Asset management of Dutch social landlords

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Abstract

As part of a more general trend towards privatisation, deregulation and decentralisation of public tasks, housing policy in several Western and Eastern European countries aims to reinforce market-orientation in the social housing system. These reforms had a large impact on the asset management of public and social landlords. In the past, social housing was mainly concerned with the development of new dwellings. Management of the housing stock consisted first of all of day-to-day maintenance and administration. Strategic decisions about investments in the housing stock were mostly made by governments, rather than by individual landlords. Now, landlords in many countries are faced with the challenge to develop their own strategies. Although the precise effects on stock investment and allocation are yet to be determined, we may expect a more dynamic stock policy and an increased importance of market and financial considerations.

In this paper, asset management in the Dutch social housing sector is described. The paper deals with rent policy, housing allocation and investment policy. Special attention is paid to rationalisation of decision making about the development of the housing stock. Recent research in this area shows various innovations, but also indicates that the formulation of a strategic asset management is still in its infancy.
1 Social landlords in the Netherlands

When set within an international context, social rented housing in the Netherlands can be characterised by its relatively large share of the housing stock, the diversity of dwellings within the social rented stock and the variety of tenants, who are not only low-income households (see Table 1; van der Flier and Gruis, 2002; van Kempen and Priemus, 2002).

Table 1 Division of the housing stock by tenure in the Netherlands, 1 January 2001

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Percentage of total housing stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social rented</td>
<td>35%</td>
</tr>
<tr>
<td>Private rented</td>
<td>11%</td>
</tr>
<tr>
<td>Owner-occupied</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: MVROM (2002).

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 2001, there were 620 associations, owning more than 99% of the social housing stock (CFV, 2002). In the last decade, many municipal housing companies were transformed into housing associations by changing their legal status, reducing their number from 213 in 1990 to 23 in 2000.

Because of the small and reducing number of municipal companies, we focus on housing associations. Owning about 35% of the housing stock, they are major players in the Dutch real estate market. They 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. In Table 2, some of their characteristics have been summarised.

Table 2 Some characteristics of housing associations in the Netherlands in 2001

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Number/Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of dwellings</td>
<td>2.3 million</td>
</tr>
<tr>
<td>Number of landlords</td>
<td>620</td>
</tr>
<tr>
<td>Dwellings per landlord (average)</td>
<td>3,800</td>
</tr>
<tr>
<td>% of total housing stock</td>
<td>35%</td>
</tr>
<tr>
<td>% of social rented stock</td>
<td>99%</td>
</tr>
</tbody>
</table>


2 National context for asset management

The asset management of social landlords is considerably influenced by the political and economic context in which they operate. After decades of strong central government intervention in the housing market, the Dutch national government policy has embraced the reinforcement of market principles in social housing. As part of this policy, housing associations have gained much more administrative freedom. At the same time, direct financial support for social housing management has been completely withdrawn. This is
unique, even within Western Europe (e.g. Boelhouwer, 1997, 1999). The new policy context has set considerable challenges for the asset management of Dutch social landlords. Being transformed from operational, task-oriented organisations towards ‘social entrepreneurs’, they have to operate in a more strategic, market-oriented way. As a result, there has been wide interest among associations in methods and instruments to support asset management in a more systematic and business-like manner.

Below we describe the current national context for the asset management by Dutch housing associations. Subsequently we deal with regulations, supervision, financial support and the housing market.

2.1 Regulations

This section starts with general administrative regulations concerning the social housing sector, followed by more specific regulations on various aspects of asset management (allocation, maintenance, rent setting, etc.).

General administrative regulations
The legal rights and obligations of Dutch housing associations are formulated in the Social Housing Management Decree (Besluit Beheer Sociale Huursector - BBSH). This decree stipulates that all the activities of housing associations have to be in the interest of housing. Housing associations must give priority to accommodating households with a weak position on the housing market (mainly lower-income households). However, they are also allowed to provide dwellings for others. As a consequence, Dutch housing associations are often typified as ‘hybrid’ organisations, which carry out public tasks, but are independent, private organisations, having market driven objectives as well (Priemus, 2001, pp. 247-249). The BBSH formulates the obligations of housing associations in the form of general ‘fields of performance’: accommodation of target groups, preservation of the quality of dwellings and their environment, consultation of tenants, securing the financial continuity and providing housing and care arrangements.

Rent setting
For the major part of the dwellings in the Netherlands (expensive dwellings are excepted) the so-called Housing Valuation System (Woningwaarderingssysteem - WWS) is in force. On the basis of this valuation, a maximum eligible rent can be calculated. In principle, rents can only be changed on July 1st of each year. The government decides each year the maximum percentual rent increase. For housing associations, the government also determines each year a maximum rent increase on corporate level. The latter regulation is in force since 1993. Before, the government determined the annual rent increase on individual level and housing associations were not allowed to vary the annual rent increase per dwelling themselves.

