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## Regeneration of Dutch Urban Districts - the Role of Housing Associations

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## **Regeneration of Dutch Urban Districts: the Role of Housing Associations**

ESRA 2005; 45<sup>th</sup> Congress of the European Regional Science Association  
Amsterdam 23-27 August, 2005  
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### **Abstract**

The Dutch government is pursuing a policy geared to the revitalization of cities in general and the renewal of some problematic housing areas in particular. In most large cities in the Netherlands social housing accounts for a very large share of the housing stock, usually more than 50%. This is leading to a growing concentration of low-income households in the city and selective migration by middle- and high-income households from the city to the suburb. Official government policy on housing and urban renewal is directed at a redifferentiation of the urban housing stock in the form of more owner-occupation, larger and higher-quality homes, and a greater percentage of homes with a garden. This implies the demolition of social housing estates and selling or renovating social housing.

The dominant player in Dutch social housing is the housing association, which accounts for 36% of the housing stock nationwide. The position of housing associations in the regeneration of Dutch urban districts is somewhat enigmatic. On the one hand, they are expected to take initiative and invest in urban renewal and, on the other, they are urged to cut down their market share. How are housing associations coping with this contradictory challenge? In this contribution we will outline the practices in Dutch cities and try to explain what we observe.

## 1. From 'traditional' urban renewal to 'new' urban renewal

After the liberation in 1945 there was a desperate shortage of housing in the Netherlands. The construction industry had lain idle for five years and there was nowhere near enough investment capital. The situation was further compounded in 1947, when people flowed in from Indonesia, which had just been granted independence and, hence, was no longer a Dutch colony. Meantime, the country was in the throes of the post-war baby boom, which was destined to push up the housing needs in the 1970s.

Dutch cities grew rapidly when the construction industry got going again in the 1950s. The emphasis was on medium- and high-rise housing, on austerity and uniformity. It was pretty clear that the promoters of housing projects had very little interest in differences in preferences of the occupants.

The second half of the twentieth century saw a persistent trend in selective migration among families with children and households with medium- and high-incomes from the cities to the suburbs. Young people and immigrants – usually with a low income and often dependent on benefit – started moving into the cities. The upshot? Spending power in the city lagged consistently behind the national average and the gap in income between the poor city dwellers and the affluent regional residents widened even further. Initially, the low-income groups tended to concentrate in a number of old, run-down, pre-war districts with a relatively high proportion of private rented dwellings. In the 1960s and 1970s these neighbourhoods were the main target of successful urban regeneration projects. The quality of the housing and the residential environment in these – usually well-situated – neighbourhoods quickly improved. The problems shifted to some less popular urban districts, most of them managed by housing associations (Prak & Priemus, 1986). In 1997 the Dutch Ministry of Housing, Spatial Planning and the Environment (Ministerie van VROM, 1997) formulated the 'new' urban renewal policy, which differed in several

respects from its predecessor. Whereas ‘traditional’ urban renewal targeted pre-war urban neighbourhoods, concentrating mainly on the construction of social rented housing and on the improvement of technical quality, ‘new’ urban renewal specifically targets post-war neighbourhoods, trying to improve not just the dwellings but the whole living environment and urban structure as well, and aiming particularly at redifferentiation in the housing stock by means of more owner-occupier property and less social rented housing. In traditional urban renewal social housing was the solution, but in new urban renewal, it is more and more the problem.

Thirty cities (G30) are participating in the new urban renewal policy. These cities have entered a multi-year covenant with the national government. Other cities that want to join need to enter covenants with the provincial authorities. Every year the national government sets aside an Investment Budget for Urban Renewal (*Investeringsbudget Stedelijke Vernieuwing / ISV*) to give the district councils the financial support they need to frame and realize their urban renewal policy. The VROM Minister of Housing is politically accountable for urban renewal and the Minister of the Interior is politically accountable for the Major Cities Policy. In 1998-2002 the government even appointed a minister with special responsibility for the Major Cities Policy. The Major Cities Policy covers the broad domain of improving the physical, economic and social quality of cities. Urban renewal falls more or less under the category of physical improvement, which also includes the restructuring of industrial sites.

