



# FINANCING AFFORDABLE SOCIAL HOUSING IN EUROPE

**UN**  **HABITAT**  
FOR A BETTER URBAN FUTURE

# **FINANCING AFFORDABLE SOCIAL HOUSING** in Europe

Nairobi, 2009

**UN**  **HABITAT**

## **The Human Settlements Financing Tools and Best Practices Series**

Financing Affordable Social Housing in Europe

First published in Nairobi in 2009 by UN-HABITAT.

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[www.unhabitat.org](http://www.unhabitat.org)

HS/1188/09E

ISBN (Volume): 978-92-1-132158-6

ISBN (series): 978-92-1-132027-5

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Cover design : Andrew Ondoo/UN-HABITAT

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# FOREWORD

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The global housing crisis, especially in the developing world, is getting worse by the day making the right to adequate shelter a quest that is becoming more and more difficult to meet, despite the targets set by the Millennium Development Goals.

Such is the rate of urbanization – the influx of people into towns and cities, and their natural growth – that the world has now reached a point where for the first time now, half the global population lives in towns and cities.

By the year 2050, six billion people – two-thirds of humanity – will be living in towns and cities. And as urban centres grow, the locus of global poverty is moving into towns and cities, especially into the burgeoning informal settlements and slums, of the developing world. In the developing world, this is happening so fast that slums are mushrooming in what is termed the urbanization of poverty.

This makes it imperative that we use every means at our disposal to ensure that we at UN-HABITAT, and our partners, keep applying ourselves to Target 11 of the Goals – to achieve significant improvement in the lives of at least 100 million slum dwellers, by 2020.

And for this, we need innovative governance, and local thinking and reporting if we are to bring hope to the urban poor. Equally importantly, we need to support our towns and cities, indeed our countries, to adopt pro-poor policies and strategies that will obviate the need for further slum creation.

It is against this background, that the Human Settlements Financing Tools and Best Practices series focuses on the development of know-how, knowledge and tools in human settlements financing, from which Member States can learn in delivering affordable housing to the poor.

A handwritten signature in black ink, which appears to read 'Anna Tibaijuka'.

Anna Tibaijuka,  
Executive Director, UN-HABITAT  
Under-Secretary-General of  
the United Nations,

## ABBREVIATIONS AND ACRONYMS

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ALF	Allocation de Logement à Caractère Familial, France
ALMO	Arms Length Management Organisation, England
APL	Aide Personnalisée au Logement, France
ALS	Allocation de Logement Social, France
CDC	Caisse des Dépôts et Consignations, France
CGLLS	Caisse de Garantie du Logement Locatif Social, France
DCLG	Department of Communities and Local Government, England
EC	European Commission
EGW	Emissionszentrale für gemeinnützige Bauträger, Switzerland
EU	European Union
GdW	Bundesverband deutscher Wohnungsund Immobilienunternehmen, Germany
CGLLS	Mutual Fund for Guarantees of Social Rented Housing, France
HCCB	Housing Construction Convertible Bonds, Austria
HLM	Habitation à Loyer Modéré, France
LIBOR	London Interbank Offered Rate, England
LSVT	Large Scale Voluntary Transfer, England
MHC	Municipal Housing Company, Sweden
Palulos	Prime a l'amélioration des logements locatifs sociaux, France
PAM	Prêt à l'Amélioration, France
PLA	Prêt Locatif Aidé d'Intégration, France
PLI	Prêt Locatif Intermédiaire, France

PLS	Prêt Locatif Social, France
PLUS	France Prêt Locatif à Usage Social, France
RAS	Rental Accommodation Scheme, Ireland
RPI	Rental Prices Index, England
SEM	Société d'économie mixte, France
WSW	Waarborgfonds Sociale Woningbouw, Netherlands
UNECE	United Nations Economic Commission for Europe
VAT	Value Added Tax
VPO	Vivienda de Protección Oficial, Spain
VPT	Vivienda a Precio Tasado, Spain



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# CHAPTER 1

## INTRODUCTION

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This report evaluates the range of approaches to financing social housing that are in operation in Europe. It identifies the key features that may be replicable in other countries particularly the developing world. The evaluation is placed in the context of the purpose of social housing, the sources of funds of social housing and the institutions that are used to provide social housing. The size and composition of the social housing stock in different countries and the types of provider are identified. The importance of the rent setting method and the allocation system are explained. The relationships between public and private sources of funds and the conditions that promote a flow of commercial funding into social housing are identified. The structure of European social housing finance systems and the roles of loans, subsidies and equity financing are explored. Finance for construction and maintenance is considered and subsidies from public funds as well as cross-subsidies from other sectors of the economy are explored. The effectiveness of social housing finance systems in achieving their purpose and the issues that influence the transferability of European approaches to other countries are discussed.

It will be shown that the case for providing social housing depends on two propositions. These are (1) that market forces will not result in acceptable housing standards for all the population and (2) improving the housing standards of those who are living in sub-standard accommodation is best done through the direct provision of housing rather than only by the provision of additional financial resources to the poorly housed. These propositions are contestable. They need to be tested against the circumstances that prevail within given countries. The underlying concepts are acceptable housing standards and housing needs. There are no absolute acceptable housing standards. Governments need to decide what quality of accommodation is sufficient to house its citizens. If households are unable to afford housing of an acceptable standard, there is a difference between what they can demand in the marketplace and what, according to prescriptions on acceptable standards, they need. Markets work on the basis of demand and supply. If need is deemed to be different, some kind of housing policy is required to address the difference between what households can afford or demand and acceptable standards of housing that governments deem that they need.

## CHAPTER 2

### DEFINITIONS

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There is a lack of a common definition of ‘social housing’ at a European level. In detail each country has forms of housing that are broadly designed to satisfy the needs of households who are unable to compete in the marketplace for housing of an acceptable standard. Although social housing is generally equated to social rental dwellings the term is sometimes also used to describe the provision of affordable dwellings for sale to assist low income households to own or part-own their dwellings. Social rented housing is often supplied by non-profit organisations and rents are typically at sub-market levels. This means that some form of subsidy is almost inevitably involved. The legal status, the rent levels and the existence of subsidies are thus often germane to the definitions that are adapted for practical purposes in individual countries. However, in principle, the key distinguishing feature of social housing is how the accommodation is allocated. Social housing is allocated outside of market mechanisms according to need rather than ability to pay. This means that administrative processes driven by policy decisions are used to allocate dwellings, and access to the accommodation depends on how needs are defined and interpreted.

Here the term social rented housing will be used to define rented housing that is allocated according to need. Affordable housing will be used as a broader term for housing that includes social rented dwellings and also low-cost ownership and shared-ownership. Low cost home ownership is sometimes referred to as a form of intermediate housing that bridges the gap between low cost social rental housing and higher cost owner occupied housing. Intermediate housing is a term that is also used to identify rental housing that is intended for households that have higher incomes than those in social renting but who still are unable to afford adequate accommodation in the housing market.

The emphasis in this report is on social rental housing which is the dominant form of affordable housing in Europe. There will also be some reference to low cost home ownership and other forms of intermediate housing.

## CHAPTER 3

# THE DEVELOPMENT OF SOCIAL HOUSING IN EUROPE

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### SLUMS, WORKERS' HOUSING AND PHILANTHROPISM

From the mid-nineteenth century onwards the industrialisation and associated urbanisation, with large-scale rural urban migration, resulted in overcrowding and unsatisfactory living conditions in many large cities. The social problems associated with slums and the adverse effects on the working population prompted a variety of responses. Some industrialists began to provide housing for their workers. Philanthropists engaged in creating acceptable living conditions by providing newly built housing, and charitable institutions developed housing for people on low incomes. In detail the response varied from place to place but usually the State was not, at first, heavily involved in direct provision.

### QUANTITY, QUALITY AND AFFORDABILITY

In the twentieth century the State gradually took more responsibility for the provision of good quality housing to disadvantaged groups of the population in order to promote social and economic objectives. With the shortages created by the Second World War the need for States to get more heavily involved in boosting housing supply and ensuring

adequate standards for lower income groups became increasingly apparent. Post war reconstruction often involved large volumes of state financed housing targeted at those who were unable to afford decent housing from their own resources. Western European housing policies were in the aftermath of the Second World War geared to reducing housing shortages. Housing production was clearly an aim of policy in most countries in the 1950s and 1960s. Social housing systems developed in response to shortages (UNECE, 2006, pp 1-3)

The role that social housing performs is closely linked to the relationship between the role of the state and the role of individuals in decision making (King & Oxley, 2000). By the 1970s, the role of the State began to change. There was a reduction in public expenditure on housing and an increasing market-orientation of housing policies. There was also more emphasis on quality and less on quantity. In several countries a process of reducing supply-side subsidies that benefited social housing and promoting demand-side subsidies that were more directed at individual needs began. The housing allowance systems that resulted were designed to introduce more household choice in the allocation of housing.

It has been argued that:

“The social housing systems that were developed in the 1950s and 1960s have some common features. Firstly, social housing was seen primarily as a construction rather than a management responsibility. Secondly, policy was mainly concerned with the number of units built; quality and variety were minor issues. Thirdly, the development perspective focussed on housing estates. Little attention was devoted to the residential environment or any linkages with the local economy, the local community or existing amenities. Last but not least, the market did not come into the picture. Social housing was predominantly a matter of bureaucratic planning and allocation processes ... [and] ... there was a general tendency to finance and subsidise property rather than give direct support to individual households who need help in paying their housing bills.”(Priemus and Dieleman, 1999, pp624 - 626)

Subsequent developments put increasing emphasis on improving the quality of the stock and on improving the distribution of subsidies so that they were ‘better targeted’. In the 1990s most governments tried to reduce public expenditure on housing in the light of improving housing conditions and budgetary pressures related to the control of inflation and compliance with European Monetary System convergence criteria. There is growing evidence of increased concern with allocation processes and the need to make these more responsive to consumer preferences. (Oxley, 2000, pp7-8).

