

## **Cooperation in urban regeneration**

### **The added value of cooperation between commercial developers and housing associations in Dutch urban restructuring**

Vincent Gruis, Ferdows Kazemi and Friso de Zeeuw

Delft University of Technology, Faculty of Architecture, Department of Real Estate & Housing

#### **Abstract**

The regeneration of the (early post war) neighbourhoods is a major challenge in Dutch society that requires substantial investments in new housing developments. One of the main objectives is to regenerate more or less unpopular, problematic neighbourhoods with concentrations of low-income households into viable neighbourhoods that are attractive to a wide group of households. As part of the regeneration process, a significant part of the housing stock is being demolished and replaced by new housing. The largest part of this housing stock is owned and operated by housing associations. Housing associations are not-for-profit providers of (mainly social rented) housing in the Netherlands. They are hybrid institutions that combine social housing tasks with market activities. In recent years, housing associations have increased their cooperation with commercial developers in the regeneration of neighbourhoods, among others to reduce financial and market risks, increase the access to capital and improve the products. At the same time, there has been debate about the added value of cooperation with commercial developers. Some argue that the added value is limited, because housing associations have sufficient knowledge and means to cope with the redevelopment challenge themselves. Others argue that the cooperation with commercial developers is necessary, particularly in case of developments for the upper market segments with which housing associations have limited experience. However, little research has been done to gain insight in the actual added value of cooperation between housing associations and commercial developers in urban restructuring projects. Our paper discusses the results of such research. On the basis of a literature review, a semi-Delphi research and 14 case studies, we assess the added value of cooperation in terms of among others the quality of the product, the financial benefits, risk reduction, process management and marketing of the product.

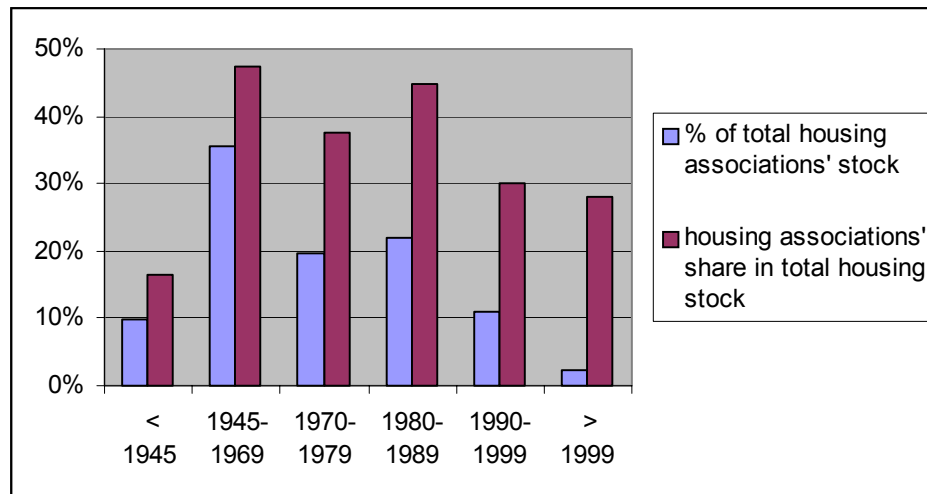
#### **Introduction**

Viewed within an international context, the stock of dwellings owned by Dutch housing associations differs from comparable stocks elsewhere in that it constitutes a relatively large share (35%) of the total national stock of housing, and is comprised of a wide range of dwellings (in type and price), rented not just by low-income households, but by many other categories of tenants (e.g. Van der Heijden, 2002). Two decades ago, Dutch housing associations could be typified as bureaucratic, task-oriented organisations. The activities of housing associations were largely controlled by the government, through financial support and detailed regulations. Working as an annex to the government, the task of these associations was to provide social housing services. Then, during the nineties, as part of a more general (inter)national trend towards deregulation, decentralisation and privatisation, the associations became much more administratively and financially independent. With the introduction of the Social Rented Sector Management Decree (SRSMD [in Dutch, known as the BBSH]), the detailed regulation of their activities was replaced by a system of retrospective accountability based on generally defined 'performance fields'. At the same time, the government reduced its direct financial support, thereby transferring the operating risks to the associations (e.g. Priemus, 1996, 2001).