To prevent the financial resources from being spread too thinly, 56 ‘depressed neighbourhoods’ were selected for priority funding in 2003. All these neighbourhoods – where the problems are most strongly concentrated – are in the G30. Most of the housing stock in these neighbourhoods (60-100%) is owned by housing associations. This fact alone makes the housing associations, in addition to the municipalities, key players in new

urban renewal. In the next section we shall further explore the position of housing associations in the Netherlands.

## **2. The role of housing associations in the Netherlands**

In the nineteenth century industrialization led to radical changes in the Netherlands and elsewhere. Agricultural decline prompted many people to head for the city in search of new employment in the fast-growing manufacturing sector. The mass influx of rural workers played havoc with the urban housing market. Around this time, charitable organizations started emerging along with initiatives by socially-aware employers and municipal councils. As a result, the first housing foundations and housing associations were set up; these were non-profit institutions dedicated to the promotion of social housing (Prak & Priemus, in: Pooley, 1992: 164-189). An urgent need for legislation then arose, which eventually culminated in the Housing Act (*Woningwet*) of 1901. This act – which is still in force albeit in an amended form – gave the housing associations institutional status, which, under certain conditions, made them eligible for government funding.

After the First World War, and especially after WWII, the housing associations kept adding to their property until, by the 1990s, they held 42% of the market. The stock of housing association dwellings then reached a plateau and the market share has gradually declined ever since. At present, over 36% of the housing stock consists of housing association dwellings, which not only serve households from low-income groups but quite some households from middle- and even high-income groups as well.

Housing associations could be described as 'hybrid'; for they combine market operations with public duties. Their most important public task is to provide housing for groups that are unable to provide it for themselves.

Ever since the Cohen Commission (1997) published its Market and Government Report, the Dutch government has been experiencing problems with the phenomenon of the 'hybrid organization' (see for an overview: Verhoef & Simon, 2001). Cohen recommends that hybrid organizations be split into a public and a private component. This kind of arrangement would stop public sector subsidies from filtering through to the market and also prevent market risks from having negative repercussions on public duties. Similar approaches have evolved in the EU competition policy. The ministerial budget for 2005 (Ministerie van VROM, 2004) announced changes to the regulations for the social rented sector (*Besluit Beheer Sociale-Huursector / BBSH*)<sup>1</sup>: each housing association would now be required to split into a parent organization with a purely public remit and one or more subsidiaries geared more to the market. These subsidiaries would pay company tax, which would place them on an equal footing with 'real' market players like project developers, property investors and estate agents. This looks like 'overkill' (In 't Veld, 1995) and would automatically mean that the accounts for the public sector activities would have to be strictly separate from the accounts for the private sector activities. Though the 'equal footing' (level playing field) argument is certainly valid, a legal split in the housing associations is an extremely dubious proposal. In all probability the market-oriented subsidiaries will eventually shake off their public-sector past and the public-sector parents will continue as approved institutions with a much smaller market share.

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<sup>1</sup> The BBSH regulates the public tasks of the housing associations.

The rents of no fewer than 95% of all rented housing are regulated. Housing minister Sybilla Dekker wants to reduce this to 75%. It doesn't take rocket science to predict that, if this goes ahead, 25% of the social rented dwellings will soon lose their social status and the social rented sector will lose 25% of its market share in the near future.

For a clear understanding of the unique position of housing associations in the Netherlands we need to explain what happened on 1 January 1995 on the basis of the so-called 'grossing legislation' (*Bruteringswet*).

On this landmark date all housing associations repaid the outstanding government loans in one fell swoop and swapped them (as far as was necessary) for private loans (guaranteed by the Guarantee Fund for Social Housing with 50% backing from central government and 50% from the municipalities). On the self-same date all the associations received the future state-approved object subsidies (on the basis of assumptions shared by the government, the municipalities and the housing associations regarding developments in rents, interest rates and inflation in the coming decades). These concerned pledges for a period of no fewer than 50 years. Again, on the self-same date, all multi-year exploitation subsidies, new building subsidies and renovation subsidies were scrapped. The housing associations became financially independent all at once (Priemus, 1995). For the first time ever, they had to become competent in treasury management. They were no longer dependent on government subsidies. They had received them in advance and now had to decide for themselves where and how to use them in order to compensate for unprofitable investments, such as new building projects and the renovation of social rented housing.