In Eastern Europe since the 1960s systems of State-owned rental housing predominated but with significant variations across countries, including some reliance on private rental housing to meet needs (Hegedus 2007a, 2007b). With the end of communism in the early 1990s, housing systems experienced major changes. There were large-scale privatisations of public rental stocks with sitting tenants

acquiring ownership at nominal prices. One of the negative consequences was the development of ‘poor home-owners’ who own their dwelling but lack the means to maintain the property in good repair (Czischke & Pittini, 2007).

Thus social housing developed initially as a response to the problems of poor living conditions associated with rapid urbanisation. The early responses were often by philanthropists and employers. Gradually governments took an increasing role and after the Second World War, governments used social housing as a means of building large volumes of housing rapidly to address acute shortages. As the shortages appeared to be overcome, by the 1970s many governments were placing less emphasis on social housing and more on addressing quality and affordability problems.

## A NEW EMPHASIS ON SUPPLY

By the start of the twenty first century it was clear that housing shortages were not a thing of the past and insufficient supply was seen to contribute to severe affordability problems, especially for lower income households. In several countries new social housing building programmes were commenced and new targets for social house building were announced. For example, in England in 2007 plans were announced for an extra 45,000 new social dwellings a year by 2010 (DCLG, 2007). The future role of housing is under discussion in England as it is in many countries and an important part of this discussion is its contribution to new production as well as its contribution to wider objectives (Hills, 2007).

## CHAPTER 4

# THE PURPOSE OF SOCIAL HOUSING

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### BRIDGING THE GAP BETWEEN NEED AND DEMAND

The provision of social housing may be viewed as one way of bridging the gap between housing need and housing demand. Social housing can be seen as a means of meeting the housing needs of households that are unable to exercise effective demand (Oxley, 2004).

Housing need is often poorly understood and ill defined. The term housing need is used in a variety of ways which adds to the confusion. A useful definition is:

“Housing need may be defined as the quantity of housing that is required to provide accommodation of an agreed minimum standard and above for a population given its size, household composition, age distribution etc., without taking into account the individual household’s ability to pay for the housing assigned to it (Robinson, 1979, pp56-57).

This is a definition of aggregate housing need. The ‘agreed minimum standard’ should be such that housing above this standard, which we may call ‘decent housing’, is the only housing which is acceptable. Decent housing would provide adequate shelter to households and produce no negative externalities. That is, it would impose no external costs on the

community in terms of, for example, adverse effects on crime and health. Individuals have unmet housing need when they are unable to exercise effective demand for decent housing.

Effective demand involves a willingness to buy or to rent. There is no necessity to ascribe to decent housing the status of ‘merit good’, as is sometimes done, for any lack of effective demand may not be due to individuals failing to recognise the benefits of decent housing but rather a lack of resources. With merit goods the concept of consumer sovereignty is suspended. The case for society satisfying housing need is not essentially one of overriding individual choice in a paternalistic fashion but rather of empowering individuals so they can occupy decent housing irrespective of their ability, but not their desire, to pay for that housing. Viewed in this way, housing problems are essentially problems of a lack of effective demand for decent housing. Markets work on the basis of effective demand (Oxley, 2000, p2).



The purpose of social housing, taking this approach is:

“To provide decent and affordable housing to households experiencing difficulties in finding housing under market conditions because of their creditworthiness or their specific needs (disabled or elderly people, immigrants, students, large families, etc.)” (Czischke, 2005).

As can be seen from Figure 4.1, when housing problems are viewed as the task of bridging a gap between need and demand, direct provision in the form of social housing is but one policy option, together with measures to boost market supply and enhance market demand by means of consumer subsidies.

### A CONTRIBUTION TO SOCIAL, ECONOMIC AND ENVIRONMENTAL OBJECTIVES

However, social housing may also have wider objectives including promoting mixed tenure communities, ensuring social mix in urban areas and contributing to social, economic and environmental objectives. By having some control over the construction, location and allocation of sizeable proportions of the housing stock some governments (e.g. in the UK and the Netherlands) have tried to use social housing to achieve goals that go beyond simply housing the poor. They have sought to influence the composition of neighbourhoods to achieve a mix of households in specific localities. By exercising some influence over the design and construction of new social dwellings, governments can, moreover, attempt to promote environmentally friendly buildings that are ‘green’ in both the materials they use in construction and the energy they consume in use.

When social housing is targeted at low income workers, especially in the public sector, the purpose is more clearly to achieve a labour market than a housing market objective. Subsidised social housing for such ‘key workers’ can be seen as essential to the supply of such labour and to the functioning of the local economy.

### VARYING CLIENT GROUPS IN DIFFERENT COUNTRIES

It has been argued that:

“Social housing serves different client groups in different countries – in some it is a tenure of the very poor, while in others it houses low-waged working families or even the middle classes while the very poor are accommodated elsewhere. In a few there is a wide range of income groups. Even so, it is true to say that the social sector generally houses a disproportionate number of single-parent families, the elderly, and the poor. There has been a revival of interest in social housing as one way in which governments can meet the increasing overall requirement for housing that stems from demographic and income pressures. In many countries there is interest in increasing new supply – although so far not much in the way of action or money. Housing providers and funding regimes vary by country. Housing providers are increasingly separate from local authorities; at the same time in most countries there has been a shift towards more local decision-making. New social housing is generally on mixed-tenure sites. Efforts are also being made to introduce a greater mix in the existing stock and to use public assets more effectively. The potential for public/private partnership is being explored in several countries.

This can mean that private finance funds provision by traditional social owners, or private developers themselves becoming involved in operating social housing (Oxley, 1999a). Increasingly highly targeted subsidies are seen as leading to residualisation – and problems of segregation are a matter of concern across all types of social rented sectors.” (Whitehead & Scanlon, 2007, p6).

Table 4.1 summarises the characteristics of the main client groups for social housing in several countries. It demonstrates the preponderance of both young and older households, single person households and low income households in the sector.

TABLE 4.1 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

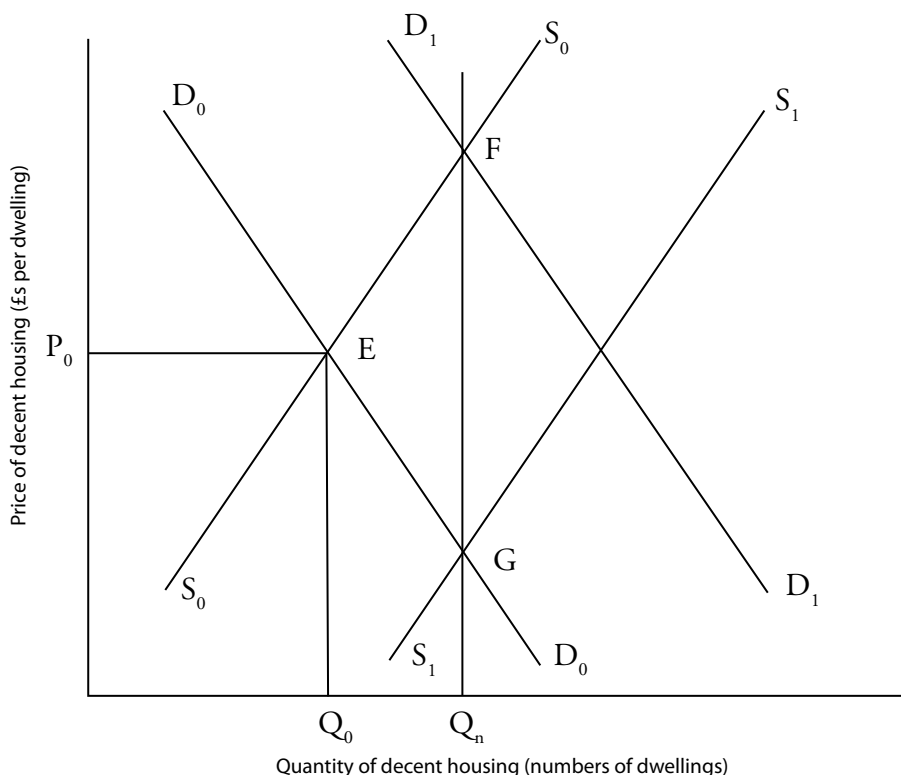
Source: Whitehead and Scanlon (2007) p 26

## SERVING MORE THAN THE POOR

Despite the preponderance of low income households, social housing is not necessarily intended to house only the poorest households. For example, it has been argued that “In Germany social housing has never been especially targeted at the poor or built specifically for them. In fact, the cost of social housing (whether rent or mortgage repayment), was usually beyond the means of the poor; the sector aimed at providing decent homes for key workers and the lower middle classes. ... Due to Germany’s particular system for financing social housing, the number of social homes will continue to shrink drastically over the coming years.

... All social housing in Germany is legally private; even municipal housing companies are private entities governed by commercial law (Wirtschaftsgesetzgebung), whose shares are held by the municipality” (Droste & Knorr-Siedow, 2007, pp92 – 940). In a country such as the Netherlands where social dwellings house 35 percent of the population it is inevitable that social housing caters for some middle and higher income households as well as low income families.

