“The Financialization of a Social Housing Provider”

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Abstract

Why does a social housing provider bet on interest rate fluctuations? This paper presents a case study of the financialization of both housing and the state. Social housing in the Netherlands is provided by non-profit housing associations that since 1989 have been placed at a distance from the state. Many associations started developing housing for profit, borrowing on global capital markets or buying derivatives. Whereas other semi-public institutions moved into the world of finance due to financial constraints, housing associations moved in to capitalize on their valuable real estate portfolios. Vestia, the largest of them all, is an extreme – but not an exceptional – case of what can happen when public goals need to be realized by under-supervised and poorly managed private organizations. As a result of gambling with derivatives, Vestia had to be bailed out for over €2 billion. To make up for the losses, housing was sold off and rents were raised. The changes in the housing sector that led to its financialization cannot be separated from the wider financialization of the state. The introduction of financial metrics and managerial practices into (formerly) public institutions demands a transformation of the organization and a redesign of the institutional setting.

Introduction

The Dutch social housing association Vestia, and in particular its treasurer De Vries, had built up a derivative portfolio of over €23 billion when, in the summer of 2011, it received a margin call of, first, €400 million, and then, €1 billion. Not much later, it had to be bailed out for over €2 billion. In the end, the financial damage would amount to approximately €3 billion outnumbering those of other well-publicized cases of speculation with derivatives such as that of Nicholas Leeson who caused the bankruptcy of Barings Bank in 1995, resulting in a total cumulative loss of £927 million/€1.25 billion (Brown, 2005). The speculation took place in a setting in which De

Vries, and Vestia CEO Staal could act almost autonomously: Vestia's supervisory board consisted mostly of friends of Staal, while national supervisors and regulation were ignored, and accountancy firms neglected the many shortcomings in the annual reports (Hoekstra *et al.,* 2012). But why did a social housing provider bet on interest rate fluctuations in the first place?

The Dutch housing market is heavily financialized. It is well documented how Dutch homeowners are among the most leveraged in the world and how Dutch lenders rely heavily on mortgage securitization (Aalbers, 2008; Aalbers *et al*.,2011; Engelen, 2015), but the Netherlands is also known for its large social housing sector and in this paper we aim to demonstrate how the financialization of the Dutch housing markets extends into its social housing sector. Although the case of Vestia is an extreme one, it is also illustrative of behaviour observed at other housing associations. Social housing in the Netherlands is provided by housing associations, hybrid or 'private non-profit' organizations that provide public services. Although the different local housing associations used to form a *de facto* arm of the state, these organizations were placed at a distance from the national and local state in 1990s.

On the one hand, the responsibilities of the housing associations were tightened by the stipulation that they primarily provide housing for the populations targeted by government policy. On the other hand, the policy scope of these "empowered institutions" was expanded through "regulated deregulation" (Aalbers, forthcoming) in which the associations gained room to act freely but were at the same time regulated by a new set of often poorly defined rules, codes, state guarantees and institutions. This messy institutional setting offered perfect conditions for housing associations to expand their activities. The opportunities for conducting their own financial policy were also expanded, including the use of financial reserves for their "social obligations". But, they also became responsible for debt related risks, developing a great interest within housing associations for the development of interest rates and products to manage related risks. Many associations started developing housing for profit and several of them also started adopting more complex financial techniques, such as lending money to other associations, borrowing on global capital markets and buying derivatives, despite the fact that cheap credit was available through guaranteed loans provided by state banks. Important elements of this behaviour are the lack of internal and external supervision, self-enrichment of persons in higher management (often through fraud), and engaging in complex activities – in particular financial and commercial real estate development – that were poorly understood by both management and supervisors.

This paper presents a case study of the financialization of both housing and of the public sector. Financialization is here defined as ‘the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households’ (Aalbers, 2015). The literature on the financialization of housing has so far mostly focused on financialization through credit scoring and securitization (Langley, 2006; Aalbers, 2008; Wainwright, 2009), through the widened access to mortgage loans (Aalbers, 2008; Montgomerie, 2009; Rolnik, 2013) and more recently, through private equity funds buying up subsidized rental housing or social landlords (Aalbers and Holm, 2008; Uffer, 2014; Fields, 2015). Vestia and other housing associations in the Netherlands are cases of the financialization of social housing providers through derivatives, something that also takes place in the UK (e.g. Beever and Struthers, 2014; Allen, 2015) and possibly elsewhere, but to our knowledge, no academic studies exist on the financialization of social housing providers.

The changes in the housing sector that led to the financialization of Vestia and other housing associations cannot be separated from the wider financialization of the state. The state in its broadest depiction, including municipalities and counties (Pryke and Allen, 2000; Hendrikse and Sidaway, 2013; Lagna, 2015) and semi-state institutions operating at-arms-length such as utilities (Allen and Pryke, 2013; Ashton *et al*., 2014), infrastructure (Torrance 2008; O’Neill 2013), health care (Pollock 2004; Acerete *et al*., 2011) and education (Jakovljevic *et al.*, 2008; Engelen *et al.,* 2014) witnessed processes of financialization in conjunction with broader transformative developments in the age of the neoliberal restructuring of the welfare state (i.a. Clayton and Pontusson, 1998; Brenner and Theordore, 2002; Swank, 2002). This body of literature revolves around the infiltration of these (semi-) public institutions by exterior financial managerial techniques and their gradual enmeshment in a biosphere of consultants, investment bankers and accountants through debt and derivatives transactions. In the words of Pryke and Allen (2000: 272): ‘derivatives have moved to the centre of mainstream finance.’

