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Non-profit Housing *Influencing*, *Leading* and *Dominating* the Unitary Rental Market: Three Case Studies

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ABSTRACT *The distinction between dual rental systems and unitary rental markets is refined and developed. In particular, unitary rental markets are defined as markets in which barriers to non-profit providers competing on the rental market are removed, reserving the term 'integrated rental markets' for markets in which non-profit providers are sufficiently developed to be able to compete without the need for invasive regulation. The study also develops the distinction made in previous work between markets in which non-profit providers influence, lead and dominate the market. Case studies are then presented: Switzerland, where non-profit renting is weakly influencing, Sweden where it is leading, and the Netherlands where it is dominating. It is concluded that while in both the Netherlands and Sweden there is evidence of continual deregulation consistent with a tendency from unitary to integrated markets, there is no evidence of consistent change in that direction and even signs of some retrograde changes.*

KEY WORDS: Non-profit housing, social market philosophy, unitary rental market, integrated rental market, Sweden, the Netherlands, Switzerland

Introduction

There has been some attention paid, especially in recent years, to the 'Third Way' economic philosophy that developed in Germany in the 1930s, leading to the post-war experiment known as the 'social market' in which a range of profit and non-profit providers compete with each other on the open market (Balogh, 1950; Barry, 1993; Broyer, 1996; Giddens, 1998; Nicholls, 1994).

Kemeny (1993, 1994, 1995, 1997) showed how the social market approach had been applied to the housing systems of Germany and a number of small neighbouring countries where German cultural influence has been traditionally strong (Austria, Denmark, Netherlands, Sweden and Switzerland). As in other countries, the state supports private

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initiative or initiates itself the provision of housing to households that need aid. In social market economies, that state support is offered without much means testing, which is more easily achieved when a large part of social housing is provided by private or semi-private non-profit providers. In that case, non-profit rental housing is an option for broad classes of the population. Kemeny called those 'unitary' or 'integrated' rental markets, in which non-profit renting is encouraged to compete for tenants against profit landlords on the rental market. When strict means testing is applied and the providers of social housing are closely controlled by the state, non-profit renting is segregated from the profit market by its incorporation into a command economy public rental sector. Kemeny called those 'dualist rental systems'.

That early work did not go much beyond very broadly outlining the general principles on which unitary rental markets operate, indicating the main countries where unitary rental markets can be found, delineating their principal characteristics and categorising them in terms of the kind of role that non-profit rental organisations played on the rental market: dominating, leading and influencing. In particular, there was, and remains today, a paucity of empirical material relevant to this perspective on the six countries identified—Austria, Denmark, Germany, the Netherlands, Sweden and Switzerland.

Since then some work has been done to shed more light on the typology (see, for example Balchin, 1996; Hulse, 2003; Kemeny *et al*., 2001; Matznetter, 2002; Stephens *et al.*, 2003; van der Heijden, 2002). This paper is a first attempt to go beyond the typology outlined in Kemeny (1995). First, initial empirical material is provided although this is not the main aim of the paper. Rather, the paper is concerned with developing a more specified theoretical framework to apply to three of the countries with unitary rental markets—the Netherlands, Sweden and Switzerland—conducted by housing researchers intimately familiar with the country each is responsible for.

In Kemeny (1995) the terms 'unitary rental market' and 'integrated rental market' were used interchangeably to refer to rental markets structured in such a way as to enable non-profit renting to compete with profit-renting. The study distinguishes between 'unitary rental markets' in which the ground rules facilitate and enable such competition and 'integrated rental markets' in which non-profit rental organisations are sufficiently developed and established in a unitary rental market so that they are able to compete effectively with profit-renting without the need for invasive regulation or being given either special protection or special responsibilities.

The main task in this paper is threefold. First, the difference between unitary and integrated rental markets is specified. This in turn makes it possible to outline a hypothetical developmental trajectory from unitary to integrated against which at least a crude estimate on progress can be made in concrete cases. It is then possible for any given case (country, city, region *etc*.) at a given point in time, to arrive at a rough estimate of the extent to which progress towards an integrated rental market is made.

The second task is to examine the different roles that non-profit rental housing plays in unitary rental markets that are developing towards integrated rental markets. The study distinguishes between non-profit providers influencing, leading or dominating the market and considers the consequences of such differences.

Finally, by way of illustration, the rental markets are examined in Switzerland (where non-profit weakly influences the market), Sweden (where it leads the market), and the Netherlands (where it dominates the market). The study attempts to arrive at a closer understanding of how these unitary rental markets are constructed, what progress they have made so far towards integration and to what extent (if any) they fulfil the criteria for an integrated rental market: i.e. a market in which non-profit renting, by virtue of its social and economic attractiveness, is a serious competitor of profit renting.

By examining those markets over several decades, the study begins the task of identifying their characteristics, thereby contributing to the theory of social rental markets. Clearly, housing markets do not evolve on a smooth trajectory from dualist rental systems to fully integrated systems. Unitary systems have the potential for such an evolution and integrated markets offer advantages to social market economies. Whether the inherent advantages will be used in practice is a matter of (political) choice. The three countries examined in this paper have seen varying increases in owner occupied or co-operative tenant/owner housing due to a combination of changes in the regulatory framework, greater financial support and uniquely favourable market conditions (notably record-low interest rates). This is another strong influence on the dynamics of the rental system. However, clarifying all factors that influence the trajectories of housing systems would exceed the scope of this paper, which is primarily designed to refine the typology of rental markets and to empirically show policy makers realistic alternatives.