FIGURE 4.1 HOUSING NEED



Source: Oxley (2004) p 27

Within a given area (or one could assume, a given country) the demand and supply curves for decent housing ( $D_0$ ,  $D_1$  and  $S_0$ ,  $S_1$ ) intersect at E to give an equilibrium quantity  $Q_0$ . Decent housing is housing of a socially and politically determined minimum standard. If the total numbers of households in the area is  $Q_n$  and each household needs decent housing, and total housing need in the area is  $Q_n$ .

With market equilibrium at E, there is unmet housing need equal to the difference between  $Q_n$  and  $Q_0$ .

If government wants all households to have decent housing, they require policies that eliminate the gap between  $Q_n$  and  $Q_0$ . Policies might try to (1) increase the demand for decent housing (through housing allowances or housing vouchers for example) so that with

a new demand curve at  $D_1$ ,  $D_1$ , equilibrium at F results in a new equilibrium  $Q_n$ . Policies, alternatively, might try to (2) increase the supply of decent housing (by, for example, making more land available for housebuilding, or providing subsidies or tax concessions to suppliers of decent housing) so that with a new supply curve,  $S_1$ ,  $S_1$ , equilibrium at G results in a new equilibrium quantity at  $Q_n$ . Another policy approach (3) would be for governments to directly supply, or supply through government agencies, supply equal to  $Q_n$  minus  $Q_0$ . In practice, governments usually use some combination of approaches (1), (2) and (3).

## CHAPTER 5

# THE SIZE AND COMPOSITION OF THE SOCIAL RENTED HOUSING STOCK IN EUROPE

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### THE SOCIAL HOUSING STOCK

The size of the social rented stock varies considerably between countries as shown in Table 5.1. The largest social rented sector in Europe is in the Netherlands where it constitutes 35 percent of the housing stock. Social renting is also relatively large, at 20 percent or more of the stock in Austria, the Czech Republic, Denmark, Sweden and the United Kingdom. At the other end of the scale, many countries have a very small social rented sector. For example, there are several countries shown in Table 5.1, including Bulgaria, Latvia, Portugal and Spain, where 3 percent or less of the stock is classified as social rented housing. In Greece there is, according to the relevant official definition, no social rented housing. In countries with a large social rented stock, the sector comprises between 43 percent and 77 percent of the rented stock with the remainder being made up of private rented housing, allocated by market forces. Even in countries with a small rented social rented sector, the overall contribution to the rented stock can be high if renting is dwarfed by a large home ownership sector. In Hungary, for example, the relatively small social rented sector comprises 66 percent of the rented stock and over 90 percent of the stock is owner-occupied. Despite cutbacks in some countries, in others social construction

continues to make a significant contribution to overall house building. It stands at 35 percent of total housing construction in Austria and between 10 and 20 percent in several countries including The Netherlands, Slovakia, England, Sweden and Spain. In the latter case, social construction is expanding a relatively small social sector.

### REASONS FOR DIFFERENCES BETWEEN COUNTRIES

The differences between countries shown in Table 5.1 are not simply a consequence of current policies. They are the result of varying decisions made over many decades; they are typically not the outcome of rational deliberations about how large the sector should be. Rather, in practice, a good deal of ad hoc actions has been involved. Small rental sectors can be partly attributed to policies that over time have favoured home ownership and larger rental sectors to policies that have placed less emphasis on owner occupation. The relative attractiveness of private rental housing and home ownership as investments can also have important implications for the size of the social rental sector.

TABLE 5.1 SOCIAL RENTED HOUSING STOCK AND CONSTRUCTION, 2007

	% of total housing stock	% of rental stock	% of house building
AUSTRIA	21	53	35
BELGIUM	7	24	6
BULGARIA	2	40	0
CYPRUS	3	14	Nav
CZECH REPUBLIC	20	61	20
DENMARK	20	43	20.7
ESTONIA	7	44	Nav
FINLAND	18	52	12
FRANCE	19	43	9
GERMANY	6	11	9
GREECE	0	0	0
HUNGARY	4	66	Nav
IRELAND	8.5	38	6.3
ITALY	5	26	Nav
LATVIA	1	4	0.02
LITHUANIA	2.3	66	Nav
LUXEMBOURG	2	8	Nav
MALTA	6	23	Nav
NETHERLANDS	35	77	12.8
POLAND	12	47	8.3
PORTUGAL	3	14	3
ROMANIA	2.2	58	Nav
SLOVAKIA	4	80	13.7
SLOVENIA	4	57	Nav
SPAIN	1	9	10.3
SWEDEN	21	48	20
UNITED KINGDOM	21	68	11

Nav: not available

Source: Table 1.3, Czischke & Pittini, 2007

## CHAPTER 6

# SOCIAL HOUSING ORGANISATIONS

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### A VARIETY OF PROVIDERS

There is a wide variety of social housing providers in Europe, including central or local governments and a range of voluntary or non-profit associations and foundations, public or private non-profit companies, co-operative organisations and private investors that provide social housing. Thus the distinction between private and social renting cannot easily be determined by the type of supplier (Oxley, 1995). Excluding local authority agencies, in the European Union there are around 23,000 social housing organisations with a large variety of legal forms: associations, foundations, co-operatives, public corporations, limited liability companies publicly or privately owned, or under mixed ownership as well as operators set up specifically to provide social dwellings (Czischke & Pittini 2007).

It has been argued that the most important distinctions are between those countries where the owners and managers of the stock remain formally in the social sector but use private finance to fund additional provision (usually with the help of subsidy) – for example, England, the Netherlands and Ireland – and those countries where purely private developers and construction firms are significantly involved in development and ownership.

Germany and Austria are suggested to be the most representative countries using this second approach (Whitehead & Scanlon, 2007, p13).

### PRIVATE SECTOR PROVIDERS OF SOCIAL HOUSING

Several countries have a variety of providers including organisations that are in the private sector. In Germany, there are four different categories of housing providers: municipal housing companies, owned by municipalities; co-operatives, which provide rental co-operative dwellings, accounting for 6 percent of the total housing stock; organisations owned by churches; housing companies belonging to private investors and, most recently, to national and foreign investment funds, after the privatisation of municipal companies. These are grouped in regional federations, which are in turn members of the national umbrella organisation, the GdW (Bundesverband deutscher Wohnungsund Immobilienunternehmen) (Czischke & Pittini, 2007 p52). In Germany access to social housing is regulated through a system that takes into account individual household needs, subject to regularly adjusted income ceilings.

Eligible applicants are issued access permits (Wohnberechtigungsschein) by the municipality. Public and private landlords can select tenants from this group and allocate the successful candidates according to their judgement.

## MUNICIPALITIES AND NON-PROFIT SUPPLIERS

Non-profit associations are the dominant form in some countries. In the Netherlands, for example, associations build and manage social housing with a degree of independence from the State but with obligations to house low income families in decent housing and contribute to the quality of neighbourhoods (Boelhouwer, 2003). In Sweden, Municipal Housing Companies (MHCs) have since the early 1950s been run independently from wider municipal budgets. MHCs can be organised either as foundations or limited companies. However, most that were foundations have been transformed into limited companies over the last decade, so that municipalities can get a return on their historic investments in municipal housing (Turner, 2007).

In France, the traditional social rented housing sector is known as HLM (Habitation à Loyer Modéré). It is run through a network of local bodies consisting of around 300 Public Offices, answerable to local authorities and 340 privately run Housing Companies.

In England, although social rental housing was until the 1970s provided mainly by local government (council housing), a large proportion is now provided by non-profit housing associations. Almost all new social housing is provided by housing associations and around half of all council housing is managed by Arms Length Management Organisations (ALMOs) who have a degree of independence from the local authority.

## SOCIAL HOME-OWNERSHIP

Additional types of providers are encountered once the concept of social home-ownership is considered. Social home-ownership is an umbrella term that describes various forms of tenure where households' access to accommodation is regulated through needs-based criteria and whose property rights include those more unusually associated with ownership than renting.

In the Netherlands, several types of social home-ownership, which include both the sale of existing social-rental dwellings and new built dwellings, have been developed by housing associations. The main two types currently are Koopgarant and Sociale Koop. Koopgarant gives a reduction on the market price of around 25 percent and an obligation for the buyer to sell the dwelling back to the housing association with price increases and decreases shared equally by the home-owner and the housing association (Elsinga, 2005). About 120 housing associations sell Koopgarant (about one fifth of the total associations). Sociale Koop also gives a reduction on the market price, but there is no obligation to sell the dwelling back to the housing association and it can end up in the free market. The owner is however obliged to pay back part of the price increases to the housing association. Additional Dutch initiatives to be evaluated are the various versions of the Client's Choice Programme (initiated by the WoonbronMaasoevers Housing Association in Rotterdam and adopted by about 25 other associations). This offers choices between renting and social home-ownership (Gruis, et al, 2005).

In Spain, social housing is essentially social home-ownership. There is virtually no social-rented housing and support for owner-occupation has historically been the principal means for meeting housing needs. Subsidised owner-occupancy (or VPO, *Vivienda de Protección Oficial*) is supported through assistance to private developers and home-buyers by means designed specifically to boost housing construction. Dwellings are subsidised for a limited period (traditionally 30 years or more but now 20 years) after which the dwelling can be traded at market prices. Within the subsidy period, re-sale prices are controlled and sellers have to repay subsidies. Nevertheless in the long run owners can make substantial capital gains. Another form of social home-ownership is *Vivienda a Precio Tasado (VPT)*. Prices are lower than the market price, but much higher than VPO housing (Hoekstra & Heras Saizarbitoria, 2007).

