Chapter 14
Maturation of the Dutch Social Housing Model and Perspectives for the Future

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The Dutch social rented sector has acquired an international reputation because of its social nature and the way it has evolved. With around 32 % of the total stock, the size of the sector is much bigger than in other western European countries. Also, the development of the sector after the Second World War is unique. The current position is determined by the specific structure of the Dutch welfare state and the country's distinct housing policy. It is also the result of the shifting balance of supply and demand in the national housing policy. In this chapter, we explain the development of the Dutch social rented sector on the basis of the above-mentioned characteristics. We start with an international comparison regarding the position of the Dutch social rented sector. We will also pay attention to the background of the successful development of this sector: the financing system, the unique guarantee system, and the interplay between the central government and local housing associations. The chapter concludes with an exploration of the future of the social rented sector in the Netherlands. Due to all kinds of processes and developments, the social rented sector in the Netherlands is now at a crossroad, and important policy decisions have to be made.

14.1 Introduction

The housing system of the Netherlands has acquired an international reputation because of its unique nature and the way it has evolved. Over the past years, the Dutch housing system has been a source of inspiration for policymakers far and wide, including scholars and officials from some of the former socialist states in Eastern Europe and several Asian nations. Researchers and policymakers in those

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countries have shown a keen interest in the way social rented housing is operated in the Netherlands. In particular, they are intrigued by the strong position of social housing in the country. This sector accounted for 41 % of the total housing stock of the Netherlands at the beginning of the 1990s; in contrast, the share of this sector in most other West European countries rarely reaches 20 %. Thus, the Netherlands clearly stands out in this sense. The strong position of Dutch social housing has its roots in the long period when housing was influenced by the national government. Of course, public intervention had been common practice throughout Western Europe for decades. However, the Netherlands eventually came to steer its own course. Whereas most other West European countries veered toward privatisation in the early 1970s, the Netherlands did not start to move in that direction until the 1990s.

The objective of this contribution is to explain how the Dutch social rented sector came to have the specific character for which it is renowned. To place this social institution within its societal context, a theoretical perspective is provided in Sect. 14.2. More specifically, the characteristics of the different welfare states in Western Europe are presented. The presented welfare state typology makes it possible to structure the position of the social rented sector in Europe and the Netherlands from a theoretical perspective. Section 14.3 elaborates on the direction in which Dutch housing policy developed and the role that the social rented sector played in that overall policy. The existence of clear links with the transformation of the welfare state will be shown, as described in the preceding section. This also clarifies the special position of housing as a policy field between the state and the market or, as Harloe (1995) and Torgersen (1987) had previously characterised, of "housing as the wobbly pillar under the welfare state." One of the success factors of the social rented sector in the Netherlands is the institutional structure and, more specifically, the way the financing of the sector is organised. The inventive interplay between state guarantees and the revolving fund principle created a unique situation that allowed housing associations to flourish and initiate more than half of the building production in the Netherlands in 2012, without any direct financial state aid. Section 14.4 explains this unique collaboration between housing associations and the state. As in many other West European countries, the welfare state, as well as the position of the intermediate sector in the Netherlands, is under pressure. The different policy options are discussed in Sect. 14.5. This sketch is specifically concerned with the development options for the social rented sector in the next few years. In that light, it emphasises the strategic decisions that will have to be made soon. Finally, this chapter ends with some concluding remarks.

14.2 Theoretical Perspective

The development of the social rented sector in Europe has been described by several authors in the past (Boelhouwer and van der Heijden 1992; Danermark and Elander 1994; Harloe 1995; Murie 1992). As many of these authors have noted (see, for an overview, Danermark and Elander 1994, p. 2), the concept of social housing, although used as if its meaning was self-evidently clear, takes on different meanings in various national contexts. It is sometimes connected to council housing (such as in the UK), sometimes regarded as publicly subsidized housing irrespective of ownership (such as in Germany), sometimes considered as intermediate housing (such as in the Netherlands), or sometimes viewed as an umbrella concept covering various types of housing in terms of ownership and tenure. Nevertheless, despite these and other differences, the term social housing has historically been ascribed some dimensions that are quite similar from country to country, thus making comparative discussion meaningful (Danermark and Elander 1994, p. 2). As summarized by Harloe (1995), social rented housing can be very broadly characterized as having three major characteristics: First, it is provided by landlords at a price that is not primarily determined by considerations of profit. Second, it is administratively allocated according to some conception of "need." Third, government control over social rented housing is extensive and has become more so over time. With regard to this last characteristic, things have changed in the last decade. Social landlords in the Netherlands, for instance, are much more independent from the government than they were before.

