{t-1} + \frac{1}{2}C - \frac{1}{2}NI}$$

where:

- T = total return
- CV = capital value
- C = net ongoing capital expenditure/receipts on standing investments
- NI = net rental income
- t = year-end
- t-1 = year-beginning

Within this formula, the capital value represents the market value of the dwellings - that is the net present value that could be realised if the rent increases would be maximal and dwellings would be sold against open market value at turnover. The Aedex also attempts to quantify the impact on the return caused by the policies pursued by participating social housing organisations. This 'policy impact' is calculated as the difference between the gross (rental) return that has actually been achieved and a hypothetical 'estimated commercial' return based on market rent levels (Aedex/IPD, 2003). This measure seems very similar to the economic loss that we discussed above, but the approach of the Aedex has a few disadvantages:

- The Aedex does not calculate the economic loss as a ratio between the NPV under current policy and the market value, but on the basis of the difference between actual income and the hypothetical market rent. Therefore, within the Aedex-method it is necessary to make an estimation of the market rent. This is often very difficult since, after many years of government regulation and social renting, actual market rents are not known. There is no basis for comparison while this the most appropriate method for determination of market values. Comparison with private investors does not provide an answer in most cases, because of significant differences in quality and location.
- The market rent is an even bigger fiction than the market value. The market value could at least be realised in theory, while it is impossible to raise rents at once to market level, due to rent regulations and protection of the sitting

- tenants. What is the use of providing information on the basis of policy options which can not be realised anyway?
- The difference between actual rent and the hypothetical market rent does not take into account all effects of the policy on the economic loss (e.g. higher maintenance than necessary, the consequences of future plans for sale) - with a few exceptions: the Aedex does deduct specifically earmarked expenditure concerning 'social management' from the gross rental income, to incorporate the policy impact of this expenditure on the return.
 - The Aedex provides information about the past return, while information about the expected return has more relevance for the support of management decisions – as stated above.

Therefore, we argue that it is better to use the ratio between the expected NPV and the market value as an indicator of economic (in)efficiency. The Aedex could be easily adapted to incorporate this indicator. The market value is already calculated for the Aedex and the associations should be able to provide their expected NPV fairly easily because they already calculated this for their own purposes and for annual reports to their financial supervisors (CFV, WSW) (see also Gruis, 2003).

Financial risk

In addition to the expected financial performance, it can be useful to analyse the risks. The financial return (NPV) is often based on expectations concerning the (far) future. Since, these expectations do not have to become reality there are always risks attached to them. These risks can be quantified by calculating the financial return on the basis of different scenarios, optionally using methods for probability forecasting as well (see e.g. Gruis (2000, 2002) for a more detailed discussion).

4. Housing associations' practice concerning financial return

The applicability of indicators of financial return and risk within housing asset management has been described in theory by Gruis (2000, 2002), distinguishing between company and estate level. On the level of the entire company, calculation of the NPV provides insight in the expectations concerning the landlords' proceedings. Under distraction of the financial risks, the associations gain insight into the financial surplus or shortage. If a housing association still expects to generate a positive overall financial return in a 'bad weather' scenario, it makes more money than is necessary to secure its economic independence. Then, according to legislation (Housing Act, BBSH) an association should use its surplus in the interest of social housing. On the level of estates, the financial return and risk of different policy options can be used to support decisions from a financial point of view. Furthermore, a portfolio analysis of the economic loss can contribute to insight in the economic efficiency of the various estates in the stock in comparison with each other.

Within our explorative survey, we interviewed nine Dutch housing associations about their practice. Together, these associations own almost 200,000 dwellings. The number of associations is too small to be representative for the whole sector, but does provide an indication of current practice. Furthermore, we expect that the practice of these associations would be ahead rather than behind the general practice among Dutch landlords for the following reasons:

- The associations that we selected were working actively on the development of a strategic asset management, in which the utility of performance indicators is evident.
- They were significantly larger than the Dutch average of about 4,000 dwellings - the smallest landlord in our survey operates about 8,000 dwellings and the largest has 40,000 dwellings. Size can be an extra incentive for top-level management to manage on the basis of performance indicators.
- Three out of the nine associations participate in the Aedex, which has been stated to have a positive effect on the (financial) professionalism of associations (see e.g. de Graaf, 2002; Rooijackers, 2002).

The main question of our interviews was: which indicators of financial return are used in support of asset management at company and estate level? Below we will discuss the results.