In several countries, including Finland, Sweden and Germany, there are several forms of cooperative home-ownership. In all the cases cooperative provision is based on ownership mediated by membership of a collective body (the co-operative). The mediation varies with the specifics of the country model. In Finland, the *asunto-osakeyhtiö* describes a social home-ownership housing company tenure that is responsible for about one third of all Finnish housing. Shareholders in the company may be residents (or other individuals or firms who rent out the dwellings). In Sweden, co-operative society members can enjoy the right to live in their dwellings (about 0.5 million properties) for an unlimited period and the right to transfer their occupation rights by selling at market prices. The buyer must, however, be recognised as a member of the cooperative association (Tahtinen, 2003, Ruonavaara, 2005). In Germany, the 2,000 housing cooperatives allow occupants to buy shares and have complete security of tenure.

Evaluations have shown positive effects on neighbourhoods and popularity with single parents and families with children (Haffner, 2008).

## PROFIT AND NON-PROFIT SUPPLIERS

It is clear that some social housing providers are non-profit organisations such as municipalities and housing associations whilst others are profit making organisations which are in the private sector. It is possible for the private sector to be involved in a variety of ways in the provision of social housing. For example, in England private firms can now bid, in competition with housing associations, for public funding to develop social rented housing. In Germany private sector organisations have provided social rental housing on the understanding that access to the dwellings and rent levels are determined by agreed social criteria.

## THE STATE AGENT MODEL

A generalised form of private sector involvement has been described in the use of a 'state agent' model that has been mooted by Maclennan and More (1997). The model combines market production and State allocation: The 'state agent' model leaves the production and pricing of homes and services to market producers. The 'state agent' would then be responsible for securing market vacancies, of an acceptable quality, and matching them to qualified waiting list applicants. Subsidies would then be calculated in relation to household incomes and requirements and be paid directly to the landlord. A contract, for an agreed duration, would govern landlord-tenant relations (Maclennan & More, 1997, pp540-541). Maclennan and More suggest that this system could generate market signals and allow subsidies to be well targeted.



They acknowledge, however, that in periods of shortage suppliers could extract scarcity rents. One way of tackling this, it is suggested, is to combine 'social agent' and 'not-for-profit' models. The 'social agent' would contract with not-for-profit providers who would be limited in their desire and ability to charge scarcity rents. However, the problem that would remain is efficiency and it is argued that 'the main challenges concern how not-for-profits can be made to behave as efficiently as possible.' (Maclennan & More, 1997, p541). Efficiency can be promoted through competition. This competition could be between a variety of housing providers both profit and non-profit making. If these providers are setting rents which reflect consumer preferences these rents also provide the signals for the new production that is required (Oxley, 2000, pp14-15).

In Ireland, under the Rental Accommodation Scheme (RAS) local authorities have, since 1995, used a version of the state agent model that used the private sector to supply social housing. They have established contracts with market landlords who agree to provide accommodation that meets minimum standards. The RAS is expected to expand the amount of market rented accommodation available on a long-term basis to low-income tenants who are unable to access local authority housing. The scheme is also expected to improve the quality of accommodation provided and increase tenant choice. The local authority makes direct payments to the provider and the tenant makes a contribution to the costs by a payment to the local authority. As yet the RAS is on a relatively small scale and it is still in the process of being implemented (Buchanan, 2006).

## CHAPTER 7

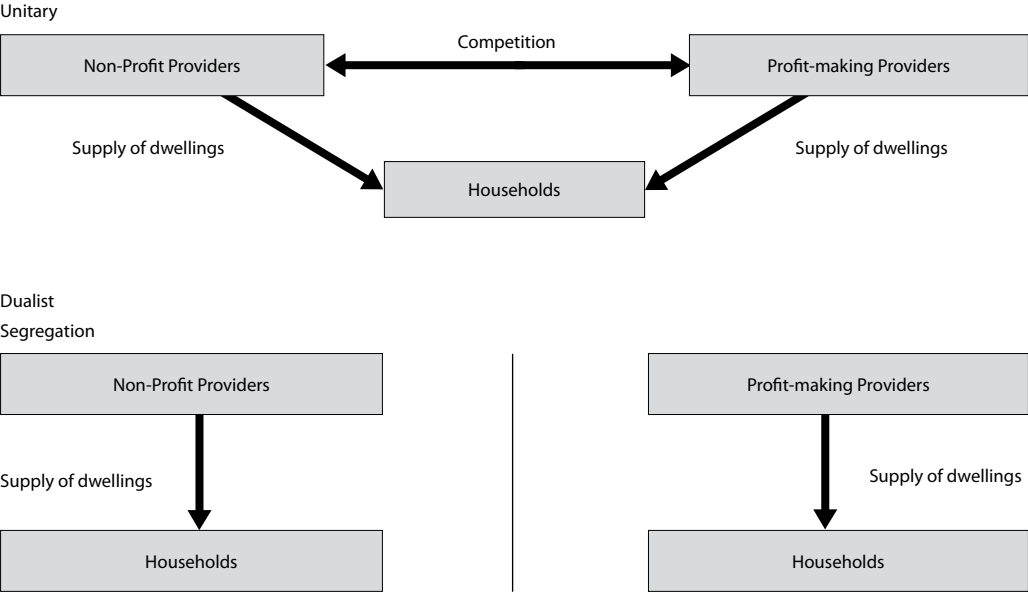
### TYPES OF SOCIAL HOUSING SYSTEMS: UNITARY AND DUALIST

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Much of the analysis of comparative rental systems in Europe has relied on Kemeny's distinction between unitary and dualist systems. In the former, non-profit landlords compete with profit making providers and in the latter there is a separation that prevents such competition (Kemeny 1995; Kemeny, et al, 2005). In dualist rental systems non-profit housing is segregated from the profit making market, strict means-testing is applied to the non-profit sector and the providers of social housing are closely controlled by the state. In a unitary system there is direct competition between profit and non-profit rental sectors and in dualist systems there is no competition between the two types of renting. In Kemeny (1995) there is no distinction between unitary and integrated rental markets. However, in Kemeny, et al (2005) unitary rental markets are defined as arrangements where the ground rules facilitate and enable competition between profit and non-profit renting, and integrated rental markets are defined as systems in which non-profit rental organisations are sufficiently established to compete effectively with profit-renting "without the need for invasive regulation or being given either special protection or special responsibilities" (ibid, p856).

In a unitary market there is competition between profit and non-profit renting, with the aid of strong state support for non-profits but in an integrated market the competition exists without this level of intervention. This is possible because eventually the mature non-profits have evolved so that they are financially healthy as a result, over time, of falling costs as their debts fall relative to the value of their assets. Unitary systems have the potential to evolve into integrated systems but whether they do is a matter of political choice. Governments may allow non-profit rental systems to mature and compete strongly without commercial landlords or they may decide to respond to maturity by placing financial penalties on non-profit suppliers or forcing sales of stocks. The essential differences between unitary and dualist systems are summarised in Figure 7.1

FIGURE 7.1 UNITARY AND DUALIST SYSTEMS: COMPETITION VERSUS SEGREGATION



## CHAPTER 8

# ALLOCATION SYSTEMS

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### UNIVERSALISTIC

Czischke & Pittini (2007) distinguish between universalistic and targeted social housing systems. In a ‘universalistic’ system housing is considered a public responsibility and is delivered either through municipal housing companies (e.g. Sweden, Denmark) or through non-profit organisations (the Netherlands, Denmark). In order to guarantee that the whole population has access to housing of an acceptable standard, social housing has a market-regulating role (e.g. through rent control).

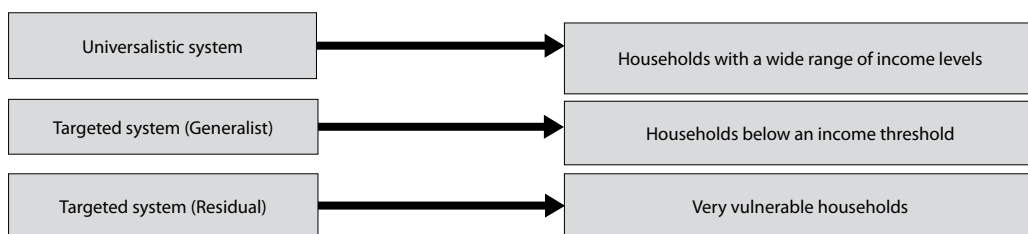
### TARGETED

In contrast, in the ‘targeted’ system, it is assumed that the objectives of housing policy will be met predominantly by the market (i.e. through the allocation of the supply of housing according to demand) and that only those households for whom the market is unable to deliver housing of decent quality at an affordable price will benefit from social housing. Within this approach, however, there is a wide variation in terms of the type and size of the social housing sector, as well as allocation criteria.

Therefore, it is possible to distinguish two sub-types: one which allocates housing to households falling under a certain income ceiling, and a second which focuses on housing provision for the most vulnerable. Following Ghekière (2007), these two sub-types have been termed: “Generalist” and “Residual”. The former follows the original tradition of social housing in Western Europe (i.e. housing for workers or middle-income groups, which includes a contribution from their employers) and the latter focuses on a more restricted category of beneficiary, usually very vulnerable households who are heavily dependent on state benefits (Czischke & Pittini, 2007, pp 14-15).