In Boelhouwer and Hoekstra (2012, pp. 369–370), we constructed an adjusted welfare state typology to explain this new position of the social rented sector. This typology is based on that of Esping-Andersen (1990) and Kemeny (1995). On the basis of the changing role of the central government in many Western European countries in the 1990s, we subdivided Kemeny's capital-led corporatism into two types: conservative and modern. Conservative corporatism corresponds with corporatism as defined by Esping-Andersen. In this definition, the state is fairly active in the provision of welfare services. However, this does not lead to income redistribution because the preservation of the existing hierarchy in society is the starting point for welfare policies at the state level. Consequently, the welfare provision is segmented; different groups are entitled to different welfare services, and the traditional family is often explicitly favoured. Furthermore, the state is definitely not the only provider of welfare services. In this respect, the family and private nonprofit organisations also play an important role. Modern corporatism refers to a more indirect style of governance in which the central government defines the policy frameworks within which the local authorities and the private actors operate. Thus, next to liberalism, we distinguish three different kinds of corporatism: labour-led, conservative, and modern.

Table 14.1 shows how the various welfare state regimes in the modified theoretical framework differ with respect to these characteristics.

With the above-explained adjusted welfare state typology, it is also possible to structure the position of the social rented sector more precisely. Kemeny's distinction between home-owning and cost rental societies could be the starting point. In his article "Corporatism and Housing Regimes" (Kemeny 2006), he argued on the basis of a division between capital-led and labour-led corporatism that there is a connection between the specific corporatist welfare state and the existence of an integrated rental market with a strong social rented sector. Kemeny contended that

Table 14.1 Main characteristics of the four welfare state regimes according to the modified theoretical framework

	Labour-led corporatist	Conservative-corporatist	Modern corporatist	Liberal
De-commodification	High	Relatively high	Relatively high	Low
Influence of central government	High and direct	Quite high and often indirect	Quite high and often indirect	Low
Degree of political corporatism	Many corporatist structures and processes	Many corporatist structures and processes	Many corporatist structures and processes	Few corporatist structures and processes
Fragmentation in the provision of welfare services	Fragmentation on the basis of measurable criteria	Fragmentation on the basis of occupation and/or social status	Fragmentation on the basis of measurable criteria	Fragmentation on the basis of measurable criteria.
Treatment of the traditional family in welfare policies	No preferential treatment for the traditional family	Preferential treatment for the traditional family	No preferential treatment for the traditional family	No preferential treatment for the traditional family
Role of State, market, and family in the provision of welfare services	Dominant position of the State	Important (if not dominant) position of the family	Welfare services are provided by both market and State	Dominant position of the market

the corporatist power system induces the need to achieve compromises. Corporatist compromise solutions entail a political solution that takes into consideration several different interests. The fragmentation of political parties, resulting in coalitions and minority governments being the norm, may be part of the explanation for the rise of an integrated market and a strong social rented sector. The latter can take many shapes and forms, such as municipality-owned companies, voluntary or charitable societies, trusts, rental cooperatives, and even privately owned nonprofit enterprises (Kemeny 2006, p. 12). For right-wing hegemonic coalitions that could be classified as liberal welfare states, it is quite clear that there will be a choice for a dualist rental system, in which nonprofit activities are restricted and nationalised. Social rented housing is incorporated into a publicly controlled planned economy and shaped into a low-income housing sector (command economy means-tested public renting). Examples of such states are the USA, Canada, Australia, New Zealand, and, to a lesser degree, the UK. Corporatist welfare states are more related to an integrated rental market with a specific leading role for the social rented sector (Kemeny 2006, p. 13). In conservative corporatist countries, we could expect right-wing parties with a still-strong influence and a social rented sector that is limited and has limited impact on the rental market. We could also expect a variety of ownership forms of social rental housing. Examples of these countries include Germany and Switzerland. In labour-led corporatist countries, we would expect a bigger and more uniform social rented sector and a very small profit rented sector. The social rented sector would be more than big enough to have a leading position in the rental market. Also, the influence of the tenant and/or the state could be more explicit. Clear examples of this type of corporatist states are Sweden and Denmark. In modern corporatist welfare states, the role of the state is smaller, and the role of the market, as well as the social rented sector, is bigger than in labour-led corporatist states. A clear example of this is the social rented sector in the Netherlands, which, with 32 % of the housing stock, still has a dominant position not only in the Dutch rental market but also in the overall housing market. The state largely confines itself to creating the conditions and formulating the policy frameworks within which local government authorities and private actors operate. This new policy framework brought the housing associations in the Netherlands into a very powerful position. They are financially very strong and are positioned in the bigger cities, where they dominate the local rental market in terms of their housing stock and play a crucial role in urban renewal developments. A relevant question for the future is whether more corporatist welfare states will develop in the direction of modern corporatist welfare states and whether right-wing parties and liberal-oriented neoclassical economies will approve such development. More specifically, the role of the European Commission and the way the policy of free competition is implemented in the near future by specific laws from Brussels will probably answer the question of whether corporatist welfare states in general will have a bright future.

