The impact of fair value accounting on capital budgeting at Dutch social housing companies.

Thesis MIF, Mark Weering

To Alma and Orlando

Preface

With this paper I finish the program Master in Finance of TIAS Business School. The program has been very rewarding and has enriched my professional understanding of and respect for the financial infrastructure as a foundation of modern society. I thank all the teachers and administrative staff of TIAS. Special thanks go to Dirk Brounen who has been a very inspiring teacher and mentor during my thesis-project. My acknowledgements also go to Jan Kamst, former CEO of my company, for his support. To the following people I would like to express my gratitude because they have inspired me during my thesis research: Rob Kupper, Jos Pipers, Edwin Burgerhout, Joekie Brons, Paul Minke, Valérie Benjamins, Paul Moossdorff, and Joost Huijbrechts. Thanks to Dirk and Joost for their useful feedback on this paper. The content of this paper, I would like to emphasize, is my sole responsibility and all remaining errors and omissions are my own. Thanks go to all the people kind enough to fill in the questionnaire and to the two interviewees for their inspiring reflections. Thanks also to my fellow students from MIF and MBV (Master in Business Valuation) and the chance to enjoy the company of true Champions. I am greatful for the loving support of my parents. Finally, a *condition sine qua non* for starting and finishing this program have been my wife Alma and son Orlando. I dedicate this paper especially to them.

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Abstract

Since 2016 Dutch social housing corporations are required to disclose their assets at fair value. We compared "serious" adopters with "pro forma" adopters and compared the quality of their corporate governance. In our exploratory research we found an indication that voluntary adoption of FVA coincides with a higher quality of corporate governance. Our research is relevant because it adds to empirical research done in financial markets. We demonstrate similar findings in semi-public organizations.

Key words: social housing, corporate finance, corporate governance, fair value, information asymmetry.

1 - Introduction

Early 2018 the press published an article about a real estate transaction that took place in Utrecht, a large city in the Netherlands, in 2016. Two housing corporations had transferred 252 apartments in Kanaleneiland for the amount of zero euros. The new owner Aventicum (a joint venture of Qatar Investment Authority and Credit Suisse) invested in the buildings and public space. The formerly regulated (low) rents were doubled and became part of the private rental sector. After one year, Aventicum sold all apartments to the Canadian Capreit and Dutch LLS Capital. Aventicum apparently enjoyed a profit of € 23 million, an 83 percent return on investment. Apparently, capital reserves had leaked out of the public system of social housing (Grimbergen, 2018).

Social housing and prudent management of public resources

Since 2016, Dutch housing corporations are required to disclose their assets at fair value instead of value in use or at cost. With this, Government aims to improve financial transparency of these companies and to improve the prudency with which they steward public equity.

A strong corporate governance is a first 'line of defense' for prudent management of public equity in Social Housing organizations. The Supervisory Board and the CEO create the structure and processes to ensure optimal allocation of resources and ideally prevent leakage. The renewed Housing Act as well as recent improvements within the sector aim to improve corporate governance.

The context is that of a social housing sector in transition. The Netherlands still hosts the largest regulated rental sector in Europe. According to the European Commission this should change. Dutch government has started the transformation and promotes a much smaller regulated sector. For this, large disinvestments by housing corporations are required.

Economic theory of information
The economic theory of information, especially on asymmetric information, the principle-agent-relation, and corporate governance assumes that decreasing asymmetric information improves the position of the principle, aligns the behavior of the agent, and promotes a more efficient allocation of economic resources. Since fair value accounting (FVA) has been introduced worldwide scientific research has been conducted on the effects of fair value disclosure. Often voluntary disclosure is compared to mandatory disclosure, either as an independent or as a dependent variable.

Adoption of fair value in Dutch social housing: three groups
When we look at adoption of FVA, Dutch housing corporations can be divided into three groups. A small group of pioneers that adopted FVA before it was required. Another small group that, once required, voluntarily choose the so-called “full” version. Finally, a larger group that choose the “basic” version. This provides an opportunity to compare the three groups and ask ourselves the following question.

Research question:
Does voluntary adoption of fair value accounting in Dutch social housing corporations coincide with a stronger corporate governance with respect to disinvestments?

Why is this relevant?
Voluntary adoption of FVA could be a sign of a strong corporate governance. A conscious movement towards more transparency, accountability and more effective and efficient management. Causality could also be the other way around. Adoption and the process of information gathering that comes with it could increase awareness of different actors within the corporate structure. In terms of governments objectives both ways are good.
If we can demonstrate that early adopters indeed show a stronger corporate governance, then the social housing sector as a whole is moving in the right direction. But what If there is no relationship at all? This could either mean that voluntary adoption has been a solitary project without a broader understanding of the advantages within the organization. Or it could mean that the organization perceives the costs of adoption as to high compared to the perceived advantages. Maybe this occurs when disinvestments are small compared to the total amount of assets.

Reading guide
In chapter 2 we present our review of scientific literature. In chapter 3 we describe recent developments in Dutch social housing. In the following chapters we present our methodology (chapter 4), research findings (chapter 5), and analysis (chapter 6). We end with a few conclusions and suggestions for further research.

2 – Literature review

Classical economic theory assumes complete information and actors behaving rationally. This will lead to market equilibrium. Economics of information on the other hand assumes incomplete information and bounded rationality (Conlisk, 1996). Here we focus on the concepts of asymmetric information, principle-agent and corporate governance. We then ask the question if this applies to real estate as well and look at the concept of value and the question why fair value is considered less asymmetric then other values. We summarize relevant empirical research and finally draw some conclusions.

Asymmetric information

Asymmetric information became well known by Akerlof's article on the market of used cars (Akerlof, 1970) but it applies to other situations as well (Barkley Rosser Jr., 2003). *Asymmetric information* means that two parties in a transaction have unequal knowledge about the other party or about the object relevant for their transaction. This manifests itself in two ways. One is *adverse selection*, which is the problem created by asymmetric information before the transaction occurs. Adverse selection means that precisely those parties that represent a higher risk to another party will tend to want to enter a transaction as opposed to those parties with a lower risk profile. The result will be suboptimal because there will be less transactions or none at all. The other one is called *moral hazard*. This is the problem created after the transaction occurs. It means that one party engages in more risky behavior than was assumed by the other party at the time of the transaction. The result will also be suboptimal because there will be less transactions or again none at all. The problems created by information asymmetry thus limits or prohibits effective functioning of the market place and thus limits the efficient allocation of resources (Mishkin, 2016).
The theory recognized different solutions to solve or mediate the problem of asymmetric information. In repeated transactions the power of *reputation* may resolve the problem (Akerlof, 1970). Another solution is called *signaling*, meaning that the actor with less information relies on some limited information which is perceived as credible (Spence, 1973). A third solution often mentioned is *screening*, which means that a device is used to distinguish between good and bad (Stiglitz & Rothschild, 1976). Real world solutions are: private production and sale of information (credit ratings), intermediaries (valuators), standardizations (valuation standards), covenants, monitoring, benchmarks, Permanent Education-points (signaling), fit-and-proper test (screening), etc. But these solutions come at a cost. So, actors will compare these *information costs* with the benefits of that extra bit of information.

Principle-agent

The problem of asymmetric information not only occurs in the market place. It also occurs within organizations. Let us look at the principle-agent theory founded by Berle and Means (1933). They studied the *separation of ownership and control* and asked the question how can the profit motive be relied upon to ensure the utilization of private wealth for societies benefit? When owners are no longer the managers an *agency problem.* Examples of agency are universal (Ross, 1973). An *agency relationship* is a contract under which one or more persons (the *principal*(s)) engage another person (the *agent*) to perform some service on their behalf which involves delegating some decision-making authority to the agent. To solve or mediate the agency problem the principle has to incur costs in order to align the behavior of the agent to the principle's interests. *Agency costs* are the sum of three types of cost in an agency relationship: *monitoring costs* (costs of annual report, costs of Supervisory Board), *bonding costs* (implicit costs for the agent by working in the owners' best interest), and *residual loss* (costs incurred from divergent principal and agent interests despite the use of monitoring and bonding) (Jensen & Meckling, 1976).