The changing landscape of the 1980s and 1990s characterized by large scale privatization and decentralization programs and the increasing dominance new public management produced a new normality in the organizing principles of public institutions, state entities and statesmanship. The growing financial constraints that resulted from the “hollowing out” of the state (Jessop, 2002), left atomized public entities, outside the protective shelter of the state, that were receptive to the solutions that financial intermediaries advocated. This process was clearly visible in the financialization of the University of Amsterdam (Engelen *et al.,* 2014). Through an austerity measure concealed as “decentralization”, real estate was transferred from the national state to underlying public entities varying from hospitals, police stations, primary and secondary schools, and universities. This transfer of ownership and responsibilities was not accompanied by the necessary funds, which therefore resulted in the need of individual entities to seek alternative financial solutions. The transfer of real estate acted as a Trojan horse: it was the vehicle that opened the scope to adapt to the financialized organizing principles of banks.

The literature provides a number of accounts of municipalities falling deeper into the rabbit hole of finance. Municipalities have always been involved in emitting debt and receiving loans from banks. Financialization entailed the move towards more sophisticated techniques, such as derivatives instruments to manage interest rates and risks (Hendrikse and Sidaway, 2013) or reconfiguring the governance of municipal entities into private or public private partnerships to capitalize on future income streams of public services (Ashton *et al.,* 2014) and utilities (Allen and Pryke, 2013). While the cases of Chicago and Pforzheim, but also that of the University of Amsterdam, point to financialization as a strategy to deal with budget constraints, Dutch housing associations were primarily motivated to exploit their housing stock. These asset rich organizations were confronted with a changing financial landscape that increasingly provided them with instruments to use their balance sheets in unconventional ways to lower costs or increase income. The financialization of Dutch housing associations is therefore more a tale of opportunities than of constraints, comparable to Norwegian municipalities that transformed the revenues from their hydroelectric resources into complex, risky financial investments (Pani and Holman, 2013).

This opportunity-driven financialization, however, should, not be interpreted as actors behaving rationally in a typical neoclassic marketplace. Together with the larger freedom to shape the business model came the dynamics of competition, blurring the focus and territoriality of housing associations. The wave of mergers in particular created organizations that operated on a larger scale and became more ‘professionalized’, testing the limits and shaping the new institutional framework. The use of derivatives started as a legitimate tool to operate in this new context but soon became part of a strategy based on speculation to outcompete other associations, as derivatives proved very profitable in the period before the crisis. In the case of Vestia, this large-scale speculative use introduced structural information asymmetries between the banks and housing associations that only revealed their true nature once financial markets started to move the other way. Compared to the constrain-driven financialization process, the outstanding risks and potential losses were much larger, due to the larger collateral that allowed for more leverage.

In the next section we will discuss the housing associations' changing regulatory landscape. In subsequent sections we will discuss the case of Vestia, starting from a public housing authority in the 1980s and its mergers with several private housing associations in the 1990s, and culminating in its bailout in 2011. We will also discuss how widespread the speculation with derivatives was among housing associations as well as the consequences of Vestia's bailout, both at the level of Vestia's housing stock and the national social housing sector. Finally, we will explicate how our paper contributes to the literatures on the financialization of, respectively, housing and the state.

The Regulated Deregulation of the Dutch Housing Market

Few countries in the world have built as many social housing units as the Netherlands, at least proportionally speaking. The Housing Act of 1901 created the so-called *toegelaten instelling* (empowered institution, somewhat similar to a registered landlord in the UK), a private organization without commercial interests, dedicated to building and managing social housing and allowed to apply for government subsidies (Beekers, 2012). In Dutch these hybrid institutions are known as *woningcorporaties* with literarily translates to "housing corporations" although "housing associations" is a more appropriate term. These days, the Netherlands has about 380 housing associations that together manage 2.3 million out of a total of more than 7 million dwellings, seeTable 1.

In the first decades of the twentieth century many housing associations were founded. It was the era of *verzuiling* [pillarisation], a time when virtually all social and cultural, but often also economic, institutions were organized along socio-religious lines (Lijphart, 1968). In most towns and cities this resulted in the founding of Catholic, Protestant, Liberal and Socialist housing associations, as was the case for radio broadcasting associations and many other organizations. Contrary to what is generally presumed, despite severe housing shortages and poor housing, not many social housing units were built in the first twenty years after the implementation of the Housing Act. Founding a housing association was easy, securing finance less so. After the inauspicious beginnings of the early years, the social housing movement really took off in the 1920s, in part thanks to substantial government subsidies (Van der Schaar and Hereijgers, 1991). In the 1930s, the large-scale construction of social housing continued in spite, or perhaps because, of the Depression.

Table 1 Housing stock in the Netherlands by tenure (%), 1986-2012
Source: Ministerie van VROM, 2007; DG Wonen en Bouwen, 2015

Tenure/sector	1986	1995	2005	2012
Owner-occupied	43	48	55	60
Private rented	28	17	10	9
Social rented	29	35	35	31
Total number	5,400,000	6,200,000	6,800,000	7,250,000

Whereas social housing in the early twentieth century was primarily intended for the educated working class, housing associations significantly expanded their arena after 1945: social housing became the norm, the standard, for the majority of the population. A combination of war damage and the post-war baby boom created a severe housing shortage in the Netherlands. This led to a new phase in the history of social housing: the Dutch national government took the lead in designing and implementing interventionist public policies, which resulted in the development of a strong, nationally coordinated welfare state. Social housing was an important ingredient in the development of the Dutch welfare state. Between 1945 and 1970 more than two-thirds of all new construction was in the social housing sector – and up to eighty percent in larger cities such as Amsterdam and Rotterdam (van der Cammen and de Klerk, 2003: 194) – tempting Harloe (1995) to speak of the Dutch social housing model as a “mass model”, in which subsidized rental housing was built on a massive scale and for the masses, i.e. for both lower- and middle-income groups, thereby reducing privately-built and managed housing to a small sub-sector. The government initiated large-scale urban expansion plans and subsidized affordable housing. The housing associations became the lynchpin in this new housing and urbanization policy.