14.3 Developments in Dutch Housing Policy and the Role of the Social Rented Sector in the Context of the Welfare State

The constant tension between government intervention and market influences becomes apparent when we study the development of the social rented sector in the Netherlands. Immediately after World War II, the Netherlands had to deal with serious housing shortages, in common with most Western European countries. The situation soon deteriorated because of the rapid growth in the number of households and low production levels in residential construction in the early postwar period. The shortages that became apparent soon after 1945 made an exceptionally high level of government intervention in homebuilding programs broadly acceptable. Policymakers were faced with escalating costs, ranging from the cost of living to construction costs and interest rates. Thus, substantial object subsidies were needed to contend with the massive housing shortage. A high level of government intervention was called for; this was entirely fitting in a period when the welfare state was gaining ground. In comparison with the rest of Europe, housing production in the Netherlands rose to an unprecedented level after the 1960s. This rapid rate of construction was necessary; during this period, the number of households in the Netherlands increased much more rapidly than in the rest of Europe. The decline in the birth rate came to the Netherlands very late; there was also a postponed, but nevertheless intense, decline in average household size. In contrast with the period before 1940, the need to build cheaply and quickly led to an emphasis on the social rented sector. These driving forces helped the sector to expand. The sector's share grew from 12 % in 1945 to 41 % in 1975 and to no less than 44 % of the total stock by the early 1990s. No other Western European country attained such a high share. The eventual turning point in Dutch housing policy was reached in 1989. The remainder of the new policy is strongly geared to the promotion of the market (Heerma 1989). The Memorandum on Housing for the 1990s *[Nota Volkshuisvesting in de jaren negentig]* puts particular emphasis on deregulation, decentralization, and self-sufficiency. This new policy line includes the decentralization of authority. The transfer of responsibilities and risks from the State to the local authorities and provinces and the independence of housing associations and (organizations of) housing consumers are featured. For the housing associations, this shift meant that the existing regulations operating in advance were replaced by retrospective accountability (Heerma 1989). Financial freedom was also markedly increased, in addition to freedom in terms of policy. The government decided to phase out the object subsidies for new construction as rapidly as possible. Rents in the period 1990–1994 were raised annually by 5.5 %, a far greater margin than the general level of inflation, and this increase in revenue strengthened the financial position of the associations. The Grossing and Balancing Operation constituted a second important episode marking the move towards financial independence. The State wanted at one and the same time to redeem the long-standing subsidy commitments (15.9 billion euros) and simultaneously call in early the loans that the associations still had outstanding (18.6 billion euros). In this way, the continuous pumping of money around the social housing circuit could be brought to an end. After intensive consultations with the sector, an agreement was reached that the Grossing and Balancing Act would take effect in 1995. The advantages for the State were evident: savings were made on the object subsidies, the administrative bureaucracy could be substantially reduced, and the housing budget could be subjected to a stringent cleanout operation. Moreover, the State could take an independent position with respect to the housing association sector in the discussions concerning the annual rent increase. The Act also brought certain advantages for the associations. They traded in supposed savings at one and the same time, became capable through their greater independence in carrying out a more flexible and thus market-oriented rental policy, and assumed new responsibilities in the management of their property. The increased rents and the Grossing and Balancing Operation have ensured that the associations have sufficient financial resources at their disposal to be able to carry out the housing task quite independently. In the Netherlands, this is referred to by the term *revolving fund*.

The government considers the social rented sector in its entirety as a revolving fund that should be capable of functioning without government subsidies. The idea of a revolving fund implies that current and future reserves generated in the social rented sector are put to use within that sector; in this manner, the housing associations subsidize themselves. The revolving fund applies both to the sector as a whole and to the individual associations. Each of these associations has to use the yields of its operations in the current stock to pay for (non-cost-effective) new instruments in the quality of the stock, new construction, and improvements in liveability. For the sector as a whole, the yields of the prosperous and the poor associations can be balanced. Prosperous associations could, for instance, support their poor counterparts by lending them funds at below-market interest rates.

When we look at the situation of the social rented sector in the Netherlands around the second half of the last decennium, the following observations could be made (Boelhouwer and Hoekstra 2009).

- The pressure on the housing market puts associations in a strong position. The rentability of their housing is excellent. A few years ago, housing associations worried about empty accommodation, whereas now supply exceeds demand right across the board.
- Towards the end of the 1990s, the national government stated that new housing production should concentrate on the market sector. As a result, the associations built very little social rented housing during the period 2002–2007.
- The financial position is robust. More capital than the minimum amount needed has been accrued, creating room for investment. The composition of the housing supply (age, quality), the development of demand on the housing market, and the shift in the attitude of the national government all lead towards a substantial investment programme (2007–2011). There are huge differences in the financial positions of the various associations.
- The image of the sector is decidedly poor. Much of the publicity is negative in tone (high salaries, arrogance, fraud, low housing production in the past).
- The European Union has asked that attention be paid to a fair competitive position in relation to commercial landlords and project developers, as well as to the size of the target group of the social rented sector.