A Model of Interactions Between Unitary and Integrated Rental Markets

Definitions of Profit and Non-profit Rental Housing

For the purposes of this paper, it is best to think in terms of intention. That is, owners who seek to maximise their profits offer profit rental housing, even if they make a loss because of a poor investment decision or a recession, or because profit-extraction is only deferred. In contrast, non-profit rental housing is provided at rent levels designed to cover costs and any surplus made is ploughed back. In between these two extremes there are 'limited profit-maximisers', who deliberately keep rents down thereby sharing some of the potential profits with the tenants.

Non-profit housing providers are not necessarily able to offer lower rents than profit-maximisers. The foregone profit could be offset by higher costs, due for instance to higher vacancy rates, rental losses and higher management and housing production costs. The main component of costs is financial. Profit landlords charge rents that cover the interest they pay on outstanding debt as well as provide a normal return on the equity proportion of market value. The closer the return on equity and the interest rate on debt, the less the full financial costs depend on indebtedness. On the other hand, non-profit providers generally do not require a market return on their equity, so their financial costs are lower when debt represents a smaller proportion of the market value of the property, i.e. when the ratio of equity to market value is higher. This ratio measures the solidity of the rental organisation.

Solidity typically increases over time, both through amortisation of the debt and the appreciation of market values. This is the process known as maturation (for a discussion see Kemeny, 1995, ch. 3). Given a comparable degree of maturation of non-profit and profit providers, non-profit providers will be able to set lower rents than profit providers because they only need to cover their costs.

The Competition Between Profit and Non-profit Providers

Whenever profit and non-profit renting are allowed to compete, they will do so by virtue of the fact that households choose the better price/quality bundle. If foregoing profit allows non-profit owners to offer cheaper housing than profit landlords, they will attract more renters, forcing the profit landlords to lower their rents. This is the main channel through which the non-profit sector is able to act as a dampener on the general level of rents. The non-profit sector may also offer better quality dwellings and greater security of tenure, which could force the profit sector to match the offer, thereby reducing the need for regulation.

Non-profit housing can only influence the rental market to the extent that it offers many renters an accessible alternative to profit housing of comparable or superior quality. That requires the non-profit sector to be well represented, with a wide distribution of stock in terms of age, location, dwelling-size, type of housing, quality and standard, etc. More specifically, to provide maximum competition, non-profit providers need to 'mirror' profit providers, i.e. ensure they have a similar presence, both in market share and competitiveness in the market segments where profit providers operate.

Competitive power can be described as the product of the interaction between solidity and market-representation. A non-profit rental housing company with both high solidity *and* possessing a housing stock able to compete in all or most of the market segments will be able to react flexibly to profit competition through competitive rents in all segments of the rental market. It will also continue to invest when profit-seeking landlords decline to do so in conditions when more profitable opportunities are available outside rental housing.

Comparable levels of solidity to profit providers and a market coverage that mirrors that of profit providers have been hard to attain in practice. Solidity takes a long time to increase because maturation is a very long-term process. It is also slowed down by the practice of non-profit providers initially borrowing 100 per cent of the cost of acquisition with exceptionally long-term loans—40 or 50 year being common—aggravated by the need for sustained periods of heavy front-end loading of debt, such as occurred during the rapid expansion of the non-profit sector during the early post-war decades. Europe's non-profit housing providers are only now, more than half a century on, beginning to even approach the levels of solidity of many profit-rental companies.

The ability of non-profit providers to mirror the housing stock of profit-operators is also subject to major distorting influences. The main one is that non-profit providers necessarily concentrate on providing housing for low-income households, whose housing needs profit providers are less interested in serving. Non-profit housing in most countries is therefore disproportionately low-income housing, while the top of the market and even middle-market will often be under-represented.

From a Unitary to an Integrated Rental Market

In Kemeny (1995) rental markets that are structured by public policy in such a way as to enable non-profit providers to compete with profit providers were interchangeably termed unitary rental markets or integrated rental markets. This paper proposes to differentiate the use of these terms.

Here, the term 'unitary rental market' is reserved for a market without regulatory barriers to competition between profit and non-profit providers. By contrast, dualist rental markets are characterised by intrusive state intervention to keep the rental market as a sheltered preserve for profit-rental providers, protected from competition by non-profit providers. In general, unitary rental markets begin with a small and embryonic non-profit rental sector in which debt accounts for close to 100 per cent of market value. It will be uncompetitive both because non-profit rents will be market rents and because it is too small to offer effective consumer choice on the rental market. So despite the absence of regulatory barriers to competition, a unitary rental market will be characterised in the early days of its existence by a low level of actual competition between profit and non-profit providers.

The unitary nature of the market will initially often be sustained by means of subsidies and tax advantages for the infant non-profit sector, initially to ensure its survival, then later to develop it to the point at which it can begin to offer real competition across the whole rental market. In addition, rent regulation will be a common means of providing security for tenants in markets that non-profit renting is unable to competitively influence.

A unitary market in which non-profit renting is a strong competitor is called integrated. In integrated rental markets the non-profit rental stock mirrors that of the profit rental stock with which it competes. That is, it will provide an alternative to profit-renting in terms of market coverage and competitive rents.

Even in integrated rental markets there remain important potential state interventions. The state may for instance impose eligibility rules for access to certain kinds of non-profit housing, generally in exchange for subsidies. It may also reserve its support for housing in less attractive areas. Most integrated rental markets will also continue to be characterised by a degree of tenant protection, both in terms of some kind of market-sensitive rent regulation and security of tenure. Indeed, even in an integrated rental market non-profit providers may have little influence at times of excess demand (low vacancy), when households seeking shelter are required to accept nearly any conditions. Security of tenure is a fundamental requirement for an integrated rental market to attract and hold households to renting as a sustainable long-term housing solution.