Although the housing associations were privately regulated institutions, they became increasingly subject to public regulation (Salet, 1999). Thus, housing associations came to dominate – and continue to dominate – rental housing. In the post-war years, the housing associations became branch offices of government in the sense that (1) central government determined rents and set very detailed building requirements through subsidies and loans; and (2) local government determined the choice of architect, the manner in which contracts were tendered, and also handled the supervision of construction. Local government also took charge of housing allocation in particular via municipal public housing authorities that existed alongside the private housing associations and owned thousands of council houses, in particular in the bigger cities (Bazlinton, 1999; Dieleman, 1999). During this period solving the housing shortage was a high priority and construction subsidies were a natural ingredient of this policy.

The government's role changed in the 1980s, a period of severe economic downturn. Growing national government deficits led to cutback after cutback. Because of a slowly declining housing shortage, social housing received a lower priority. Furthermore, the extensive web of housing subsidies, that also funded private landlords, had increased to 10 percent of the state budget in the late 1980s, thereby attributing to a state deficit too high to meet the requirements for entering the European and Monetary Union (EMU) (Beekers, 2012; Verbraeken, 2015). With the whitepaper *Housing in the Nineties* (1989), the Dutch government took a radical step away from the idea of a social housing sector for the masses and called for a retrenchment to the "core task" of the state: ensuring decent and affordable housing for so-called "target populations" [1],. The individual responsibility of the citizen is a central focus of the white paper and to enhance her options in the housing market, construction subsidies for housing associations needed to be scaled down, social housing units sold, rents partly "liberalized" and homeownership promoted. The basics of this policy were strengthened in the 1990s and 2000s, and additional measurements, in particular relaxation of mortgage-borrowing conditions, were put in place to stimulate home ownership (Aalbers, 2008).

The housing associations were cut loose from the national government in several steps in the 1990s. A first step was the implementation of the *Besluit Beheer Sociale Huursector* (BBSH, or "Resolution Management Social Rented Sector") that introduced the possibility of professional, remunerated directors, which resulted in additional layers of not only directors but also other well-earning managers, expanding the number of employees from 18,000 to 25,000 between 1994 and 2006 (Onderzoeksredactie, 2013). The part of the BBSH that prescribed "sober and efficient" governance was largely ignored. At the same time, the legal status of many housing associations shifted

[1] I.e. to those who are unable, for financial reasons or otherwise, to obtain adequate housing on their own. The exact operationalization of this definition changes through time and is beyond the scope of our paper, but primarily includes low- and moderate income groups.

from associations and local housing authorities to foundations, creating greater independence and limiting the active tenant participation in housing governance. (For the sake of clarity, we will continue to refer to these housing foundations as housing associations.) It became increasingly difficult for internal and external supervisors to influence the behaviour of housing CEOs (Beekers, 2012).

The most important change was executed through the *brutering* [grossing] or *operatie balansverkorting* [deleveraging operation] of 1995 by which the operating subsidies for years to come (€15.9 billion) were cancelled out against government loans (€18.6 billion) (Boelhouwer and Priemus, 2014). It was hoped that the deleveraging would create a revolving fund of independent housing associations that would be able to function without state support (Beekers, 2012). Although after the deleveraging operation, only a few financial ties between the government and the housing associations remain, there are still a lot of hidden subsidies involved. The *Waarborgfonds Sociale Woningbouw* (WSW), the AAA-rated "Social Housing Guarantee Fund" guarantees loans for the development of new social housing, thereby enabling housing associations to borrow at favourable conditions from two state banks: the Bank of Dutch Municipalities (BNG) and the Water Authorities Bank (*Waterschapsbank*). In 2007 the WSW shifted its system from guaranteeing loans for specific projects to a general guarantee of the activities of housing associations, in effect allowing the associations to use the borrowed money for all kinds of activities, including commercial real estate projects, land speculation and, as this paper will show, speculation with derivatives. While the WSW is a non-state entity governed by the housing associations themselves, the *Centraal Fonds Volkshuisvesting* (CFV, Central Housing Fund) is a state institution supervising the sector. Its main tasks is preventing housing associations from getting in financial difficulties. Nevertheless, CFV is poorly equipped for doing so as their only power over a housing association is to send a letter to the supreme supervisor, the State Secretary for Housing. When financial difficulties do arise, the CFV functions to solve these through the remediation support fund" to which all housing associations contribute.

