

# **“Housing policy in Europe: promotion of low-income households and energy efficient housing”**

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Brave New World for Finance?  
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# Housing for low-income households in Europe

- Principles of intervention;
- How support has historically been provided
  - in Western Europe;
  - in Eastern Europe.
- Current approaches to providing social and affordable housing;
- Financing social and affordable housing;
- Where do we go next?

# The special nature of housing

- Housing is a *private* good but it is also a *social* good and a *merit* good in that society takes a view about acceptable standards;
- Housing is both a *necessary* good and a *luxury* good;
- Housing is an *expensive* good in particular because it uses scarce land. The worse the distribution of income the more difficult it is to achieve adequate standards;
- Housing is an *investment* good – so needs complex financial instruments and tenure arrangements to meet needs;
- In many European systems housing *has been* seen as the wobbly pillar of the welfare state;
- In most transition economies *was* part of social wage;
- In both cases much has been privatised and/or funded by the private sector;
- And the Universal Declaration of Human Rights now includes adequate housing and shelter as a human right.

# Big Issues

- Housing standards – negative externalities (eg energy efficiency);
- Effective use of land – again negative externalities – and energy use;
- Costs of adequate housing in relation to distribution of income;
- Existing housing dominates provision;
- Demand changes far more quickly than supply – so in market economies the system adjusts by changing prices; in regulated systems queues, vacancies and allocation issues;
- Should support be concentrated on new supply, improving the existing stock or supporting incomes – or all three?

# Very different approaches to providing for low-income households across Europe

- Historically a charity or employer provided rental housing sector;
- State subsidies from late nineteenth century, associated with the introduction of higher standards;
- Post-1945 mass, state provided, rental housing development across Northern and Eastern Europe to meet numerical shortfalls and sometimes for ideological reasons;
- Aimed at lower income working households rather than the poorest;
- In Southern Europe a different model, mainly involving family funding and self build owner-occupation
- Particularly in South East Europe little history of support or of land use planning – so significant issues around standards and informal housing.

# Formal programmes: Western Europe

- Post war there were shortages and a need for any type of housing;
- Very strong political commitment in Northern and Eastern Europe;
- Housing was mainly for rent by working households in urban areas (often to support their voters); in rural areas mainly self build/owner-occupation;
- Often higher standards for new build than in the private sector – as well as larger numbers of innovations – some good/some bad;
- Housing as a means of alleviating poverty not really part of mainstream programmes until numerical shortages addressed. Now social housing mainly for more vulnerable households;
- Also housing closely linked to the provision of additional services – social housing as part of welfare;
- Increasing access to other options for the majority of households in Western Europe– so social renting has become more a residual sector with disproportionate numbers of single parents, migrants and non participants in the labour force;
- And affordability issues in the private sector;
- Major current issue around large numbers of migrants and the appropriate means of providing.

# Transition economies in Eastern Europe

- Privatisation of large proportions of the housing stock ;
- Most countries have very limited social stock remaining. Local authorities have responsibilities but few resources;
- Major affordability problems associated with forms of energy provision and energy pricing (in some countries assumed that housing costs are all around energy, water and other services as direct cost of housing seen as zero – and still run to 40% plus of household income);
- Massive problems with respect to maintenance and improvement of flatted accommodation – lack of effective contractual arrangements as well as limited capacity to pay.
- Some interest in expanding social housing – but few resources;
- In the Balkans, large scale informal developments – where there are often concentrations of particular groups notably Roma. Government objectives often include the formalisation of rights and responsibilities, bringing people into the formal labour market and into the taxation system (UN Habitat).