At its final stage, an integrated market might dispense with much housing aid. Indeed, a large and mature non-profit housing sector can supply adequate housing to low-income families and affordable housing throughout the business cycle. Non-profit housing is one solution to imperfections and inequities of the housing market, the more necessary the less the public authorities address them. For that reason, it is useful to consider the integrated market as the end result of a social market policy that starts with a unitary market.

From Rent Control to Rent Regulation

It has been noted that in a newly-established unitary rental market non-profit renting is nominally free to compete with profit renting but lacks the market power to do so effectively. For this reason, some form of market-sensitive rent control will be needed to provide tenants with the security of tenure necessary for renting to remain an attractive long-term form of housing. As integration proceeds, rent control is phased out in favour of a looser regime of rent regulation, or, as Arnott (1998) put it, first-generation rent control is replaced by second-generation rent control. There are different kinds of first and second generation rent control systems, but, broadly, more rigid rent control is replaced with regulation that allows full market rents to come into play when rental housing is vacated but that still provides protection from full market rents to sitting tenants.

Policy Structuring of the Process of Economic Change of the Rental Stock

It is assumed that different historical trajectories of the interaction between strategic policy and changing economic structure of the housing stock are largely responsible for generating the substantial differences between countries in the manner in which their housing systems are organised. Strategic housing policy is itself, of course, strongly influenced by wider power relationships in society. The differences in the housing systems that emerge from long-term politico-economic interaction are such that one can call them contrasting models.

Policies directed at owner-occupied housing and rental housing are possibly major factors in shaping housing systems (Kemeny, 1995). Those policies interact strongly. Some policies directed at rental housing will stimulate the development of other tenures, and notably owner occupation, while others will inhibit this. The key factor here is whether a rental system is developed which is attractive to households. The rental sector will be attractive if it can offer good quality dwellings in sufficient number at affordable rents and with adequate security of tenure. In the absence of large tax biases in favour of owner-occupied housing, such a rental sector will be highly competitive with owner occupation and will retain a representative proportion of households, including better-off households.

One characteristic of rental policy that has not been analysed sufficiently is whether it segments the rental market into compartmentalised and segregated markets or not. The study claims that an integrated rental market is best able to retain households. Thus, policies that segment the rental market actually favour owner-occupied housing. However, as was indicated earlier, it is not sufficient to let non-profit renting compete with profit renting on a level playing field. The former must also be a viable alternative both in terms of the range of rental housing on offer and rents that are competitive.

For historical reasons, non-profit renting has tended to be considerably less mature than profit renting, and will continue to be so for at least several more decades. This is mainly because profit renting is an older form of rental provision manifesting high levels of maturity in contrast to public renting and non-profit renting that in many countries are an almost purely post-1945 phenomenon. But it is also because non-profit rental housing is generally highly leveraged, and because under some policy regimes at least there is a greater tendency for profit landlords to neglect investment in maintenance and modernisation in order to maximise short-term profits.

However, despite those considerable differences sooner or later the course of the maturation process in non-profit renting will reach a point at which financial costs fall in real terms to a level at which non-profit renting begins to compete strongly with other forms of housing, particularly profit renting, tenant ownership and owner occupation. This is reflected in falling real rents and lengthening waiting lists for non-profit rental housing, which in turn build up pressure for some policy response in favour of increasing the supply of non-profit rental housing.

The process of maturation, once it reaches the point at which non-profit rents fall substantially below profit rents, therefore calls for fundamental policy decisions to be made. These concern the balance between the tenures, which the maturation of non-profit renting threatens to upset. Most importantly, the continued expansion of non-profit renting threatens the continued expansion of owner occupation. Politicians must make a strategic policy decision to either facilitate new construction or acquisition of non-profit housing to meet demand or to undermine its maturation by directing a range of containment and destabilisation measures against non-profit providers.

Building or acquiring more housing to shorten waiting lists enables non-profit renting to expand and so cater for ever widening groups of households. As maturation progresses, this pressure grows rather than lessens, until non-profit renting begins to squeeze out demand for owner occupation. Therefore, the other alternative is to counteract the benefits of maturation, for example, by charging surplus generating rents that are then siphoned off as a form of implicit taxation, or reducing access to the stock by reducing its size through a programme of heavily discounted sales.

There may be ideological and political reasons why those who wish to retain public renting as a disadvantaged and restricted form of housing would understandably wish to divert attention from the extent to which historic costs keep rents low and focus instead on subsidies as the reason for low rents. The neglect of the study of maturation in non-profit renting in housing research and the widespread ignorance about its importance in keeping rents low is ideologically important in minimising the political support for non-profit renting.

A mature stock of a broad range of dwelling types and sizes catering for all social groups is in many ways the key to a successful non-profit sector in an integrated rental market. On the other hand, those who want the rental market to be a haven for profit renting, sheltered from non-profit competition, need to counter and if possible reverse such a development. Undoubtedly, the discounted sale of non-profit rental stock to sitting tenants has proved to be a powerful policy instrument to that end and, of course, popular with those sitting tenants who can afford to buy. This is probably the single largest threat against the attainment of an integrated rental market.