In contrast to the UK and many Central and East European countries, no Right-to-Buy scheme has ever existed in the Netherlands (Murie *et al*., 2005). Until the early 1990s, the idea of selling social housing was virtually unspeakable in Dutch politics. The few attempts that had been made were rather half-hearted (Boelhouwer, 1988; Frissen *et al*., 2001). Because so many conditions were attached to the sale, there were very few sales. This began to change after the Labour party joined the right-wing parties' preference for privatization, exemplified by the publication of the Labour-Liberal national government's 2000 white paper on housing, which pushes much stronger in the direction of privatization than the 1989 white paper. The combination of shifting political realities, a stronger discourse pushing privatization and the effects of the deleveraging operation, had also made it much more likely for both municipalities and housing associations to implement the national government's policy. The associations themselves see the sale of social housing as helping to diversify one-tenure, low-income neighbourhoods on the one hand, and on the other as a means to finance other projects, typically including the construction of new social housing. In cities like Amsterdam we see that the overall share of social housing diminishes rapidly from 64% in 1995 to 46% in 2013 (O+S, 2015). Most sales do not take place in higher-income neighbourhoods, but in post-war housing estates, where associations own most units and increasingly also in pre-war low-income neighbourhoods that are in the early stages of gentrification (Aalbers, 2004; Boterman and Van Gent, 2014).

It is important to pay attention to the shifting government/housing association-relation. Many housing associations, partly as a result of mergers, expand their geographical scope beyond one municipality. Consequently, strong ties between municipalities and housing associations have become loose ties. Housing associations become increasingly independent from national and local government. By cutting the financial ties with the housing associations, and by deregulating the housing market, the government also lost part of its control on the housing associations. Consequently, housing associations located in areas where real estate values increased strongly from the mid 1990s until 2007 became very wealthy, allowing them to use their real estate – often worth billions of euros – and related cash flows as collateral for new loans and investments. As long as housing associations meet their public task (guaranteeing financial continuity, giving priority to the housing policy target population improving the quality of the housing stock and the housing environment, giving tenants a say, and providing so-called 'housing-and-care arrangements') they have a considerable degree of freedom in their policies.

Paradoxically, many local governments increasingly come to rely on housing associations to realise spatial, social and economic policy goals, including urban revitalisation, gentrification, job training programmes, and social and physical infrastructure. Also, many local politicians, especially those of the Labour and Christian-Democratic parties (PvdA and CDA respectively), became members of their local housing associations' supervisory boards, creating new connections between state and social housing sector. Traditionally, the housing associations had managed "social property" such as social centres, local theatres and sports facilities, but many – generally pressured by local authorities that has lost their formal control but not necessary a fair degree of influence – expanded into schools and job training facilities and programmes. Some housing associations also heavily support each other. A cash-rich and well-managed rural housing association from Groenlo, in the east of the Netherlands, for example, not only merged with several cash-poor associations from nearby town and cities, it also financed the renovation of a social housing district in the city of Delft in the west of the country. A significant minority of housing associations ventures into more exotic adventures: some (help to) construct social housing in South Africa and Suriname, another one builds a bridge and again another restores a former cross-Atlantic line ship for €220 million in order to create jobs, job training and promote cultural heritage – all under the banner of the associations' "social obligations" towards their communities.

Housing associations have since been expected to formulate their own policies on financial continuity, investment, rental policies and housing for target populations. Increasingly, and in particular in the larger cities and in rapidly growing suburban areas, the housing associations have become important players in the land and development market and are regularly among the largest private property developers active in their respective local markets. One by one they also start developing owner-occupied housing and commercial real estate, often but not necessarily within the same project or plan as the social housing they built to manage themselves. This way, housing associations play a role in creating mixed tenure and mixed income communities. Rather than retreating to their "core task", housing associations actively try to maintain a strong market position and avoid becoming landlords operating merely at the bottom of the housing market, renting out units to a residual population (Duyvendak and Uitermark, 2007; Uitermark and Bosker, 2014). It is often argued that the profits out of commercial activities are put back into the housing needs of lower income residents, but this is only possible when things go well. Finally, as housing associations receive state guarantees, new rules from the European Commission in 2011 set in motion the separation of the financing of their commercial from their social activities leading to complex administrative changes.

The Case of Vestia

> "My Supervisory Board has only one task: it appoints and dismisses me. Otherwise, I decide myself." (CEO Erik Staal in Verbraeken, 2014, our translation)

This section on the case Vestia is mostly based on a thorough reading of the report of the Parliamentary Commission of Inquiry (Tweede Kamer der Staten-Generaal, 2014a), transcripts of the interviews of the parliamentary hearings (Tweede Kamer der Staten-Generaal, 2014b), a study for the parliament on the supervision of housing associations (Hoekstra et al., 2012), two books of financial journalists who interviewed many key actors (Smit, 2014; Verbraeken, 2015) and some of our own conversations with people in the Dutch housing sector, either as part of a different research project (2013-2014) or based on personal contacts (mostly 2011-2014).[2] We construct our narrative around a critical reading across these primary sources. Whereas the previous section was stressing structure over agency, this section will emphasize the agency of Vestia's CEO and treasurer. Of course, their agentic capabilities could only develop in the changing context described above. Table 2 displays the most significant moments related to the Vestia case.

In the first twenty years of his career, Erik Staal was an ambitious civil servant in charge of several re-organizations such as the privatisation of the municipal printing office of the City of The Hague. In 1989, the year of the national government's white paper *Housing in the Nineties*, Staal becomes the director of GWB (*Gemeentelijk Woningbedrijf),* the city's public housing authority, the largest landlord of The Hague, managing 20,000 units. In the late 1980s the GWB is in a bad shape, many estates are poorly maintained and difficult to let. The financial situation of GWB is troublesome as well. The mission for Staal as the new director is clear: privatize GWB and create an independent and financially sound housing association. In 1992 the public housing authority is formally privatized and now a "housing foundation". Its balance sheet includes €42 million in debt but also €450 million in real estate assets and €29 million in seed money. Within no time Staal is lending money to other housing associations and using loopholes in the municipal land register to add more land to GWB's holdings. Moreover, he negotiates an arrangement in which the municipality keeps providing GWB with cheap credit, creating additional liquidity of about €14,5 million annually and €45 million in investment possibilities structurally (Verbraeken, 2015: 24).