On the basis of these characteristics, one can conclude that the housing associations had become used to not being held accountable for their actions. The organisations had become distanced from their "natural owners," the tenants and the government, and they are neither "disciplined by the market" nor "disciplined by the Government." There was no structural incentive for the associations to make socially acceptable investments. It is important to realise that in practice, housing associations were making a lot of socially acceptable investments. The amount and direction of the investments, however, were not controlled or steered by government bodies. On the other hand, most associations felt stifled by the State-dictated policy framework and the legislation and regulations. They found themselves trapped in a bureaucratic web and wanted more room for enterprise. To face up to the problems described above, a deluge of reports and recommendations appeared in the Netherlands in the period 2004–2006. Alongside all these reports and recommendations, the stance adopted by the European Commission was just as significant in terms of the future positioning of the housing associations. Within the context of the European regulations on market efficiency and competition, all forms of State assistance that cannot be termed as a service of general interest must in principle be reported to the European Commission. In this respect, the European Commission's decision on 13 July 2005 to grant the housing sector a general exemption from the obligation to report State assistance is important. This "exemption from notification" can be given because, according to the European Commission, there is only a very limited risk of causing disruption on the internal European market. This means that associations do not have to report to the European Commission every project they undertake involving State assistance. Another condition specified in the decision is that associations must make an administrative distinction for any activities undertaken that do not benefit the public interest. The decision applies to all Member States. One day later, on 14 July 2005, Minister Dekker received a supplementary letter from the European Commission. The Commission was of the opinion that the Dutch Government should introduce the following three measures:

- housing associations activities with State assistance should be directly linked not only to the maximum value of houses but also to socially deprived households;
- any commercial operations undertaken by the housing associations should be subject to market conditions, and profits made from commercial activities must be reinvested in the social house building sector; and
- excessive and structural overcapacity of social housing should be prevented by selling these houses, and the overcapacity should be restricted to a small percentage of the total housing supply.

The Brussels rules were formally introduced in the Netherlands on 1 January 2011. In June 2011, Minister Donner also sent a first draft of a new Housing Act to the parliament. This document was based on 6 years of discussion and several letters and policy documents of three former ministers. The housing associations were given two concrete tasks: the primary allocation of regulated rented housing to targeted income groups and investment in house building and restructuring. The primary allocation to targeted income groups is based on an income of 33,614 euros per year (1 January 2011 and indexed every year); approximately 39 % of all Dutch households have an income below this threshold and approximately 76 % of the current allocations is beneath this ceiling. Ten percent of the yearly allocations of the housing associations may be directed to households with a higher income (especially meant for households with an urgent request, with specific needs, and from restructuring areas). Households in social rented accommodation that receive an increase in their income are not directly obliged to move. New housing should provide a sufficiently attractive alternative for these people, according to the Minister.

Another important proposal is to change the role of the Central Fund into a Housing Authority (for an elaboration of the Central Fund, see Sect. 14.4). In the case of a bad functioning housing association, the Authority will have the possibility to give instructions to the management board of the housing association. The financial monitoring and control role of the current Central Fund will not be changed. A new task for the Authority is to control the regulations on state support (the Brussels rules). On the basis of this last aspect, housing associations have to make a division in their bookkeeping between commercial activities and activities under state control (organising housing for the target group and real estate for the use of societal organisations, such as schools and community centres). Also important is that housing associations still have the opportunity to be active in commercial activities, such as building housing for middle-income groups and developing more expensive rented and owner-occupied houses. The only conditions are that there will be no state support involved and that these activities are organised under the same conditions as those conducted by commercial firms. The Minister of Housing will maintain supervision on the integrity, governance, and performance of the housing associations. Also, the position of the internal supervisory board is strengthened. The board's approval is required for important decisions, such as the selling of houses and the acceptance of big investment proposals. The board is also responsible for the functioning of the management board of the housing association. When the internal supervisory board is not functioning well, the minister has the authority to fire the board.

The draft of the new Housing Act is more or less in line with the government maxim "Freedom and responsibility," as published by the centrum right-wing government in October 2010. It is remarkable that the reforms and proposed budget cuts are mostly focussed on the (social) rented sector. The home-ownership sector is almost not mentioned in the agreement, and the huge fiscal subsidies to homeowners (deduction of mortgage interest) are not discussed at all. In the rented sector, the policy of yearly rent adjustment by inflation is continued. The most important reason for the government to not introduce a more market-oriented rent adjustment system is that such a policy would lead to negative effects on the purchasing power of tenants. Only renters with an income above 43,000 euros per year will be confronted with a rent increase of 5 % plus inflation (at present, 2 % in the Netherlands). This strong rent increase will, however, only affect about 15 % of the total households in the rented sector. A practical problem is how to check the income level. Tax authorities are the only institutions that can check income data, and they are already complaining about an overload of commitments. Checking the incomes of 2.4 households in social housing is costly, time-consuming, and sensitive to fraud. The plan is to implement this rent increase in July 2013.