Applied indicators of financial return at company level

The main financial questions that housing associations have to answer at company level concern their solvency: are we able to secure our financial continuity and what is the financial surplus (or deficit) that we can use in the interest of additional activities in the interest of social housing. Traditionally housing associations have answered these questions on the basis of the percentage between their net worth and the total value of their assets, based on the historic cost price. However, as stated above, this method does not provide sufficient insight in their actual financial expectations. Therefore, it has been recommended to base the surplus on the NPV in a 'bad weather' scenario (e.g. Gruis, 2000).

Seven of the nine interviewed associations still follow the traditional approach. They set their own solvency-percentage against a 'common' standard of 10-15%. Three of them also quantify the NPV of their company. Only two of the nine associations only use the NPV-method. Four out of the five associations who quantify their NPV carry out a risk analysis. However, only one of the associations states that it actually bases its policy explicitly upon its financial surplus (in a sense that it adjusts its policy so that the surplus is actively used).

Applied indicators of financial return at estate level

At estate level, the main questions of an association concern the financial performance of an estate in comparison with other estates (e.g. in its portfolio analysis) and the financial consequences of its asset management schemes.

At estate level, all of the nine interviewed housing associations use the (theoretically preferred) NPV method to quantify the financial consequences of their

asset management. Three associations state that they also take into account the value on the basis of the historic costs.

Three associations always take the market value or the consequences of sale into account in investment decisions concerning individual estates. Furthermore, three associations make a structural comparison of the difference between the market value and the NPV of their estates, although one of these associations only analyses the estates which it does not count to its 'core' social housing stock and another only performs this analysis in support of its sale policy (and not within the wider context of assessing the economic efficiency of its stock).

Four associations perform risk analysis in support of their investment decisions. Three of them actually calculate the NPV at different (worst and best-case) scenarios, while one assesses the risks on the basis of a (qualitative) checklist.

5. Social return: definition and indicators

The definition and measurement of financial return is relatively simple compared to social return. The term 'social return', which is frequently used in the Dutch social rented sector, might suggest that it can be expressed in a single measure, but this is not the case. Social return is related to the (desired) positive effects of policy. In the context of asset management, social return has to be assessed in the light of the social objectives of the investments. Thus, to be able to define and measure social return, we need to define the social objectives and to quantify the desired effects.

The objectives of social housing can be derived from the reasons for intervention in the housing market. The motives for not leaving it all up to 'the free market' have been discussed at length by various authors. Van der Schaar (1991) makes a distinction between motives stemming from:

- market imperfections – there can be, for example, a significant delay between the adjustment of supply to changes in demand due to the inflexible nature of housing;
- undesirable outcomes of the market mechanism – for example, on a free market some people can have a hard time finding adequate housing.

Social landlords can be seen as one of the suppliers on the housing market, but they can be seen as intervening organisations at the same time. They can contribute to the prevention or cure of market imperfections and undesirable outcomes in many ways. Within these activities, a distinction can be made between specific *social activities* and more common *market activities* – a distinction which is particularly relevant in the context of the Dutch 'hybrid' housing associations (see introduction). The first type of activities are undertaken precisely to combat market imperfections and undesirable outcomes and are activities which would not be undertaken by 'regular' market parties (private investors) since the financial return is too low and/or the risk too high. Of course, other activities of social landlords can be of social significance as well. They can, for example, combat market imperfections by developing more expensive dwellings as well, if there is a demand for these. But, these activities could be undertaken by regular market parties as well, so society is not depending on social landlords for such activities (see

Table 2). In summary, social return can be related primarily to the landlords' specific social activities and their positive effects.

Table 2: social landlords' activities according to social objective and financial return

Social objective:	Combating market imperfections	Combating undesirable outcomes of the free market
Financial return:		
Specific activities (low or negative financial return)	E.g. building affordable (low rent) dwellings	E.g. investments in sustainability
Other activities (market conform financial return)	E.g. building more expensive dwellings for rent and ownership	E.g. contributing to differentiated neighbourhoods (e.g. by sale)

Because social return can be related to a variety of objectives and activities, one needs several indicators to measure social performance. Such indicators are often divided into indicators of 'output' and 'outcome' (e.g. Kemp, 1995; Buys, 2003). Output concerns an actual service or product which is provided, such as the number of affordable dwellings that is build or managed. Output can be quantified relatively easily. Outcome concerns the achievement of the intended objectives. In contrast to output, it is not always easy to quantify and it is often even harder to identify a clear, causal relationship between output and outcome (see also Kemp, 1995). If the outcome concerns the number of low-income households for which a dwelling has been provided this is still possible. But if one wants to determine the effect of intensified neighbourhood management on the sitting tenants' satisfaction, measurement of the outcome becomes more complex and the identification of causal relationships even harder. The paradox is that the concept of 'outcome' is most closely related to the concept of 'social return'.