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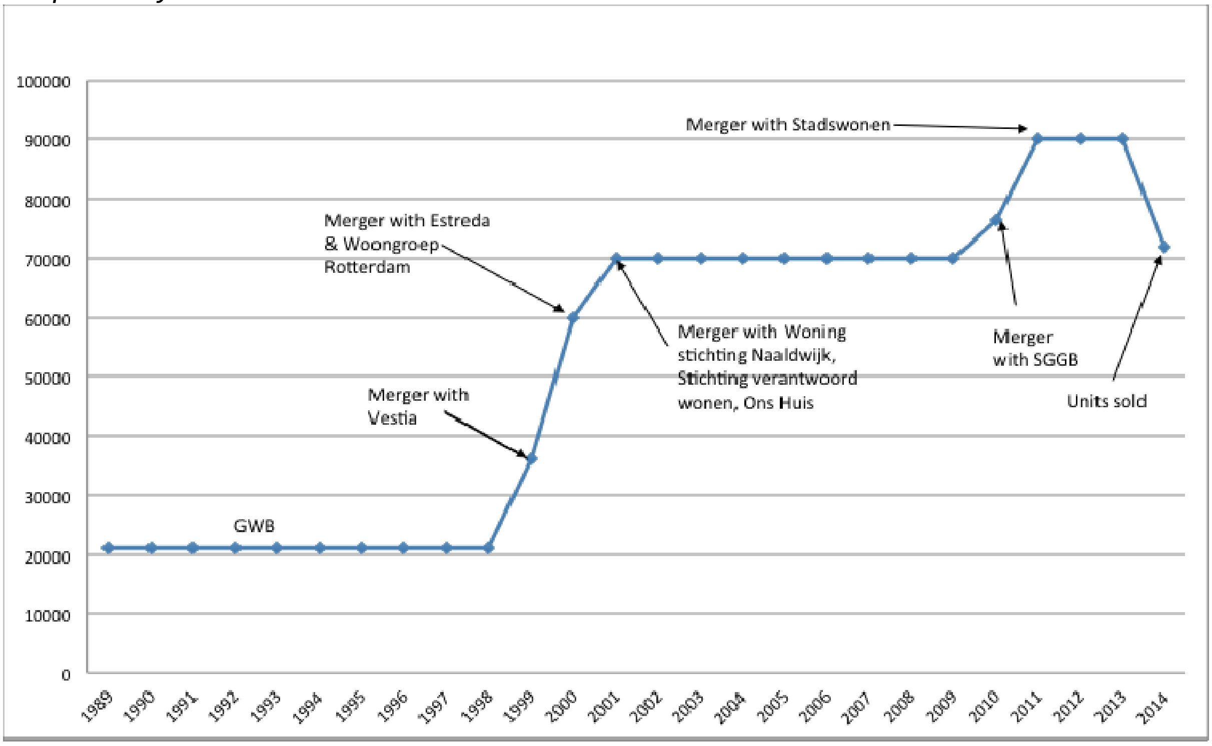
[2] This section only refers to these sources when using direct quotes or relying exclusively on one particular source.

Table 2 Significant moments in the history of GWB and Vestia (excluding mergers)
Source: Tweede Kamer der Staten-Generaal (2014a), edited by authors

1989	Erik Staal appointed as director of GWB
1992	Privatisation of GWB
1995	The national deleveraging operation
1999	First derivatives contract
2002	De Vries appointed as treasurer
2005	First (more speculative) derivatives contracts with foreign banks
December 2008	Sharp interest-rate decrease
2009	ING, later followed by the other Dutch banks, stops selling derivatives to Vestia
2009	Negative market value of derivatives appears in the annual report
September 2011	Liquidity problems of Vestia, as a result of margin calls, become known by WSW and CFV
2011	WSW (temporary) stops guaranteeing new loans
October2011	The total size of the derivatives portfolio becomes clear
December 2011	CFV puts Vestia under close scrutiny, breach of contract terms become clear for supervisors
January 2012	Problems with derivative-portfolio become public, Staal resigns
February 2012	Most toxic derivatives are transformed into normal loans at the cost of €700 million
April 2012	De Vries is arrested
May 2012	WSW acquires collateral and Vestia stops paying margin calls
June 2012	Agreement with banks to pays of all Vestia´s obligations related to the derivatives for €1.9 billion
July 2013	Vestia receives financial support from CFV´s remediation support fund after adopting severe measurements (e.g. selling rental units)
2014	Parliamentary Commission of Inquiry

Under the management of Staal, privatized GWB expands heavily into large-scale urban revitalisation projects, in which GWB not only builds new social housing, but also commercial real estate as well as health care and educational spaces. In certain districts where GWB already has a strong presence, Staal claims a monopoly over revitalisation plans, which he completes to the satisfaction of most local stakeholders and politicians, but also GWB's employees. Building on his success as well as a healthy balance sheet, Staal initiates many mergers with other housing associations, starting with a housing association named Vestia that's active in the City of Delft as well as in The Hague's suburb Zoetermeer in 1999. The GWB/Vestia takes Vestia's name but GWB's CEO and philosophy. This is followed by eight more mergers in the following years, expanding from just over 20,000 housing units in 1989-1998 to almost 90,000 units in 2011, making Vestia the largest housing association in the Netherlands, see Figure 1.