The coalition agreement has the most far-reaching consequences for the social rented sector in the Netherlands. First of all, tenants in the social rented sector receive a right to buy, after a similar policy that has been in effect in Great Britain since 1980. This proposal is introduced to further stimulate home ownership and to compensate the landlords for a large property tax that will be introduced in 2014, which is intended to raise 760 million euros every year (620 million euros for housing associations, 140 million euros for commercial real estate investors). The government wants landlords to pay part of the costs of housing allowances. The suggestion to introduce a right to buy is quite new and was not discussed before the election. At present, the government is quite hesitant about making a firm statement in this regard. It is obvious that the housing associations in the Netherlands are private organisations that cannot be expropriated without compensation (Boelhouwer 2007). The coalition government had to resign in April 2012 and announced that new elections would be

Table 14.2 Key Statistics Dutch Housing Associations (2011)

Housing stock (in housing units, end of 2011)	2,414,300
New dwellings for rent	28,600
New dwellings for sale	6,700
% New dwellings, sold at a discount	34.4
Dwellings demolished	11,900
Sale units in housing stock to households	14,300
% Dwellings in housing stock, sold at a discount	43.0
Housing units renovated (more than €20,000 per unit)	18,800
Expenses to quality of environment, per housing units (x €1)	115

Source: Centraal Fonds Volkshuisvesting (2012: 14)

Table 14.3 Rents, quality, turnover, Dutch Housing Associations (2011)

Number of quality points (*wws-punten*) per housing unit	136.8
Monthly rent per housing unit (x €1)	440
Rent in % of maximum allowed rent (in %)	70.2
Real Estate Value per housing unit (x €1000), as of January, 1	154
Turnover rate housing units (in %)	7.7
% Allocations to target group (EU-standard): housing units with monthly rent until €652.52, allocated to households with taxable income of €33,614 per year	93.5

Source: Centraal Fonds Volkshuisvesting (2012: 14)

held in September 2012. To reduce the government deficit to below 3 %, after the fall of the government, a coalition of government and opposition parties agreed to cut another 12.4 billion euros from the government budget for the year 2013. There were also some remarkable housing market reforms introduced. The most noteworthy is to mitigate the mortgage tax relief for first-time buyers. For the rented sector, not many new proposals were presented. The most important change is that renters with a yearly income between 33,000 and 43,000 euros will be confronted with a rent increase of 1 % plus inflation. For the housing associations, this means that that there will be three different rent increases, depending on the income of the household.

To complete this overview of the development of the Dutch social rented sector, Tables 14.2 and 14.3 and Fig. 14.1 provide some key statistics. In 2011, 389 housing associations were active in the Netherlands, owning a total of 2,414,300 housing units. In 2011, these housing associations received rents in the total amount of €12.8 billion (€5.164 on average per housing unit). The financial result was +€1.9 billion (+€779 on average per housing unit). Figure 14.1 shows that the housing associations in the Netherlands since WW II have accounted for a substantial part of the Dutch housing production, with fluctuations depending on the economic development. The production of these housing associations has been anti-cyclical to the general economic circumstances.

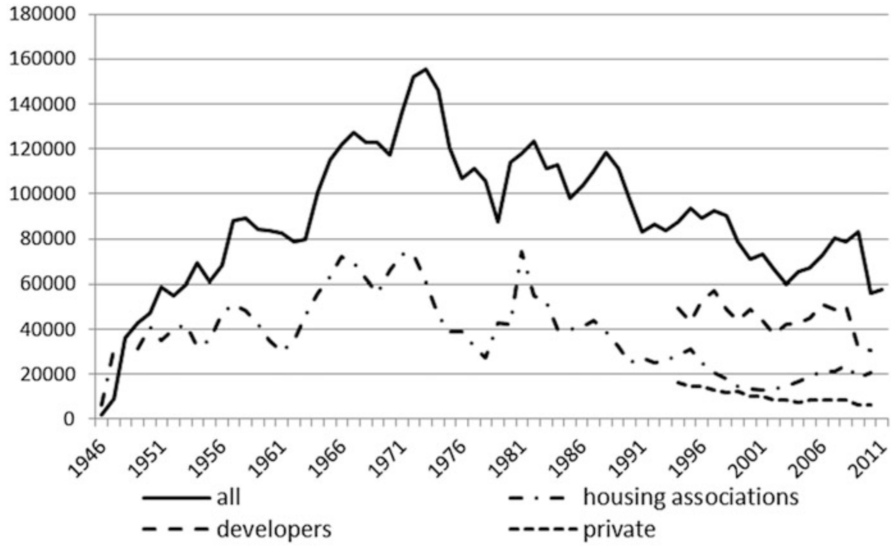

Fig. 14.1 Housing production in the Netherlands by owner (1946–2011) (Source: Central Bureau of Statistics (CBS))

14.4 Financing in the Social Rented Sector

Until the beginning of the 1980s, the financing needs of the Dutch housing associations were covered by loans granted by the State. These loans exerted a direct pressure on the national budget. In the 1980s, the government came into serious financial problems, saw the national debt rising rapidly, and thus decided in 1984 to abolish the provision of loans to associations and the counter-guarantees provided by the State for loans borrowed from the capital market. In 1983, the Social House-Building Guarantee Fund (WSW) *[Waarborgfonds Sociale Woningbouw]* (WSW) was set up as a private law institute to enable the coverage of the financing needs of associations. At first, only guarantees for housing improvement were provided. Five years later, however, it became possible to obtain guarantees for the financing of the construction of new dwellings. The WSW endeavours to provide the participating associations with access to the capital market at the lowest costs. Since then, the WSW has granted guarantees to moneylenders for loans for new construction, housing improvement, acquisition of dwellings, and nursing and retirement homes. The WSW is not, however, the only institute that makes guarantees available. Local authorities also grant guarantees for housing associations' loans, albeit on a limited scale.