The key features of universalistic and targeted systems are summarised in Figure 8.1

FIGURE 8.1 ACCESS TO SOCIAL HOUSING



### BALANCING NEED AND CHOICE

Given that social housing is allocated primarily on the basis of needs, measuring needs is an important part of allocation systems. This has typically been done by giving points to households according to their circumstances, with those who are currently poorly housed and least able to cope in the market place given more points than those who are better housed and better able to meet their needs from their own resources. The numbers seeking social housing has usually been greater than the numbers of dwellings available, so points systems have helped to ration access. An application for social housing might mean that a household is placed on a local waiting list. Time on that list has also in the past been important, in England for example, in determining priority for allocation of a suitable dwelling.

Matching household needs with available social dwellings has often in the past been done through bureaucratic processes, with little tenant involvement. This has, however, changed considerably in recent years, especially in the Netherlands and England where various forms of Choice Based Letting systems have been introduced. In detail, the operation of these systems varies from place to place within each country. They all tend, however, to include a system of advertising of vacant dwellings and opportunities for households in need of social housing to express an interest in particular dwellings. There is then an attempt to match dwellings with both the needs and the preferences of households.

## CHAPTER 9

# RENTAL INCOME – RENT SETTING SYSTEMS

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### THE FUNCTION OF RENTS

The rents paid by tenants are clearly one potentially important source of funds for social housing providers. However, the significance of this form of funding depends on political decisions about the functions of rents and the means by which rents are set. Rents can have several functions: in a market system they can help to allocate dwellings and to balance supply and demand.

Social housing is, by definition, allocated according to need rather than demand and so this allocative function is likely to be either weak or non-existent in social housing systems that are serving their prime function. However, rents may be used as an indicator of the relative quality or attractiveness of social housing units and thus provide signals that may influence choice in systems where needs-based allocation is combined with an element of household choice.

Without fully covering costs, rents can have the simple function of providing a contribution towards the cost of provision, with the relative size of that contribution dependent on the size and quality of the accommodation.

If rents cover more than the costs of accommodation, as they can, for example, in some English local authorities, they can provide funds for other sources, including (as in the English case) a contribution to the costs of housing allowances.

There is thus some redistribution of income amongst social housing tenants. Rents can be used as a means for tenants to make a contribution to their housing costs. This contribution might be deemed by policy makers to be a function of ability to pay rather than the cost of the accommodation. Thus rents might be directly related to incomes (as for example in the case of the income-related rents that are charged for Irish local authority housing) or more usually the actual rent burden on individual households will be moderated by the effects of housing allowances. In some countries, for example France and Germany, although rents are not set directly by reference to incomes, for individual households a supplement to the rent may be payable if the tenant's income increases substantially (Oxley, 2000).

## METHODS OF RENT SETTING IN THE SOCIAL SECTOR

Rents are, in practice, set by various methods. They may be:

1. Set with reference to market rents for similar properties, with a discount to make the dwellings more affordable (they could, in principle, be set at market levels with allocation according to needs and affordability assured through a housing allowance system).
2. Set by some sort of points system that links rents to certain features of the dwelling such as size, quality and location.
3. Set with respect to the costs of provision. There are two broad variants of this method: one which takes account of the costs of the individual dwelling and another that considers the costs of all the dwellings in a particular block, estate or even municipality and then allocates these costs across the stock, assigning rents to individual dwellings according to indicators of cost or the quality of individual units. When costs are considered across a given stock of dwellings, the system is known as “rent-pooling”, which has been a feature of English council housing. This allows for rents to be treated to the aggregate cost of the stock rather than individual units. Rent-pooling avoids situations in which individual rents are related to the “cost-price” of the individual unit. Cost-price rents tend to vary with the age of dwellings. Lower rents for older dwellings reflect the lower historical costs and lower borrowing costs against these units and higher rents for newer dwellings reflect the higher costs or more rent building and borrowing. Given that the age and cost of a dwelling can be a poor proxy for the quality and desirability of housing, most cost-price rent regimes have been phased out although Danish social rents still

reflect the costs of individual schemes. By law, social housing must be rented at cost rents, which are based on historic costs.

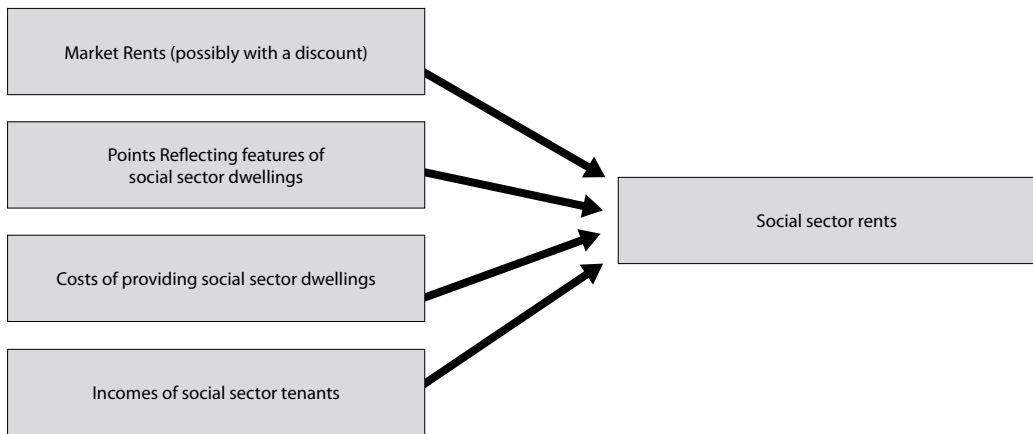
4. Set with respect to the incomes of tenants. Income related rents are, for example, charged in Ireland.

The choice of the method of rent setting should logically be linked to the purpose that rents are to serve. If rents are to signal the relative quality or popularity of dwellings and the neighbourhoods in which they are situated, then they can be related to market rents or administered by allocating points to particular characteristics. Features associated with higher quality and/or greater popularity will attract more points and higher rents. If rents are to make a contribution to the costs of provision, then linking rents to either the historic or current costs of providing dwellings can be appropriate. If rents are to be a contribution to costs based on ability to pay, then income-based rents are one solution. However, there are several reasons why it might be better to make the link with ability to pay through housing allowances rather than using income-based rents.

Income-based rents can be very low relative to the costs of provision and require large subsidies to bridge the gap between revenues and costs. Without such subsidies, social housing providers may lack the funds to fully finance the current stock, to maintain and manage this adequately and to invest in additional stock. Income-based rents may also make it difficult to attract private finance to support and expand social housing. If the return to private finance is to be met, at least in part from rental income, that rental income should be as sure as possible. If it is dependent only on incomes, that revenue flow is less certain than when rents are underwritten by a housing allowance system.

Some essential aspects of alternative rent setting systems are summarised in Figure 9.1

FIGURE 9.1 RENT SETTING IN THE SOCIAL SECTOR: FOUR OPTIONS



### RENT CONTROL IN THE MARKET SECTOR

Many European countries have controlled rents in the market or private sector. The purpose of such controls has been to protect tenants from exploitation by landlords who try to extract the maximum possible rents and who increase rents at times of chronic shortages. Rent controls can thus arguably make housing cheaper and more affordable. However, given that rent controls also reduce landlords' incomes and the rate of return on capital invested they can lead to low levels of maintenance, if landlords cannot afford such expenditure, and may ultimately reduce the supply of private rented housing if landlords are able to sell with vacant possession and cut their losses.

and England. Sweden stands out as a country with different processes that involve annual negotiations between landlords and tenants. The mix of market based and controlled rents in the private sector in the countries shown is indicative of varying policy stances with respect to the freedom allowed to the market.

There are inevitably links between rent levels and subsidies to producers and consumers of housing. The overall costs of housing provision are met mainly by a combination of rents and subsidies. Low rents relative to costs typically involve large subsidies to consumers. High rents, that create affordability problems for consumers, are typically alleviated by large consumer subsidies in the form of housing allowances.

### RENT DETERMINATION AND VARIATIONS BETWEEN COUNTRIES

In Table 9.1 (from Whitehead and Scanlon, 2007) the variations between countries in methods of rent setting in both the social and private sectors is illustrated. Cost-based social rents are used in Austria, Denmark and France, whereas links with incomes are applied in Germany, the Netherlands, Ireland



TABLE 9.1 SOCIAL AND PRIVATE RENT DETERMINATION

	SOCIAL	PRIVATE
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 <sup>2</sup> /month	Private rents also regulated. Average €6.83/ m <sup>2</sup> /month
Germany	In some regions rents vary with household income. €4-7/ m <sup>2</sup> /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

Source: Whitehead and Scanlon, 2007, p 16

## CHAPTER 10

# MECHANISMS FOR FINANCING SOCIAL HOUSING

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### CAPITAL AND REVENUE FINANCE

It is useful to make a distinction between the capital finance that is used to construct, improve or acquire social housing and the revenue finance that is used to cover the ongoing periodic costs of providing social housing.

The capital finance may involve cash grants from the public sector and it often involves loans that can be obtained from public sources or by borrowing on the private market. Revenue finance is required to meet the ongoing costs of providing social housing; this includes the costs of servicing loans as well as the costs of managing and maintaining the housing stock. Depending on the exact responsibilities on the social housing organisation, the costs may also include a range of support services for tenants and improving local environments. The sources of funds for these costs include the stream of income generated by rents, and any ongoing revenue grants from the public sector.