### **3. Housing associations and urban renewal**

The urban renewal of post-war urban districts is still in its infancy. Hardly any market players have been spotted, certainly not in the 56 depressed neighbourhoods. Here the housing associations hold the reins along with the municipality. When commercial developers tackle a problem neighbourhood it usually means: a strategy aimed at driving the current residents to other neighbourhoods (re-housing), the demolition of dwellings, and the construction of far more attractive and expensive housing to suit the demand at the top end of the market. This results in a dramatic improvement to the physical environment, but it does not always improve the situation of the sitting tenants. Obligatory rehousing puts pressure on social ties. Meantime, problems in depressed neighbourhoods (vandalism, noise nuisance, crime etc.) which were connected with the characteristics and behaviour of the original residents are not solved but merely moved elsewhere.

Housing associations adopt diverse strategies to tackle depressed neighbourhoods. Most housing association directors realize that the greatest threats to quality of life in such neighbourhoods are crime, lack of safety, and vandalism. What is needed, first of all, is action by the police and the municipality, but they, in turn, try to dump some of the problems at the door of the housing associations. After all, surely the wardens and the managers of the housing association complexes can extend their supervision to the streets and the wider environment? National policy tells the housing associations to seek the solution primarily in the demolition and sale of social rented housing. But the housing associations pick up different signals when they meet the tenants' representatives: yes, the tenants have grievances, but what most of them want is large-scale maintenance and home improvement. If this pushes up the rent, most of the extra expense is usually offset by lower heating costs and higher rent subsidies. The majority of the residents do not have the means to buy a house. There is, however, an intriguing minority of social climbers,



among ethnic and non-ethnic residents alike, who want to improve their living situation and often feel compelled to leave the neighbourhood – and sometimes even the city – because the type of homes they are looking for – owner-occupier dwellings, homes with more space, family homes with a garden – are only available elsewhere. If, thanks to urban renewal, similar homes become available locally, some of these people will move into them, thus keeping the spending power in the neighbourhood and retaining meaningful social ties (social capital; Putnam, 2000).

A lot depends on just how convinced this group is that the neighbourhood will really be improved. Many residents who do not believe it (for the foreseeable future) capitalize on the urban renewal and manage to move with an urgency certificate and paid removal costs to a home in a less problematic neighbourhood in or outside the city.

Some housing associations who find themselves in this quandary opt for a modern version of building for the neighbourhood: they listen to the residents and stress large-scale maintenance and home improvement to such an extent that the strategy runs the risk of being seen as half-baked by the government and the municipality. Other housing associations take the residents on and opt for more radical measures: demolition, the construction of owner-occupied housing, the sale of upgraded property. Though this last category benefits from the currently very low mortgage rate and the almost unlimited income tax relief of mortgage interest paid, the downside is that the growing shortage of rented housing is constantly fuelling public opposition to the demolition and sale of social rented housing.

The housing associations that adopt a radical approach are increasingly accused of behaving like commercial project developers and property investors. Against this background, it is hardly surprising that the identity of housing associations is questioned time and again by politicians and other observers.

#### **4. Social and market-oriented housing associations**

We shall call the housing associations which opt for a moderate strategy and resident participation: *social housing associations* (some people might find this a tautology). We shall call the ones who opt for a commercial strategy: *market-oriented housing associations*. Both strategies are easily reconciled with the hybrid status of housing associations, which – by definition – combine public (social) tasks with market activities.

Few people will be surprised to learn that, amid such a sphere of tension, we also find municipalities which – depending on the political composition of the municipal council – are avidly searching for compromises and mid-way solutions in the true tradition of Dutch consensus. For example, many housing associations are prepared to work towards redifferentiation of the housing stock, which leaves (more than) enough affordable social rented dwellings for the target group. Here, we refer to a *core stock*, whereby the geographical spread as well as the size is crucially important. The housing associations, which are often still working in a light regional partnership, want to substantially reduce the core stock in depressed neighbourhoods and to maintain or even enlarge it in the more popular urban districts and suburban centres: its all somewhat reminiscent of the well-known American maxim of ‘opening up the suburb’.

