

Sustainable options for government interventions in the housing market

Christine ME Whitehead
London School of Economics

Access to Social and Affordable Housing
Belgrade, 11 February 2010



The Problems

- Numbers of new dwellings inadequate to accommodate growing numbers of new households and backlog of unmet need?
 - Numbers of households depend on incomes and relative prices, not just demographics
- Maintenance of existing dwellings (and neighbourhoods) inadequate
 - Energy efficiency, sustainability, safety and security
- Affordability – a proportion of households are unable to obtain adequate housing
- Standards – minimum standard set government but trade-off with affordability
- Regional and/or urban/suburban/rural imbalances; large variations in opportunities and costs

The Principles : Why Intervene?

- Efficiency reasons – poorly operating land, construction and finance markets;
- Equity reasons – the distribution of income is so uneven that some households are unable to afford adequate housing;
- Social reasons – housing as a means of reducing social exclusion and community tensions as well as supporting aspirations;
- Political reasons – assisting housing is seen as more acceptable than redistributing income; housing as a social – or merit – good

Mechanisms: How to Intervene?

- Improve the operation of the market – transparency of well defined contracts; capacity to enforce contractual agreements cheaply and effectively; developing new markets – insurance, different forms of housing finance etc.
- Regulation – land use planning, building regulations, controls on rents, prices of construction materials; distributional and enforcement issues;
- Taxation – for efficiency and distributional reasons: land and property taxation; capital gains tax but capacity to implement;
- Subsidy – sources of funds; capacity to target – supply v. demand; what about those excluded?;
- Direct intervention – public ownership; partnerships with private sector (equity involvement); a Housing Agency; not-for-profit provision

The Practice: What is Feasible?

- Capacity to implement legal framework and enforce contractual arrangements
- Resources – availability of a capital base (land or existing housing) and/or a secure stream of revenues
- Public finance commitments/tax base – national and/or local land taxation and regulations
- Capacity to access private finance
- Political will – housing versus other priorities
- Value for public money – who actually gains and for how long?

European Experience

- Post-war Europe municipal housing built on public land with public money – addressing numerical shortages and state of the economy
- Privatisation and deregulation – enabling the realisation of existing equity and increasing use of private finance
- Shift away from supply side to demand side subsidies
- Increasing concerns about
 - (i) how to achieve regeneration; and
 - (ii) how to avoid social exclusion
- Alternative approach to affordable housing: high owner-occupation rates (Norway, Ireland, Spain – and now transition economies) intergenerational transfers; concern as to how to address problems of entry, very low income and vulnerability

Financing Social Housing in Europe

Three ways of funding social housing – or indeed any rented housing:

- (i) Rents to cover current costs;
- (ii) Borrowing – which requires rent payments into the future;
- (iii) Payments from others – including other tenants; the owners; the government; land owners, employers etc.



Relationship between financing and subsidy

- Definition of subsidy – economic or cash flow?
- Subsidies include:
 - (i) rents below market rents; income related subsidy;
 - (ii) government guarantees – reducing the market interest rate and therefore rents; subsidised interest rate reducing costs and rents; equity below opportunity cost; public sector borrowing at risk free rates;
 - (iii) central government: capital grants; revenue subsidies; local contributions: direct and imputed transfers from other tenants and taxpayers; contributions from others, notably land owners



(i) Rental income: Social and private rent determination

	<i>Social</i>	<i>Private</i>
Austria	Cost-based.	Also cost based; private < 10% higher (in post-1953 buildings there is de facto no regulation)
Denmark	Cost-based. 3.4% of building cost + bank charges. Average 2005 €6.67/m ² /month	Private rents also regulated. Average €6.83/m ² /month
Germany	In some regions rents vary with household income. €4-7/ m ² /month	Rent on new leases free, but rises regulated
France	Central government decrees maximum rents (vary by region). Cost based related to estate or owner	Rent on new leases free, but rises regulated. 30-40% higher than social rents.
Sweden	Set by annual negotiation between landlords and tenants.	Private rents limited by social rents; private slightly higher.
Netherlands	Rent based on utility value of dwelling and target household income level. Average €353/month.	Also controlled; average rent €419/month.
Hungary	Set by local authorities	Market based
Ireland	Tenants pay % of income in rent. Average rent €155/month.	Rent control abolished 1981 now market determined.
England	Rent restructuring regime based on local earnings and the dwelling price; increases RPI plus 0.5/1%. HAs and LAs must cover outgoings.	Market determined for properties let since 1988