The third alternative of simply not doing anything and allowing the pressure of demand to continue to build up as maturation continues to increase is untenable in the long run because increasingly high levels of unsatisfied demand are politically problematic. The process of maturation will therefore sooner or later reach a point at which decisions about the future direction of the development of non-profit renting must be made.

Summary

For the non-profit sector to influence the rental market directly through competition, two conditions must be met: (1) competition must be free and (2) the supply of non-profit housing must be competitive, provide good market coverage and be of sufficient magnitude. Unitary rental markets only satisfy the first condition. Integrated rental markets satisfy both conditions. Regulation that hinders competition between profit and non-profit renting, typically by segmenting the market, reduces the influence of non-profit renting on the total market. Other regulation, which uses non-profit housing as reference for instance for rent control, increases the influence of non-profit renting on the total market.

The influence of the non-profit sector does not only depend on regulation. It increases with its market share and with its cost advantage (maturation). When it is effective, the rental market is integrated.

Empirical Analysis

This section examines the influence of the non-profit sector on the housing markets of Sweden, the Netherlands and Switzerland, with reference to the typology developed in the previous section. The structure is the same for each country study. First some background information on each housing market is provided and the types of providers of rental housing are examined. Evidence is then sought for a unitary housing market followed by a look for evidence of market integration: can non-profit providers compete with profit providers? Can they influence the market through rent regulation? Finally, the study concludes by evaluating the role played by the non-profit sector in each market.

Switzerland: A Weakly Influencing Non-profit Sector

Background information on the Swiss housing market. The Swiss rental market accounts for 65 per cent of the housing stock, almost all flats. The remainder is accounted for by tenant-owned flats (12 per cent) and owner-occupied houses (23 per cent). According to the 2000 Census, about 57 per cent of Swiss rental dwellings belong to individuals. The remainder belongs to property companies, pension funds, insurance companies, co-operatives, foundations, etc. No statistic clearly identifies non-profit landlords, so only a rough estimate of the relative size of the profit and non-profit sectors is possible. Furthermore, belonging to a typically non-profit category does not guarantee non-profit behaviour. Nor can it be ruled out that landlords in typical profit categories mimic non-profit behaviour by choosing not to take advantage of all opportunities to raise rents.

With those provisos, the following categories of housing providers can be counted as non-profit: co-operatives (7.9 per cent of the rental stock in 2000), public sector (3.4 per cent) and foundations and associations (2.5 per cent). The total share of non-profit housing is thus a mere 13.8 per cent. It was 16.5 per cent under the same definition in 1950. Rent regulation protects the other tenants from the occasional greedy landlord. The share of co-operative housing was not higher in the past (7.2 per cent in 1950).

Why is there not more non-profit supply? Non-profit housing is mainly provided by private initiative (co-operatives) and a few municipalities. There has never been a programme of non-profit building. Non-profit providers always had to compete with profit providers for scarce land, construction services and credit and even subsidies. However, they proved that their construction activity is much less sensitive to the business cycle and alternative investment opportunities than that of some profit providers. Thus, in the 1990s, a long period of economic stagnation in Switzerland, pension funds actually reduced their stock of rental dwellings (so did the public sector), while co-operatives and foundations continued to invest (as did individual investors).

Indicators of a unitary rental market. The federal government has intervened repeatedly on the housing market since the First World War. It did so on the basis of emergency acts or within its mission to help families. Those earlier interventions were targeted at specific categories of households, mainly low-income families. The law of 1965 introduced the possibility for any type of landlord to apply for housing aid, provided he accepted controlled rents for 20 years. This was a first step towards a unitary rental market. The second step was made in 1974, when the possibility was introduced for any type of household to benefit from the main component of aid because it was refundable.

Thus, the ‘Law encouraging housing construction and accession to home ownership’ of 1974 (here referred to as the LCAO) marked the beginning of a unitary rental market in Switzerland. It was specifically the fear that low-income ‘ghettoes’ were promoted by housing aid that led to making LCAO aid available to any type of household. The subsidy was designed to lower initial rents but was progressively phased out and even reversed over some 20 years, so that rents rose smoothly until the early subsidies were fully paid back with interest. This aid was granted for full buildings, with the possibility of obtaining additional non-refundable subsidies for individual dwellings occupied by low-income families or persons with special needs.

All types of landlord could apply for housing aid, provided they accepted rent control until the subsidy was paid back and given some conditions of minimum quality (mainly room size) and restrictions on housing production costs. The controlled rents allowed for a 'normal' return on the owner's equity, which was tied to mortgage interest rates. When the subsidies were reimbursed, after some 20 years, the building returned to the 'free market', where all rents are subject to a soft form of cost-based rent control. The assumption was that the building was then mature enough to offer low rents by itself.

Although LCAO housing aid was by no means reserved for non-profit providers, one-third of all dwellings built under that programme between 1975 and 1993 belonged to co-operatives (Hanser *et al.*, 1995), which still owned only 7.5 per cent of the total stock of rental dwellings in 1990. There were also special conditions for non-profit providers, such as subsidies to buy land and prepare it for construction and a few small tax advantages. An organisation is deemed to be non-profit if its statutes restrict its activities to building and acquiring dwellings of moderate rents or prices, forbid dividends exceeding 6 per cent of social capital, and provide that residual equity after dissolution of the organisation is affected to similar use.

Indicators of market integration: competition. LCAO being relatively limited and not reserved for non-profit providers, it could not be used to expand the non-profit market share. Co-operative housing, which had grown strongly under earlier public programmes, could never raise its share of new-built above 15 per cent in the years of a unitary rental market.