When housing associations borrow with loan guarantees provided by the WSW, there is a triple guarantee. The primary security is formed by the financial resilience of the association itself and of the entire sector through the participation of the Central Fund (see below). The secondary security consists of the capital assets of the WSW, which are created by a single capital contribution from the State and the fees the associations pay to obtain guarantees. The tertiary security is formed by the ultimate responsibility of the State and the local authorities that share this task equally (Van der Schaar 1991, p. 404). The attractive interest rates on loans secured by the WSW demonstrate the great confidence that lenders have in the fund. Their confidence is largely due to the ultimate security provided by the State (Priemus 1995).

A housing association wishing to use the facilities of the WSW must first register with the fund. Before the WSW approves an application, it tests the creditworthiness of the applicant. Before 2007, the evaluation of the financial position of an association was based on its assets. Since 2007, however, the basis has been that the yearly cash flow of the housing association must be positive. This means that even associations with a high solvency (but in which the money is mainly bounded in stone) could have problems in attracting loans.

The WSW has received the highest possible ratings from the world's leading rating agencies: AAA from Standard & Poor's and Aaa from Moody's Investors Service (WSW 2011). By the end of 2010, most of the social landlords in the Netherlands were registered with the WSW, and the total secured capital of the institute had risen to around 85.1 billion euros. Between 2011 and 2016, the Dutch housing associations expect to invest a total of around 40.4 billion euros, most of which will be funded externally (WSW 2011).

The WSW also has an important monitoring function and is keeping watch of all developments that affect social housing. Therefore, the WSW:

- assesses its participants' financial positions and overall quality,
- devotes attention to its participants' cash flows,
- analyses the market on an ongoing basis,
- requires participating housing associations to provide information twice a year and asks for both actual and forecast figures,
- advises participants on the range of products available in the market, and
- is actively involved in developing new financial products for the sector (WSW 2011).

In addition to the WSW, the Netherlands has a second important institute: the Central Housing Fund *[Centraal Fonds voor de Volkshuisvesting]* (CFV). This fund is responsible for two important tasks: financial supervision (since 1998) and financial reconstruction (since 1988). Associations in poor financial position can appeal to the CFV for assistance. According to the draft Housing Act, the Central Fund will be transformed into a new housing authority.

The CFV is a mutual fund established by and for the associations. Its purpose is to support financially weak associations and, when necessary, help them restructure their operations. To this end, each association contributes annually to the fund. The size of the contribution required from an association is calculated on the basis of its financial situation and, since 2001, on whether it has given financial assistance to another association that does not have enough capital to finance some specific projects. An association that fails to qualify for (further) participation or guarantees from the WSW can appeal to the CFV for help. The CFV will provide an interest-free loan to an impoverished association on the condition that it becomes self-supporting within 3 years. Sometimes, this condition requires the restructuring of an association. In many cases, a member of the CFV takes over the management of the association. In principle, the CFV contributes half the cost of such an operation. The other half is usually borne by the local authority that is also ultimately responsible for housing. The conditions for support imposed by the CFV closely reflect those applied by the WSW in assessing an association's creditworthiness (Gruis 1997, p. 18). Since the establishment of the CFV, financial support amounting to over 500 million euros has been granted to 18 housing associations.

In addition to its financial reconstruction task, since 1998 the CFV has also undertaken a supervisory task that includes early-warning monitoring. By providing a timely signal of an association's financial weakness to the national government, the institute can intervene as a formal supervisor. As a result, any financial problem affecting an association can be avoided as far as possible. In this context, the CFV has been given a number of specific new tasks. One is the signalling task related to the assessment of the likelihood of future cases needing financial reconstruction. For this purpose, the CFV compiles reports on the financial position of individual associations. These reports are based on the associations' annual reports and any supplementary information they may provide. Furthermore, the CFV advises the State on the financial aspects of new admissions, mergers, and any changes in the statutes. The CFV also gives annual reports on the financial situation of the housing associations as a whole. It was announced that the financial position of the sector in 2010 could be considered healthy. Only four housing associations had a solvency position that was regarded to be in jeopardy; the value of their assets was too low for their investment plans.

The operation costs are another point of attention for the CFV. These have been far above inflation in the last few years and differ between 5 and 10 %. On the basis of these figures, one could wonder if the housing associations do operate efficiently. After a lot of criticism from the CFV and the central government, the operation costs finally went down to "only" 3 % in 2009 (much less than in the years before but still higher than the inflation rate of 1,2 %). The umbrella organisation AEDES is also aware of this problem. In fact, it ordered that the operation costs of the housing associations be brought down by 20 % in the years to come. The yearly report from the CFV also stated that the housing associations were quite successful in combating the economic crisis and were able to invest on an anti-cyclical basis. The years 2008 and 2009 were in many ways excellent years, during which the production of owner-occupied and rented accommodation, renewal activities, and the spending on liveability all boomed. The year 2010 can be seen as turning point. After 2010, mainly because of less income and taxing by the government, the activities of the housing associations were expected to go down substantially (Central Fund 2011, p. 7).