Housing associations are now key players in Dutch housing and in urban-renewal policy, particularly where it concerns the restructuring of housing stock in problematic neighbourhoods. Up till the eighties, urban renewal in the Netherlands was focused on demolition and refurbishment of owner-occupied and cheap private rental dwellings in pre-war neighbourhoods. In the nineties, attention shifted towards the restructuring of the post-war neighbourhoods, which constitute a major part of the dwellings of the Dutch housing associations' stock. As we can see in Figure 1, over 90% of the housing associations' stock has been built after 1945. Together, the housing associations have a share of 41% in the total post-war housing stock. Therefore, much is expected from the renewal activities by Dutch housing associations (see e.g. Ouweland, 2002).

As the Housing Ministry has put it: "Housing associations fulfil a crucial role in the realisation of the public objectives in the areas of, among others, urban renewal, accessibility and sustainability of the housing stock and maintaining the affordability of housing" (MVRM, 2004, 21). According to a survey by the Dutch Central Housing Fund, the associations foresee that about 10% of their stock has to be restructured in the coming ten years - almost 80% of this part of their stock has been built after the war (CFV, 2004).

Figure 1: the Dutch housing associations' stock according to building year



Source: CBS-Statline; CFV (2004).

Given their large share in the post-war housing stock and problematic neighbourhoods and their public tasks concerning the quality of housing, the leading role in urban restructuring of housing associations is not disputed. Nevertheless, many have argued that urban restructuring could benefit from more involvement of commercial developers. Cooperation with commercial developers could for example have an added value in increasing the quality and marketing of the product, increasing the pace of, increasing the financial scope for and reducing the risks of the restructuring process. However, cooperation between housing associations and project developers in urban restructuring has not become common practice, although there have been several cases. Furthermore, the added value of cooperation is not undisputed. Some argue that commercial developers will only be interested in 'cherry picking' and upper-market developments, thus leading to a negative financial leverage for the housing associations and/or endangering the social housing tasks. Others argue that housing associations themselves are sufficiently competent to carry out the restructuring without cooperation with commercial developers (e.g. Noordam and Gruis, 2002; Van der Flier and Gruis, 2004; Helleman, 2005; AKRO Consult, 2007; De Zeeuw, 2007). However, a thorough evaluation of the added value of cooperation between housing associations and commercial developers in urban restructuring is lacking. Studies to date have been mostly theoretical or based on single cases. Therefore, we have conducted a research into the added value of cooperation between housing associations and commercial developers in Dutch urban restructuring. Because, the added value of such cooperation cannot be captured in quantities, we decided to follow a qualitative approach, combining several research methods:

- First we conducted a literature review to make an inventory of 'stated' added values;
- Then we tested these stated added values in a semi-Delphi panel with representatives from commercial developers, housing associations and municipalities that have experience with cooperation in urban restructuring;
- Furthermore, we tested the occurrence of the stated added values in 12 case studies.

This paper contains a summary of the results of our research. The paper follows the research activities mentioned above, starting with a review of stated added values from literature,

continuing with the results from the semi-Delphi panel and concluding with the results from the case study and general findings.

### **Statements about the added value of cooperation**

As stated above, several authors have discussed the potential added value of cooperation between housing associations and commercial developers in urban restructuring. Based on SEV (2000), Noordam and Gruis (2002), NEPROM (2004) and Helleman (2005) we distinguish the following potential added values of the involvement of commercial developers:

- Conceptual: commercial developers can contribute to the development of attractive, market-oriented concepts in the (initial) planning stage;
- Financial: commercial developers can increase the available finance for and financial return of restructuring and can help to reduce the risks;
- Organizational: commercial developers can contribute to the process management of urban restructuring;
- Communicative: commercial developers can contribute to the marketing of the products.

Within these more or less general categories, several more specific statements have been made about the added value.