Figure 1 Number of residential rental units owned by GWB and Vestia
Source: based on data from Tweede Kamer der Staten-Generaal (2014a), edited and completed by the authors



At every merger, Staal's salary and power as CEO are expanded, while he stocks the supervisory board with personal friends. As if managing 90,000 housing units isn't enough to keep a man busy, Staal also deploys other business activities, including his partnership in consultancy firm DJC that charges Vestia over one million euro for consulting services. Staal becomes the poster child for the professionalization of the social housing sector, praised for his prowess, legal and financial astuteness and ability to get things done not just commercially, but also in providing affordable high quality housing and state-of-the-art school buildings: 'Even the external regulators see no problem in the largest association being run as a sole proprietorship' (Smit, 2014: 43, our translation).

By the late 1990s Vestia has already become a large property developer, developing up to 1000 units by investing €150-170 million annually. In the spring of 2011 Staal brags 'Finance is our core business ... We know the financial markets, minute by minute' (Cobouw, 2011). In fact, Staal himself is not that knowledgeable about finance. The appointment of Marcel de Vries in 2002 as treasurer has set in motion the transformation of Vestia: from a property developer and social housing management agency into a derivatives-trading house. Staal assigns De Vries a large amount of freedom in running Vestia's finances and shelters him from any involvement from the supervisory board, keeping crucial financial information out of their reach. Although De Vries is trained as an accountant and has no formal training in complex financial products, he starts to use Vestia's assets more fully as collateral to buy derivatives.

For banks derivatives are interesting to sell because the commissions are high and all risks are often transferred to counterparties and/or covered by collateral. In the case of Vestia banks first relied on the real estate and financial assets as collateral. The state system surrounding housing associations seemed to offer them full security. Loans, and later also derivatives, were guaranteed by non-state entity WSW (Social Housing Guarantee Fund) and Vestia's equity by the state institution CFV Central Housing Fund. Both funds are co-financed by all housing associations. If at any time the annual rental income of all housing associations of €14 billion is not enough to provide the necessary equity for these funds, the municipalities first and the national government second, provide as a backstop that will have to provide money. Derivatives can be a useful instrument to decrease interest rate risks and a board member of another large housing association tells us in 2011: 'Of course we have derivatives. Every large housing association has them – or at least, should have them.' Housing associations are, however, prohibited from speculation with derivatives, something that regulator CFV, appears unaware of, even after the 2001 debacle of housing association Woonzorg that lost €33 million through complex financial products (Berenentsen, 2014).

In his first years as treasurer De Vries buys derivatives contracts from ABN Amro and Fortis to mitigate interest risks related to the many real estate development projects of Vestia, thereby reducing Vestia's risk exposure considerably. In 2005 the first foreign bank, Deutsche Bank appears and offers more complex products at more favourable terms, such as higher thresholds for margin calls – the obligation to transfer collateral when the negative market value of a derivative contract reaches a certain level – further widening the possibilities to buy new derivatives. Deutsche and other foreign banks also go at great lengths to please De Vries as a client, taking him to prestigious sport events, and dinners with escort girls. While interacting with these financial actors, and reading some folders, De Vries starts to believe that the current interest rate is so low that it can only go up. To monetize this idea, De Vries starts to trade in other, more complex and speculative types of derivatives[3]. Many of these contracts temporarily lower interest rates for Vestia, but they will raise costs considerably if interest rates increase.

Until 2008 nobody – including the banks – warned that Vestia's short-term low interest rates introduce major future risks. Moreover, until 2010 the accountants of Vestia (first Deloitte, then KPMG) assess the derivatives solely on the basis of their costs, therefore the negative values do not appear on the balance sheets or on the profit and loss account. The enormous potential risks remain hidden for internal and external supervisors. Instead, the banks and supervisors praised Vestia and its treasurer. Moreover, the WSW starts to promote the use of derivatives to other housing associations, allowing almost every derivative contract housing associations enter into. Yet, no housing association went as crazy as Vestia: by 2011 De Vries has built up a derivatives portfolio of €23 billion.

The first signs of the fall of Vestia appeared in late 2008 when – as a result of a sudden decrease in the interest rate – the negative value of Vestia's derivatives portfolio increased to €762 million. However, as Vestia had a buffer of €1 billion in liquid capital, it was able to answer the bank's margin calls to provide more collateral. Slowly, the external supervisors started to become a bit more critical and now asked housing associations to report on their derivatives portfolios every three months. However, Vestia refused to report on its derivatives portfolio or to answer questions about it. Dutch banks, that had only sold non-speculative derivative contracts to Vestia, started to pose more critical questions to Vestia and discovered – from a close reading of their publicly available annual report – that Vestia had bought very risky derivatives from foreign banks. In 2009 and 2010 all Dutch banks stopped selling derivatives to Vestia and sold part of their portfolios to foreign banks. The critique of the Dutch banks did not led Vestia to revisit its financial activities. To the contrary, Staal allowed De Vries to double the derivatives portfolio to €17.5 billion in 2010. Some of the new contracts with the London-based offices of foreign banks ran till 2065.

In the summer of 2011 interest rates fall rapidly, thereby increasing the negative market value of the derivatives portfolio leading to margin calls. To force Vestia into opening its books, WSW decides to stop guaranteeing new loans. Despite the urgency – banks' margin calls demanding collateral from Vestia increased from €400 million to €1 billion in September 2011 – Vestia was unwilling to cooperate, even after the State

[3] Including speculative interest swaps, writing swaptions, and canceable swaps.