As a summary, Table 14.4 presents an overview of the most important characteristics of the operation of the social rented sector in the Netherlands.

Table 14.4 Key points of the operation of the social rented sector in the Netherlands

Guarantee of construction and improvement activities by Social House-building Guarantee Fund (WSW)
Financial supervision and financial reconstruction by the Central Housing Fund (CFV)
No direct bricks and mortar subsidies by the central government; revolving fund principle
58 % of total housing production in 2010 and 2011
Housing associations are private organisations who fulfil a public task and are controlled by the central Government
EU rule that housing associations activities with State assistance should not only be directly linked to the maximum value of houses, but also to socially deprived households
Any commercial operations undertaken by the housing associations should be subject to market conditions, and profits made from commercial activities must be reinvested in the social house building sector
Huge property tax for social rented housing starting in 2013

14.5 The Future of the Social Rented Sector

Encapsulated in the above description is a warning that, over the next few years, the Dutch social rented sector must reconsider its position. This follows from the changes in the arrangements of the Dutch welfare state and the subsequent shifts in the redistribution of income because of the new Brussels rules on competition, as well as from the autonomous developments in the housing market. Another important reason is the financial mismanagement of some housing associations in recent years. Several housing associations have gotten themselves into huge problems by speculation with financial derivatives (interest swaps). For instance, the biggest housing association in the Netherlands (Vestia) lost around 2 billion euros in 2012.

There are several possible scenarios for the future of the Dutch housing associations, which are connected to the future development of the welfare state.

14.5.1 Continuation of the Current System

Perhaps the most likely outcome of the debate about the future of the Dutch housing associations is the adjustment of the current system to the new Brussels rules to avoid any further disasters. This direction fits perfectly well with the consolidation of the modern corporatist welfare state and is also in line with the recent proposals to modify the Housing Act that were introduced by the Minister of Housing and approved by the Dutch parliament in July 2012. To solve the current governance problems and avoid future financial disasters, the governance by the central government will be tightened a little bit, and treasury rules will be more restrictive in general and more specific for the use of financial derivates (more or less in the same way that municipalities are treated). In addition, the tasks of the housing associations will be divided in into a for-profit and a not-for-profit part. There could be an administrative distinction in the housing association between activities for the target group (with a household income below 33,600 euros) and those for the non-target group. For the latter group, there will be no state assistance, such as WSW support or cheap land provided by municipalities. This separation of activities will create a level playing field with the commercial sector. Also, the internal governance of the housing associations could be further improved and professionalized.

14.5.2 Opting Out

An opposite policy direction is that the government will retreat completely and the housing associations will become nonprofit organisations without any government support. This is an extension of the Grossing and Balancing Operation from the 1990s. It also means that the government support for the WSW will be ended and that housing associations, like those in Germany, will be treated like commercial landlords. The revolving fund will ensure that housing associations will still be able to house low-income and other deprived groups. For many housing associations, this will mean a bright future: they will no longer be squeezed by government regulations and instead have freedom to act. Also, the recently introduced taxes for housing associations could be ended. Two years ago, a housing association tried to leave the nonprofit system. This move, however, was opposed in court. Against this background, it is highly doubtful if the central government will support such move to opt out. This will only be negotiable if housing associations will hand in a huge part of their financial reserves to the central government. Furthermore, the government is by constitution still responsible for also housing vulnerable groups in society. It will be very difficult for the government to fulfil this task if there are no possibilities left in terms of its steering the housing associations.

14.5.3 Functional Organisational Split

In the *split-function variant*, a division is created between the actual activities of the housing association and its capital (see also Boelhouwer and Priemus 2012). Some scholars (Conijn 2011) have argued that social landlords are far from efficient, should work in a more cost-effective manner, and should be more influenced by market forces. Most of the housing associations in the Netherlands currently have the legal form of a foundation. To create a legally valid division between capital and management activities, the foundation will have to set up a new company to which all real activities of the housing association (ownership of property, management, and development) can be transferred. The foundation will then only hold shares in this company. The new company will act as a regular commercial asset management company and strive to achieve good profits on the exploitation and development of the rental property. The profits will be either distributed as dividend to the shareholder (the foundation) or invested with the aim of increasing profits in the future, which will also go to the shareholder. The original housing association (the foundation) will thus be converted into an investment fund and asset management firm; the only link between the foundation and the company will be that the former holds the shares in the latter. One possibility is that the fund will still be governed by the provisions of the Social Rental Sector Management Order *[Besluit beheer sociale huursector]* (BBSH). In accordance with the terms of this Order, surpluses are to be used in the interest of social housing in conformity with guidelines drawn up by parliament. The obligation to use the housing association's capital in the interest of social housing is thus also preserved in this variant.