#### **5. Rent policy and illegal (sub-)letting**

Another potential channel of compromise is the proposed rent policy. Particularly in the large cities – led by Amsterdam – the regulated rent is far below market level, which is sometimes twice as high. This is giving extra momentum to the demand for social rented housing in cities, while the supply is shrinking rather than expanding. Consequently, the

waiting times for such housing have risen to eight years and more, and are leading to time-honoured practices of key money and illegal (sub-) letting. An estimated 10% of the rented housing stock in Amsterdam is illegally (sub-) let; in other words, contrary to the allocation and prioritization regulations and without the landlord's permission. An unknown part of this illegal (sub-)letting concerns people who are living illegally in the Netherlands and are working on the black labour market (many come from eastern Europe) or in the criminal circuit (drugs, trafficking in women, prostitution, violence, robbery, extortion). It may safely be assumed that illegal (sub-) letting is making a sizeable contribution to the liveability problems in many depressed neighbourhoods.

## **6. The Great Transition**

Some directors of housing associations with a lot of urban property are pushing for a more liberal rent policy – or even for complete deregulation – which would enable them to substantially raise the rents towards market levels. This would encourage filtering to new building and probably revitalize the stagnating owner-occupier market. At present, around one third of all tenants receive rent subsidy: their below-average income is not even enough to pay the regulated rent, let alone the deregulated rent. The market-oriented housing associations suggest a dual strategy consisting of step-by-step rent deregulation on the one hand and a regulated rent system for households receiving housing allowances (who hence have a relatively low income) on the other. This is the policy line that was adopted by Aedes, the federation of housing associations, in 2004. The Ministry of Housing and Aedes agree on this policy line and refer to it as ‘The Great Transition’ (*De grote beweging*): the housing associations get a substantial rise in income thanks to the deregulated rents and the subsidy recipients are protected at the same time. In return, the

housing associations increase their new building efforts and, from 2005, contribute an annual total of 250 million euros (indexed) towards the Ministry of Housing's expenditure on housing allowances. This will enable the Ministry of Housing to meet the savings targets set by the current Dutch coalition government (Balkenende II). The deal was sealed in the Rental Letter (Dekker, 2004; Priemus, 2005) of November 2004, much to the satisfaction of the *Nederlandse Woonbond* (association representing the interests of the tenants) and the organizations that we called 'social housing associations', which do not identify either with the Rental Letter or the current policy of Aedes.

## Modernization of the rent policy: the Rental Letter

In November 2004 Minister Dekker published her so-called 'Rental Letter' setting out her proposals for modernizing the rent policy. The policy is split into five parts:

(1) *Enlarge the deregulated segment from 5% to 25%*

When determining the size of the new deregulated segment the minister took recourse to the WOZ Act (legislation for real estate valuation) because it provides the best indication of the market potential of housing. The calculations were performed with a national uniform level of € 115,000 (WOZ reference date, 1 January 1999), with an upper and lower margin of € 15,000 depending on the region. The number of deregulated rented dwellings will increase from 150,000 to 750,000: 500,000 owned by the housing associations and the other 250,000 by commercial and private landlords. The deregulated segment will be enlarged on 1 July 2006 without phasing. Tenants without a rent subsidy will be subject to a transitional regime lasting four years. During this period the maximum allowable rent rise will increase step by step.

Period starting 1 July	Maximum rent increase per dwelling
2006	inflation + 2.0%
2007	inflation + 3.0%
2008	inflation + 3.5%
2009	inflation + 4.0%

The recipients of rent subsidy in areas due to be deregulated will retain their rent subsidy entitlement. They will also be subject to the annual rent increases. Housing

associations will be able to agree on voluntary rent regulation when entering tenancy contracts for new dwellings. In such cases arrangements will also be made for the allocation of rent subsidy.