Halfway the 1990s, as part of a growing interest in performance measurement in the Dutch social rented sector, Van der Zon (1995) and NWR (1996) published a set of performance indicators. Perhaps partly due to the practical barriers of measuring outcome, these publications deal mostly with output indicators. In Table 3 we give an overview of indicators, derived from the sets of Van der Zon (1995) and NWR (1996). In our selection and adaptation from these sources we have:

- only selected indicators that can be related to the asset management activities of social landlords (building, development, maintenance, renewal, rent setting, selling, purchasing and allocation of dwellings);
- divided the indicators into four main categories, of which three concern the general performance criteria for social housing: affordability, availability and quality. Additionally, we distinguish indicators of 'popularity' since the appreciation of their products on the housing market can be seen as a key-indicator for social landlords' performance, just as it is for private landlords;
- only included indicators for which a sensible 'benchmark' is available, because, as stated above, the possibility to compare against preset targets and performance of other landlords is crucial to performance measurement. For this reason we have attuned our list to information that is published in yearly

reports of the Central Housing Fund (CFV, 2003), the Housing Ministry (MROM, 2003) and Aedes (2003).

Table 3: output indicators for social housing asset management¹

Output indicator	Definition
Affordability	
Average rent	Total monthly rent/total number of dwellings
Average rent/maximum eligible rent	Average rent/legal maximum according to Housing Valuation System
% cheap dwellings	Number cheap dwellings/total number of dwellings
% affordable dwellings	Number affordable dwellings/total number of dwellings
% expensive dwellings	Number of expensive dwellings/total number of dwellings
Average housing benefit use	Total monthly allowance/total number of dwellings
Average number of housing benefit users	Number of households with an allowance/total number of households
% affordable new developments	Number of cheap and affordable new developments/total number of new developments
Availability	
% allocations (turnover rate)	Number of allocations/total number of dwellings
% allocations to low-income households	Number of allocations to low-income households/ total number of allocations
Allocation of affordable dwellings	Number of cheap and affordable dwellings allocated to low-income households/total number of allocations
<i>Average number of housing benefit users</i>	<i>Number of households with an allowance/total number of households</i>
Vacancy rate	Number of vacant dwellings (> 3 months)/total number of dwellings
Housing associations' share in stock	Number of dwellings housing associations/total number of dwellings in municipality
New developments	Number of new dwellings/total number of dwellings
<i>% affordable new developments</i>	<i>Number of cheap and affordable new developments/total number of new developments</i>
Sales	Number of sold dwellings/total number of dwellings
Purchases	Number of purchased dwellings/total number of dwellings
Demolishment	Number of demolished dwellings/total number of dwellings
Other investments (e.g. amalgamations)	Number of other mutations in the housing stock/total number of dwellings
Quality	
Number of Housing Valuation Points	Total number of Housing Valuation Points stock/total number of dwellings
Expenditure on maintenance and renewal	Total expenditure on maintenance and renewal/total number of dwellings
Popularity²	
<i>Turnover rate (% of allocations)</i>	<i>Number of allocations/total number of dwellings</i>
<i>Vacancy rate</i>	<i>Number of vacant dwellings (> 3 months)/total number of dwellings</i>
Application rate	Average number of applicants/total number of allocated dwellings
Acceptance rate	Average number of times that a dwelling had to be offered before a household decided to move into a dwelling

¹ The indicators that have been placed under one of the previously mentioned general performance criteria as well have been printed in italics.