Secretary for Housing is informed. Financial consultancy firm Cardano is hired by the State Secretary to make sense of Vestia's more than 400 derivative-contracts with 13 banks (see table 3). Cardano concludes that Vestia's portfolio is extremely sensitive for interest rate changes: 70 percent exists of speculative derivatives, while risk management is completely lacking. De Vries manages the entire portfolio via an Excel sheet that contains many errors. Meanwhile, De Vries expands the portfolio further to €23.6 billion. He believes that a future increase in interest rates is a certainty and will compensate for the current negative market value of the derivatives portfolio.

Table 3 Derivative positions of Vestia, December 2011 (in million of euro's)
Source: Adapted from Verbraeken (2015: 238)

Bank	**Total nominal value derivatives**	**Negative market value**	**Threshold**	**Margin call**
Deutsche Bank	4200	-498	150	348
Citibank	3700	-105	50	55
ABN Amro	3200	-373	150	223
Barclays	2700	-85	50	35
BNP Paribas	2400	-174	100	74
Nomura	1400	-67	50	17
Credit Suisse	800	-61	50	11
Rabobank	750	-83	50	33
JP Morgan	700	-156	200	-
Sociéte Générale	500	-29	50	-
ING	160	-10	-	-
BNG	100	-37	-	-
DEPFA	Unknown	Unknown	50	Unknown
Total	**20610**	**-1678**		**796**

In November 2011 Vestia is put under guardianship. The banks can see more far-reaching actions such as firing Staal or de Vries as a breach of contract, allowing them to dissolve all derivative contracts at once and demand the negative value of both the contracts and related loans, which would have resulted in bankruptcy. Hence, Staal is allowed to stay on for the time being. In the meantime, a new State Secretary for Housing, Liesbeth Spies, is appointed and her aim is to solve the Vestia problem by making the other housing associations pay for the fallout. Spies would later tell that Staal was unwilling to cooperate and simply told her: 'If you make sure interest rates rise, we'll be out of trouble in no-time' (Spies in Smit, 2014: 121, our translation). After arranging an additional pension provision of €3.5 million on top of annual salary of about €500,000 Staal agrees to quit. The incoming, temporary CEOs of Vestia, Erents and Thielen, decide directly to restructure €1.7 billion of complex derivatives into normal loans with a fixed interest rate, at the expense of €700 million. Furthermore, the government allows the Central Housing Fund to collect 5 instead of 1 percent of the annual rental income of housing associations for the collective “safety net”.

Still, the banks are not willing to cooperate because a bankruptcy of Vestia would be extremely beneficial to them as then Vestia’s real estate and the state guarantees should be transferred to them as collateral. However, to force the banks into negotiation, the WSW executes its first right to collateral. This came as a big surprise to the banks, and the CEO of ABN Amro, a state-owned bank since the crisis of 2008, threatens the State Secretary to stop financing *all* housing associations. Another large Dutch bank, Rabobank, immediately emptied all bank accounts of Vestia. Under pressure of this the transfer of collateral to the WSW and after a couple of months of negotiations, all banks listed in table 3 except Credit Suisse agree to a solution in which Vestia pays of all its obligations related to the derivatives for €1.9 billion, €675 million of which will be paid over the next decade by all other housing associations through the remediation support fund of the CFV.

Yet, the remaining €1.2 billion had to come out Vestia’s pockets. As a result many development projects were sold off to municipalities or other housing associations (Verbraeken, 2012). Furthermore, Vestia aims to decrease the number of employees from 1100 to 860 by 2016, renovation activities are minimized, 30,000 of its over 90,000 housing units are to be sold by 2022, and the rents for social and commercial units are increased significantly after becoming vacant. The problem is that in some of the markets areas where Vestia is active, e.g. Rotterdam-South, the units with higher rents remain vacant and the required sales price can’t be realized, resulting in higher vacancy rates, reduced income from rent and long sales periods, which may also impact these neighbourhoods negatively. Where in 2011 Vestia asked 87% of the allowed rent this has been increased to 95% for new tenants (Verbraeken, 2015). By February 2015 Vestia had already sold almost 13,000 units, of which 5500 to Patrizia, a German real estate investor, for €577 million and 6000 student rooms to another housing association, Woonstad. Since Vestia is the largest landlord in the Rotterdam-The Hague metropolitan region, this will have a considerable impact on the regional housing market. In addition, the Central Housing Fund has labelled Vestia as insolvent by, making it extremely difficult to get credit for new projects. In effect, Vestia has refocused around its core task, providing housing for low-income groups, i.e. households earning less than €34,000 annually (Vestia, 2015). Also, Vestia has pressed charges against Staal, De Vries and eight members of the Supervisory Board for irresponsible management. Furthermore, after its supervisor AFM fined ABN Amro €3 million for miss-selling to Vestia, the housing association requested the Public Prosecutor, but the latter has not started a law suit against ABN Amro as of yet.

The case of Vestia as well as other cases highlight problems surrounding self-regulation, the extensive freedom of housing association CEOs, mismanagement and financial losses. The Central Housing Fund first reported that Vestia was part of a small group of approximately 20 housing associations that had entered into derivatives contracts, but it soon had to admit that this was the case for 162 out of 380 housing associations, representing a nominal value of €17.9 billion (not including Vestia) at the end of 2011. Yet, the regulator also came to the conclusion that many housing associations did not have adequate knowledge to enter into many derivatives contracts that were found on their books and that the derivatives portfolio of eight other associations is problematic (CFV, 2012). The case of Vestia was the tipping point for Dutch politicians and they initiated a Parliamentary Commission of Inquiry to study the social housing sector. This has resulted in a complete and, at the time of writing, ongoing reregulation of the housing associations, but we will not discuss the details here.