The added value in the development of the concept has been stated to be particularly evident in the development of the development of upper-market dwellings and non-housing functions such as shopping malls and offices, with which housing associations have little or no experience (e.g. Noordam and Gruis, 2002). Nevertheless, it has also been stated that commercial developers have more experience in the development of market-oriented housing environments and can therefore contribute to the overall quality of restructuring plans as well (e.g. Van Woerkom, 2004; De Zeeuw, 2007).

Statements about the added value of financing the restructuring are related to the ability of commercial developers to attract finance for the development stage, the ability to increase the profitability of restructuring (e.g. Noordanus, 2008) and the ability to reduce risks through better risk-management.

Statements about the organizational added value refer to the wider experience of commercial developers in the realization of larger, complex projects. Related to this statement, is the statement that commercial developers are more competent in the process management of urban restructuring projects.

The communicative added value refers to the ability of commercial developers to market their real estate, with particular reference to the marketing of the restructuring area to higher-income households.

In addition to statements about the added value, statements have also been made about potential drawbacks of cooperation with commercial developers. Cooperation with commercial developers could cost more than its benefits, because they are willing to share the returns on the profitable parts of the restructuring program, but not to share the losses on the other parts. Related to this, cooperation with commercial developers could put pressure on increasing the share of profitable developments, and could therefore be threatening social housing tasks. Furthermore, cooperation with commercial developers could lead to additional consultation and control mechanisms and (thus) delay in the restructuring process. (e.g. Van der Flier and Gruis, 2004, Van Woerkom, 2004, Helleman, 2005).

### **Delphi panel**

A number of propositions have been derived from the literature review about the potential added value of cooperation with commercial developers in urban restructuring (see Table 1). These propositions have consequently been used in a semi-Delphi research. First the propositions have been discussed in telephonic interviews with representatives from housing associations, commercial developers and municipalities that have been involved in urban restructuring projects in which housing associations collaborated with commercial developers, resulting in an answer on a five point scale (I agree, I partially agree, I don't agree or disagree, I partially disagree, I disagree). During a seminar, the propositions about which the respondents had the least

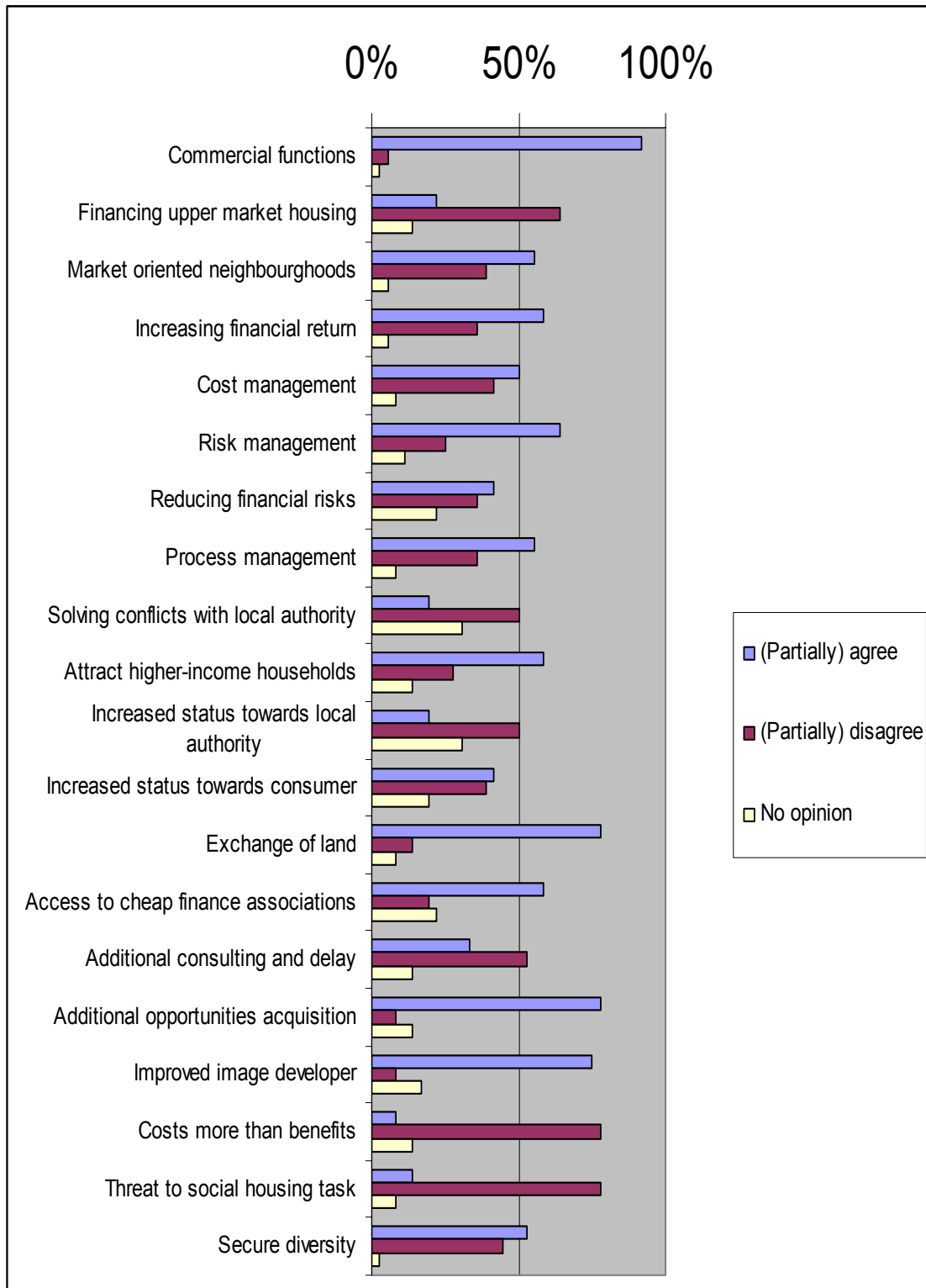
agreement, where discussed with the respondents, emphasizing the exchange of arguments why respondents agreed or disagreed. After the seminar, respondents were allowed to revise their judgments.

