

# Trends in Affordable Housing – a European Perspective

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Housing in the 21<sup>st</sup> Century –  
between quality and affordability  
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# Looking Back: Affordable Housing and the Welfare State

- Immediate post-war numerical shortages and need for large scale slum clearance
- Emphasis on new construction plus clearance and renewal mainly in large urban areas
- Social/municipal landlords significant players based on land, supply side subsidies, and special funding regimes
- Objective: a decent home for every family at a price within their means – but social housing actually concentrated on supporting lower income employed households, not particularly the very vulnerable
- Mainly a Northern European phenomenon; Eastern Europe – public provision/social wage; Southern Europe, – emphasis more on supporting owner-occupation

# Attributes of the Affordable Housing Sector

- Almost entirely rental
- Special circuit of funding
- Politically determined subsidy levels – both national and local
- Administrative allocation of subsidies – in some countries tenure neutral; in others tenure specific
- Land often provided at zero cost
- Administrative allocation of households
- Sub-market rents based on financing regime
- Queues

# The Changing Environment of the 1970s and 1980s

- Numerical surpluses in total supply
- Increasing incomes → increasing demand for housing and housing quality, mainly in the owner-occupied sector
- Financial deregulation and the removal of restrictive special circuits of housing finance
- Growing concerns about the housing circumstances of vulnerable households
- Increasing need for public expenditure savings
- Social housing a large, generally unencumbered, housing asset whose value massively increased by inflation in the 1970s

# Changing Approaches to Affordable Housing

- Movement away from housing as a core element in the welfare state
- Housing above a socially determined minimum standard seen more as a private good
- Greater concentration on allocating social housing to households living in accommodation below these minimum standards/less on employment related housing
- Shifting subsidies away from bricks and mortar towards income related subsidies

# Major Trends (1): Privatisation

Away from government and social provision towards enabling increased private sector involvement, reflecting:

- The increasing importance of choice in housing as incomes rose and the attributes of housing became more complex
- The development of more sophisticated financial instruments to support private development and the transfer of ownership to individuals and private and non profit landlords
- The need to reduce public expenditure in the light of EU budgetary requirements through lower social sector subsidies and the realisation of assets
- Political change, notably in socialist countries but also in Western Europe
- The most extreme changes have been in ex-socialist countries resulting in very little direct provision of affordable housing and major problems of deterioration in the existing stock

## Major Trends (2): Targeting

Away from general subsidies towards more targeted subsidies, involving:

- Shift away from grants and interest rate subsidies to landlords towards income related household based subsidies
- Associated rent increases, sometimes based more on values than cost – allowing increased use of the capital base to support borrowing from the private sector
- Where supply subsidies remain shift towards upfront capital rather than revenue subsidies which can be more readily targeted at specific areas and groups and are more controllable in public expenditure terms
- A decline in the capacity and preparedness of municipalities to support local housing through local taxation

# Major Trends (3): Debt Finance

- Funding traditionally provided through the public sector (so at risk free rate of interest)
- Major private debt in financial markets enabling social housing organisations to borrow from global sources
- In countries with independent landlords (e.g. Germany, Netherlands and the UK) those landlords may borrow from the private sector – sometimes with government or local government guarantee. Using the capital assets and rental streams as security, interest rates can be similar to those for utilities
- Borrowing costs may be reduced by either capital grant or subsidised interest rates
- Extreme case: Germany – purchase by private equity with license agreement



## Major Trends (4): Using housing and land assets more effectively

- Cross subsidy between tenants – paying for new and renewal investment or for poor households through increasing rents more generally
- Realising housing assets for reinvestment through sales of dwellings to tenants and other groups – bringing in additional private finance
- Increased borrowing against increasing capital values based on higher rents
- Taxing private land values to support the provision of infrastructure services for social housing
- Increasing densities and regeneration in order to use land more productively
- Overall, making social housing more efficient and self-sufficient?

# Major Trends (5): Rehabilitation and Redevelopment

Emerging policies addressing more sophisticated market failures in the context of improvement, regeneration and neighbourhood management, reflecting:

- The apparent incapacity of the market to manage required investment in maintenance, improvement and regeneration.
- Growing interest in large scale, planned redevelopment projects based on public/private partnerships and land value increments.
- Mixed developments both within housing and between housing and commercial and, to a lesser extent, industrial uses.
- Increasing densities of provision especially in the context of the redevelopment of public sector estates linked to concerns about sustainability



## Major Trends (6): Tenure

Growing interest in intermediate tenure solutions, reflecting:

- The extent to which incomes in general have grown and therefore housing demands have shifted towards higher quality housing
- Increased evidence of administrative failure in large scale public provision
- Extensions in the range of financial arrangements available to enable a better fit with individual requirements
- Increased capacity for individual households to match housing expenditure and consumption over their lifetime
- Continued pressure to reduce public expenditure and so develop solutions through affordable rather than public housing that enable mixed funding

# Outcomes: The Role of Affordable Housing

- In most European countries the proportion of social rented housing has been declining
- It has also become more residualised, in part through changing demands as well as government priorities
- Proportions vary enormously from 35% in the Netherlands; around, or a little below, 20% in a number of countries where social housing was a significant part of the welfare state; to single digits in a significant minority of mainly smaller EU countries  
(Data uses individual countries definitions of social housing)
- Transition economies in particular show rapid declines