(2) *Modernization of the real estate valuation system*

An acknowledged weakness in real estate valuation systems is the way in which the location and the living environment affect the rent adjustments. Ms Dekker opted for the WOZ system, which facilitates comparability between rented and privately owned homes and hence promotes transparency in the housing market. The WOZ system will be used to assess the living environment and the form of housing. At the same time, it will be revised to better reflect qualitative shortcomings and up-market features and facilities. The new system will be introduced on 1 July 2006.

(3) *Annual rent increases*

Market forces also need to be strengthened in the regulated part of the market. Landlords will have to pursue a more differentiated rent policy to improve the price/quality ratio. As long as the tenant has only a limited choice, a moderate rent policy is needed. The rent limitation for social landlords expires in 2008, provided the required investments are realized. For commercial landlords, 2008 is also a defining moment, when it will be decided whether enough investments have been made. Assuming that landlords will invest more, thereby creating more slack in the housing stock, Minister Dekker presents the following scale of maximum rent increases per dwelling.

Period starting 1 July	Maximum rent increase per dwelling
2005	inflation + 1.5%
2006	inflation + 1.5%
2007	inflation + 2.5%
2008	inflation + 2.5%
2009	inflation + 3.0%

The scale for housing associations is:

Period starting 1 July	Maximum rent increase
2005	inflation + 0.4%
2006	inflation + 0.8%
2007	inflation + 1.2%

For dwellings with an exceptionally low rent (less than € 200 per month or lower than 50% of the maximum rent) a nominal increase of € 25 per month will be permitted.

(4) *Agreements on investment in house-building*

The minister has established a relationship between investments in new housing for social tenants and the amount of leeway in the rent policy. The moment of truth in the period 2005-2010 is 1 January 2008. The housing shortage in each urban region at the start of 2010 may not exceed 1.5%. The minister is entering into multi-year house-building agreements with the regions. At the start of 2008 the housing shortage can be brought down to around 2%. Municipalities and landlords will have

to enter obligatory performance agreements. Aedes and the VNG (association of housing associations including G4 and G26) have expressed willingness to do so.

The minister and Aedes have agreed on the following indicative annual production figures:

	2005	2006	2007	2008	2009
Associations rent	10,000	10,000	15,000	20,000	25,000
Associations sale	5,000	5,000	6,000	7,500	7,500
Total	15,000	15,000	21,000	27,500	32,500

The minister will only liberalize the rent policy if the housing associations develop enough new building initiatives. Otherwise, the deal is off.

According to the Rental Letter, private investors are now building around 4,000 homes a year. The IVBN members (IVBN: Dutch association of institutional investors in real estate) come no farther than 1,650 on an annual basis. They are prepared to raise production to around 4,000 a year. If the investment climate were to improve dramatically, an annual output of 8,000 could be realized. Minister Dekker wants to reach agreement with the IVBN on the production of rented housing in 2005-2010.

(5) *Landlords' contribution to affordability*

The government is asking the landlords to contribute € 250 million (index-linked) a year towards affordability. This sum must also cover the rent subsidy costs, which will be estimated for each period on the basis of above-inflation rent increases in both the regulated and deregulated segment.



At the moment the minister is considering a designation tax in relation to the earning capacity based on the housing stock. A designation tax would enable the government to recoup some of the costs of realizing specific objectives from those who helped to cause them in the first place. This applies to both social and commercial landlords. Any such tax would require strong legal underpinning. Aedes is considering an arrangement which the housing associations could reach among themselves and could then be declared binding by the government.

When we examine the content of the Rental Letter (see boxed text) in relation to the proposed amendment to the regulations for the social rented sector (notably, splitting the housing associations into a public parent company and commercial subsidiaries), we can safely say – without overstatement – that the position of the housing associations is in jeopardy. In other words, the hybrid status of housing associations is on the line. Rent deregulation – supposing it was adopted in full – would place the housing associations on an equal footing with commercial investors in real estate, *viz*: pension funds and insurance companies. Much more than in the past, housing associations would become profit-making organizations, which would only be distinguishable from the other market players by restrictions in profit appropriation. Up to now, surpluses have largely been internally invested in subsidizing new building (social rented housing) and urban renewal. Aedes and most of its members are now thinking more of ensuring affordability for subsidy recipients by controlling rents this category and contributing annually to the rent subsidy costs.