² It should be noted that the application and acceptance rate can only be calculated by housing associations who allocate their dwellings on the bases of a choice-based lettings model (see e.g. Kullberg, 2002)

6. Housing associations' practice concerning social return

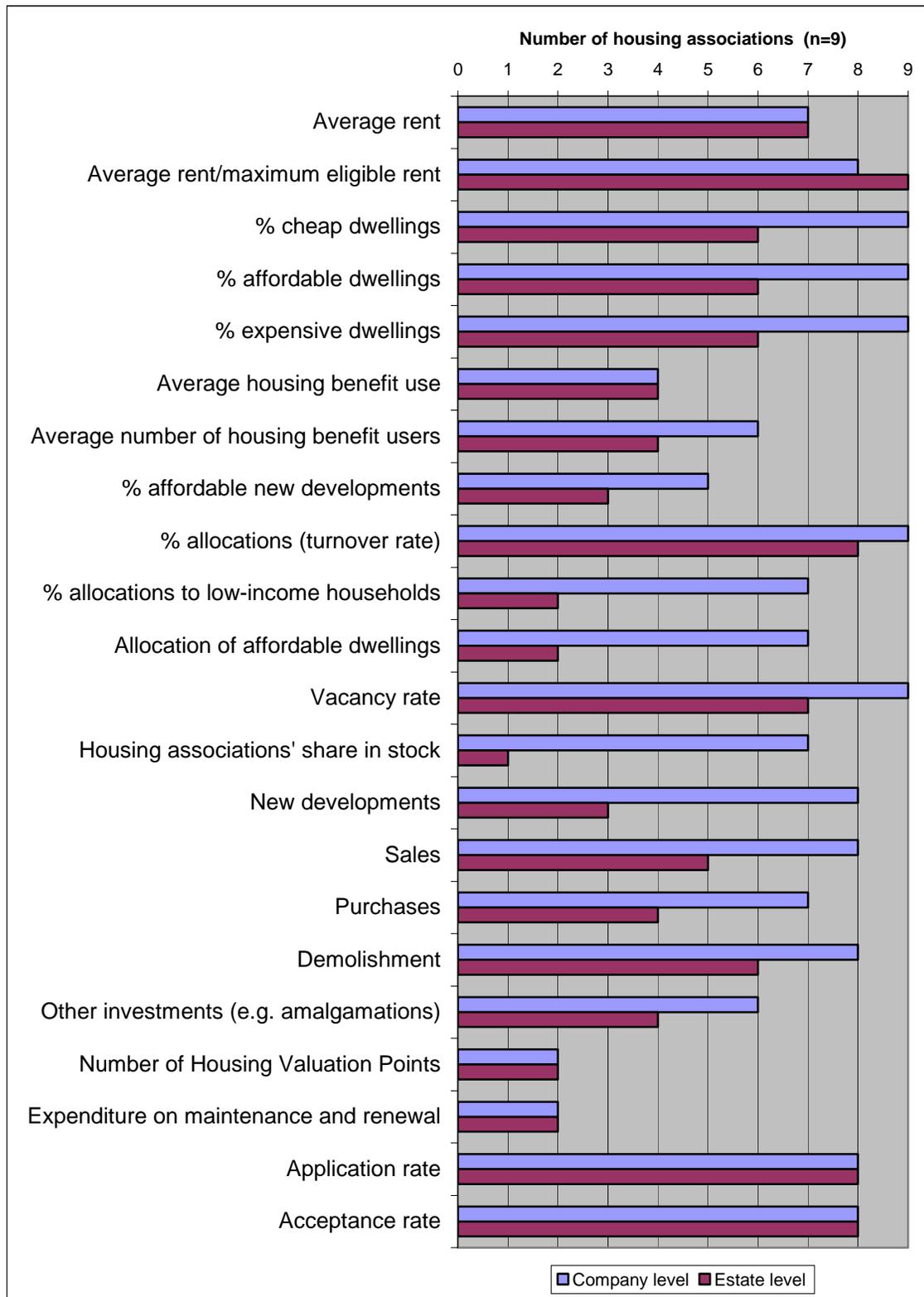
Given the interest in the use of performance indicators in the Dutch social rented sector since the second half of the 1990s, one could expect that many housing associations now use indicators such as those mentioned in Table 3. To get an indication of current practice, we have conducted a small survey among the same nine housing associations as described in section four. On the basis of Table 3, we constructed a checklist of indicators in which the housing associations could indicate what indicator they use and if they measure it:

- at company level;
- at estate level;
- against a national benchmark (the average output on national level or of relevant reference group);
- against a company benchmark (the company's average output per dwelling) - only for those indicators that are collected at estate level;
- against a preset target.