Since July 2002, new national rent regulations are in force, which substantially confine the policy freedom of housing associations that they got in 1993. The former State Secretary of
Housing implemented a mid-term rent policy for the period until 2005, which links the maximum rent increases to the inflation rate and the maximum eligible rent according to the Housing Valuation System (see Table 3). Furthermore, the government sets a maximum to the rent increase of the total stock of a housing association at inflation plus 0.4%. Based on the difference between the current and the maximum rent, the maximum rent increase for individual dwellings varies between the inflation rate and the same rate plus 2%. In 2005 a new system will be introduced, in which maximum rents are based on reference rents (of comparable dwellings), a rent revision every five years (or at turnover) and an annual rent increase equal to the inflation rate (Thomsen, 2002).

Table 3  Rent policy for the period 2002-2005

<table>
<thead>
<tr>
<th>Rent as percentage of maximum eligible rent</th>
<th>Maximum annual rent increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>70-100%</td>
<td>inflation</td>
</tr>
<tr>
<td>60-70%</td>
<td>inflation + 1%</td>
</tr>
<tr>
<td>50-60%</td>
<td>inflation + 1.5%</td>
</tr>
<tr>
<td>&lt;50%</td>
<td>inflation + 2%</td>
</tr>
</tbody>
</table>

Source: Remkes (2002)

Allocations
Housing associations are rather free in the way of allocation, but within certain government restrictions. A national restriction is that relatively cheap homes must be allocated to low-income households.
Many housing associations work together with the local government to create and manage distribution systems. Common decisions are made on allocation criteria, for example, relating to household income, size, or age (Kullberg, 2002).

Sales
Housing associations are allowed to sell dwellings. In fact, they are encouraged to do so, since the promotion of home-ownership is a prominent issue of Dutch housing policy. Since March 2002, only plans to sell dwellings to others than individual households (e.g. to private landlords) and plans for sale which do not fit into performance agreements with the local authorities have to be reported. In principle, housing associations must sell their dwellings against a minimum of 90% of the market value. However, if the buying household makes use of the Purchasing Grant - established as part of the Act on the Promotion of Home-Ownership (Wet Bevordering Eigen-Woningbezit - BEW) – associations may give reductions to 20% for new households and 30% for actual tenants. Additional reductions are possible if the development of value of the home after the sale is shared between the buyer and the housing association. The BEW, however, is hardly used in practice, mainly because it can only be applied in a small market of relatively cheap dwellings.

Maintenance and renewal
The regulations for the technical quality of the housing stock (including social rented dwellings) have been laid down in the Building Decree (Bouwbesluit). This decree states
minimum (technical) requirements on, among others, construction, safety, energy consumption and health. The Rent Act for Housing (\textit{Huurprijzenwet Woonruimte} – HPW) mentions several additional technical requirements that, if not met, give tenants the right to pay a substantially lower rent. The BBSH states no specific, additional regulations for the quality of social rented dwellings.

\section*{2.2 Supervision}

Housing associations are supervised on the basis of retrospective accountability. Their efforts in the interest of housing have to be reported to the Minister of Housing. Their financial position is monitored by the Central Housing Fund (\textit{Centraal Fonds voor de Volkshuisvesting} - CFV). The BBSH contains prescriptions for the annual reports. The government may impose sanctions if an association performs poorly or in conflict with regulations, such as a directive (to undo or to perform a certain activity) or the appointment of a temporary supervisor. Furthermore, housing associations are encouraged to draw up ‘performance agreements’ with the local authorities. In these agreements, they specify their (public) tasks.

In addition to the external supervision by the government, associations have developed an internal supervision structure as an additional means to ensure that they will operate within the interest of social housing in a reliable way. Within the social rented sector an ‘audit-system’ has been set up to review the performances of housing associations as well as a Business Code with ‘rules of conduct’ for the members of the umbrella organisation Aedes. Within individual associations, management is supervised by a board of ‘supervisors’ or ‘commissioners’.

\section*{2.3 Financial support}

As stated in the introduction, direct financial support for housing associations has been diminished. During the 1990s, brick-and-mortar subsidies, exploitation grants and central government loans have been abolished. Indirect financial support still exists through:

- some tax benefits, although these have been announced to be abolished;
- housing grants to individual households (IHS);
- the backing up of a guarantee structure for the social rented sector (see below).

In principle, the Dutch social rented sector is expected to act as a ‘revolving fund’ in which financial returns are reinvested in the interest of housing. Furthermore, there has been established a financial guarantee structure which provides associations with good access to the capital market. Associations’ loans can be guaranteed by the national Social Housing Guarantee Fund (\textit{Waarborgfonds Sociale Woningbouw} - WSW), which is filled by fees from the associations and backed up by the government. Associations that are no longer able to secure their financial viability can apply for financial support from the Central
Housing Fund (see e.g. Boelhouwer, 1997). As part of the revolving fund, ‘rich’ associations with few tasks at hand are expected to help ‘poor’ associations with many tasks in their locality, for example by providing loans against low interest rates. However, this ‘matching’ of means and tasks has been a marginal phenomenon until now.

On average, Dutch housing associations are in a relatively good financial position (see e.g. Priemus, 2001). For the next ten years, a further improvement of the financial situation is predicted (CFV, 2002).