*Table 1: propositions about the added value of cooperation with commercial developers in urban restructuring*

<b>Conceptual added value</b>	
	A commercial developer is better able than a housing association alone to develop commercial real estate such as shops and offices in a neighbourhood
	Commercial developers are better able to realize market-oriented living environments
<b>Financial added value</b>	
	A commercial developer is better able to increase the financial return on urban restructuring
	A commercial developer has more financial possibilities to realize (rental and owner-occupied) dwellings for the upper market than a housing association
	A commercial developer is better able to manage the costs of urban restructuring than a housing association could do alone
	Participation of a commercial developer reduces the risks significantly
	Risk management is better incorporated within a commercial developer than within a housing association
<b>Organizational added value</b>	
	Participation of a commercial developer improves the quality of process management, leading to an increased pace of restructuring
<b>Communicative added value</b>	
	A commercial developer is better able to attract higher-income households, because of better marketing and communication
	Cooperation with a commercial developer improves the image/status, which leads to advantages in communication with the local government
	Cooperation with a commercial developer improves the image/status, which leads to advantages in communication with the clients
<b>Drawbacks</b>	
	Cooperation with a commercial developer leads to additional consultation, control mechanisms and delay
	Cooperation with a commercial developer costs more (financially) than its advantages
	Cooperation with a commercial developer endangers the social housing tasks because the emphasis shifts towards commercial interests.

Figure 2 displays the results of the semi-Delphi panel (second round). As we can see the majority of the participants were in (partial) agreement with most propositions. The vast majority agreed with the propositions that cooperation with market parties could be of benefit to the development of commercial functions and risk management. Furthermore, cooperation could lead to additional benefits such as opportunities for acquisition, exchange of land and improving the image of the developer. A smaller majority agreed that cooperation could be beneficial to cost management, process management and attracting higher-income households. Nevertheless, it should be noted that most representatives of housing associations did not agree with these statements, so either representatives of project developers and municipalities overestimate or representatives of housing associations underestimate these added values of cooperation.