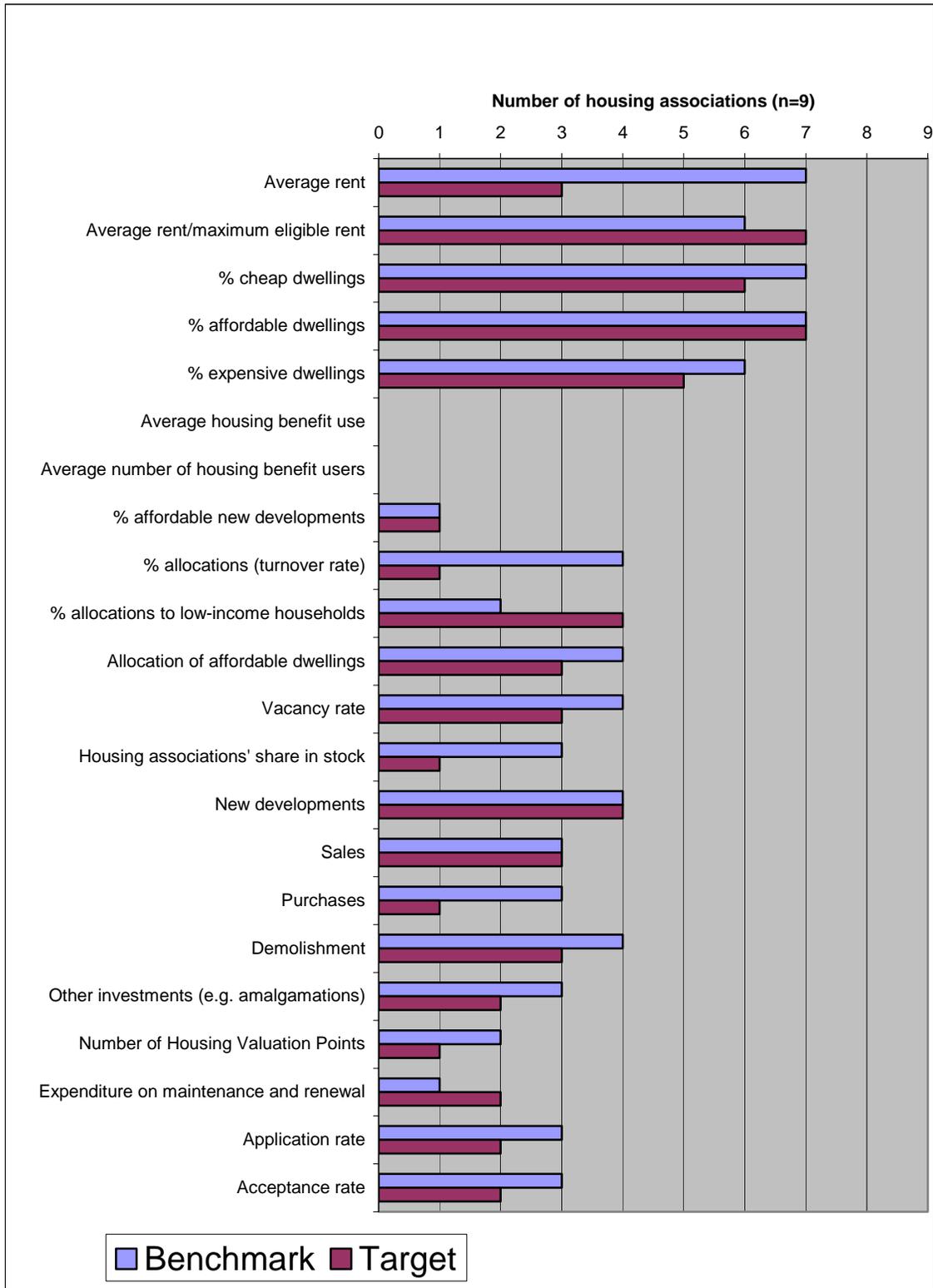
Graphs 1 to 3 (next pages) give an overview of the current use of output indicators of social return among the nine associations. Graph 1 shows that many of the nine associations collect many of the indicators mentioned in Table 3, particularly at company level. Only the indicators 'Average use of housing benefit', 'Average number of Housing Valuation Points' and 'Average expenditure on maintenance and renewal' are being expressed in a company average by less than half of the associations. In addition, on estate level, less than half collects data concerning the number of housing benefit users, new affordable developments, housing of low-income households, mutations of the housing stock and the Housing Valuation Points. The lower frequencies in the collection of data on estate level can be partly explained from the fact that some indicators do not lend themselves for analysis on estate level (such as percentages concerning new developments and purchases).