Corporate governance
It is useful to notice that the firm is not an individual. It is a legal fiction which serves as a focus for a complex process in which the conflicting objectives of individuals (some of whom may "represent" other organizations) are brought into equilibrium within a framework of contractual relations. In this sense the "behavior" of the firm is like the behavior of a market, that is, the outcome of a complex equilibrium process. We seldom fall into the trap of characterizing the wheat or stock market as an individual, but we often make this error by thinking about organizations as if they were persons with motivations and intentions (Jensen & Meckling, 1976).
The *corporate governance* is a mechanism for directing and controlling the corporation, and it includes a governance structure that specifies the distribution of rights and responsibilities of different components of the structure, which consists of the Shareholders, the Board, and the Managers. It provides rules and procedures for making managerial decisions on corporate affairs and on the monitoring mechanism over managerial decisions and activities. One of the objectives of corporate governance is to minimize the effect of agency conflict on corporate performance so that the company's goal to maximize the shareholders' value is achieved. The main objective of corporate governance is to monitor managerial activities and provide advice to management to improve firm performance so that shareholders' interests are protected and firm value is enhanced. Therefore, a question of interest is what type of corporate governance can achieve these goals (A. Lee & J. Lee, 2013).

Positive Accounting Theory
In the 1970s a number of accounting researchers developed a theory of accounting known as the Positive Accounting Theory (PAT), which seeks to explain and predict the selection of particular accounting policies and their impact, rather than prescribing what should be done. PAT focuses on the relationships between the various individuals involved in providing resources to an organization. It looks at agency relationships involving the delegation of decision making from the principle to an agent. Companies will try to align the interests of different actors and some of these methods are based on the output of the accounting system. For example, the costs of undertaking an audit is referred to as a monitoring cost (Deegan & Ward, 2013).

Real estate and valuation
Information asymmetry is an important reality in real estate transactions. First, the market is highly illiquid and therefore the price mechanism is slow to convey information to market participants. Second, the assets (commercial properties and vacant land) are idiosyncratic and are, accordingly, difficult for outsiders to value. Using empirical research Garmaise and Moskowitz demonstrate that information considerations may be more important in the real estate market than in Akerlof's used car market (Garmaise & Moskowitz, 2004; Van Arnhem, Berkhout, & Ten Have, 2013). On top of that in the real estate market many different definitions of value used to exist. Therefore, information asymmetry would be greatly reduced and market efficiency promoted if more uniform concepts of valuation were used.
Both in accountancy as well as real estate valuation an international trend towards more uniformity can be witnessed. In 2005 the International Accounting Standards Board introduced the International Financial Reporting Standards (IFRS) in Europe (IASB, 2018). IFRS promotes and sometimes requires fair value accounting (FVA). *Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction

between market participants at the measurement date (IFRS 12 Fair Value). The concept of fair value relates to *market value*. This is a concept in real estate valuation uniformed internationally through the International Valuation Standards (IVS) and issued by the International Valuation Standards Council (IVSC). *Market value* is the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (IVSC, 2017).[1] For our purposes fair value of fixed tangible assets and market value of real estate (valuation) are considered synonymous (Van Arnhem et al., 2013).
FVA is considered to be less asymmetric than valuation at historical cost or at value in use. *Historical cost* is the original amount paid for an asset less it's accumulated depreciation. *Value in use* is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. These projected cash flows should be based on management's best estimate, should not include expected restructuring and should not assume growth in excess of the long-term expected growth rate for the industry, products, etc. (IVSC, 2017). Both concepts allow large silent reserves. Private assumptions influence the value of assets and allow for earnings management. Both limit transparency and comparability.

Research on fair value and governance (empirical findings)
From 2005, over 7,000 listed firms in the European Union and many more around the world are required to adopt IFRS. The international developments towards fair value accounting provided opportunities for studying the relations between adoption of FVA (voluntary or mandatory), corporate governance and market efficiency.[2] Most empirical research has been conducted in the context of financial markets. To a far lesser extent attention was given to public or hybrid organizations. Here we present some findings that are relevant for our topic. Part of the empirical research studied *the effects of FVA adoption on information asymmetry.* A negative relation, meaning that adoption of FVA reduces asymmetric information, is demonstrated by lower costs of financing (Anuchitworawong, 2010) and lower bid-and-ask spreads for listed companies (Daske & Gebhardt, 2006). Furthermore, it is also demonstrated that voluntary adoption of FVA is accompanied by less asymmetry compared to mandatory adoption. Daske et al. found that the capital market effects are most pronounced for firms that voluntarily switch to IFRS, both in the year when they switch and again later, when IFRS became mandatory (Daske, Hail, Leuz, & Verdi, 2008). Muller, Riedl, and Sellhorn (2011) conclude: "We find that mandatory adoption firms exhibit a larger decline in information asymmetry, as reflected in lower bid-ask spreads. However, we also find that mandatory adoption firms continue to have higher information asymmetry than voluntary adoption firms, which appears partially attributable to the lower reliability of fair values reported by the mandatory adoption firms." In a publication about New Public Management municipal financial officers (MFO's) perceived FVA as far more useful for assessing public companies (Rodríguez & Navarro, 2007).
Another part of empirical research studies *the effects of corporate governance on adoption, information asymmetry and firm performance*. Elbadry, Gounopoulos, and Skinner (2015) find that proxies for governance mechanisms that encourage the monitoring of managers are inversely related to proxies for asymmetric information. This implies that corporate governance mechanisms that enhance managerial monitoring lead to improvements in the informational environment of the firm (Elbadry et al., 2015). Daske, Hail, Leutz, and Verdi

[1] The definition of market value used in the Dutch legal framework (Besluit Actuele Waarde, art. 4) is almost identical to the definition of the IVSC.
[2] For overviews of research see: Healy & Palepu (2001); and Beyer et al. (2010); Bird & Ruchti (2014); Elbadry, Dimitros, Gounopoulos, & Skinner (2015).

(2013) compare companies that seriously implement FVA with companies that implement FVA pro forma (called “label”) and find that: ““serious” adoptions are associated with an increase in liquidity and a decline in cost of capital, whereas “label” adoptions are not. (…) Our findings imply that we have to exercise caution when interpreting capital-market effects around IAS/IFRS adoption as they also reflect changes in reporting incentives or in firms’ broader reporting strategies, and not just the standards.” Empirical research in corporate finance claims that better corporate governance improves a firm’s performance (Gompers, Ishii, & Metrick, 2003; Cremers & Nair, 2005). Another study finds “that information asymmetry is related to the quality of corporate governance. (…) Using data from the 2003 to 2006 period, we find that increasing the financial incentives for board members reduces asymmetric information, and that the combination of experienced board members and independent audit committees with financial expertise diminishes asymmetric information” (Anglin, Edelstein, Gao, & Tsang, 2011).
Despite some of these findings we also like to warn for oversimplifying the issue. The relationships between corporate governance and information asymmetry are not always straightforward. Beyer, Cohen, Lys, and Walther (2010) conclude that the empirical research indicates that FVA, information asymmetry and corporate governance somehow interact. But they also emphasize the endogenous nature of the corporate information environment, the role of disclosure regulation, and the interdependencies between the various parts of the disclosure environment. The researchers do therefore not provide a formal general framework that captures all those interdependencies. Elbadry et al. (2015) point out that “despite the voluminous literature on the general topic of corporate governance, there has been limited investigation of the relation between the nature of the firm’s corporate governance system and the degree of asymmetric information and some of the little evidence that has been acquired is contradictory.”

Conclusions from literature
Problems of asymmetric information not only arise in markets for used cars. In real estate markets they are probably even more plentiful. Problems of unequal information are important in markets because they cause market failures. They are also important within companies, private as well as public. Here they appear as agency-problems between principle and agent and cause underperformance of the organization from the perspective of the principle (owners, government, internal supervisors, etc.). Corporate governance is a way to tackle agency-problems and reduce agency-costs. Accounting information is important to mediate agency-problems. And this is why the concept of fair value is promoted in International Accounting Standards. The concept of market value for valuation of real estate promoted through the International Valuation Standards does the same. Research demonstrates that in financial markets as well as in semi-public environments FVA is considered more symmetric than historical cost and value in use. Furthermore, voluntary as opposed to mandatory adoption coincides with less asymmetric information. Finally, good governance diminishes information asymmetry (through monitoring, incentives, expertise, and independence) and coincides with “serious” adoption of FVA.

3 – Dutch social housing

We briefly provide a general introduction to Dutch social housing and look at the recent renewed Housing Act. We also present the government policy of restructuring the housing market and a quick view of recent developments in this market. Then we look at our main topics: the change to fair value accounting (FVA), corporate governance and disinvestments. We end with some conclusions.