Today, non-profit providers are still small players on the housing market, not because their supply would not mirror that of profit providers or be less mature but simply because there is too little of it. However, they gain importance on markets with very low levels of vacancy, where they are sometimes the only ones to provide new rental dwellings. On those markets, however, profit providers need not fear the competition as long as the shortage remains. That is particularly the case in the city of Zurich, which has the largest share of non-profit providers. In 2002, co-operatives owned 20 per cent of all rental dwellings and the public sector (mainly the city itself) owned 8 per cent. Co-operatives built 23 per cent of all rental dwellings in the last 10 years. In the peak year 1998, 60 per cent of all new rental dwellings were provided by co-operatives. In that year, the vacancy rate in the city of Zurich was 0.55 per cent. Thus, the dwellings provided by co-operatives were essential, but they hardly influenced rent setting in the vast stock of housing. Rents are particularly high in Zurich, due to the pressure for land and the chronic shortage of housing.

Households that can occupy one of the few non-profit dwellings are privileged. It has been estimated that they pay rents lower by 10 to 30 per cent than those of profit providers (Gerheuser, 1999; Thalmann, 1987, 1993, 2003). Not demanding a return on equity combined with maturation accounts for that difference. According to the 2000 Census, 70 per cent of the non-profit stock was built before 1970 compared to 55 per cent for profit landlords other than private persons. However, the stocks owned by private persons and the public sector are even older. In addition, co-operatives make greater use of housing aids and subsidies, they profit from advantageous credit (in particular by their head organisation and their conjoint borrowing central) and they obtain land under leasehold. Finally, the large co-operatives operate an equalisation of the rents between older and newer dwellings.

Problems and retrograde threats. Housing aid under LCAO was mainly an instrument to lower initial rents in an inflationary context. In the 1990s, after many years of stagnating prices and incomes, that model proved no longer appropriate. It was discontinued in 2002. Today, federal housing aid is essentially nonexistent and there is little more in the cantons. A new law will be implemented as soon as Parliament grants enough funds. Federal rental housing aid will be reserved for non-profit providers, two-thirds for renovations and only one-third for newbuild. It will take the form of free or cheap loans directly granted by the government for individual dwellings under conditions of occupation. That strange construct is the result of a compromise between those who wanted direct personal assistance to households in need and those who wanted to maintain aid to housing investment. It should not affect non-profit providers in the competition for ordinary tenants.

It is unlikely that the provision of non-profit housing will increase in the future. There is just so much capital around that accepts to provide housing without profit, and the public sector is not about to get itself involved. In addition, housing aid, which repeatedly helped non-profit providers in the past, nearly vanished. So the only way the non-profit share of the rental market can increase is, paradoxically, through an outflow of tenants from the profit rental sector to homeownership. The increase of homeownership was a major trend of the 1990s and is likely to continue. Some important categories of profit providers have already reduced their activity on the rental market. The share of non-profit housing hardly increased because individual investors increased their involvement, particularly after the stock market crash. When other assets become more attractive again, their involvement could rapidly decline. Then, non-profit providers might have to accommodate many households that cannot or do not want to afford homeownership and that hardly find any new housing from profit providers.

Sweden: A Strongly Leading Non-profit Sector

Background information on the Swedish housing market. The Swedish rental market accounts for some 42 per cent of the housing stock, almost all flats. The remainder is accounted for by the tenant-owned flats (18 per cent) and owner occupied houses (40 per cent). The Swedish non-profit rental housing stock underwent massive expansion from almost nothing before the Second World War to 22 per cent of the total housing stock, a little over half the rental market. It was built with central government subsidies but the planning, building and management of the stock is the responsibility of each local authority. Currently most non-profit housing is owned by one joint stock company (rarely more) that is majority-owned by the local authority alongside other subsidiary companies of the local authority holding company. There is very little privately-owned non-profit (co-operative rental) housing.

The profit rental sector, accounting for about 20 per cent of the country's housing stock, is generally older and more concentrated in the inner urban areas. Ownership is much more fragmented. There are large private rental companies such as Drott, Diligentia and Realia, operating in several major cities but about half the stock is owned by what in Sweden would be termed small-scale landlords, owning only one or two multi-storey blocks of apartments.

Indicators of a unitary rental market. There are no regulatory barriers preventing non-profit rental companies from competing on the rental market for tenants. There is an explicit policy of encouraging diversity of types of tenure and dwelling type at a reasonable price. There is, furthermore, one rent regime for all rental housing, while the taxation liabilities for both profit and non-profit landlords are the same, and the same minimum housing standards have to be met by all landlords. The same housing allowance system also applies to households irrespective of tenure.

However, there remain a number of formal and quasi-legal barriers to a completely level playing field. One is that while profit companies may operate in any rental market, non-profit rental companies are restricted to the local authority that owns it. Another is that it still remains the responsibility of the non-profit rental company to provide housing for all residents, unlike profit landlords who can pick and choose their tenants.

Indicators of market integration: competition. Non-profit providers have to compete for tenants against private profit landlords and sometimes also against other non-profit rental companies. Newbuild is therefore demand-driven and depends on competitive rent-levels, high housing quality and attractive location. Until recently, progress towards integration has been slow but steady.

Rents. Historic cost-based rent regulation, introduced in 1942, was replaced in 1969 by negotiated rents determined by the costs of non-profit providers. Since then negotiated rents have become more location-sensitive. The latest change about to be introduced is that rents of new flats will be excluded from negotiated rent-setting and set instead to ensure a fair return on newly-built blocks of flats. They will thereby be excluded from negotiated rent-setting and will therefore be market-determined.