2.4 Housing market

In general, the Dutch housing market is acknowledged to having neared a quantitative equilibrium between supply and demand. However, according to the latest prognoses, the housing shortage may be expected to rise again in the next decade, mainly due to a stagnation in the developments of new dwellings (see Table 4). Furthermore, there are considerable regional differences. In the 1990s, in some regions there have been surpluses resulting in a significant number of vacancies, whereas in other regions the pressure on the housing market has remained high.

Table 4 Housing shortage in the Netherlands

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of dwellings</th>
<th>Percentage of total stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>134,000</td>
<td>2.1 %</td>
</tr>
<tr>
<td>1998</td>
<td>90,000</td>
<td>1.4 %</td>
</tr>
<tr>
<td>2000</td>
<td>93,000</td>
<td>1.4 %</td>
</tr>
<tr>
<td>2005 (expected)</td>
<td>186,000</td>
<td>2.6 %</td>
</tr>
<tr>
<td>2010 (expected)</td>
<td>181,000</td>
<td>2.5 %</td>
</tr>
</tbody>
</table>

Source: den Otter and Heida (2002). Note: the expansion of the housing stock in this forecast is based on MVROM (2001).

There are substantial differences between the actual composition of the housing stock and the demanded quality, price and tenure. As we can see in Figure 1, the largest surpluses concern the cheaper dwellings, and in particular the cheaper rented, multi-family dwellings – of which most are in the possession of housing associations.
Figure 1  Forecast of discrepancies between supply and demand

Potential surplus Unmet demand

Source: MVROM (2000a). Note: ‘potential surplus’ does not equal vacancies, nor does ‘unmet demand’ equal a quantitative housing shortage. They reflect mismatches between the actual dwelling and the desired dwelling (MVROM, 2000a).

On the macro level, the surplus of cheaper rented apartments implies that associations are facing a reducing popularity of a significant part of their housing stock. In general, however, this is not reflected in lettability problems because of the general housing shortage and the sharp increase of prices in the owner-occupied sector in recent years.

3 Asset management practice

In this section, we give an overview of the asset management practice in the Netherlands. As in the previous section, we do this by following the activities that are part of asset management. Furthermore, we will reflect on the decision making process and the instruments used to support asset management decisions. Our description is of a general nature, based on a literature review, interviews with eleven housing associations and examples from supposed ‘front-runners’ among Dutch associations.

3.1 Rent setting

As we have stated in the previous section, housing associations gained considerable freedom in their rent policy in 1993, which enabled them to adopt a more market-oriented approach. Since then, many associations have differentiated the yearly rent increase for (groups of) dwellings. In doing so, they generally work with ‘target rents’, which are based on the quality and market position of the dwellings. Most associations fix the target rent at a percentage of the maximum eligible rent according to the Housing Valuation System. Many associations correct these target rents (or percentages) on the basis of (indicators for) the popularity of the dwellings (to reflect the market position) (e.g. Thomsen et al., 2001).
The market orientation of the housing associations’ rent policy as is reflected in the results of surveys conducted by OTB in 1996 (Table 6) and RIGO in 1999 (Table 7). In the OTB survey, the most frequent reason that housing associations mention for their rent increases concerns the price-quality rate of the dwellings; the second most frequent reason concerns the affordability and/or price-quality rate of other dwellings. In the RIGO survey, the most frequent reasons concern the local housing market and the financial position of the associations.

Associations in the Netherlands are experimenting with alternative rent contracts, to bind their tenants, to give them more possibilities of choice, and to give them more security about their rent payments. Examples are:
- ‘fixed rent’ contracts in which the rent is initially set higher but will not increase in the next five or ten years;
- ‘fixed rent increase’ contracts in which, for example, the initial rent is set lower, but the rent increase is set higher in the next five or ten years.

### Rent policy Delftwonen

Delftwonen determines the target rent in relation to the quality and market-position of the dwellings. The target rent is based on a percentage of the maximum eligible rent according to the WWS. This percentage is based on an additional valuation of locations and dwelling types, according to the following table:

<table>
<thead>
<tr>
<th>Market position of location</th>
<th>Single family dwelling (in multi family block)</th>
<th>Ground-floor dwelling (in multi family block)</th>
<th>Multi family block with doorway and elevator</th>
<th>Gallery apartment with elevator</th>
<th>Multi family block without elevator</th>
<th>Single person dwelling (in multi family block)</th>
<th>Dwelling for elderly</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
<td>85%</td>
</tr>
<tr>
<td>B</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>85%</td>
</tr>
<tr>
<td>C</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>D</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>75%</td>
<td>75%</td>
<td>70%</td>
<td>85%</td>
</tr>
</tbody>
</table>

The yearly rent increase depends on the difference between the current rent and the target rent, taking into account the government regulations shown in Table 3. At turnover the rents are increased to the target rent at once. Before implementing this rent policy, Delftwonen has checked if enough affordable dwellings remain to comply with the need according to the local
3.2 Allocations

In the Netherlands, two basic systems are used to allocate social rented dwellings. Up till the 1990s, dwellings were allocated according to the ‘distribution model’ or ‘waiting list model’. People subscribed to municipal waiting lists and were ranked according to waiting time and specific needs. After a successful experiment in the city of Delft in 1990, choice based lettings became common practice. In this so-called ‘Delft model’, eligible home hunters can directly respond to individual vacancies that are publicly advertised, for instance in a local newspaper or magazine. Social priorities are shaped through an open queuing system with clear ranking criteria. In order to distribute the stock according to people’s needs and means, conditional criteria are applied. The (conditional and ranking) criteria are usually based on (combinations of) household size, income level and age. Also, a distinction is often made between ‘transfers’ and ‘starters’, who are ranked on the basis of respectively the number of years in their current residence and the number of years on a waiting list or their age (Kullberg, 2002).