Dutch social housing and housing corporations

The Dutch sector of social housing is relatively large compared to other countries of the European Union. The Netherlands have the highest relative size of social (regulated) rent as part of the total stock of houses. Private rent is relatively small. See figure 1. The trend is downwards. In 2017 housing corporations still own more than 2,2 million houses which is 69% of the total rental housing (cbs, http://statline.cbs.nl). Not only the quantity is impressive. The same holds for the quality. "The Dutch rental sector has the highest quality in Europe in terms of building features but also other aspects like overcrowding" (Housing Europe, 2017).

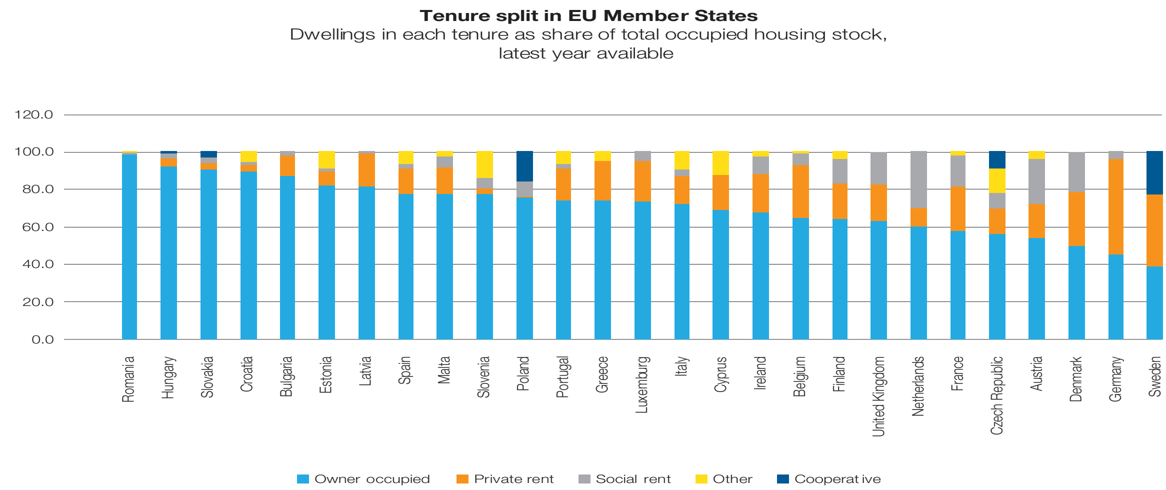

Figure 1: Tenure split in EU Member States (Housing Europe, 2017)

The segment of social housing is dominated by companies called housing corporations. These are private not-for-profit organizations. Originated in the middle of the 19the century most of them were founded after the Housing Act of 1901. Since then their number has decreased from 1350 in 1920 to 855 in 1995. Since then through mergers their number has decreased significantly. Now we have 339. On average they own 5000 houses but their size varies from several hundreds to 30,000. Their autonomy vis-à-vis the central government has varied greatly but in 1995 they were quasi-privatized (Ruys, Bruil, & Dix, 2007).
In 1995, in the context of a wave of privatization of public enterprises and pressure to comply with the requirements of the European Monetary Union the Dutch government undertook a large clearing-operation. The government terminated the previous subsidizing (net present value: €16 billion) while housing corporations took over all liabilities (net present value of €17 billion) and received independence from detailed central government regulation, creating hybrid organizations or social enterprises (Ruys et al., 2007; De Jong, 2013; Tweede Kamer der Staten-Generaal, 2014; Boelhouwer, 2013).

Renewed Housing Act

The largest relative size of social rent called the attention of Europe. Euro Commissionar for

Competition Kroes required a policy change of the Dutch government in 2005. This eventually led to the renewed Housing Act of 2015. Compared to the clearing-operation of 1995 this again was a major operation (Priemus, 2014). The Act required the housing corporations to administratively separate their housing stock in two parts. One part in service of general economic interest (SGEI) on which government guarantees would still apply. Another part not in service of general economic interest (non-SGEI) which should be financed in the private market with no government guarantee at all.[3] Further changes to the system were made to increase transparency (fair value accounting), strengthen external governance (creating the national Housing Authority and empowering municipal governments vis-à-vis housing corporations) and corporate governance (benchmarking, independence of the controller, and legal requirements for members of the Supervisory Boards) (Staatsblad, 2015). Although major in size the renewed Housing Act did not change the hybrid character of housing corporations.

Restructuring of the housing market

Recent Dutch governments under the influence of the liberal party (VVD) implemented policies to restructure the housing market. A first objective of this party is to decrease the regulated rental sector by disinvesting 50% of their housing stock. A second objective is to increase the private rental sector by some 200,000 houses, partly as newbuilt and partly by moving existing stock from the regulated to the private sector. Implementation is facilitated by relaxing regulation for disinvestments by housing corporations, and also by government extracting funds from the regulated sector (through a levy and a corporate tax). Municipal governments have to play an important role in this transition of the housing market by rental policy, stimulating local disinvestments and investments. Also, an increased role for private investors (foreign and national) is promoted.[4] The Netherlands is a consensus-democracy and not all objectives of a single party can be realized. But we observe a liberal dominance in Dutch housing policy as recently proven by the defense in parliament of Minister Ollongren who is a member of coalition party D'66.[5]

In recent years, corporations actually have started to sell fewer houses. Between 2010 and 2014, corporations sold approximately 21,400 houses per year. In 2015, this number had fallen to around 18,500 and in 2016 to about 15,700. At the same time there is great interest from institutional and private investors in investing in the Dutch housing market. In 2017 € 5,5 billion was invested. And institutional investors indicate that they are interested in acquiring real estate from housing corporations. But at the moment, the supply of rental houses is lagging behind the rapidly growing demand. Most housing corporations prefer to sell their houses individually. Corporations appear to be reluctant to sell their property as packages to commercial parties, even if it concerns non-SGEI property. In the future 42% of

[3] Services of general economic interest (SGEI) are services the state wants to provide for the general public which are not adequately supplied by market forces alone. SGEIs are carried out in the public interest under conditions defined by the State, which imposes what is called a public service obligation (PSO) on the provider. Since SGEI provision may not generate a sufficient profit for the provider, an appropriate level of public compensation may be required to offset the additional costs stemming from the PSO (https://www.economy-ni.gov.uk/articles/services-general-economic-interest).

[4] See the following documents: *Bruggen slaan; Regeerakkoord VVD – PvdA*, 29 oktober 2012; *Vertrouwen in de toekomst; Regeerakkoord 2017 – 2021 VVD, CDA, D66 en ChristenUnie*, 10 oktober 2017; *VVD verkiezingsprogramma (2012-2017)*; *VVD verkiezingsprogramma (2017-2021).*

[5] See document Dutch Parliament: *Beantwoording diverse Kamervragen van GL, CDA, PvdA en SP over de website www.investingindutchhousing.nl,* 7 september 2018.

the housing corporations consider selling packages, while 52% will keep on selling individually. Just 52% of the municipal governments have a strategy for increasing the private rental sector. And 44% of municipal governments have little confidence in investors. (Companen, 2016; Capital Value, 2018; Stec, 2018).
The government has tried to facilitate disinvestments through several changes in the regulations (most recently in 2017) and by starting an initiative called "Cooperation Table" to stimulate the midrange rental market, buy creating a roadmap and stimulating mutual trust amongst all parties involved (Van Gijzel, 2018).

Change to fair value: adoption in three speeds (pioneers, full and basic)
The renewed Housing Act changed the accounting rules for housing corporations. From 2016 onwards, disclosure of their assets in the annual financial reports will be at fair value. We shortly explain the objectives, the model and distinguish three groups.
Previously a choice existed to value at cost or at value in use. The introduction of fair value accounting according to the Dutch government serves several purposes. These purposes can be grouped along two main objectives. First, the orderly separation of the housing stocks of housing corporations in SGEI and non-SGEI. FVA:
- Prevents the leakage of public capital (silent reserves);
- Provides the condition for attracting private debt in order to finance the non-SGEI entity.

Second, the prudent management of public capital. FVA:
- Provides maximum external transparency;
- Improves mutual comparison of housing corporations;
- As well as comparison of housing corporations with the private sector;
- Allows for managing (a sufficient or reasonable) return on equity;
- Stimulates efficiënt corporate management.