The case of Vestia shows that the opportunities that were created by the new institutional context led to divergent strategies. While Vestia is an extreme case, whereby the agency of the executive managers was critical to understand how it could become an outlier, a significant minority of housing associations became enmeshed with derivatives and accumulated losses. Almost half of the housing associations used derivatives but most of them refrained from using them in a purely speculative way. This leaves important questions related to the regulatory architecture of the last two decades unanswered. How could individual agents be allowed to become such key determinants in the transfer of capital from the social housing sector to private banks? Why were banks allowed to profit from this opaque market, at the expense of Dutch tenants? This structural flaw came at a high costs: the selling out of Dutch social housing to foreign investors and large accumulated losses that will translate into less investments in the production and renovation of rental units.

Conclusion

The Dutch housing market is heavily financialized, not only because its homeowners are the most leveraged in the world and its mortgage portfolios increasingly securitized, but also, as we have demonstrated in this paper, because many Dutch housing associations rely on derivatives to manage – and thereby potentially increase – their financial risks..The housing associations, who manage the social housing stock, were step-by-step placed at a distance from the state. Many housing associations merged into ever-larger organizations that subsequently branched out into for-profit housing and real estate development. Several of them also started borrowing on global capital markets and bought derivatives. The example of Vestia, the largest housing association, present an extreme – but not an exceptional – case of the financialization of a social housing provider. As a result of gambling with derivatives, Vestia had to bailed out for over €2 billion. To make up for the losses, housing was sold off and rents were raised.

If we want to understand the causal mechanisms that supported the derailment of Vestia we need to comprehend the nature of the playing field for Dutch housing associations that emerged from the 1990s onwards. The previous structure was uniform and operated under a variety of control mechanisms of the State Secretary for housing. As the ties between housing associations and the state loosened, in a process of “regulated deregulation” (Aalbers, forthcoming), the institutional structure allowed more room for agency and varied outcomes. This nascent freedom needs to be located in the particular context of the most recent “manic phase” of capitalism (Kindleberger and Aliber [1978] 2005), before and after the bursting of the dot-com bubble. In this context, the age of financialization matured, accelerated and deepened.

While state structures guaranteed access to cheap funding, providing an alternative to private financial intermediaries, housing associations did cross to the other side as time passed and started to engage with investment banks. Unconventional financial instruments became increasingly tempting to housing associations as the age of financialization developed. Adding to the favourable conditions for financialization was the asset-rich nature of housing associations and the implicit state support in case of failure. Furthermore, we need to recognize that in this period other semi-public institutions – such as universities and hospitals – but also small and medium sized enterprises all became entangled in the web of debt and derivatives. The tale of Dutch housing associations and Vestia in particular is a variation on other cases. Whereas other semi-public institutions moved into the world of finance due to financial constraints, housing associations moved in to capitalize on the possibilities offered by their asset-rich portfolios. From these related cases, we borrow the insight that the introduction of external financial templates and managerial practices into the public institutions demands a transformation of the organization and a redesign of the institutional setting. Moreover: ‘transactions must be treated as “governance-in-motion” – not as one-time transfers of public assets to private control, but as the complex process of constructing the powers and capacities necessary to produce value from urban infrastructure.’ (Ashton *et al*., 2014: 6). Financialization is a dynamic and interactive process whereby the market is continuously reshaped.

From the accounts provided in this paper, on how Vestia accumulated a vast and unsustainable portfolio of derivatives, we can distil the process described above. Mergers and the willingness to outgrow competitors in combination with ever more complex mixed-use and commercial real estate projects went hand-in-hand with a growing receptiveness to non-conventional financial tools; first to cover risks and soon thereafter to act as business model, to generate an income based on speculation with derivatives. Financialization was a continuation of the competition with different means. In order to win, to become the largest player and to monopolize particular markets, financial speculation moved from a means into an end. The financial rewards and the prestige allowed Vestia to outcompete other housing associations. The state actively promoted this competitive attitude and the associated movement away from the public sector and into financial markets. The financialization of formerly (semi-) public organizations has not reduced the state’s role but rather expanded the state’s ‘role of “risk absorber” … for the private market sector rather than for the citizenry’ (Christopherson *et al.,* 2013: 352).

Although the case of Vestia has been investigated by a Parliamentary Commission, its supervisors and several journalists, the precise role that foreign banks played in the derivate speculation of Vestia remains vague. Future research could focus on the precise role (foreign) banks have played in the miss-selling of derivates to a semi-public organization, thereby widening the understanding of interaction between sophisticated, global financial actors and local (semi-) public institutions who lack knowledge on complex financial products (Pani and Holman, 2013). An interesting starting point could be the current lawsuit against Staal in which domestic and foreign banks have to respond to questions and Vestia has to publish a lot of classified information. Another possible avenue for future research would be to investigate the use of derivatives by housing associations and other semi-public as well as public institutions after the bailout of Vestia, not only in the Netherlands, but also in England and Wales – where at least 47 housing associations have entered into derivate contracts and its regulator warns of possible losses amounting to £2 billion (Allen, 2015) – and elsewhere. Even though the case of Vestia is unique, the financialization of housing and of the state – and their intersection at subsidized housing – is not limited to Vestia or the Netherlands.

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