### Allocation dwellings Delftwonen

Delftwonen participates in the ‘Delft model’ for the region Haaglanden (the region around the city The Hague), in which almost all the associations’ dwellings in this region are offered. In this model, conditional criteria are attached to:

- household size, in relation to dwelling size;
- age, for dwellings specifically meant for young people or elderly;
- household income;
- household ‘market career’: starting or transferring household.

Following an experiment in the period 2000-2001, dwellings are also labelled on the basis of the desired ‘chance of success’ that groups of households have on acquiring a social rented dwelling. For the whole region it has been agreed that the chance of success for households with minimum wages has to be higher than other target-group households. The latter must in turn have a higher chance of success than non-target-group households. Within Delft is has also been agreed that the chance of success for starters and transferring households have to be equal. Within the group of starters the chance of success has to be approximately the same for each age. In practice, this would mean that more (and also bigger) dwellings have to be labelled for starters than in the past.

Starters are ranked on the basis of their searching period. Transferring households are ranked on the basis of the period they live in their current dwelling. Furthermore, priority is given to:

- households that move from a cheap dwelling within the region to an expensive dwelling;
- people older than 65 years who want to move within their neighbourhood;
- people older than 55 years who want to move within their neighbourhood and leave a cheap dwelling.

Sources: van der Zon (2002) and www.woonnet-haaglanden.nl
3.3 Sales

Because of the increased administrative and financial independence of the social sector and because of market developments, sale of dwellings has become a prominent activity of many housing associations. The amount of sold dwellings grew from 2,000 in 1990 to over 20,000 a year in the late 1990s. According to the Ministry of Housing ‘mainly the more expensive dwellings are being sold and the cheaper stock seems to be maintained as much as possible for housing the target group’ (MVROM, 2000b, p.11). The reasons that associations have stated for selling their dwellings (see Table 5) shows that their decisions are based on a mixture of market, financial and social considerations. High on the list are ‘the use of proceeds from sale to acquire new dwellings for target group’ and ‘dwellings became too expensive for target group’.

Table 5    Reasons for sale given by housing associations for dwellings sold in 1995

<table>
<thead>
<tr>
<th>Reason for sale</th>
<th>Of importance (%)</th>
<th>Of no importance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected vacancies</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>Dwellings became too expensive for target group</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>To improve financial position</td>
<td>66</td>
<td>34</td>
</tr>
<tr>
<td>To use proceeds for acquiring new dwellings for target group</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td>To prevent high turn-over rate</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>Market value exceeds value at (social) rent</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>To increase differentiation of (neighbourhood) population</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>At tenants’ request</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>To use proceeds for acquiring new popular dwellings</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>To use proceeds for improvements</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>To use proceeds for maintenance</td>
<td>32</td>
<td>68</td>
</tr>
<tr>
<td>On the basis of agreements with local authority</td>
<td>20</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: survey by OTB Research Institute in 1996, reported by Kersloot (1999). Note: the percentages are weighed on the basis of the size of the associations’ stock.

Sale policy Delftwonen

In determining which dwellings can be sold, Delftwonen takes the following objectives into account:

- the sale fits into the renewal strategy for the neighbourhood and leads to a more differentiated neighbourhood with a higher quality;
- the sale facilitates the housing career of the current households in a neighbourhood or keeps them within the neighbourhood;
- the sale facilitates the financing of other (unprofitable) investments in a neighbourhood;
- the sale fulfils a significant role in meeting demand and reduces problems of lettable.

‘Hard’ criteria for sale are:

- dwellings are only sold in a good technical condition;
- there has to remain a sufficient amount of social rented stock to supply the target group with a diversity of dwellings in diverse neighbourhoods;
- dwellings will not be sold if they are located in strategic areas, where redevelopment is expected to take place in the (near) future.

Dwelling which have been allocated for sale as part of Delftwonen’s strategic asset management plan are first tested against these criteria, before they are actually offered for sale.
In addition to ‘regular’ sales, associations have developed alternative forms of sale, which are meant to make purchase affordable for a larger part of their target group:
- sale of the interior, while the exterior of the dwelling remains to be rented from the association;
- sale under conditions for resale (when the initial buyer wants to sell, he first has to offer the dwelling to the association) and sharing the value development of the property at the moment of resale (e.g. on fifty-fifty basis).

A new phenomenon is the ‘tenure-neutral’ dwelling. ‘Tenure-neutral’ in this sense means that the choice between rent, ‘traditional’ sale or alternative forms of sale is not made by the landlord, but is left to the present or new inhabitant. In most cases, it concerns sale under conditions of resale by the housing association. Nowadays, some housing associations have serious plans to offer a part of their stock as ‘tenure-neutral’ dwellings.