Solidity. For the first 30 years, until the Million Programme ended in 1975, non-profit rental companies expanded very rapidly and so solidity remained insignificant. The decline in new constructions that took place after this proved to be permanent and allowed solidity to gradually increase. An analysis conducted by the Swedish Association of Local Authorities of the solidity of non-profit rental companies showed that between 1990 and 1994 average solidity ranged between 5 and 8 per cent (SOU, 1996, p. 300). In the depopulating rural areas, solidity remains low and even (in so-called 'crisis authorities') negative due to falling or stagnant property values. However, among the large city non-profit rental companies solidity rose rapidly from only 6 per cent in 1990 to 15 per cent in 1994 (SOU, 1996, Table 13.2). Since then investment levels have remained modest and between 1999 and 2002 property values have increased greatly and so solidity will have increased still further.

Variations in local market shares. Non-profit rental housing is in general under-represented in the inner cities and over-represented in the suburbs. In suburban areas where much Million Programme construction was done non-profit rental housing dominates the rental market, sometimes overwhelmingly so. Therefore, there is a built-in imbalance in the urban distribution of the non-profit rental stock, though the picture varies widely from one local authority to another.

An efficient business-management strategy for non-profit companies would therefore be to try to sell some of the suburban stock where they are over-represented and use the capital receipts to buy inner city properties. As will be seen below, political decisions have led to the opposite effect.

To summarise, non-profit rental housing in the expansive local authorities own more than half the rental stock, have good solidity and own a stock spread over most of the major local markets, even if market share varies widely. Therefore, progress towards an integrated rental market that will enable non-profit rental companies to compete with profit landlords without regulatory restrictions has been considerable in the last three ‘consolidation decades’.

Problems and retrograde threats. However, there are some potentially major counter-developments. The first is that a bourgeois local government (Stockholm City) introduced a sort of Right to Buy in the period between coming to office in 1998 and losing it in 2002. As a result, the attractive inner-city non-profit rental stock disappeared as non-profit was converted to co-operative tenant-ownership on a large scale, the non-profit share falling from around 20 per cent to 5 per cent. They also transferred a large amount of capital, some 4 billion kronor, from the non-profit company to the local government holding company of which the non-profit company is a subsidiary, effectively stripping the non-profit company of some of its assets. The new social democratic city government has stopped the sales but much damage has already been done. There have also been other sell-offs. In one Stockholm local government (Nacka) where a bourgeois local authority took control, the entire non-profit stock was sold to one profit-landlord company. In Malmö the non-profit company lost its non-profit status when the local government took out too high profits. As a result of all this, non-profit rents as the basis to compare to profit-rents are getting hard to find in some areas.

These, of course, are local changes that are usually associated with the election of a bourgeois local government. As such, the effect remains patchy and varied. Cities like Gävle and Uppsala have not experienced this sort of asset stripping. Stockholm is, of course, a major market and, moreover, one that is attracting in-migration from depopulating rural northern areas. Yet it only takes the election of a local government that is hostile to non-profit renting for much damage to be done to the move towards an integrated rental market, even if it loses the next election (as happened in Stockholm).

The government is trying to protect the non-profit companies from this sort of erosion, but it is not clear if they will succeed. For example, they want the locally-owned non-profit rental companies to be made into rental housing associations with protected status instead of as at present being companies under each local government holding company (*koncernföretag*) to prevent local governments from asset-stripping them, selling them or exposing them to political decisions like the Right to Buy.

The other change has been that because negotiation-based rent-regulation has lasted so long there is now little newbuild investment. Negotiated rents should probably have been relaxed or even phased out entirely in some local markets where there are strong and well-established non-profit providers. This has not happened, largely because politicians have chosen to try to apply one uniform rental policy for the entire country, irrespective of specific local conditions.

Instead, the tenants' union, non-profit umbrella organisations and private landlords have recently come to their own agreement that newbuild should have free rent-setting, and the government has agreed (a particularly clear case of corporatism at work!). The problem is this is going to have a rent-splitting effect, a return to the 1942–67 module, although in a new variant.

One problem here is that the tenants' union always looks to its members' interests first, which means protecting existing tenants at the expense of future tenants. So it has been fighting a rearguard action against market-simulating the non-profit rent structure, and trying to maintain as much historic cost rents as possible. They argue that existing tenants should not have to subsidise newbuild through rent-pooling (rent-averaging) and this should be the government's responsibility in subsidies paid for by everyone. This latest iron triangle agreement is in line with that aspiration.

The Swedish experience, then, is that progress from unitary to integrated is at best crab-like (or perhaps more like two steps forward one step back).

The Netherlands: A Dominating Non-profit Sector?

Background information on the Dutch housing market. Non-profit housing associations dominate the rental housing market, controlling about 75 per cent of the stock, the rest provided on a commercial basis by private landlords and institutional investors. Scholars from abroad are particularly intrigued by the strong position of Dutch non-profit rental housing: in 2003 this sector still accounted for 35 per cent of the total housing stock.

Whereas most other Western European countries turned to privatisation[1] in the early 1970s, the Netherlands did not move in that direction until the 1990s (see Boelhouwer & van der Heijden, 1992). As a result, the non-profit rented sector has become much more (financially) independent.

In place of the obligation to present detailed annual operation plans for government approval, the 1993 Social Rental Housing Management Decree (*Besluit Beheer Sociale Huursector/BBSH*) freed housing associations to act according to guidelines but subject to ex-post evaluation on the basis of a submitted annual report. One of the guidelines is that housing associations should accommodate households in the 'target group' (low income groups).