(Tweede Kamer der Staten-Generaal 2014a; Fakton, 2017)

Housing corporations use a model-based fair value. A model was provided by the government in order to reduce administrative costs for individual organizations.[6] Corporations can choose between a "basic version" of the model and a so called "full version." The first one is a plug and play model which produces information at relatively low costs, but the resulting fair values are only valid at a rather high level of aggregation, the level of entire portfolios. It is of limited use in asset-management. The full version is more customized, more laborious and requires validation by an independent real estate valuator. This model is therefore more costly, but produces valid information at the level of real estate complexes. So, for effective management of assets the full version is advised.
Housing corporations adopted fair value in different ways. We distinguish three groups. The first group of "pioneers" originated some eighteen years ago, when some fifteen housing corporations together with The Association of Housing Corporations (Aedes) started a benchmark called Aedex. It was inspired by the Investment Property Databank (IPD) real estate index and they used FVA.[7] In 2013 the group had grown to some 30 corporations. The second group are those corporations that once FVA was required voluntarily chose the full

[6] The model is based on the internationally accepted "market value" on the premise of "current use" (a house is assumed to be rented). The value is determined through a discounted cashflow method using the highest outcome of two scenario's (sell or hold after 15 years).
[7] Now part of Morgan Stanley Capital International (MSCI).

version for 2016 or 2017. We call this the “full” group.[8] The majority of corporations choose the basic version. This is the “basic” group.

The usefulness of fair value in social housing

The usefulness of fair value in housing corporations might seem obvious when real estate is sold. Our example of Kanaleneiland at the beginning of this paper is a case in point. But if renting to low income households is the core business of housing corporations, how could fair value be useful for that? The sector seems a little reluctant in adopting the concept and understanding its usefulness (Seminars op Maat [SOM], 2016). It is worth emphasizing how asymmetric the previously used concept of value in use was. Kools called it a *sneak killer* (Kools, 2016). And according to De Jong (2013): “The transparency of the financial position and performance of corporations is (…) inadequate. Corporations have hidden reserves in their housing stock that are not visible, financial results can be improved by selling homes, value losses on land, buildings and project development can be left out of the picture.”
Dutch social housing is not a solitary example of information asymmetry in public service. Internationally a movement called New Public Management (NPM) promotes the reform of public management systems. It has been characterized by a move towards a new management culture. With proposals such as opening up public sector entities to competition, placing a greater emphasis on citizens’ satisfaction and on quality, providing more transparent information and modernizing control mechanisms, thus enhancing the accountability of public entities. Information transparency is a key factor in achieving the latter objective (Rodríguez & Navarro, 2007).
The usefulness of FVA for social housing corporations, not only for accountability but also for capital budgeting, has been demonstrated by several publications throughout the last 16 years (Kramer & Van Welie, 2001; Kramer & Van Welie, 2003; Kramer & Van Welie, 2013; Koning & Van Leuvensteijn, 2010; Kramer, Kronbichler, & Van Welie, 2011; Coen & Stutvoet, 2015). For a specific explication of the Aedex-model we refer to Vlak (2002) and De Jong (2013). We will not go into details but conclude that FVA also for Dutch housing corporations improves information symmetry. De Jong: “Market value, however, is the only valuation that can be determined independently of the company policy, which - in principle - can be tested in practice and thus provides an unambiguous basis for comparison of performance. Because it is the only valuation that takes the market as its starting point, it is also the only valuation that shows the "price" of market risks” (De Jong, 2013).

Corporate governance as first line of defense

Until 1993 housing corporations functioned like government agencies under direct control of the national government. With a director who administered the organization and a board consisting of volunteers. Then, in anticipation of the 1995 clearing-operation corporate governance was professionalized to cope with the extensive responsibilities soon to be delegated to these quasi-privatized social enterprises. A new corporate model with a professional Supervisory Board and an Executive Board (mostly one CEO) was created. The actual transition from volunteers to professionals turned out to be a much more tedious process, and took many years (Koolma, 2008; De Jong, 2013). With a rapidly improving wealth and a rather autonomous position of the CEO, the checks-and-balances proved to be underpowered.
Since then, a lot of critical articles and reports have been published. While some argue for abandonment of the concept of social enterprise (Baarsma & Theeuwes, 2008; Vlak, 2011). Others argue for improving the corporate governance (Hakfoort, Leuvensteijn, & Renes,

[8] A minority of corporations had no choice and were obliged buy the Housing Authority to implement (partly or entirely) the full version.

2002; Hoekstra, Hoogduin, & Van der Schaar, 2012; J.B.S. Conijn, Eichholtz, Hakfoort, Koedijk, & C.G. Conijn, 2002; J.B.S. Conijn & C.G. Conijn, 2005; Aedes, 2012)[9]. "Within the corporations, the checks and balances will have to be strengthened, through a critical attitude of the Supervisory Board, accountability of this Board, (…) non-obligatory visitations and a generally binding governance code. Furthermore, a fit & proper test for CEOs and members of the Supervisory Board is anything but superfluous. Training and testing of managers and supervisors is a permanent task: professionalism and integrity must be central" (WRR, 2000; Priemus, 2014).
After the renewed Housing Act was implemented housing corporations were still hybrid organizations, private entities within a framework of public objectives. But changes in both external and corporate governance were made. For our research we emphasize that the Governing Board is now recognized in government regulation, a fit-and-proper test for members of the Governing Board was introduced; the position of the internal controller was strengthened. Also, the sector professionalized corporate governance through initiatives of Aedes and the Vereniging Toezichthouders in Woningcorporaties (VTW).[10] The Aedes Governance Code was improved and several model regulations were released.
Nowadays the role of corporate governance in the prudent management of public capital is emphasized more than ever. "Supervision of the functioning of corporations first and foremost takes place internally by the Supervisory Board (Raad van Commissarissen) of the corporations. In the system of internal supervision, the key role has been entrusted to the Supervisory Board. There is a lot of responsibility. The system of governance and supervision relies on a well-functioning Supervisory Board" (Aedes, 2012). The importance of corporate governance as a 'first line of defense' is also emphasizes by recent publications of the Council of Public Governance (Raad voor Openbaar Bestuur, 2016; Autoriteit Wonen, 2016).

Conclusions about the field of Dutch social housing

The regulated rental sector of the Netherlands is the largest of Europe. Both the European and the Dutch government want to reduce it significantly. This requires a major transformation of the housing market. Housing corporations own and exploit more than 2,2 million houses. Dis-investments by these housing corporations are a necessary ingredient. Opportunities exist, but obstacles as well. Nevertheless, disinvestments are expected to be important part in the coming years. Housing corporations have always been hybrid organizations, but they were quasi-privatized in the 90's. They adopted a two-tier governance structure like public companies and their autonomy as well as their responsibilities increased. They operate within a public framework and a 'destination obligation' rests on the non-profit assets. After a slow start and some incidents the corporate governance has started to professionalize. This was further strengthened with the renewed Housing Act of 2015. The hybrid character of housing corporations remained, although their core business (SGEI) was more emphasized. Also, from 2016 FVA is required for all housing corporations. Compared to the previous value in use or historic cost, FVA provides more symmetric information. A small group of pioneers implemented FVA long before it was required. Nevertheless, the majority seems a bit reluctant to adopt FVA.

[9] For an extensive overview see: Tweede Kamer der Staten-Generaal (2014).
[10] Association Supervisors in Housing Corporations, founded in 2003.

4 – Methodology

Our research builds on recent theoretical frameworks used by the Housing Authority and consultancy firm Vanberkel Professionals. We start by briefly explaining both frameworks. Then we present our own model and distinguish four stages for optimal disinvestment, the opposite of leakage. For each stage we explain how we measure good governance, one of our variables. The three different groups of FVA adopters provide the other variable. Finally, we present our hypothesis and describe our methodology.

Research question
Does voluntary adoption of fair value accounting in Dutch social housing corporations coincide with a stronger corporate governance with respect to disinvestments?