### LOANS

The loans that support social housing provision can also involve various forms of direct and indirect subsidies. For example, the loan may involve a direct subsidy if it is provided at a sub-market rate of interest by the public sector or an indirect subsidy if the public sector guarantees a loan provided by the private market. The consequence of the guarantee is likely to be that the loan is less risky and so the interest rate is lower, thus reducing the cost of financing the loan and ultimately the cost of providing additional social housing. The loan finance might be raised directly by the housing provider or by a special agency established by government for the purpose of supporting social housing. Whilst government grants and loans are the main forms of financing capital investment in some countries, these sources are supplemented by grants and loans from funds that are supported by flows of finance from levies on employers.

## LOW COST LAND

Another form of assistance for social housing investment comes about through measures that reduce the costs of land for new developments. Two significant measures are (1) the provision of land at sub-market (possibly even zero) prices by municipalities or other governmental or public sector bodies and (2) the provision of such cheap or free land by private developers as a condition of planning rules that are set by government.

## RESERVES AND SURPLUSES

Social housing organisations are not always in need of additional external funds for investment. In some countries, social housing providers have significant reserves or surpluses out of which they can finance or part-finance new development. These internal funds may have been built up from past accumulations of subsidies or from rental receipts where these have been more than sufficient to cover current costs. It can also be possible, depending on the assets accumulated over time and the prevailing legislation, for providers to sell assets. This may, again depending on the rules set by government, generate additional funds for investment. It might of course also provide funding to repay debts or more generally reimburse the public sector.

## SUBSIDIES

Governments can reduce the cost of housing finance by providing subsidies. Subsidies reduce the cost of finance below what they would be without the subsidy. If a non-repayable cash grant is provided by government or a government agency, this may be reasonably regarded as a direct subsidy. Grants to social housing developers or landlords have been important in establishing social housing stocks in many countries.

In England, grants to local authorities and housing associations have over many years allowed these providers to invest in new housing and the existing stock. Grants to housing associations are technically loans that are subordinated to the borrowing from private financial institutions, repayable only on sale of the property (which requires special permission). This technicality reduces the costs of private borrowing. Finance that involves subsidies can be raised and provided generally for the social housing sector with individual providers given a large degree of discretion as to which projects are instigated. Alternatively, and more usually, public funding is provided to support a specific programme of investment. In some circumstances funding is dedicated to particular buildings or estates and is linked to the particular finances of that project.

A more general mechanism for supporting the finance of both the capital and revenue expenditures of social housing providers is the provision of tax concessions which effectively reduce either the costs of investment or management. Where capital finance involves subsidies, these almost inevitably come with conditions attached. We can refer to this support as “conditional object subsidies” (Oxley, 1998a, Oxley, 1998b). The conditions typically relate to the incomes and other circumstances of the households that occupy the subsidised dwellings and the rents that they are charged. An alternative form of support is the provision of direct support in the form of financial assistance to individual households. This involves “conditional subject subsidies”. These typically take the form of housing allowances that depend on household size, incomes and the rent paid. Such conditional subject subsidies have grown in significance in most European countries and can be used as means of supporting households in both the social and the private rented sectors. In some countries they also support low income owner-occupiers (Oxley, 1987).

The provision of social housing almost always involves some form of subsidy. Even if subsidies are not paid now, it is likely that they were paid at some point in the past. Where there is a claim subsidies are not paid this is sometimes contestable because of differences of opinion about what constitutes a subsidy. Here it will be assumed that a subsidy to housing suppliers reduces costs below what they would otherwise have been and a subsidy to consumers reduces their housing payments below what they would otherwise have been. Such assistance can take a number of forms, including transfers from government, tax concessions, low interest loans and cross-subsidies from the development process. In most cases, countries use a variety of means to subsidise social housing and no one measure is used in isolation.

## FUNDING PEOPLE OR PROJECTS

In detail, many variations of these funding mechanisms are to be found throughout Europe. In subsequent sections, more information on these variations will be set out. In examining the financing systems in more detail it is important to realise that the adequacy of existing mechanisms has been in question in several countries. It has been argued that:

“Many countries have recognised that if the social sector is to be sustainable, there is a need for additional provision, better maintenance and improvement, regeneration and a wider range of services. However, almost no additional streams of funding have been identified. The majority of investment schemes involve either using existing assets more effectively, selling property on the market, or mechanisms by which land values can be used to cross-subsidise development” (Whitehead & Scanlon, p32).

The increasing emphasis on supporting people rather than bricks and mortar is also clear:

“Additional funding is increasingly limited to private finance, public land and recycling existing assets. The commitment to provide for lower income employed households but using shallower subsidy remains strong, in part because of growing affordability problems among younger households. However it is often being addressed through non-traditional means such as low-cost homeownership schemes. The commitment to provide for the most vulnerable is generally becoming more person specific, and depends increasingly heavily on income related allowances and private and charitable providers. The immediate policy emphasis is on initiatives for providing new housing and supporting broader regeneration projects” (Whitehead & Scanlon, p33).

## POTENTIAL FOR PRIVATE FINANCE AND THE RISKS ATTACHED TO LENDING

An important development over the last three decades has been an increased involvement of private sector financial institutions in the provision of funds for social housing. In its simplest form this means that social housing providers borrow from banks or other commercial sources who lend on terms that are deemed to be mutually beneficial. In undertaking such lending, financial institutions will be taking account of the risks and returns that are attached to their loans. The risks will be governed by the credit-worthiness of the social housing organisations and the probability of them making the required payments on the loans. The interest charged will reflect the risk attached to the lending. Any measures that reduce risks are likely to reduce borrowing costs.

## GUARANTEE FUNDS

If the lending is in some way underwritten by the state, this will reduce the risk and the interest rate. Loans in the Netherlands, for example, are supported by the Guarantee Fund for Social Housing. This was set up in the 1980s and it is funded by the housing associations and backed-up by the government. It results in a triple-A risk rating (the best) for Dutch housing associations. It both ensures access to the capital market and results in low interest loans (Elsinga & Wassenberg, 2007). In England there is not explicitly a guarantee fund but the regulatory underpinning by the Housing Corporation has made it highly unlikely that a housing association will default on its loans. As a consequence, housing associations have good credit ratings and have been able to access funds at commercially beneficial rates.

## HOUSING ALLOWANCES

The indirect underwriting by the State of housing associations' rental income through housing allowance schemes is another factor that can re-assure lenders and thereby encourage favourable lending for the social housing sector. Housing allowance systems that provide support for low income households also support the revenue streams to housing providers. They thus reduce the likelihood of losses to social landlords from a lack of rental income.

## THE COMPETENCE OF SOCIAL HOUSING ORGANISATIONS

More generally, the professionalism and competence of social housing managers will influence the capacity of social housing suppliers to access commercial funds. An increase in perceived managerial skills will have positive effects on credit worthiness.

The fact that social housing organisations have on balance been run in a more business-like fashion in recent years has helped the flow of commercial finance to these housing providers.

## THE ASSET BASE OF SOCIAL HOUSING ORGANISATIONS

The assets that a housing organisation possesses which can be used as security for loans will enhance the possibility of commercial lending being available to the provider. Some housing suppliers, the Dutch housing associations, for example, have built a strong asset base that allows commercial lenders to look on them as secure and low risk organisations (Gruis & Nieboer, 2007).

## BOND SCHEMES

In some countries, the flow of private finance to social providers has been enhanced by the creation of bonds that are supported by fiscal advantages. For example, in Austria, housing construction convertible bonds (HCCB) are used by six large banks for investment in new rentals. "Money raised through the sale of bonds must be invested in social housing construction programs. Mortgages from the proceeds of HCCB are 0.75 percent cheaper than other products and can be used to build housing to be operated privately, by municipalities or limited profit housing associations. Bonds have been primarily purchased by low risk long term investors such as municipalities and pension funds, who receive preferential tax treatment" (Lawson and Milligan, 2007, p79). In Switzerland, "the not-for-profit building sector has improved their access to the capital market for residential construction by working collaboratively with the Swiss Government to create the Central Issuing Office of Non-Profit House Builders or EGW (Emissionszentrale für gemeinnützige Bauträger).

The EGW is a membership based financial intermediary which issues bonds with Federal surety for a duration of between 7 and 15 years and distributes bond quotas to its member non-profit builders. Bond sales provide long term, low interest investment for builders and are highly sought after on the bond market. Pricing at 1 percent below typical mortgage interest rates ensures that tenants benefit in the form of lower rents” (Lawson and Milligan, 2007, p80).

## CONDITIONS TO SUPPORT PRIVATE FINANCE

The opportunity for private finance to support social housing is thus greatest where the following conditions apply:

1. The existence of social housing providers that are seen as good risks with a secure and predictable revenue stream.
2. Financial institutions that understand the tasks and the financial circumstances of social housing providers
3. Regulatory underpinning and possibly the underwriting of loans by government.

In England, as Whitehead and Scanlon (p59) point out, “Funding from the private sector comes from a relatively small number of financial institutions involved in the provision of mortgages across the housing sector. The risk premium is relatively small (between 30 and 70 basis points over LIBOR<sup>1</sup>) in part because of the safety net of Housing Benefit; in part because of the comfort provided by the Housing Corporation’s regulatory powers and in part because of the capital subsidy”. This subsidy amounts on average to around 50% of capital costs on new projects.

When local authority housing has been transferred to housing associations (as it has been in large volumes) under Large Scale Voluntary Transfers (LSVT) funding is wholly through the private sector, although new investment may qualify for capital subsidy. In Sweden, as Turner (2007, p151) explains, “New construction is always funded on the open credit market, with loans sometimes backed by municipal guarantees. For a typical project, 80-90% of building costs will be covered by long-term loans (with a maturity of 40 years or more); the rest will be covered by the MHC’s own resources.”