Graphs 2 and 3 show that relatively few of the collected indicators are set against benchmarks or preset targets. On company level, only indicators of affordability are set against benchmarks by more than half of the nine associations. Targets are set by the majority only concerning the average rent (increase) and the composition of the housing stock according to rent level. On estate level, none of the indicators are set against a benchmark or a target by a majority of the associations.

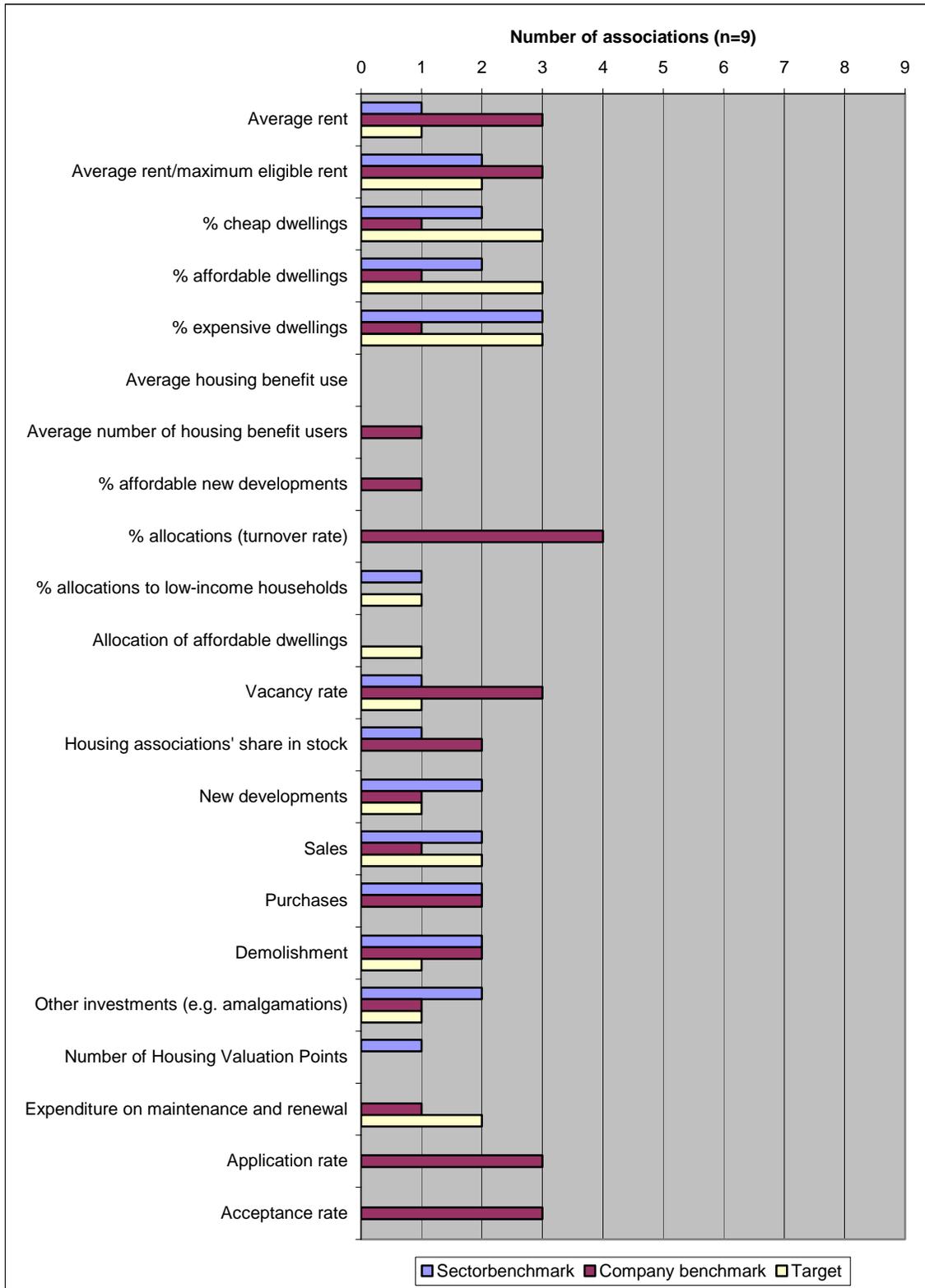
Graph 1: output indicators of social return collected by nine housing associations at company and estate level



Graph 2: use of benchmarks and targets for output indicators of social return by nine housing associations at company level



Graph 3: use of benchmarks and targets for output indicators of social return by nine housing associations at estate level



7. Conclusion

In this paper we have addressed the question how social landlords can measure their financial and social return in support of their asset management. Furthermore, we have discussed the current practice of nine Dutch housing associations on the basis of an explorative survey. Now, we will summarise our findings.