Two recent publications
Our model builds on two recent publications. In 2018 the Housing Authority published a report about the corporate governance in housing corporations. This report is called *Building Trust* (Autoriteit Wonen, 2017). The Housing authority emphasizes the importance of corporate governance for the performance of individual housing corporations and of the sector as a whole. Corporate governance is the most important safeguard (not a guarantee) for good performance. The Housing Authority adopted a strategy to promote good corporate governance. In the report a framework for describing and measuring good governance is provided. The framework consists of three dimensions of corporate governance: competence, management-system, and culture & behavior. From each dimension four qualities are distracted. For an overview, see the first two columns in the appendix.
Another publication was commissioned by the Housing Authority and produced by consultancy firm Vanberkel Professionals (2018). It is a study of disinvestments and fraud risk in Dutch housing corporations, specifically with selling packages to commercial investors. Besides fraud risk they also looked at the risk of leakage of public capital. Based in 19 interviews the researchers concluded that there is no indication of fraud, but they do point at some weak-spots that allow for violations of integrity. Also, weak-spots for leakage are considered to be existent. Several of their weak-spots are included in our model. Vanberkel also uses an ideal process of disinvestment consisting of nine steps. We modified this process and reduced it to four stages for optimal disinvestment.

Our model
In chapter 3 we explained that Dutch housing corporations can be divided into three groups. These groups differ in the way they adopted FVA, and thus provide a way to measure adoption. We distinguished:

- “pioneers”: corporations that adopted FVA voluntarily before 2016 when it was required by law.
- “full”: corporations that voluntarily choose the full-version of the model-based market value in 2016 or 2017.
- “basic”: corporation that choose the basic model.

Now we explain how we measure corporate governance specifically for disinvestments.
We assume that prudent management of public equity implies the maximization of return on disinvestment, with the condition that all necessary steps are conducted within the limits of the law and the sector’s governance code. We modified Vanberkel’s ideal process of disinvestment and distinguish four stages for optimal disinvestment.

Stage 1 – Optimal choice
This is about the optimal allocation of the assets. The choice of the properties to be sold is based on a portfolio strategy resulting from a comparison between the potential value of an object when it is sold (FVA, market value) and the value for alternative strategies where the object (or land with new or renewed real estate) remains in exploitation by the corporation. The quality of this strategic process and resulting documents like the portfolio-strategy, the disinvestment policy and decision criteria included in the investment statute all influence the final sales proceeds. Good governance is a precondition for achieving that quality. By selling the right objects, the largest yield is achieved with limited stock reduction. Conversely, due to improper selection, based on invalid information, equity gets stuck in poorly performing objects which is also a form of leakage.

Stage 2 – Optimal pricing
The determination of the minimum price is first of all important for compliance with regulations. In the second place, a too low valuation is a weak-spot for leakage. In this stage selection and independence of the valuator, internal decision-making, monitoring of price and valuation, and transparency in quarterly reports are all preconditions for optimal pricing.

Stage 3 – Optimal process
Optimization of the revenue is done here by optimizing the process. Much can be said about marketing, timing of disinvestments and selection of the highest bidder, but here we basically look for the existence of an actualized formal process for disinvestment as well as sufficient checks by the controller. These are a measure of good governance and a pre-condition for an optimal process.[11]

Stage 4 – Optimal monitoring
To mediate adverse selection an integrity check on the potential buyer is advised. This is an ex-ante check, before the transaction. The purchase agreement may also contain mandatory or voluntary conditions that the new owner must comply with. Failure to comply can be detrimental to the corporation and reduce the realized revenue. This requires an ex-post check.

These stages and the criteria displayed in the appendix allow us to measure the quality of corporate governance. When a criterium is met, this is considered to be a sign of good governance. And if more criteria are met, corporate governance is better.

Hypotheses
Now we can measure the two variables of our research question. Based on the economic theory of information as well as empirical studies on disclosure as presented in chapter two we expect to find:

> *Voluntary adoption of FVA in Dutch housing corporations coincides with a higher quality of their corporate governance related to disinvestments.*

Which is a pre-condition for optimizing disinvestments and prevention of leakage of public capital. Based on this hypothesis we expect the following results:

[11] See also Lokerse (2014).

- On all four dimensions the “pioneers” meet more criteria for good governance than the “full” and the “basic”.
- On all four dimensions the “full” meet more criteria for good governance than the “basic”.

Methodology

We designed an exploratory research for which we constructed a questionnaire. The aim was to explore good governance in practice through a broad definition that touches on several dimensions. We learn less about more.

Our questionnaire is based on the four stages and criteria. Included was a question about adoption of FVA and we also added a few extra questions. Field experts gave useful feedback which was used to improve the questionnaire. The questionnaire serves as a scorecard to measure adoption as well as good governance.

In October 2018 according to a government database in the Netherlands there were 339 housing corporations.[12] This list was reduced to a total of 207 corporations each owning at least 2,500 houses. Three corporations who couldn’t choose but instead were obliged by the government to implement the full version were excluded. Another three corporations didn’t disinvest at all. They were also excluded.

Total response was 32 (15 %). The professionals that answered the questionnaire were either the controller or the financial manager.

The raw findings were used in interviews with two field experts both working for a housing corporation (a CEO and a financial director). The results of these interviews were used for chapter 6, the analysis.

[12] https://tijdelijk.ilent.nl/onderwerpen/autoriteitwoningcorporaties/corporaties/

5 – Findings

Our findings are presented below. We first present some general findings about projected disinvestments and underlying motivations. We then present our general findings on good governance. We show internal and external limitations as perceived by the respondents and compare their motivations for adoption of FVA. Then we present the main findings related to our hypothesis. We end with some additional findings.

General findings on disinvestments

Here we present our findings by looking at all respondents as one group representing the sector of social housing.[13] We first look at disinvestments. To what extend are disinvestments part of the agenda of housing corporations? Almost all corporations (97%) have intentions to disinvest a part of their housing stock. On average 8,9% of the stock is considered for disinvestment in the long run (answers varying from 1% to 30%). In the short run 2,4% of the housing stock is planned to be sold in the next 5 years (varying from 1% to 10%). Despite the variation we don't see much difference between the three groups.

Objectives for disinvestments	Frequency	Percentage
Adjusting housing stock to future demands	24	89%
Funding for investments	15	56%
Increase home ownership in tenure dominated neighborhoods	11	41%
Improve financial health of non-SGEI stock	10	37%

Tabel 1: objectives for disinvestments

What are the main objectives for selling part of their housing stock? For all three groups the dominant reason was "adjusting the portfolio to future needs" (89%) followed by "funding investments" (56%). To a lesser extend were mentioned "increasing home ownership in tenure dominated areas" (41%) and "improving the financial position of the non-SGEI portfolio" (33%).

Step 1: optimal choice	N	Total group
Portfolio-strategy in place	32	88%
Actualized	32	75%
Policy disinvestment in place	27	93%
Actualized yearly	25	40%
Part of investment statute	27	41%
Step 2: optimal pricing	**N**	**Total group**
Quaterly reporting on sales	27	100%
On difference price and valuation	25	48%
Procedure selection valuator in place	24	46%
Multiple parties invited	24	54%
Different valuators financial report and sales	24	92%
Four eyes principle	24	79%
Step 3: optimal proces	**N**	**Total group**
Procedure disinvestment in place	24	79%
Actualized	24	50%
Controller checks proposals ex ante	23	26%
Controller audits procedure disinvestment	23	87%
Step 4: optimal monitoring	**N**	**Total group**
Ex ante check integrity potential buyer	23	30%
Ex post check on buyer	23	26%
Reported on quarterly	6	17%

Table 2: scorecard corporate governance.

[13] Group 3 has double the amount of respondents compared to groups 1 and 2.

General findings on good governance

Out of the 18 criteria for good governance 8 scored more than 75% and 10 scored 50% or more. In other words, 8 criteria scored less than 50%. High scores are found on several criteria like portfolio strategy in place and actualized, and policy of disinvestment in place (optimal choice), quarterly reporting on sales, and different valuators financial report and sales (optimal pricing), procedure for disinvestment in place and audited by the controller (optimal process). Out of the four stages optimal monitoring scored relatively lowest, with none of the criteria above 30%.

General findings on limitations for optimizing

Are there any internal or external limitations for corporations in optimizing their returns on disinvestments? A group of 10 respondents answered this question. Internal limitations were mentioned three times and external limitations nine times. We look at limitations that were mentioned at least twice. An internal limitation is the portfolio strategy of the corporation. And external limitations that were mentioned are: the rental market (especially the demand for regulated rental houses), regulation (for example conditions imposed on buyers), and the interests of tenants in general.