Table 1: Social rented housing as per cent of all housing, early 1990s, early 2000s and 2007

	Early 1990s	Year	Early 2000s	Year	2007
<b>EU Countries</b>					
Austria					21
Belgium					7
Czech Republic			15	2001	
Denmark					20
England	22	1993	20	2001	18
Finland	10.7	1992			18
France	15	1990	17	2002	19
Germany	15*	1987	7	2003	6
Greece					0
Hungary			4	2001	
Ireland	13.9	1987			8.5
Italy					5
Luxembourg					2
Netherlands	40.2	1993/94			35
Poland			16	2002	
Portugal					3
Slovenia					4
Spain	1.1	1990	1	2001	1
Sweden	22	1991			21
<b>Non-EU Countries</b>					
Australia	6	1994	5	2001	
United States	2	1990	3	1999	2.3**

# Outcomes: the Role of Affordable Housing

- Social housing still an important element in new construction in a number of countries
- However losses of social sector housing through demolition and transfer usually more than offsets these increases
- France atypical, with increasing numbers and proportions of social housing units – and a continuing special circuit of funding

Table 2: Social housing as per cent of all housing completions, EU countries

	Per cent	Year
Austria	30	2005
Belgium	6	2005
Czech Republic	20	2005
Denmark	13	2005
England	11	2005
Finland	12	2005
France	9	2005
Germany	9	2005
Hungary	4.5	2005
Ireland	6.3	2005
Luxembourg	0.6	2003
Netherlands	12.8	2005
Poland	8.3	2005
Spain	10.3	2005

# Who is Housed in Affordable Housing?

- Traditionally allocations to social rented housing mainly to families and to support employment
- Growing emphasis on the old and the young – and on migrants as well as the poorest more vulnerable households
- In some countries the private sector plays a quasi social role with income related assistance
- Concerns about residualisation at least at estate level in most countries
- Move towards mixed communities approaches – based on mixed, including intermediate, tenures



Table 3: Demographics of social housing

	Age/household type	Income
Austria	Young families (on new estates) older people/singles (on older estates)	Municipalities: working class/ disadvantaged. HA: middle class
Denmark	Children and young people, households with one adult	Low-income and households receiving transfers
England	Young and old; single parents, single persons	Low incomes – <half owner-occupier income
France	Single-parent families and couples with children	Average household income 74% of national average
Germany	Older people	Lower income
Hungary		Low income and social status
Ireland	Single parent families and couples with children	62% have incomes <60% of median (vs 22% overall)
Netherlands	Older/smaller than average	Lower than average and falling
Sweden	Single parents, elderly single	Lower than average



Table 4: Priority for key workers

	Types of workers who may receive priority for social housing
Austria	Key workers/in employment
Denmark	In employment (not only key workers)
England	Key workers (only in intermediate housing)
France	Employees of any firm that contributes to the 1% housing tax
Germany	Key workers are a de facto target group (necessary income)
Hungary	Key workers
Ireland	None
Netherlands	None (except for employed in some areas of Rotterdam)
Sweden	None in principle, some in practice

# Affordable Housing and the Financial Crisis

- In the short-run social housing investment has been seen as an important part of stimulus packages: examples: England Kickstart – additional capital funding for ‘shovel ready’ development; France additional funding made available to increase social sector output; Norway – counter cyclical funding policies to assist affordable housing
- Some emphasis on shared equity and shared ownership products to assist first time buyers are developed
- Longer term position much less clear as cutbacks in public expenditure Europe-wide
- Increasing demand related to recession and funding constraints
- But this will mainly have to be met by the private rented sector or by living within other households

# Affordable Housing and the Economy

- Although there have been some movements towards introducing market or quasi market incentives these have been relatively limited:
  - the introduction of private finance; but often offset by guarantees
  - subsidy allocations mostly still based on needs, political pressures, or following landlord demands rather than competition or value for money;
  - rents still generally related to historic cost or points systems rather than to value although movement towards market in the Netherlands and UK
- There has been little attempt to improve efficiency of management or allocation within the existing stock – the main pressure has been through transfers to the private and non-profit sectors

## Continuing Developments in Affordable Housing

- In economic terms social landlords might be expected to operate in a competitive housing system where they have comparative advantage – in terms of management, financing, provision of additional services, risk, regeneration etc.
- No European social housing system is close to that 'ideal'. Rather most are being residualised and constrained in ways that neither support the fundamental objectives of social housing nor increase efficiency. This is one reason for the growing emphasis on intermediate housing to accommodate lower income employed households
- The longer term role of social housing in particular countries depends as much on the available forms of income related housing support on the one hand and the operation of the private rented sector on the other

# Conclusions: on the Future Role of Affordable Housing

What we can predict with some certainty is:

- there will be continuing diversity in the nature and role of affordable housing across countries;
- there will be a continuing need for government to be involved in the provision of affordable housing;
- But there will be further shifts towards lower subsidy intermediate housing
- unless there are revolutions of the sort observed in the transition countries traditional social housing will remain important in 'ex' welfare state systems; and
- social housing systems will almost certainly remain inefficient on traditional economic criteria