### 3.4 Maintenance and renewal

Until recently, the management of the housing stock was mostly a routine activity, carried out at an operational level in the organisation. Nowadays, housing associations realise that maintenance and investments ought to be based not just on technical, but also on market considerations. In this context, several client-oriented maintenance policy options are considered, for example:
- linking the level of equipment to the target group (e.g. dwellings that are targeted for higher incomes are equipped in a more luxurious manner);
- allowing tenants to make (minor) adjustments in their dwellings;
- involving tenants in maintenance decisions, for example by allowing them to choose between a series of kitchens or bathrooms.

Straub (1997) has found that almost all housing associations carry out planned maintenance on the basis of a long-term, computerised maintenance planning. Inspectors register defects and the extent of these defects during inspection. Most housing associations also indicate the technical urgency of planned maintenance activities. A growing number of housing associations register the maintenance condition of building components in quantitative terms (e.g. using values on a six-point scale). By adopting a condition-dependent approach to maintenance, housing associations can exercise control over the desired maintenance performance levels and costs. In general, housing associations discern a standard, ‘normal’ level of maintenance, a ‘substandard’ level (for instance if demolition or refurbishment is foreseen in the near future), and a higher level. The latter option can be useful to improve the market position of the property (Straub, 2002).

Another, related issue in the social housing sector is the way to develop a more client-oriented maintenance policy, for example by:
- linking the level of equipment to the target group (e.g. dwellings that are targeted for higher incomes are equipped in a more luxurious manner);
- allowing tenants to make (minor) adjustments in their dwellings;
- involving tenants in maintenance decisions, for example by having them choose a kitchen or bathroom within certain constraints.

Renewals are induced by negative developments in the market position and the (technical) quality of the dwellings and the occurrence of social problems in neighbourhoods. Unlike maintenance, renewals are usually treated as individual ‘projects’ and therefore not part of the going-concern operations. Although associations are expected to invest substantially in the improvement of their post-war housing stock, the statistics show that this has not yet been taken place at a large scale (van der Flier and Thomsen, 1998).

### Maintenance policy Delftwonen

Delftwonen’s maintenance policy is based on the technical need on the one hand, and on the ‘label’ for the quality level which has been attached to an estate on the other. The quality label is determined as part of the strategic asset management plan. Four labels are used: ‘preserve’, ‘sober’, ‘standard’ and ‘luxurious’. The labels are based on:
- the rent level and the ‘lifestyle’ of the target group for the dwelling;
- the current quality;
- specific strategic plans for an estate (for example renewal, sale or demolishment).

The level of maintenance and equipment of most dwellings of Delftwonen are classified as ‘standard’. The label ‘sober’ is appointed to dwellings that cannot reach the ‘standard’ level, unless refurbishment takes place. This level is also applied to a number of dwellings, of which the tenants prefer a lower quality and a lower rent in exchange. The label ‘preserve’ is only applied to dwellings that will be renewed or demolished within the next five years. ‘Luxurious’ is meant for dwellings that, due to their rent level, are only affordable for the middle and higher income groups. With this category, Delftwonen aims to diversify its stock and to generate financial means).

### 3.5 Considerations and strategies of landlords in investment decisions

**Considerations**

Apart from developments within the maintenance policy of housing associations, there is a shift in the relative importance of maintenance and other technical issues. Until the 1980s, technical considerations were dominant in investment decisions in the existing stock. Generally speaking, the technical state of a dwelling or a building determined if improvements were made. 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, lettability, exploitation benefits and property value. Among these factors,
Lettability was mentioned to be the most important one, followed by equipment (Straub, 1997, p. 36, see Table 6).

Table 6 Factors influencing the asset management according to Dutch associations

<table>
<thead>
<tr>
<th>Considerations in housing stock management</th>
<th>Determinative or largely determinative (%)</th>
<th>Not or little determinative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market perspective (lettability)</td>
<td>95</td>
<td>5</td>
</tr>
<tr>
<td>Equipment</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>Social problems</td>
<td>74</td>
<td>26</td>
</tr>
<tr>
<td>Technical quality</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>Financial return</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td>Type of dwelling</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>Income stream value</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>Net worth (financial strength association)</td>
<td>62</td>
<td>38</td>
</tr>
<tr>
<td>Sitting tenants preferences</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Quality urban structure neighbourhood</td>
<td>45</td>
<td>55</td>
</tr>
<tr>
<td>Administrative value</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>Building year</td>
<td>24</td>
<td>76</td>
</tr>
<tr>
<td>Building regulations</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>Availability of grants</td>
<td>17</td>
<td>83</td>
</tr>
<tr>
<td>Quality of the environment</td>
<td>17</td>
<td>83</td>
</tr>
<tr>
<td>Prestige (publicity)</td>
<td>13</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: Straub (1997). Note: the emphasis in Straub’s survey results on factors relating to quality (in contrast to e.g. affordability and availability) may be partly explained by the focus on technical housing management and investments in the rest of his survey.