Motives for adoption of FVA

When looked at the motives for adoption of FVA the three groups differ markedly. The early adopters display a more pronounced view of corporate finance, stressing the importance of asset-management and management of returns. The second group also motivate their choice mainly by pointing at transparency and asset management. The third group differs completely different. They stress the high costs of implementation of the full-version and the little use the organization currently makes of it. At this stage they mainly want to be compliant with the Law.

Group 1	frequency
Assetmanagement and management of returns	9
More objective value, benchmarking, comparable with private sector	4
Improvement of real estate database	1
Improved accountability for public service	1
Stakeholders can understand value fluctuations	1
Connects to previous efforts like AEDEX/IPD	1
In line with organizational growth towards portfolio- and assetmanagement	1
In preparation of obligation by government	1
Group 2	**frequency**
More objective value, benchmarking, comparable with private sector	4
Obligation, be compliant with regulation	3
Assetmanagement and management of returns	1
Improved accountability about public service	1
Most practical method	1
Group 3	**frequency**
Costs (money and staff) of full are too high	12
Obligation, be compliant with regulation	8
FVA is not (yet) functional in our organization, we aren't investors	7
Transparancy	1
Waiting for further improvements of government regulation	1

Table 3: motivations for adoption FVA

Voluntary adoption FVA and good governance

Do the early adopters indeed demonstrate higher scores on our scorecard and thereby confirm our prediction that voluntary adoption of FVA coincides with an improved corporate governance? The results are presented in table 4. The first three columns show the scores per group. In the last three columns the groups are compared pairwise. These percentages are calculated by substracting the scores of the slower group from the scores of the faster group. Thus, positive values are confirming our prediction and negative values refute it. Positive differences higher than 10% are marked with a green colour. Negative differences higher than 10% are marked with a red colour. We ignore differences less than 10%. We also ignored the last item (reported on quarterly) because the difference is caused by just one respondent in group 3 who confirmed.

Step 1: optimal choice	N	1	2	3	1 vs 2	2 vs 3	1 vs 3
Portfolio-strategy in place	32	88%	83%	89%	5%	-6%	-1%
Actualized	32	75%	50%	83%	25%	-33%	-8%
Policy disinvestment in place	27	86%	83%	100%	3%	-17%	-14%
Actualized yearly	25	17%	60%	43%	-43%	17%	-26%
Part of investment statute	27	43%	50%	36%	-7%	14%	7%
Step 2: optimal pricing	**N**	**1**	**2**	**3**	**1 vs 2**	**2 vs 3**	**1 vs 3**
Quaterly reporting on sales	27	100%	100%	100%	0%	0%	0%
On difference price and valuation	25	67%	60%	36%	7%	24%	31%
Procedure selection valuator in place	24	50%	60%	38%	-10%	22%	12%
Multiple parties invited	24	83%	60%	38%	23%	22%	45%
Different valuators financial report and sales	24	83%	80%	100%	3%	-20%	-17%
Four eyes principle	24	50%	80%	92%	-30%	-12%	-42%
Step 3: optimal proces	**N**	**1**	**2**	**3**	**1 vs 2**	**2 vs 3**	**1 vs 3**
Procedure disinvestment in place	24	83%	80%	77%	3%	3%	6%
Actualized	24	50%	60%	46%	-10%	14%	4%
Controller checks proposals ex ante	23	33%	40%	17%	-7%	23%	16%
Controller audits procedure disinvestment	23	100%	100%	75%	0%	25%	25%
Step 4: optimal monitoring	**N**	**1**	**2**	**3**	**1 vs 2**	**2 vs 3**	**1 vs 3**
Ex ante check integrity potential buyer	23	17%	60%	25%	-43%	35%	-8%
Ex post check on buyer	23	67%	20%	8%	47%	12%	59%
Reported on quarterly	6	0%	0%	100%	0%	-100%	-100%

Table 4: scorecard of good governance, three groups compared

By looking at the last three columns we get a quick idea. A maximum of 54 fields could have been green. Instead we count 19 green fields. So, in 19 of the 54 comparisons (35%) we find some confirmation for our prediction. We also see that our prediction seems to be rather adequate when groups 2 and 3 are compared. Here we count 10 green fields out a total of 18 (56%). Comparing groups 1 and 3 we get 6 out of 18 (33%). And groups 1 and 2 do not differ much (17%).

The table also shows the scores for each consecutive stage. We compare again the amount of green fields with the total amount of fields per stage. The percentages of green fields are respectively 20% (stage 1), 39% (stage 2), 25% (stage 3), and 33% (stage 4). If we exclude the comparison between groups 1 and 2, and recalculate the scores we find: respectively 20% (stage 1), 50% (stage 2), 63% (stage 3), and 50% (stage 4).

Some results indicate the opposite of our prediction. There, slow adoption of FVA coincides with good governance. This occurs mainly in stage 1 where 5 out 15 fields (33%) score red and excluding 1 and 2 the score is 40%. To a lesser extend also stage 2 shows some opposite results: 28% of red fields, and excluding 1 and 2 the score is 33%.

Some additional findings

An important quality of good governance is the ability (knowledge and experience) of the actors within the structure of corporate governance. We asked about the abilities of the Supervisory Board, the CEO and the organization. Because ability is connected to all four stages we present this criterium separately. The results are shown in table 5. The main observation is that ability generally scores high. There is no clear indication that voluntary adoption coincides with higher ability.

Knowledge and experience	N	1	2	3	1 vs 2	2 vs 3	1 vs 3
Supervisors	23	83%	80%	92%	3%	-12%	-9%
CEO	23	83%	60%	100%	23%	-40%	-17%
Organization	23	67%	100%	83%	-33%	17%	-16%

Table 5: knowledge and experience

Finally, we also compared the findings with a different classification of groups. We distinguished two groups. One with long term disinvestments of 10% or more (12 respondents). Another with less than 10% long term disinvestments (16 respondents). We might expect the group with high disinvestments to have a better good governance in place, but we did not find an indication for that. The only criterium that presented a strong indication for a positive relation was the formal procedure for valuator selection. Group 1 scored 67% compared to 31% for group 2, a positive difference of 36%. We found strong opposite results for three criteria. With multiple parties invited group 1 scored a low 33% compared to 77% for group 2, a negative difference of 44%. For controller checks proposals group 1 scores a low 9%, while group 2 scores 46%, a negative difference of 37%. Finally, the ex-ante check on integrity of the buyer shows 18% for group 1 and 46% for group 2, a negative difference of 28%.

6 – Analysis

Here we reflect on the findings. What did we learn about disinvestment policy and corporate governance in Dutch social housing companies? And does voluntary or mandatory adoption of fair value accounting (FVA) make any difference? For our analysis we also used the results of the interviews.

Disinvestment policy

A policy for disinvestment is in place in almost all housing corporations that participated in our questionnaire (93%). The most important objectives for disinvesting are the transformation of the housing stock (89%) and providing funding for investments (56%). This is in line with government policy. One interviewee emphasizes that disinvestments are about transformation and financing and should not be mingled with social objectives.

The sector deviates negatively from government policy when we look at the average projections in the short run. Translated to the total housing stock in the sector (2,2 million) in the long run 195,800 and in the next five years 52,140 (10,428 per year) will be sold. As we saw in chapter 3, this declining number is also confirmed by recent publications. At the corporate level we found an average of 2,4% disinvestment in 5 years, which means 0,5% per year. This is relatively low compared to the required.[14]

Also, the variation among the corporations is rather large. Disinvestment and transformation are not on every companies' agenda. But we couldn't find much evidence that less disinvestments coincides with less governance in these corporations. This means that some corporations with large disinvestments still score lower on corporate governance.

While these averages may lag behind government's ambitions, at the level of the national economy selling 10,428 at a market value of € 103,000 still amounts to € 1,1 billion per year. In terms of the risk of leakage this still is a relevant issue. That this attracts government's attention is justifiable, according to one of our interviewees. We would like to add that the topic of disinvestments should equally be on the minds of the corporation's Supervisory Boards.

Good governance and disinvestment

In general, we conclude that corporate governance related to disinvestment is good. Portfolio strategies are in place and they are mostly actualized every two years. Almost all corporations have a policy for disinvestment in place and every corporation reports quarterly on realized sales. The valuator hired for transactions is almost always different from the valuator used for the financial report. And in setting the minimum price most organizations practice the four eyes principle. Finally, most corporations have a formalized process for disinvestment in place. And formalized or not, the controller executed a recent audit on this process in most situations. Finally, according to all our respondents their organization was never denied a permit for disinvestment by the Housing Authority.[15] Considering the history described in chapter 3 we could certainly assume that related to disinvestments corporate governance has improved.