It is important, in the light of the current debate on the Great Transition (*Grote Beweging*), to think through the long-term effects of combining rent deregulation with contributions to the rent subsidy. Subsidy recipients will enjoy controlled rents for as long as they remain in the same home. This will seriously constrain mobility, as the chance is high that subsidy

recipients who move house will face a sharp rent increase, which will again push up ministerial expenditure on subsidies. The core stock of affordable dwellings will diminish rapidly and the shortage at the lower end of the market will get worse. The collective contribution of the housing associations to the costs of housing allowances will go up every year, because when the rents rise, the subsidies will rise as well across a broad spectrum: a rent increase of 100 euros a month will lead to an extra 75 euros a month in subsidy and an extra 25 euros a month in the net housing costs of many households receiving rent subsidy. For years, the Ministry of Finance has opposed open-ended arrangements like the housing allowances and it will be delighted to hear that the ends can be cauterized at the expense of the housing associations. The housing associations will realize that the independence generously accorded to them by the *Bruteringswet* is being reclaimed via the contribution to the housing allowances. The arguments for a level playing field begin to sound a bit hollow if housing associations do contribute to the costs of the housing allowances, while commercial landlords – who have already intimated as much – do not.

The rents of dwellings inhabited by the recipients of housing allowances, will eventually digress more and more from the rents of equivalent dwellings which are not inhabited by subsidy recipients: this implies a – hitherto unknown – distortion on the housing market. It is also conceivable that some of the housing associations will scarcely or never use the scope for rent increases that deregulation creates. All in all, this will simply lead to greater distortions in rent patterns instead of improving stability.

## 7. Finally

All things considered, the proposed system of deregulated rents, controlled rents for subsidy recipients, and contributions by housing associations to the costs of housing allowances costs is unlikely to prove robust. Though the housing allowances scheme gets wide acclaim as an instrument of housing policy, it is evidently flawed: it figures significantly in the poverty trap and delivers the wrong incentives (moral hazard) (Priemus & Kemp, 2004). For example, if a household income rises after the breadwinner or partner finds a job, the reduction in the housing allowances may be so steep that there is no point in the household seeking to improve its position on the employment market. Further, the housing allowances scheme does not act as an incentive to search for a more affordable dwelling: after all, it will only result in a lower subsidy and possibly even withdrawal.

If the Great Transition were implemented across the board, the market in rented housing would grind to a halt and mobility on the employment market would be further impeded. The Great Transition will not bring solutions for the Dutch housing associations; in fact, it is more likely to bring extra problems (Priemus, 2005).

It would be more sensible to pursue a different course of action in the coming years:

- a) Maintain the hybrid status of housing associations, which distinguishes sharply between public tasks and market operations without separating them altogether.
- b) Transparent accountability for the extent to which and the way in which the housing associations perform their public tasks: internal and external supervision for the benefit of their tenants.
- c) A drastic reform of the rent subsidy system whereby the size of the subsidy is no longer linked to the actual rent, but to the average rent in each region (after the

American model). Rent subsidy remains an issue for central government and an entitlement (unlike the situation in the USA).

- d) Step-by-step deregulation of the top end of the rented market (once c is in effect) so that the social rented sector gains more affinity with the market. Obviously, fundamental differences in the socio-economic status of the neighbourhood residents will cause housing association rents to systematically lag behind those of commercial landlords.
- e) Strong action from the housing associations in new building and urban renewal. The nature of the redifferentiation will vary from district to district. There is something to be said for focusing on the preferences of the social climbers (Priemus, 2003; 2004a; 2004b) as the social capital in the neighbourhood would then be strengthened and this strategic group would not be compelled to leave. There is usually scope in the new-building differentiation to build affordable rented dwellings which, depending on the climate in the housing market, could be sold to the residents at a later date (Gruis *et al*, 2005).

The list of measures outlined here – which we shall call the *New Transition* – offers far better and more robust prospects for tenants and housing associations than the *Great Transition*.

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