A fundamental and radical change in the non-profit housing finance system came about by the 'grossing and balancing scheme' (*Balansverkorting geldelijke steun volkshuisvesting/brutering*) agreed in 1993 and implemented in 1995. The reason for this agreement between the government and the umbrella institutions of the non-profit sector was the uncontrollably rising operating subsidies caused by new housing finance between 1975 and 1988 through the Dynamic Cost Rent System/DCRS. On the other hand, a considerable balance of government loans from previous construction programmes was still to be repaid. Giving preference to a clear-cut solution over insecure future budgets, the government offered a once only payment of NLG 37 billion (€17 billion) as total estimated present value of the previously awarded operating subsidies against all outstanding government loans granted to the housing associations.

Indicators of a unitary rental market. As is the case in Sweden and Switzerland, there are no regulatory barriers preventing non-profit companies from competing on the rental market for tenants.

However, there remain, like in Sweden, barriers to a completely level playing field. One is that although housing associations are allowed to provide housing for all income groups, the main activity of housing associations is to accommodate households in low-income groups, in line with the guideline of the Social Rental Housing Management Decree. Related to this practice is the fact that private landlords and institutional investors more frequently provide housing to households with higher incomes. Unlike housing associations, profit rental providers can pick and choose their tenants.

Indicators of market integration: competition. Non-profit providers have to compete for tenants against private profit landlords. But due to the above-mentioned barriers this competition is nowhere near a level playing field. For several types of households both sectors can of course be a valid option, but this does not prevent the distribution of households' income levels from showing a clear differentiated pattern between profit and non-profit rental providers.

Rents. Between 1945 and 1995 Dutch housing policy had a tradition of controlling rents. Because of the grossing and balancing settlement in force since 1995, responsibility for rent determination in the non-profit sector no longer rests with the government but instead lies with the housing associations. Quite importantly housing associations have been free to differentiate rent increases in their housing stock as long as their total rent increase corresponds to the government-determined overall amount (the so-called 'rented-sum approach').

The entire rental housing stock, except the high price sector, is still subject to government rent regulation by annual rent adjustment decrees. These adjustments decreased somewhat in the early 1990s (from 5.5 per cent in 1991 to 3.5 per cent in 1995) and were fixed at 0.5 per cent above the inflation rate (minimum 3.5 per cent) for the late 1990s. However, these rates are considered to be a maximum and many housing associations do not apply them to their full extent. Housing associations generally aim at a moderate yearly rise in rent level, in harmony with the guideline in the Social Rental Housing Management Decree about providing dwellings for low-income groups.

The Social Rental Housing Management Decree is embedded within the context of housing aims instead of profit aims. However, housing associations are allowed to make profits when these profits are used for housing purposes. In both rental sectors, rents and service charges do not exceed ceilings determined by the nation-wide dwelling utility point system (WWS). Every year the points are multiplied by the government-set rent per point. Only 'deregulated' dwellings with rents above a certain threshold are not affected by this system.

In general terms the rent increase in the commercial sector is comparable to that in the non-profit sector. Institutional investors complain about the non-profit dominance that they argue prevents them from setting rents on market terms. Indeed, frontloading of rental dwellings on a commercial basis has become rare from the 1990s onwards. It was only because of national housing subsidies that this kind of frontloading was a significant means of adding dwellings to the stock up until 1988.

Solidity. Due to relatively late privatisation in the Netherlands, the non-profit sector can be said to have undergone significant maturation. In general, Dutch housing associations are prosperous. The estimated average solidity[2] was 16.9 per cent on 31 December 1995 (see Kersloot, 1999, for details).

The government considers the non-profit 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 non-profit sector are put to use within that sector. In this manner, the housing associations subsidise themselves. The revolving fund applies both to the sector as a whole and to the individual associations.

Variations in local market shares. In some geographical areas the influence of the non-profit sector is less dominant because of the relatively great number of available dwellings in the profit sector. Overall, profit rental housing is over-represented in the most urbanised municipalities of the Netherlands and under-represented elsewhere. The majority of the national profit sector is part of Randstad-Holland (56 per cent) and 80 per cent of this 56 per cent is located in the most urbanised municipalities, especially in Amsterdam, Rotterdam, The Hague and Utrecht.

Problems and retrograde threats. There are, like in Sweden, some potentially major counter-developments. The most important factor is the attraction of owner occupation to housing consumers and, in connection with this, the national housing policy with regard to owner occupation: a policy that favours the wishes of many tenants to become a tenant-owner.

An increasing preference for owner occupation is evident from 1984 (although recent economic stagnation increased interest for the rental sector). A housing policy change in 1993, which took away all obstacles to selling the stock of a housing association, also helped convert non-profit housing to tenant-ownership on an increasing scale after 1993. In 2001 a national agreement (*Nationaal Akkoord Wonen*) was made between the Ministry of Housing and all kind of local housing actors to sell 50 000 rental dwellings annually until 2005.

Due to these developments the total number of non-profit dwellings has been shrinking from 41 per cent in 1975 to 35 per cent in 2003. When the economic cycle turns up again, and assuming the current direction of housing policy remains the same, a further decline in the size of the non-profit sector can be expected. Nevertheless, the Dutch example will remain outstanding for many years, because in most other West European countries the share of the non-profit sector rarely reaches 20 per cent.