Figure 2: responses from participants of Delphi-panel (n=36) to propositions about the added value of cooperation with a commercial developer in urban restructuring



### **Case Studies**

One of the drawbacks of the Delphi panel results are that they are based on general opinions of experts. Although the opportunity to provide feedback to each others arguments and to revise one's judgment contributes to a calibration of general opinion, factual information about the added value of cooperation can only be found in real case studies. Therefore, we also conducted 14 case studies in which we asked employees from housing associations, project developers and municipalities that are involved in the projects to assess the propositions about the added value of cooperation for explicitly from their experiences in their case. Figure 3 summarises the responses of the total group of respondents.

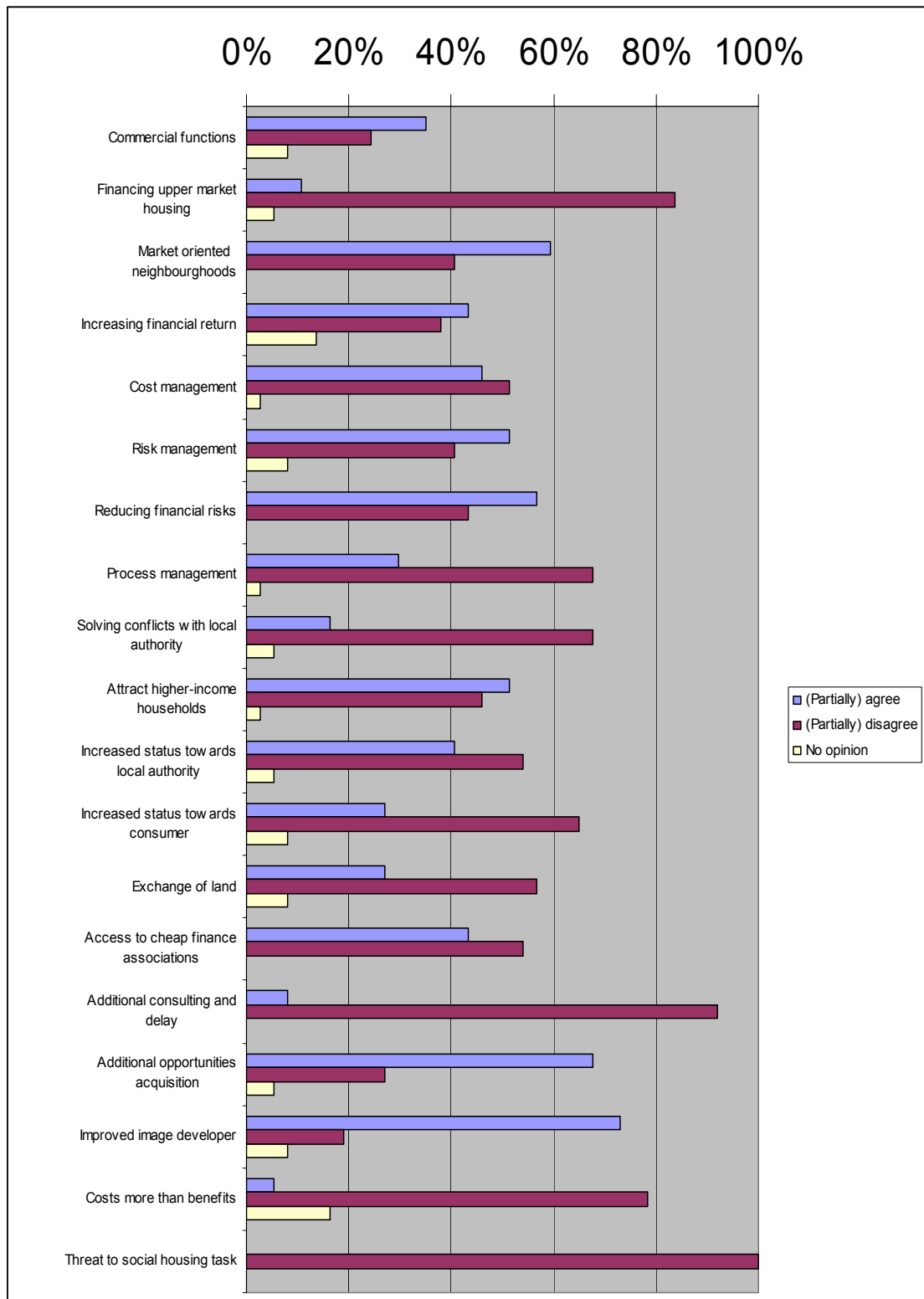
Figure 3 shows mixed opinions about the added value of cooperation between housing associations and project developers in urban restructuring. A small majority of respondents stated to have experienced an added value in the development of commercial real estate, market-oriented neighbourhoods, risk management and reduction of financial risks. On the other hand, most respondents stated not to have experienced an added value in increasing the financial capacity for upper-class housing, process management and securing the diversity of the development according to tenure and price. Most respondents do indicate to have experienced additional opportunities for acquisition but not through the direct exchange of land. What is also worth noting is that only few respondents state to have experienced drawbacks from the cooperation.