Nowadays, periodical reporting on present lettability and vacancies is common use (see e.g. Nieboer and Gruis, 2002). Especially landlords in areas of low demand still seem to be very keen on lettability developments (frequent reports on lettability etc., direct action in terms of allocation, rent or even sale), despite little lettability problems.

Mainly due to the increased importance of market factors in social housing, several marketing concepts have been developed, in which present and potential tenants are categorised according to their ‘life-style’. These concepts can be quite different from traditional categorisations of households that are based on age, income and household size.
For Dutch housing associations, financial considerations may be expected to have gained importance during the last decade, since government support has diminished. However, results from our research (Nieboer and Gruis, 2002) indicate that it is very uncommon for housing associations to use goals for return, risk and value development. Although the research shows some first signs of thinking in these terms, finance plays only a minor role in the first stages of decision making about stock development. As for the interviewed housing associations, the role of finance has been found in feasibility studies after the formulation of investment proposals rather than during the formulation of it.

From our research, we cannot say if this applies to all social landlords in the Netherlands. On the one hand, the modest role of financial considerations is supported by the fact that in 2000, 7% of the investment costs by Dutch housing associations was not covered by the net present value of additional proceedings generated by these investments (Aedes, 2001). Furthermore, the net present value for newly built dwellings shows an average negative value of about €15,000 per dwelling (CFV, 2001). Landlords settle these financial shortages through their own financial reserves, the sale of (extra) dwellings and the development of profitable (owner-occupied) dwellings (de Kam, 2001). On the other hand, some surveys show that housing associations attach a lot of importance to financial considerations (e.g. Marsman and Smit, 1999; Straub, 1997; Kersloot, 1999). From some landlords outside this research we know that a desired solvency level can considerably affect their asset management, as in most of these cases sale of dwellings is necessary.

A remarkable phenomenon is the development of a financial real estate index for Dutch housing associations, named the Aedex/IPD Social Housing Index, which is similar to the IPD real estate index that is already used in the commercial real estate sector. This development reflects the growing importance of financial considerations in housing associations’ policies.

Use of life-style in asset management

Quite remarkable is a division, developed by a private company (named SmartAgent Company), based on individualism and compliance with traditional norms and values in society. On the basis of this classification, the following categories are formed (cf. Hagen, 2001, pp. 9-10):

- the ‘independent’ (not a newspaper, but referring to individualistic and non-compliant people);
- the ‘dynamic individualistic’ (compliant and, of course, individualistic);
- the ‘community persons’ (non-individualistic, not specifically compliant or non-compliant);
- ‘silent luxury’ (non-individualistic and compliant);
- ‘withdrawers’ (non-individualistic and non-compliant);
- the ‘embedded’ (very group oriented and non-individualistic, not specifically compliant or non-compliant).

These life-styles have also been used by Delftwonen to determine for which people an estate is (potentially) attractive.
Next to transparent measurements of financial return, there is an increasing need of measurements of ‘social return’. This is more or less a consequence of political debates about the efficiency and effectivity of social landlords. Because social return is hard to define, there is, until now, little progress in making social return measurable. We have found no other output objectives than keeping a minimum number of properties for the lower income households. Social considerations, nevertheless, form an essential factor in decisions about stock development. The considerations are, however, in the minds of decision-makers and are not made explicit in output terms.

Sustainability is another factor of growing importance, especially since the early 1990s. In 1998, the umbrella organisation for Dutch housing associations drew up a voluntary agreement with the Ministry of Housing to strive towards sustainable building and greater energy efficiency in new building and housing management. However, despite various experiments, sustainability is not an important factor in asset management of Dutch housing associations (Sunikka and Boon, 2002).

**Top-down strategies**

The reduction of government support in social housing has increased the need among housing associations of formulating strategies for the development of the portfolio. In specialist literature there is a vast amount of articles on methods and techniques to support policy development and decision making. Nevertheless, little can be found about portfolio strategies and, equally important, the translation of these strategies to exploitation measures on the estate level. Recent research (Nieboer and Gruis, 2002) indicates that this is not only the situation in literature, but also in reality. Most goals and objectives are rather general (for instance: ‘quality standards must be raised, ‘to meet the growing demand of the elderly’ etc.) and not quantified. Despite various initiatives to define ‘top-down’ guidelines for the development of the housing stock, a ‘translation’ of these guidelines into exploitation measures is missing. As a consequence, investment policies are mainly determined on the basis of information on estate level; goals and guidelines on portfolio level play a subordinate role in asset management.

**3.6 Structuring the decision making process**

As a consequence of the tendency towards a more business-like management, several process models have been set up to develop this kind of policy in a systematic way (Nieboer and Gruis, 2001). Basically, these models consist of a stepwise description of the actions to be taken to formulate stock policy and provide individual landlords with a framework for policy making. The models are specifically designed for the social sector because, unlike most private landlords, Dutch social landlords have a geographically concentrated stock and must meet a number of legally imposed public tasks. This implies that, compared to commercial landlords, social landlords must pay more attention to social and political considerations, as well as factors concerning the neighbourhoods in which the housing stock is concentrated.
Although a number of models have been made to develop strategic stock management in a systematic way, only a few models have been published. There are two probable reasons for this. First, many models are constantly changing and are adapted to every new situation, according to specific (local) circumstances. Second, several models have been developed by consultants, who are not always willing to publish their models because of commercial reasons.