(ii) Debt Finance

- Major changes over the last twenty years, as financial markets deregulated and social housing can borrow from global sources
- In many European countries funding traditionally provided by the public sector (so at risk free rate of interest)
- In countries with independent landlords (e.g. Germany, Netherlands and the UK) those landlords may borrow from the private sector – with government or local government guarantee; using the capital assets as security; or through hybrid approaches
- In both cases borrowing requirements may be reduced by either capital grant or subsidised interest rate



(iii) Supply side subsidies

- Traditionally funding social housing in most European countries was seen as the responsibility of government - assistance usually in the form of revenue and interest rate subsidies to ensure affordable rents;
- Increasing shift towards household based subsidies with associated rent increases – allowing increased use of the capital base to support borrowing from the private sector
- Equally increasing shift towards up-front capital rather than revenue subsidy which can be more readily targeted at specific areas and groups
- Local contributions – capacity of municipalities to support local housing through local taxation has also declined
- Use of capital subsidies in the form of land both publicly and privately owned
- Use of subsidy to transfer tenants out of rented sector

Using housing and land assets more effectively

- Cross subsidy between tenants – paying for rents on new investment or for poor households through increasing rents more generally;
- Realising housing and land assets for reinvestment through sales of land to developers and dwellings to tenants – bringing in additional private finance;
- Bringing in private equity through the transfer of ownership to private landlords/financiers;
- Increased borrowing against increased housing values leading to higher rents;
- “Taxing” private land values for social housing
- Increasing densities and regeneration using land more effectively;
- Overall, making the sector more efficient and self-sufficient?



Consequences

- The social sector increasingly becoming the tenure for single parents, the elderly and the poor;
- Ever more highly targeted subsidies are leading to residualisation;
- There is also growing tension between housing local residents and meeting the needs of incomers – this issue is of growing importance as mobility increases across Europe

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

Broader roles of social housing

	Special needs housing	Neighbourhood management services (e.g. heating)	Regeneration	Affecting market rents	Social cohesion
Austria	H C	H C	H C	H	H C
Denmark	C	H C	C	H C	
England	H C	H	H C		C
France	H C	Only since 2000 in some areas (ZUS)	H C	H C	C
Germany	H C	H C	H C		
Hungary					
Ireland	C		C		
Netherlands	H C	H C, but limited. No heating.	C	H	H C
Sweden	H C	H C	H C	H C	

H = historically C = current



Implications for Serbia

- Benefits of 'starting again'?
 - Do not have to make the mistakes of other countries
 - But costs of little or no asset base
- Definition of social housing – “Housing of an adequate standard which is provided with state support for households who cannot afford an apartment under market conditions for social, economic or other reasons
- Raises issues of setting standards; form of assistance; eligibility criteria; ownership of the housing; cost to the public purse
- One fundamental is WHY providing assistance – to increase the stock of reasonable quality housing or to allocate what is available to low income and vulnerable groups – very different implications for policy

New build social housing

- Case against is strong because of cost to the public sector and therefore the small numbers assisted (same applies to purchasing existing units)
- But potential for partnership with private sector: time limited subsidy; partial ownership; use of public land/efficient regeneration
- Third sector as owners/managers with guaranteed income stream?
- Stimulus for local economies?
 - Need for some new dwellings even when no numerical shortage

Improving the existing stock

- Is the case for intervention imperfect markets affordability, or finance?
- Concentrating assistance on energy efficiency, increasing densities of occupation → some sustainability benefits and may even cut costs
- Potential for supporting extensions/improving the use of land
- Stimulus for local economies – local jobs etc.
- Problems of substituting for private investment – deadweight losses

Self-build/Improvement with Subsidy

- Is the case for subsidy imperfect finance markets; affordability; or standards
- Use of public land to support development?
- Construction materials subsidies – spreads the money but difficult to ensure subsidy does not go to the supplier?
- Would loans be better?

Subsidising Rents

- How control the rents charged to ensure subsidy not transferred to the landlord?
- If limited to MOP – why not include it in these benefits?
- If not limited to MOP – how police and constrain to relevant groups?
- Does this type of subsidy provide an incentive to increase investment?
- Can it be limited to dwellings that meet standards?

New Institutions

Housing Agency

- Role in investment/ regulation of provision by non-profit sector?
- Role in financing social and intermediate housing – raising funds/guaranteeing funds?
- Role in developing new tenures?

Not for Profit Providers

- Housing focussed
- Local knowledge of skills
- Developing partnerships
- Local authorities as enablers rather than providers?

Overview

- Is social housing a priority?
- Is social ownership a priority?
- Can some of what is required be done by regulation?
- Can some of it be done by loans?
- Income or rent/price subsidies?
- Housing or people?