## INTERNAL AND EXTERNAL FINANCING OF SOCIAL HOUSING: SOURCES OF FUNDS FOR SOCIAL HOUSING

The information in Tables 10.1 and 10.2 makes a distinction between the internal and external funding of housing organisations. Internal funding comes essentially from rental income and the assets of housing providers. External funding comes from public and private sources. The public sources are the various levels of government and governmental agencies. Private sector sources include financial institutions that provide loans. These loans may be at commercial rates or may be ‘supported’ by central government through the underwriting of such loans and thus available at sub-market rates. The private sector sources also include developers and employers who in some jurisdictions can be obliged to provide resources for social housing. Further elaboration of these arrangements is given in the next section.

<sup>1</sup> London Interbank Offered Rate

TABLE 10.1 INTERNAL FUNDING

		RENTS	DISPOSAL OF ASSETS	OWN EQUITY
Housing providers			●	●
Tenants		●		
Government and governmental agencies		....		
Private Sector	Financial Institutions			
	Developers /land owners			
	Employers			

TABLE 10.2 EXTERNAL FUNDING

		PUBLIC			PRIVATE		
		Grants	Tax concessions	Loans	Grants	Commercial loans	Supported loans
Housing providers							
Tenants							
Government and governmental agencies		●	●	●			
Private Sector	Financial Institutions					●	●
	Developers /land owners				●		
	Employers				●	●	

In [A] high level of internal funding implies a large degree of independence for the housing provider, but it also means that there is a lack of subsidy which, unless the organisation has built up a strong asset base, suggests that rents may have to be high enough to finance current costs and any investment activity. The implications of large amounts of external finance vary, depending on whether external funding comes mainly from the public or private sector. Significant support from the former suggests the probability of high subsidy levels and a significant burden for public finances. As European governments have, in recent decades, sought to constrain public expenditure, there has been an increasing reliance on external funding from the private sector which exposes social housing suppliers more to financial markets but also tends to limit public expenditure.

High levels of dependency on commercially borrowed funds does however, link housing finance closely to international finance markets (CGFS, 2006). Social housing suppliers that rely on large volumes of borrowing are exposed to the risks attached to both the availability and the rates of interest on commercial loans. At times of international scarcities of credit social suppliers will be exposed, as private sector housing suppliers are, to increased difficulties in obtaining credit and increased costs of servicing loans that are available.

THE STRUCTURE OF EUROPEAN SOCIAL HOUSING FINANCE SYSTEMS

FIGURE 10.1 SOCIAL HOUSING FINANCE SYSTEMS

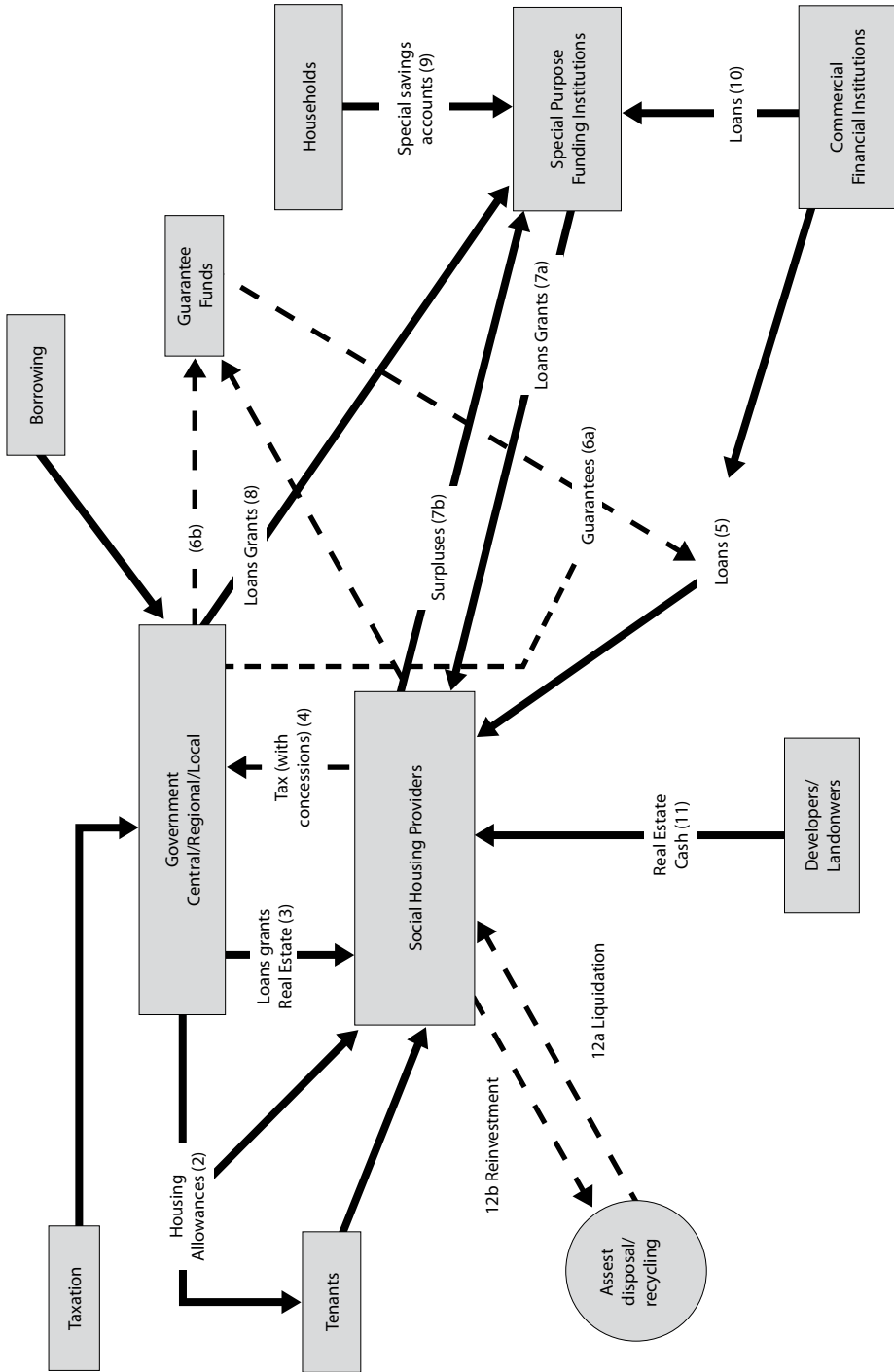




Figure 10.1<sup>2</sup> summarises the key flows that fund social housing in Europe. Not all of the flows apply in all countries. Some countries have several of the funding sources shown and others have only one or two. The main options in use are identified.

The social housing providers at the centre of Figure 10.1 comprise, as explained previously, a variety of public and private bodies including municipalities, non-profit housing associations, profit making landlords and co-operatives.

## PAYMENTS BY TENANTS

The importance of payments by tenants in the form of rents and deposits (1) varies from case to case and is dependent on what rents are expected to do and the levels of rent that can be extracted given the policy context and the provider's given stock of housing. It is possible that rents cover more than current costs and providers can make a surplus. This has been the case for some English local authorities and for some Danish housing associations. Rental income might thus be a source for both contributions to current costs and future investment, depending on the relationship between current revenues and ongoing management, maintenance and debt financing costs.

## HOUSING ALLOWANCES

Housing allowances (2) paid either directly to tenants or to the providers, depending on the country, help to support the rental income stream and have become an increasingly significant form in terms of financial flows to social housing funding in the last two decades. In England, supply subsidies have fallen since the 1980s but have risen again recently.

Subsidies overall are now concentrated more on housing allowances in the form of Housing Benefit. Within the social rented sector, tenants receive help up to 100 percent of their rent plus eligible service income and charges, depending upon their income and household circumstances. The scheme is technically the same in the private rented sector but there are additional constraints that result in most tenants paying some rent. The government is currently piloting a Local Housing Allowance by which private tenants will receive an allowance based on average relevant rents in the local area rather than the rents they actually pay (Whitehead, 2007, pp54-69).

In Germany, supply subsidies have been phased out since the 1980s in favour of a personal subsidy, *Wohngeld* (a form of housing allowance). In 2000 expenditure for housing allowances for the first time surpassed expenditure for bricks-and-mortar subsidies. Housing allowances have aimed to reduce housing costs to 15-30 percent of disposable household income. The amount of benefit is based on the number of persons in the household, the year that the dwelling became available for occupation, the local rents and household income. Housing allowances are subject to a maximum local rent level and a maximum household income, which is adjusted for the number of members of the household. It is available to tenants and owner-occupiers can apply for it although tenants dominate the recipients. Housing allowances are always paid to the occupant, not to the landlord in the case of rented property (Tomann, 1990, p928; Kofner, 2007). It has been claimed that "housing allowances are widely seen in Germany as a relatively market-conforming instrument of social policy ... with the ability to act as a substitute for an important part of the social housing programmes" Kofner (2007, p159). However, only about 40-50 percent of entitled households claim it, mostly the working poor, the unemployed and the retired.