The models that have been published have a common-sense sequence of analysis, formulating provisional policy options, testing (ex ante evaluating) these options (option appraisal), and formulating definitive options (see Figure 2). These strategies consist of a series of planned measures towards the housing stock. Some models also pay explicit attention to the policy principles of the landlord or to the implementation of the planned measures (see Van Leent and Van Vliet, 1992; Van Ginneken and Van der Laag, 1992; Van Vliet, 1993; Van den Broeke, 1995, 1998; Nieboer et al., 2001).

**Figure 2** General outline of existing models for strategic asset management

```
<table>
<thead>
<tr>
<th>Analysis of present situation, assessment of estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining policy options</td>
</tr>
<tr>
<td>Provisional policy options per estate/dwelling</td>
</tr>
<tr>
<td>Appraisal of provisional policy options</td>
</tr>
<tr>
<td>Definitive policy options per estate/dwelling</td>
</tr>
</tbody>
</table>
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Decision making process De Combinatie

The process followed at housing association ‘De Combinatie’ (11,000 homes, all in Rotterdam) can be divided into seven steps:

phase 1
procedural arrangements, corporate mission and goals

phase 2
analysis of present situation
A. technical/physical factors
B. social factors
C. market factors
D. financial factors
E. political factors

phase 3
deliberation, defining policy options

phase 4
provisional policy options per estate

phase 5
appraisal of provisional policy options
A. technical/physical factors
B. social factors
C. market factors
D. financial factors
E. political factors

phase 6
estate management plans, including definitive policy options

phase 7
implementation
It is unknown how many housing associations follow the structure of the process models mentioned above. From our experience it seems plausible that this way of developing asset management is highly brought upon by external advisors and is (still) not a regular, firmly embedded procedure at the housing associations themselves. Besides, several housing associations have started separate projects for neighbourhoods in which regeneration of the housing stock will take place. The structure of decision making in these projects is rather a product of relatively unstructured negotiations with external parties (local government, other landlords etc.) than an internally structured approach.

3.6 Methods for option assessment

In the models described in the previous subsection, the step between the analysis and the assessment of estates on the one hand and the choice of provisional policy options per estate is crucial. This choice depends, of course, on the criteria that landlords ‘impose’ on their estates (what criteria do they find relevant?), and also on the way in which they ‘weigh’ the relative importance of these criteria (how important is each of the criteria?). We expect connections between these criteria and the choice of policy options. Several methods have been developed to connect data on individual estates or properties to policy options. In a simplified form, all these methods can generally be described as a set of ‘if ... then’ statements. In this section we deal with two forms of estate assessment, namely portfolio analysis and decision trees.

Portfolio analysis
Based on theory on strategic business planning (e.g. Ansoff, 1984), it has been suggested that housing associations can use a marketing portfolio analysis of the market position in support of management decisions (e.g. van Vliet, 1993; 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).

In recent research among eleven housing associations (Nieboer and Gruis, 2002) only one housing association has been found that uses a kind of marketing portfolio analysis as part of its stock management. Three other housing associations use a modified version of portfolio analysis, for instance with lettable and price-quality ratio as the principal elements. The role of the portfolio analysis in asset management decisions is, however, modest. This gives the impression that this technique is not widely used in practice and, if used, does not play an important role. This may be partly explained by the fact that portfolio analyses have been designed initially for commercial purposes and, for this reason, cannot be applied directly to social housing management.
In addition, 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 marketing portfolio analyses.

Next to marketing portfolio analysis, we can discern financial portfolio analysis. Instead of market position, risk and return are the main elements in this technique. Although these elements gain importance in the stock policy of housing associations, we have not found any housing association that applies this technique.

<table>
<thead>
<tr>
<th>Portfolio analysis De Combinatie</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the development of strategic asset management at housing association ‘De Combinatie’, a marketing portfolio analysis is used to select potential policy options per estate. These policy options are structured in ‘labels’ that indicate tenure (continuing exploitation, sale or demolition), eventual change of target group (reallocation or not) and technical quality improvement (small improvement, upgrading, refurbishment). The portfolio analysis is illustrated in the following table. The selected policy options are confronted with estate-specific bottom up information about each estate. In this way, provisional policy options are chosen, which will be tested against a range of criteria (costs, capacity etc.) in the next phase of policy making.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>market perspective -&gt; lettability</th>
<th>bad (shrinking market)</th>
<th>moderate (stable market)</th>
<th>good (growing market)</th>
</tr>
</thead>
<tbody>
<tr>
<td>good</td>
<td>consolidation</td>
<td>consolidation</td>
<td>consolidation</td>
</tr>
<tr>
<td></td>
<td>small improvement</td>
<td>upgrading</td>
<td>upgrading</td>
</tr>
<tr>
<td></td>
<td>upgrading</td>
<td></td>
<td></td>
</tr>
<tr>
<td>moderate</td>
<td>reallocation</td>
<td>consolidation</td>
<td>consolidation</td>
</tr>
<tr>
<td></td>
<td>upgrading</td>
<td>small improvement</td>
<td>upgrading</td>
</tr>
<tr>
<td></td>
<td>upgrading</td>
<td>upgrading</td>
<td></td>
</tr>
<tr>
<td></td>
<td>sale demolition</td>
<td>reallocation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>upgrading/reallocation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>sale</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>demolition</td>