To summarise, the non-profit sector dominates the Dutch rental market and also has good solidity. Progress towards an integrated rental market is very advanced, far beyond the more equal balance of the profit and non-profit sector in Sweden. It even seems that a dominating non-profit sector might crowd-out profit investors, because they would no longer be able to earn a reasonable profit. On the other hand, the housing market is so heterogeneous that profit providers will probably always find a niche where they can still make a profit.

However, the potential of the Dutch integrated rental market, in which non-profit providers dominate, is shrinking. The general trend is a diminishing non-profit sector over time, mainly due to the attractiveness of owner occupation. The research laboratory therefore gradually shrinks in time, with fewer opportunities to show the existence (and advantages) of an integrated rental market. This may lead to development from an integrated rental market, depending of course upon policy-making activities, consumers' wishes and suppliers' strategies.

Conclusions

The three countries share the acceptance of a social market philosophy. In addition they can all be described as possessing unitary rental markets, in that there are few or no *regulatory* barriers to competition between profit and non-profit renting, and those that remain are being continually reduced. However, in terms of stock-ownership and long-term strategic policy making, great differences exist. The size of the non-profit rental sector varies widely from 75 per cent of the Dutch rental market to less than 14 per cent in Switzerland, and ownership form of the non-profit rental sector is very different in each country. In the Netherlands it is in the form of housing associations, in Sweden local authority-owned housing companies, and in Switzerland there is a wide diversity of ownership types, including housing associations, local authorities and tenant rental co-operatives.

A common feature of all three unitary rental markets is continuing rent regulation, even though there is a tendency towards relaxing regulation. This could be part of a long-term process of deregulation that might in the future result in the emergence of an integrated rental market, although this is an empirical question. There are opposite tendencies in Sweden and the Netherlands in terms of increasing political pressure from right of centre political parties on non-profit providers to sell their dwellings to sitting tenants at discounted prices designed to tempt them to buy.

It is concluded that there is no unambiguous tendency towards an integrated rental market in the three countries studied. Policy-structuring of the rental market is clearly decisive in determining the future direction of change. It is just as likely that large-scale sales can move non-profit renting towards a residualised role (in what would then be a dualist rental system) as towards a dynamic integrated rental market.

Three case studies over such a short period of history are not enough to enable general conclusions to be drawn. Nor would a comparison of all six countries with a unitary rental market add much by way of generalisability, as it is likely to cloud the issues even further by introducing increasing diversity in paths towards an integrated rental market.

Distinguishing between unitary and integrated rental markets in the manner discussed here improves our understanding of the three housing markets analysed by providing a common minimum set of requirements (unitary) and an unregulated market ideal, the integrated market. Although all three countries have unitary markets, while none can be said to be fully integrated, they differ in the degree to which they approximate to an integrated rental market and are moving towards it. They also differ in the extent of the influence of the non-profit providers on the rental market.

There is an important policy conclusion to be drawn from this discussion. Within the social market philosophy the move from a unitary rental market to an integrated rental market is a logical development that could be pursued with greater self-consciousness, more explicit policy awareness and a more principled political debate over how proposed reforms might impact on the achievement of an integrated market. This is particularly true of proposals that compel non-profit rental housing organisations to sell stock to sitting tenants. The unitary rental market is only the starting point for implementing a social rental market philosophy. The integrated rental market with its free competition represents its achievement, but is by no means automatic.

The greatest threat to achieving the integrated market is the compulsory discounted sale of non-profit stock, whether to tenants or to profit housing companies, as this undermines the solidity of the remaining non-profit stock as well as reducing its market share and strongly skewing the socio-economic composition of remaining tenants towards the disadvantaged.

There is a supreme irony in that the very fact of the growing economic strength of non-profit renting as measured in terms of rising solidity and increasing maturation means that sale to sitting tenants with large, sometimes massive, discounts on sale prices can be granted. The closer a unitary market approximates an integrated market, then, the greater the danger that local and national governments hostile to non-profit competition on the open rental market will have the means at their disposal to decimate that competition by offering larger wealth transfers from non-buying to buying tenants.[3]

However, beyond this the fact that owner occupation and co-operative tenant-ownership are becoming more popular in all three countries studied is probably related to the decline in public welfare provision and the need for a private source of capital savings that can be drawn on in old age to compensate.[4] Regulatory changes and financial liberalisation facilitate this process, which may in the long run result in sales proving to be popular with tenants even without discounted prices, and may become the single biggest threat to attaining integrated rental markets.

The advantages of the integrated rental market include tenure diversity, housing choice, low housing costs, and as a buffer against wild and extreme swings in housing prices. More research is needed on this little understood type of rental market and the different ways in which it can develop, as well as the problems that would result from its weakening or even its demise.

Notes

1. In countries with a dualist rental system, privatisation was aimed at reducing the size and competitiveness of the non-profit stock. In the Netherlands and Sweden, by contrast, privatisation was aimed at deregulation, thus giving the non-profit sector more independence.
2. Solidity is defined here as the percentage of the reserves in the total value of a housing association.
3. Decades of investment and expansion of the non-profit stock can be dissipated as the result of just one election victory. In Stockholm in just three years, 1999–2001, the non-profit rental stock was reduced by the city coalition bourgeois government from 34 to 28 per cent. In one example, Turner (2002, p. 88) calculated that each tenant made a property wealth gain of SEK 864 000.
4. For a discussion on the relationship between owner occupation and poorly-developed welfare systems see Kemeny (1977), Castles and Ferrera (1996), Castles (1998) and Kemeny (2005 forthcoming).

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