Financial return

Theoretically, social landlords should use the following approach when assessing their financial position and the (consequences for) the financial performance of their housing stock:

- at company level, landlords need to quantify their financial surplus (or shortage) on the basis of their Net Present Value, combined with risk analysis;
- at estate level, landlords need to assess the NPV of the dwellings, optionally combined with risk analysis as well;
- additionally, it is recommendable to systematically assess the economic loss (the difference between the NPV and the market value) as part of portfolio analyses and investment decisions at estate level, to gain insight in the economic efficiency.

Practice varies considerably between the investigated housing associations. Only a single association's practice in our survey is fully consistent with the above theoretical ideal. On company level, many associations still use the book-keeping value on the basis of the historic costs and far from all of the associations carry out a risk analysis to quantify their surplus. On estate level, all of the associations calculate the NPV, but only a few assess the economic loss. Risk analysis is far from common at estate level.

If the practice of the group of associations in our survey is representative for – or, as argued, even ahead of – the entire sector, the results could be seen as somewhat disappointing ten years after the associations became financially and administratively independent organisations. But, we should take into account that an organisation cannot change its expertise from one day to another. Furthermore, it could be argued that some aspects of the associations' context have not been favourable for the development of financial expertise. The accounting prescriptions from the government (BBSH), Central Housing Fund, Social Housing Guarantee Fund (WSW) and the Dutch Council for Annual Accounting (RJ) have until very recently preferred the traditional book-keeping approach on the basis of the historic costs above the theoretically preferable, more realistic accounting method based on the NPV. Nevertheless, all of the interviewed housing associations have indicated that they are striving towards further development of their expertise and approaches, including the ones whose current practice more closely resemble the theoretical ideal. Two out of the nine associations stated that they want to transfer from the traditional book-keeping approach to a NPV method on company level. So things are likely to improve in the near future, also because of the growing participation in the Aedex/IPD property index for housing associations.

Social return

Social return is far more difficult to measure than financial return. Indeed, the concept itself is far more difficult to define. Social return can be related to the activities that landlords perform to fulfil their social objectives: the prevention and cure of market imperfections and undesired outcomes of the market. More specifically, social return can be related to those activities which would not be carried out by 'regular' market parties, because of their low financial return. Social return cannot be expressed in a single measure of outcome. Instead, one has to suffice with a set of indicators concerning the output. Ideally, this output is expressed in a way that enables evaluation against targets and benchmarks.

Our explorative survey indicates that the associations measure a lot of indicators of the social output of their housing stock. However, a minority of the investigated associations evaluates its output on the basis of preset targets and/or benchmarks. In short, they collect a lot of data but do very little with it. This seems even more disappointing than our findings about financial return. It is particularly disappointing when one compares the results of our research with those of Kromhout and van Grinsven (2004), who made an analysis of the performance agreements between municipalities and housing associations in 2003. Their study indicates that a substantial deal (though by far not all) agreements are formulated in the form of concrete, measurable targets. These agreements are made between the municipality and the housing associations working in that municipality as a group. Seemingly, housing associations fail to translate these agreements into individual targets for their own asset management, which could make one wonder if targets will be met at all.

Several explanations are possible for the poorly developed practice concerning social return. First, our findings coincide with an explorative study by Nieboer (2003) which indicates that the asset management of Dutch housing associations is still in an early stage of development. Logically, the use of performance measurement is in an early development stage as well. Second, suitable information for benchmarking has only been made available since a few years, among others by the Central Housing Fund. Housing associations still need to become aware of the possibilities for benchmarking. A third possible explanation lies in the theoretical and practical difficulties of defining, measuring and benchmarking social return. Social return has not been as well established in theory as financial return, for which a lot of measures have been developed (including the Aedex). Landlords lack a suitable instrument for the measurement and benchmarking of social return. Therefore, one of our main recommendations for further research is the development of such an instrument, possibly in the form of a balanced score card that is adapted for the specific context of asset management in the social rented sector.

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