<td></td>
</tr>
<tr>
<td>bad</td>
<td>sale demolition</td>
<td>reallocation</td>
<td>consolidation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>upgrading</td>
<td>small improvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>upgrading/reallocation</td>
<td>upgrading</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sale</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>demolition</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Decision tree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision trees are a well-known technique, in which options are selected on the basis of a series of data. Apart from Delft wonen (see below), we have found one housing association</td>
</tr>
</tbody>
</table>
(out of eleven) that uses a similar decision tree in its asset management. This suggests that this technique is rarely applied in practice.

### Decision support model Delftwonen

Delftwonen uses a decision tree, based on a ‘classic’ portfolio analysis, in which strategies are based on assessments of future market perspective, current lettability and economic opportunity costs (measured as the ratio between the Net Present Value under continued social rent and the market value):

<table>
<thead>
<tr>
<th>Market perspective</th>
<th>Lettability</th>
<th>Economic opportunity costs</th>
<th>General strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>Low</td>
<td>Grow</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Milk</td>
<td></td>
</tr>
<tr>
<td>No risk</td>
<td>Low</td>
<td>Reinforce</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Improve marketing, retreat</td>
<td></td>
</tr>
<tr>
<td>Risk</td>
<td>Low</td>
<td>Maintain</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Maintain (for now)</td>
<td></td>
</tr>
<tr>
<td>Bad</td>
<td>Low</td>
<td>Reinforce, retreat</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Improve marketing, retreat</td>
<td></td>
</tr>
</tbody>
</table>

The general strategies in this decision tree are, shortly described, as follows:
- Improve marketing: improve lettability, but without increasing economic loss, for example by changing allocation criteria and being more active in marketing. If investments in quality are deemed necessary, they should be financed by the sale of dwellings in the same product-group;
- Grow: develop more of these products and cherish the ones in the current stock;
- Maintain: continue current policy for these products;
- Milk: improve financial return by increasing rents;
- Retreat: sell or demolish;

### 4 Conclusion

In the past decade, housing management of Dutch social landlords has changed, due to influences from the market and policy. Reductions in government regulation, financial support and social housing needs have brought Dutch housing associations in need of concepts to develop stock policy. In the past, asset management was mainly done on the
basis of technical considerations, and major investments were mainly done as a part of externally (mostly government) driven renewal or refurbishment plans or on an ‘ad hoc’ basis. Nowadays, there are several initiatives in the social rented sector to develop their own stock policy in a more structured way.

The Dutch regulations allow a lot of room for social landlords to determine their own asset management strategies. Although lower-income people are the main target group, social landlords can play a significant role in housing other income groups as well. The size of the sector alone (35% of the total Dutch housing stock) indicates that the social sector is far from residualised. Housing associations are allowed to sell their homes and are also allowed to develop owner-occupied housing. Individual housing grants facilitate social (and commercial) landlords to offer affordable housing of a fairly wide variety in quality. There are, however, some tendencies that will diminish the degree of freedom that social landlords have now. Some tax benefits have been dissolved and rent regulations are stricter. At this moment, it is unclear how strong the impact on asset management will be.

Market and financial factors have become much more important in asset management of social landlords than they were in the past. Exacerbated by vacancy problems in the 1980s and early 1990s, lettability is high on the agenda of housing managers. However, it must be said that lettability is not a hot topic at present, because the rental housing market has become tenser in recent years, mainly due to a sharp rise of prices in the owner-occupied sector. Financial factors, of course, also play a part, but mainly in feasibility studies in the later stages of decision making and not in the early selection of policy options.

There are several initiatives among social landlords to develop a more structured top-down oriented asset management, in addition to the more traditional bottom up way of decision making. However, the results of this are modest. The goals and guidelines for the development of the mix of dwellings are, generally speaking, too general to have a serious impact on asset management decisions on estate level. Even if there are goals about the composition of the stock, they are not always ‘translated’ to goals on estate level. It seems that housing associations feel an urgency to develop a systematic policy, based on explicit guidelines, but hesitate to apply it on the estate level, because they appreciate a more unstructured, flexible way of decision making as well.

In general, we may conclude that, despite professionalisation tendencies, asset management is partly in its infancy. Furthermore, developments are slow. 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 between alternative strategies.

These conclusions are in contrast with the results of a survey by Straub (1997, p. 35 and 82), in which 76% of the housing associations stated that they had developed a strategic stock policy (described in his questionnaire as ‘all activities carried out by a landlord to ensure short-term and long-term congruency between the housing stock and the market demand as well as the landlord’s objectives’). However, if stock policy of these landords had actually been analysed, results would probably be different. This situation is likely to change in the future, as in a recent survey by Primavera and van de Wijgert (2002), housing
associations consider strategic asset management to be the most important issue in their policy.

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