Improve monitoring and five other recommendations

The results also indicate where further improvements might be considered. Especially undervalued is stage four *optimal monitoring*. The majority of the corporations do not execute

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[14] We remind that we also discounted three respondents who answered that their corporation has no intention to sell anything. Were these respondents included, the average percentage disinvestment per year would have been lower.

[15] Required in certain situations.

checks ex ante nor ex post on (potential) buyers. And just a few corporations provide the results of monitoring through their quarterly reports. One of our interviewees adds that monitoring is only useful when terms are included in the deal and that terms also decrease the price. On the other hand, the case of Kanaleneiland at the beginning of this report demonstrates that monitoring could have optimized the results of the transaction.
Further improvements can be made in five areas:

1. *Annual actualization of the policy for disinvestment.*
   Only 40% of the respondents said they actualize yearly. Maybe corporations see this as part of the actualization of their portfolio strategy. When there is no relevant change, then there is no need to actualize the policy for disinvestments. One of the interviewees says they do annually actualize their sales pond.
2. *Actualization of the process for disinvestment.*
   We defined "actualized" as evaluated and adjusted every two years. The reason for this is that every two years government regulation for disinvestments has changed.[16] Some corporations actualized in 2016 (which would have improved the score) but in two occasion the process dated 2012 and 6 respondents didn't know when their process was actualized. One of the interviewees, with an actualized process in place, wonders if some corporations don't realize the risks they take. The other interviewee explains they use a rather general process description that doesn't require actualization often. In terms of effective corporate governance, we recommend otherwise.
3. *Include disinvestment in the investment statute.*
   The investment statute provides regulation for selection and approval of investment proposals. But mostly (59%) disinvestment is not part of this document. Relevant criteria might be found elsewhere, like in the formal process for disinvestment. Considering the risks though, we recommend regulation at a more strategic level. One interviewee admits that their investment statute is about investments (like newbuild and renovation) only. Disinvestments are regulated in portfolio-strategy and financial policy. The other interviewee explained that disinvestments are included in their investment statute. The reason is that the risk of leakage is high and disinvestments require good regulation.
4. *Formalize the process for selection valuator.*
   Most respondents (54%) answer that their corporation does not have a formal process for selection of the valuator. One explanation could be, that criteria for selection of valuators are part of a more general procurement policy. Still, we would emphasize the need to specify criteria that are specific for valuations. Either as a separate formal process or as part of the procurement policy. Our interviewees explain that in their organization certain routines in selecting valuators are practiced, but that these routines are not always formalized. For example, added criteria for different types of real estate or package versus individual sales.
5. *The controller checks proposals for disinvestments (ex ante).*
   Only in 26% of the corporations the controller *always* checks *all* proposals. We assume that the size of the staff partly influences the role of controller. In smaller organizations where less people perform more roles, a controller is probably more often included in the operational process. This is also confirmed by the interviewees. They add that in their organizations the controller does check ex ante in certain situations: when the proposed minimal price differs too much from the market value, and with package sales. It is recommended to regulate the role of the controller in

[16] Regulation for disinvestments by housing corporations changed in 2011, 2013, 2015, and 2017.

checking proposals ex ante, at least by describing the (high risk) situations that should be checked by the controller.

Voluntary adoption of FVA and good governance coincide

Based on scientific theory and empirical research we predicted that voluntary adoption of FVA would coincide with good governance. Our results show more confirmations than denials for this prediction. Especially when we compare groups 1 and 2 versus group 3. The prediction isn't confirmed at all when we compare groups 1 and 2. The scores for both these groups are very similar. We also saw that these groups expressed similar motivations for adoption: improved transparency and asset management. None of that for group three. Their main motivation was to be compliant, and the cost of a full version is considered to be too high compared to the advantages for their corporation. Clearly groups 1 and 2 are prepared to pay extra monitoring costs in order to obtain more symmetric information about the financial performance of their real estate assets. And, this also coincides with a better corporate governance for disinvestments.

Our interviewees ("pioneer" and "full") demonstrate this by expressing the importance of the improved information for their organizations: managing yields, objective valuation, improved asset management, and accountability about public service. At this point it is good to remember that it is not the firm that adopts FVA (see chapter 2). It is the people. Both interviewees explained that the appreciation of the advantages of FVA was initiated in some part of the organization (financial department and the CEO respectively). But from there, efforts were made to convince other parts of the organization (CEO, Supervisory Board, other departments) and also by adding staff. As a consequence, financial developments are more often discussed within the structure of corporate governance.

We also found that the prediction holds best for stages 2 (optimal pricing), 3 (optimal process), and 4 (optimal monitoring). It doesn't hold for stage 1 (optimal choice). For stage 2 (optimal pricing) groups 1 and 2 corporate governance scores better on: reporting on difference between price and valuation; procedure selection valuator in place; multiple parties invited (in selecting valuator).

For stage 3 (optimal process) groups 1 and 2 score better on: controller checks proposals; controller audits the procedure for disinvestment, and partly on procedure for disinvestment actualized.

For stage 4 (optimal monitoring) groups 1 and 2 score better on: checks ex post and partly on checks ex ante. We already mentioned that the overall scores on these criteria were rather low.

Finally, we repeat that we didn't find a coincidence of good governance with a high level of projected disinvestments versus low projected disinvestments. So, even in housing corporation with high projected sales the quality of their corporate governance is not necessarily high as well.

Contradictory findings for optimal choice?

Our prediction doesn't hold for stage 1 (optimal choice). Group 3 even scores best on three criteria: portfolio-strategy in place, portfolio-strategy actualized, and disinvestment policy in place. Why is that? The only explanation we can think of is that setting the portfolio-strategy in groups 1 and 2 is probably a more thorough task compared to group 3. Both more detailed information is made available here and more advanced is their corporate finance, as suggested by their motivations for adoption. Combining implementation of the full version with actualizing the portfolio-strategy might just be a too formidable task to perform within two years. On top of that, the "pioneers" had a headstart while the "full" group had to start from zero. It is precisely the "full" group that scored lowest on actualized portfolio-strategy (50%).

Importance of four eyes principle

The opposite of our prediction is also indicated for two criteria in other stages. The first is *a different valuator for annual report and transaction*. But because most corporations confirm the importance of this criterium (all group scores > 80%), we will not go into that. More important is the *four eyes principle in setting the minimal price*. The importance for stimulating integrity and preventing leakage seams rather obvious. Yet the scores for groups 1 are very low (50%). Here we see that sometimes the proposal is done by an external actor (valuator or broker) and subsequently confirmed by an employee or manager. We also saw that proposal and decision came from one single team. Our interviewees practice the four eyes principle and underline the risks of not obeying that important principle.

Findings for knowledge and experience

Fortunately, the scores for Supervisory Board, CEO and organization are high in all groups. But the scores also seem to nullify our prediction. We have to be careful here though. This criterium is useful to get some basic idea of the problem. But for comparisons it is not independent from the other variable (voluntary adoption). It might very well be that those corporations that just want to be compliant and nothing else perceive less discrepancy between the skills needed and the skills available. Simply, because less skills are needed. The voluntary adopters are more serious about FVA and its use for their organization. They probably also demand more skills and sooner perceive a discrepancy between demands and actual supply.

We also asked the respondents what knowledge should be added. They responded: *knowledge about asset management*, and *knowledge about real estate valuation*. The interviewees confirm the importance of this knowledge. Improvement is still needed, especially for making practical use of the tool of market value instead of using it just for the purpose of disclosure. Also, more departments need to use this knowledge, and not just the financial department. One corporation recently added specialized staff attracted from a commercial organization and selected a specialized new member for the Supervisory Board.

Limits for optimization

The opposite of leakage (our concern) is optimization. We asked respondents what internal and external limitations for optimizing the results of disinvestments they observe. Mostly external limitations were observed. Two respondents mentioned that the portfolio-strategy of their own corporation was a limitation.

The following external limitations were observed:

- Market developments (increased demand for social rent)
- Government regulation
- Interests of tenants

Another internal limitation is added by an interviewee: “Our disinvestments are guided by liquidity and less by optimization. We could probably improve the timing of our disinvestments in order to improve results.”