14.5.4 From Real Estate Manager to Capital Manager: The Opting in of Private Capital

An extension of the organisational split is to fully integrate private investment capital in the housing associations sector. This variant is in line with the development from a modern corporatist welfare state to a more liberal-orientated welfare state and will result in a firm paradigm shift. Such a shift does not seem very likely against the history of the Dutch welfare state. In this variant, there will be a new business firm that owns more than half of the shares in the company. These shares will be sold to private investors, such as pension funds and insurance companies, which will receive their share of the company's dividends. Of course, the housing associations will be compensated for the transfer of shares and will be transformed into a trust that can invest in all kinds of societal demands not served by the market (for instance, lower rents for low-income groups or investment in liveability measures). The shares of the new business firm are in principle freely tradable, and more private capital is welcome to invest in the firm. The funds (foundations) will sell part (preferably the greater part) of their shares to the new firm and invest the yield in other equities, thus creating an economic as well as a legal separation between activities and capital. As in the functional organisational split, the economic separation has an advantage in that an external shareholder can exert more effective pressure on the management to operate efficiently. Pension funds are typically likely to be interested in acquiring such shares as long as the relationship between yield and risk is favourable. Because there are benefits of scale in asset management, it is conceivable that the funds (foundations) might be interested in making use of one or more common asset management companies. In 2012, such a proposal was launched by a group of housing experts, former politicians, and investors (Forum for Housing and Living 2012). However, Boelhouwer and Priemus (2012) pointed out some negative consequences of this choice. One is that the more liquid nature of the capital will increase the temptation to squander the assets. Another potential problem is that the politicians will have to relinquish their discretionary control of rental policy to attract new potential shareholders.

As previously mentioned, the continuation of the current situation with a stronger role of the government as external supervisor best fits the current modern corporatist welfare state in the Netherlands. We can only interpret the functional organisational split function and the opting-in and -out variants as a prelude to the complete transformation of the housing association from a nonprofit organisation with a hybrid character, where the orientation towards a target group and the obligation to devote its capital to a specific (social) purpose in conformity with the Housing Act remain essential components, into a fully fledged commercial market player, where the interests of the shareholders will in the long run prevail over the dedication to a particular target group and the obligation to use the funds for a particular purpose. In my opinion, this comes down to throwing out the baby with the bathwater. In the past, housing associations have made an essential contribution to maintaining social housing in the Netherlands at a proper level. They can continue to do so if certain conditions are met. I am therefore convinced that the adapted current system is preferable over the split-function and opting-in variants.

14.6 Conclusions

The central question posed at the outset of this chapter is how to explain the position of the Dutch social rented sector in the country's housing system. It has been established that the position of the social rented sector is strongly influenced by developments in the society at large. In particular, its specific position may be explained with reference to the emergence and transformation of the Dutch welfare state. For example, until the 1950s, the social rented sector in the Netherlands was quite modest (12 % of the dwelling stock), even compared to other European countries. After the Second World War, the welfare state, a phenomenon that at first was only weakly developed in the Netherlands, grew to maturity at an extremely rapid pace. In fact, the Dutch "lag" behind other countries in Western Europe turned into a comfortable "lead" within a few decades. Moreover, the welfare state remained in full glory much longer in the Netherlands. The turning point did not come until the mid-1990s. In most other West European countries, government influence on processes in civil society had already been radically reduced in favour of market forces during the 1970s. In the Netherlands, the development of the social rented sector coincided with the vigorous build-up of the welfare state. The sector continued to grow in the Netherlands for a longer period than in most other West European countries. Ultimately, the share of the Dutch social rented sector reached its highest point, 41 % of the stock, at the beginning of the 1990s.

Against this development perspective, this chapter has shown the uniqueness of the maturation of the Dutch social rented sector from an international perspective. The Netherlands has, with 32 % of the total housing stock, not only far and away the largest social rented sector in Europe but also independence and substantial accumulated capital in the existing stock. Thanks to the opportunities of rent pooling, the input of the accumulated capital, and the freedom to dispose of real estate so that capital invested in bricks and mortar can be put towards other objectives, the housing associations are able to rent out newly constructed social rented dwellings at well below the cost price. The usual unprofitable top of 70,000 euros for the construction of a social rented dwelling is currently substantially higher than the object subsidies that the State government had granted at the beginning of the 1990s. Financing needs can also be met entirely by the WSW so that, in addition to being able to obtain sufficient capital, borrowing on the international capital market is against keen tariffs. This unique situation has been brought about through mutual cooperation and solidarity, and not least through the safety net function of the State. Impoverished associations are also restructured by the CVF through the sector itself. In the future, however, the strong financial position of the associations may also constitute a danger. Now that the national government is being threatened by financial difficulties because of the economic crisis, politicians in particular are looking covetously at the associations' accumulated capital. A first attack on their financial position is the 620 million euros the housing associations have to pay from 2014 onwards on the basis of a new property tax for landlords. Also, municipalities are in financial bad weather and increasingly trying to transfer costly activities to the housing associations.

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