More detailed analysis of the investigated cases showed that the added value in some cases consisted of:

- sharing risks: developers and housing associations usually share the risks of the upper-market developments on an equal basis;
- reducing costs: in some cases the developers have contributed to more cost-efficient plans;
- increasing the financial return: in one case the profits from the upper-market developments have been stated to have been increased due to the expertise of the developer;
- risk management: in a number of cases developers have been stated to contribute to a better management of risks;
- development of commercial real estate: in a number of cases it has been stated that developers have contributed to better products, particularly for the upper-market housing and commercial real estate development;
- image towards local authority: in some cases the local authority has been stated to gain confidence in the process due to the involvement of the developer;
- marketing: in some cases the contribution from the developer has been stated to be essential for successful marketing of the housing development.

Finally, in one case it has been stated explicitly that the risk avoiding attitude of the developer has lead to delays in the restructuring process.

Figure 3: responses of representatives from case studies (n=37) to propositions about the added value of cooperation with a commercial developer in urban restructuring



## **Conclusion**

The involvement of commercial developers in urban restructuring has been a topic of public interest in the Netherlands for a number of years now. Various authors and parties have stated that an increased involvement of commercial developers in the restructuring of post-war neighbourhoods could have various benefits to the process as well as the end result. In this paper we have summarised the findings of our study of the added value of cooperation between housing associations and commercial developers in urban restructuring.

In conclusion, we can state that, although there are clear indications that cooperation can have an added value, several restrictions have to be made. Risk sharing is the only added value that is recognized in almost all cases, but this is self evident and not dependent on cooperation with a commercial developer (risks can also be shared through cooperation with another housing association). A positive outcome of our research is that there are very few negative opinions about increased cooperation. Very few of our respondents in the Delphi panel and case studies agreed with propositions about drawbacks of cooperation. Furthermore, it must be noted that the added value is difficult to recognize, even in a qualitative research approach. First, the added value in cooperation is by definition a result of more parties, which makes it difficult to isolate the exact contribution of the commercial developer. Second, for housing associations in particular it might be difficult to acknowledge the added value of commercial developers, because this could also implicate a disqualification of their own organization to some extent.

The literature review, the Delphi panel as well as the case studies indicate that the added value depends strongly on the situation. The market context, the housing associations' own competencies and resources, and the competencies of the employees from the project developer that are involved in cooperative projects determine the added value of cooperation in urban restructuring.

One could assume that the added value of project developers will decrease as housing associations continue to increase their experience and competencies in real estate development. At the same time, professionalization of housing associations could lead them to make more conscious decision about when to look for cooperation in cases where they know that their added value is really necessary. This might imply that housing association and municipalities will look for cooperation in an earlier stage in some cases and acknowledge and search for commercial developers more explicitly on the basis of their own specific (lack of) capacity. If commercial developers would like to attune their acquisition strategy to this development, they cannot suffice with general statements about their 'superior' competencies in real estate development. Instead, they must be able to explicitly add something to the expertise that housing associations have or have gained, for example by offering new forms of cooperation, focusing on solutions for prominent problems in urban restructuring and more explicitly positioning themselves on the basis of sub-disciplines within real estate development such as risk management, product development, process management and marketing.

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