Three additional external limitations were mentioned by the interviewees. First, a case where the municipal government used to impose restrictions on buyers, thereby causing a lower price. Now, this policy had been departed. Second, sometimes procedures for permission at the Housing Authority are very long, especially for package sales. It is a good thing that authorities check, but long procedures (in their case it took several years!) seriously compromise results. Clear rules and short procedures are needed. Third, disinvestments tend to stir politicians’ emotions. Both nationally and locally. This can compromise the government’s commitment to previously agreed upon disinvestment plans.

6 – Conclusions

In the years ahead, disinvestments remain an important link in the transformation of the Dutch housing market. Billions of euros are at stake and housing corporations play a key role. To improve prudent management of the public capital stored in these hybrid companies the Dutch government introduced fair value accounting as an obligation from 2016 onwards. It's adoption by housing corporations is somewhat reluctant with a small group of serious adopters and a large group of pro forma adopters. Based on economic theory and empirical research we expected voluntary adoption of fair value and a strong corporate governance to coincide. We constructed a framework for measuring the quality of corporate governance related to disinvestments and distinguished three different groups of adopters.

We conclude that voluntary adoption indeed coincides with good governance. Especially in the stages optimal price and optimal process. We also observed that in general the corporate governance in housing corporations is good but improvements can definitely be made. FVA is less asymmetric than the previous value in use method. As we saw, it is capable of mediating agency-problems. But our main conclusion is that for this to happen the information environment has to put it to use. Our research also showed that corporations with high levels of disinvestments not necessarily demonstrate a better corporate governance. This remains a bit worrying.

The Dutch social housing sector is only at the beginning of putting FVA to use and the early adopters to a certain extend show the way. In the future, disinvestments might be seen no longer as a side issue serving to comply with a companies' liquidity-planning, but instead as a form of capital budgeting. That said, we have to be conscious that FVA wasn't the only change the renewed Housing Act required the corporations to implement. All this had to be done in a relatively short period of time. The sector was under a lot of pressure and being compliant with the Law seemed an understandable position to strive for. But the Association Supervisors Social Housing remind us of where the sector should go next: "The objective of introducing (FVA, mw) must be clear: not only for the presentation in the annual accounts, but also on the basis of yields to be realized per category of property. It is important that attention is also paid to the level of knowledge of the Supervisory board (and stakeholders) on this point. (...) Such an insight is now important in case the sale of parts of the property is discussed. Knowledge of the market value of that property then provides a good basis for price negotiation with a potential buyer" (VTW, 2015).

Our research has been exploratory and we are careful not to suggest the we tested our hypothesis at a high level of statistical significance. We merely tried to find some indication that scientific findings on disclosure could be applicable to Dutch social housing as well. The scorecard developed for this research as a tool for measuring good governance has generated some useful results. But some answers in our questionnaire seemed to covary with the variable "adoption" in a way that we did not anticipate. Mainly so for "portfolio-strategy actualized" and "knowledge and experience". A next step could be to discuss this measurement tool with field experts for further improvement.

Little empirical research on disclosure has been done in organizations of public service. New Public Management in many sectors provide sufficient opportunities to do so. That would be in the interest of public service in general.

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Appendix – Model of good governance and ideal process of disinvestment

Stage 1 – Optimal choice		
This is about the optimal allocation of the assets. The choice of the properties to be sold is based on a portfolio strategy resulting from a comparison between the potential value of an object when it is sold (FVA, market value) and the value for alternative strategies where the object (or land with new or renewed real estate) remains in exploitation by the corporation. The quality of this strategic process and resulting documents like the portfolio-strategy, the disinvestment policy and decision criteria included in the investment statute all influence the final sales proceeds. Good governance is a precondition for achieving that quality. By selling the right objects, the largest yield is achieved with limited stock reduction. Conversely, due to improper selection, based on invalid information, equity gets stuck in poorly performing objects which is also a form of leakage.		
Good Governance	**Dimension**	**Criterium**
Competences	Leadership	Vision on sales (concrete goals formulated).
	Integrity	Transparency.
	Knowledge	Internal knowledge of the Supervisory Board, CEO, controller and organization.
	Connection	Portefeuillestrategie expliciet besproken met RvC (geen hamerstuk).
Managementsystem	Portfolio-strategy	Portefeuillestrategie aanwezig.
	Portfolio-strategy	Quality real estate database.
	Plan-Do-Check-Act	Portfolio-strategy actualized.
	Effective procedure / protocols	Investment statute contains disinvestments.
	Controls / audit / Risk management	Accountant checks valuation.
	Compliance / integrity	No personal interests in selling certain objects?
Culture and Behavior	Norms and values	Sober and efficient.
	Openness	Municipality-Tenants-Corporation (sales policy anchored)
	Self-correcting action	Strategy tested?
	Conditions	Assetmanager present?

Stage 2 – Optimal pricing		
The determination of the minimum price is first of all important for compliance with regulations. In the second place, a too low valuation might cause leaking. In this stage selection and independence of the valuator, internal decision-making, monitoring of price and valuation, and transparency in quarterly reports are all preconditions for optimal pricing.		
Good Governance	**Dimension**	**Criterium**
Competences	Leadership	Internal knowledge is used.
	Integrity	Procedure selectie taxateur.
	Knowledge	Internal knowledge of the Supervisory Board, CEO, controller and organization.
	Connection	Decisions MT recorded.
Managementsystem	Portfolio-strategy	Tested against portfolio-strategy.
	Plan-Do-Check-Act	Results included in company reports.
	Effective procedure / protocols	Selection procedure valuator.
	Effective procedure / protocols	Criteria included in investment statute.
	Compliance / integrity	Comply with minimum valuation according to regulations and no conflicts of interest organization with valuator.
	Controls / audit / Risk management	Position and role of the controller.
	Portfolio-strategy	Sales are in line with strategy.
Culture and Behavior	Norms and values	Sober and efficient.
	Openness	Sharing information with Supervisory Board.

	Self-correcting action	Comparison between the valuation and the final yield.
	Conditions	Valuator and and internal broker or sales team.

Stage 3 – Optimal process		
Optimization of the revenue is done here by optimizing the process. Much can be said about marketing, timing of disinvestments and selection of the highest bidder, but here we basically look for the existence of an actualized formal process for disinvestment as well as sufficient checks by the controller. This is good governance and a pre-condition for an optimal process.		
Good Governance	**Dimension**	**Criterium**
Competences	Leadership	Proactive role CEO and Supervisory Board.
	Integrity	Guarantees throughout the process.
	Knowledge	Internal knowledge of the Supervisory Board, CEO, controller and organization about real estate transactions and vastgoedtransacties en laws and regulations.
	Connection	Formal records of decisionmaking MT and SB.
Managementsystem	Portfolio-strategy	In line with portfolio-strategy.
	Plan-Do-Check-Act	Recorded in company reports
	Effective procedure / protocols	Sales process formally described.
	Controls / audit / Risk management	Role controller and accountant. Process documented in such a way that control is possible.
	Compliance / integrity	Permit Housing authority obtained.
Culture and Behavior	Norms and values	Sober and efficient.
	Openness	Multiple internal actors involved.
	Self-correcting action	Sales process updated.
	Conditions	Knowledge experts deployed with sufficient budget.

Stage 4 – Optimal monitoring		
To mediate adverse selection an integrity check on the potential buyer is advised. This is an ex-ante check, before the transaction. The purchase agreement may also contain mandatory or voluntary conditions that the new owner must comply with. Failure to comply can be detrimental to the corporation and reduce the realized revenue. This requires an ex-post check.		
Good Governance	**Dimension**	**Criterium**
Competences	Leadership	Reflection and evaluation.
	Integrity	To test buyer with integrity and to act proactively in the event of misconduct.
	Knowledge	Internal knowledge of the Supervisory Board, CEO, controller and organization about real estate transactions and vastgoedtransacties en laws and regulations.
	Connection	Formal records of decisionmaking MT and SB.
Managementsystem	Portfolio-strategy	Conduct in line with neighborhood plans.
	Plan-Do-Check-Act	Test of conduct in company reports.
	Effective procedure / protocols	Monitoring is explicitly part of the sales process.
	Controls / audit / Risk management	Role controller and accountant.
	Compliance / integrity	Reporting violation of contract terms.
Culture and Behavior	Norms and values	Enforcement when called for.
	Openness	Monitoring part internal reports.
	Self-correcting action	Learning from previous experiences.
	Conditions	Capacity made available for checks.