# Tenure of dwellings

Country	Social rented housing as % of housing stock	Change in last decade
Netherlands	32	-4
Scotland	24	-6
Austria	24	+1
Denmark	19	+1
Sweden(not defined as social)	18	-3
England	18	-2
France	16	-1
Ireland	9	+1
Czech Republic	8	-0
Germany	5	-3
Hungary	3	-1
Spain	2	+1



# Who are the providers?

## Most countries

- Vast majority of social housing is rented from municipalities or non profit organisations – notably housing associations
- Varying percentages:
  - Netherlands: 100% housing associations
  - UK: housing associations now in the majority
  - Czech Republic: 100% municipalities

## Exceptions

- ***Spain:*** mostly social owner-occupation
- ***Germany:*** time-limited subsidies to private landlords
- ***Sweden:*** profit oriented LA housing corporations

# Rents: social and private

Social v private rents	Country	How social rents are set
Social rents close to market	Austria	Cost-based
	Denmark	Cost-based at estate level
	Germany	Varies with building period and funding
	Sweden	Set by negotiation in same way as private rented sector
Social rents 50-66% of market rents	France	Central government determined but cost-related
	Netherlands	Points system—' utility value' private rented sector regulated in same way
	Scotland	Historic cost-based
	England	Were based on local incomes and dwelling price; for new lets now up to 80% of market
Social rents less than 50% of market rents	Czech Republic	Cost-based
	Hungary	Set by municipalities; very low
	Ireland	A percentage of tenant incomes
	Spain	Cost-based

# Financing social housing

- Immediate post war model was mainly state finance and subsidy usually through interest rate reductions. Often some local contribution and often on state owned land;
- By 1970s and 1980s numerical shortfalls mainly overcome and macro economic problems (including rapid inflation and EU pressure) led to increasing emphasis on reducing public expenditure;
- In 1970s the capacity to provide income-related allowances allowed universal assistance to poorer households – issues around structure of that subsidy, especially in relation to social security;
- Financial market deregulation, together with increasingly valuable unencumbered capital assets, opened up opportunities for new methods of financing social housing through the private sector;
- Continuing downward pressure on public expenditure, resulting in innovative market based models based on available assets and private borrowing.

# A growing range of affordable provision

- Use of private finance associated with higher rents for existing tenants in many systems; Mainly aimed at lower income employed households;
- Range of mechanisms to require affordable housing as part of market provision (on-site or off-site);
- Intermediate rental products for lower income working households;
- Intermediate owner-occupied products – shared ownership; partial equity mortgages with or without subsidy;
- But also greater emphasis on demand side subsidies.

# Financing housing into the future

- Reduced availability of government financial subsidy → more reliance on private debt finance (especially Netherlands, UK)
- One alternative to financial subsidy: governments supply cheap/free land
- Use established capital base (Sweden and Netherlands make positive contributions to government; UK moving in that direction).
- Some providers or systems have large historic reserves (e.g. Denmark);
- If not, likely to be dependent on debt finance to add to stock – increasing use of bonds;
- Role of private equity as owners of social housing with licensed managers(e.g. Germany);
- A role for institutional investors in new development?

# Conclusions: where are we?

- Many commentators thought that housing problems would be readily solved by government support building homes;
- But even in countries where generous support remaining and in many cases increasing problems – in part because increasing longevity means we are housing four generations rather than three; partly because of worsening distribution of income and greater problems of access to affordable housing;
- The financial crisis has also reduced supply and restructured economic activity;
- The result in many countries is increasing divergence between regions; greater mobility/migration; and rising homelessness all generating continuing housing problems even in countries with high housing standards;
- Some evidence of less political commitment – even in the face of worsening affordability.

# Conclusions: where next?

- Building houses should be the easy bit – it is sustaining their value and gaining associated benefits to individuals and society which is more difficult;
- Management and maintenance is fundamental –depends on the legal framework being in place and a stream of income into the longer term;
- But housing is also about environment, energy, accessibility to services and jobs and about social integration;
- Across Europe financing housing is no longer mainly based on supply subsidies:
  - physical shortages overcome and excess supply in some areas;
  - more use of demand side income related benefits - but are these effective in generating additional housing investment?
  - deregulation of finance markets gave greater access to owner-occupation but higher risks; re-regulation is excluding younger households, especially those with uncertain jobs;
- Increasing use of complex financial instruments, leading to higher rents worsening affordability and greater exposure to risk among financial providers. Yet, financial organisations have a major role to play in many different contexts if households across Europe are to have access to adequate affordable housing.