<sup>2</sup> The numbers in brackets in this section refer to the flows shown in Figure 10.1

## DIRECT SUPPORT FROM GOVERNMENT

Social housing providers have usually required support from government in the form of loans, grants or real estate (3). The provision of real estate usually means cheap land but it can also include the transfer of publicly owned buildings at low cost. Direct government funding has become less important in recent years and in the Netherlands and Germany, for example, direct central government support of this sort has been completely phased out. However in Germany, some of the states that comprise the republic have individually decided to provide support. The funding made available by governments is mostly raised by general taxation and borrowing. However there are also examples of hypothecated taxes. An important example is the employers' levy in France. This "1 percent housing contribution" has since 1953 been used as a way of using funds from employers to support affordable housing. The rate is now 0.9 percent of the total wage bill for firms employing more than ten people. The funds are used to finance housing allowances and to support cheap loans and grants to HLM organisations. In return employers have nomination rights for their employees. The funds also support loans to promote home ownership and specifically to finance a guarantee scheme for first time buyers. A further use of the funds is to provide security to help low income households rent in the private or social housing sector. In Austria, social housing is financed by a fixed, earmarked proportion of income tax, as well as corporation tax and 'housing contributions' (paid by all employees). The Austrian housing sector is subsidised in three ways: direct subsidies for construction and renovation (which make up approximately 70 percent by value); individual subsidies for low-income households (approximately 5-10 percent), and tax incentives (15 percent) (Reinprecht, 2007, pp35-43).

In England, housing subsidies to local authorities cover any difference between deemed rental income and deemed expenditure. Since new output declined in the 1980s and outstanding debt fell, most local authorities are in a position to use rental income to pay for rent rebates for lower income tenants. Despite this, many authorities are in 'negative subsidy', allowing them to make a contribution to central government, which is reallocated to areas still eligible for subsidy (Whitehead, 2007, pp54-69).

## TAX CONCESSIONS

Subsidies from government now often take the less direct form of tax concessions (4). These concessions are typically important sources of subsidy. In France, concessions apply to value added tax and property taxes and are linked to lending schemes for particular types of dwellings. For example, dwellings that are financed with the help of PLUS are subject to a reduced value added tax rate (5.5 percent instead of 19.6 percent) and for 25 years, no land and property taxes (*taxe foncière*) have to be paid. PLUS are subsidised loans that can be used for the purchase of building land or existing dwellings, the construction of new dwellings, the conversion of non-residential buildings into dwellings and the development of foyers for vulnerable groups. The loans may also be invested in urban restructuring operations. Non-profit housing providers such as HLMs and housing associations are typically not subject to company taxes.

In Germany, high depreciation rates have provided a major form of tax reduction (Droste & Knorr-Siedow, 2007; Hubert, 1998). Until recently, all housing received indirect subsidies in the form of high depreciation rates (100 percent over 10 years).

The depreciation scheme was set up in 1953 (Leutner, 1990) and has continued, with variations, since then. In 1964 the period of fiscal depreciation for a building was cut in half, from 100 to 50 years. Linear and digressive rates of depreciation have been possible. Owners can choose between the digressive and linear depreciation systems in the case of new build homes (Kirchner, 2006). Tax relief on depreciation also applies to properties for which bricks-and-mortar subsidies have been provided in the past. The regressive rates of depreciation for new build properties were increased in the early 1980s (Hubert, 1998). Nowadays, properties bought that were built from 1925 onwards can be depreciated by 2 percent for 50 years. For properties built before 1925 the depreciation rate is 2.5 percent for 40 years (Kirchner, 2006).

## COMMERCIAL BORROWING

It has become common for social housing providers to borrow from commercial financial institutions such as banks and building societies (5). For example, in England since 1988, funding for new social sector building by housing associations has come from a mix of debt finance (raised on the open market against future rental income) and capital subsidies provided by central government. Funding from the private sector comes from a relatively small number of financial institutions involved in the provision of mortgages across the housing sector. The risk premium is relatively small (between 30 and 70 basis points over LIBOR) in part because of the safety net of Housing Benefit; in part because of the comfort provided by the Housing Corporation's regulatory powers and in part because of the capital subsidy. Large scale voluntary transfers (LSVT) of local authority stock to housing associations are funded 100 percent through the private sector, except to the extent that new investment in the stock to make improvements may be eligible for capital subsidy (Whitehead, 2007, pp54-69).

In Sweden, new construction by Municipal Housing Companies (MHC) is funded on the open credit market. For a typical project, 80-90 percent of building costs will be covered by long-term loans (with a maturity of 40 years or more); the rest will be covered by the MHC's own resources (Turner, 2007, pp148 – 164).

## GUARANTEES

Commercial borrowing by social housing providers is sometimes backed by government guarantees (6a). The borrowing by the Swedish MHCs for example is sometimes backed by municipal guarantees (Turner, 2007) and such guarantees are also used in Denmark (Scanlon, 2007). The loan guarantee process is in some cases organised through a dedicated loan guarantee fund that is supported by payments from government (6b) and possibly supported collectively by the social housing providers (6c). This is the case in the Netherlands where the specialist Guarantee Fund for Social Housing (WSW) is funded by housing associations and backed by the government. In France, loans to HLMs are guaranteed either by local authorities or by the Mutual Fund for Guarantees of Social Rented Housing (CGLLS).

## SPECIAL PURPOSE FUNDING INSTITUTIONS

In several countries special purpose funding institutions have been set up to support the funding of social housing organisations. The institutions provide loans and grants to help fund new building and improvements (7a). There are complex variations in the type of special purpose institution and the sources of their funding. Examples of such institutions include the Housing Corporation in England (which also has a regulatory function)<sup>3</sup>,

<sup>3</sup> In 2009 this funding role will be taken over by a new body, The Homes and Communities Agency. The regulatory role will be undertaken by the Tenant Services Authority.

Caisse des Dépôts et Consignations (CDC) in France and the National Building Fund for Social Housing and the National Fund for Non-Profit Housing Associations in Denmark.

## SUBSIDISED LOANS

The flow of subsidised loans is an important source of support in many countries. For example, in France Prêt Locatif à Usage Social (PLUS) is a loan with a maximum term of 40 years (or 50 years for land purchases) which is accompanied by a subsidy that ranges between 5 percent and 22 percent of the estimated costs, depending on the region and the type of investment. Dwellings that are subsidised with the PLUS are subject to maximum rent levels that differ between regions. The income ceilings that are used in the PLUS serve as a benchmark for the income limits that are used in other subsidised loans. These income ceilings also differ between regions. Households that live in a dwelling that is financed under the PLUS regime are entitled to a housing allowance (APL). The Prêt locatif aidé d'intégration (PLA-I) loan has maximum terms similar to the PLUS but the interest rate is significantly lower, the maximum permitted rent is lower, the subsidies are higher (maximum 35 percent of the estimated costs) and the income levels for residents are more restricted. The Prêt locatif social (PLS) loan is available to any investor (individual household, company or social rental landlord) wanting to provide rented homes in the 'intermediate sector' (*secteur intermédiaire*). About three-quarters of PLS loans are taken up by non-profit landlords (HLMs), and the remaining quarter by individual or institutional private rental landlords. Rents and tenants' incomes in this part of the rental sector are higher than the social housing financed under the PLUS system, but they are still regulated by the state. Tenants of dwellings financed with a PLS loan must not earn more than 130 percent of the income limit for 'normal' social housing

(income ceiling for the PLUS). Dwellings financed with PLS loans are subject to a low rate of VAT, and no land and property taxes (*taxe foncière*) are payable on them for the first 25 years. PLS loans can be used either to build new homes or to purchase and refurbish existing property. HLM-organisations and SEMs can obtain PLS loans through the Caisse des Dépôts et Consignations (CDC). Other investors obtain their loans through one of the banks or finance companies that have signed contracts with the CDC. A PLS loan must cover at least 50 percent of the investment costs. The term of the loan is agreed between the borrower and the lender (maximum term 30 years, 50 years for land purchases). The interest rate in 2007 was around 4.2 percent, depending on the finance company and the type of investor.

To apply for a PLS loan, the landlord must enter into a contract with the French state that runs for 15 to 30 years. During this period the landlord is required to observe guidelines on rent levels and the income of the tenants. For social rental landlords, these obligations remain after the loan is repaid (Amzallag and Taffin, 2003, p9). Also, the contract between the landlord and the French state entitles tenants of a PLS home to Aide Personnalisée au Logement (APL), provided they satisfy the income conditions for this scheme. In tight housing markets, PLS-financed dwellings are still somewhat cheaper than comparable private rental dwellings. The Prêt Locatif Intermédiaire (PLI) loan is similar to the PLS but targets a more upmarket part of the intermediary rental sector. PLI loans are available to both non-profit and profit-making landlords. The rent and income limits are higher than in the case of a PLS loan. Tenants of dwellings financed with a PLI loan must not earn more than 180 percent of the income limit for 'normal' social housing tenants. Tenants of homes financed with a PLI loan are not entitled to APL, but they can apply for the ALS and ALF housing allowances. Interest on a PLI loan is slightly

higher than on a PLS loan, with rates around 4.5 percent in 2007. The tax concessions that apply to PLA-I, PLUS and PLS loans, do not apply to PLI-loans. Private landlords taking up a PLI loan are required to let the home built or purchased with it for a minimum of nine and a maximum of 30 years. During this period the landlord is required to observe guidelines on the rent level and the income of the tenants.

Subsidised loans from special purpose funding institutions can be used explicitly for the improvement of dwellings. An example from France again provides useful elaboration and grants and loans can be combined. The Prime a l'amélioration des logements locatifs sociaux (Palulos) is a subsidy that social rental landlords can use for the renovation of dwellings that are at least 15 years old. The dwellings that are subsidised with the Palulos are part of the social rental sector. This means that they are tied to maximum rent levels and that the tenants have to meet certain income obligations. Furthermore, the low value added tax rate is in use and the residents of Palulos-dwellings are entitled to housing allowances (APL). The Palulos subsidy generally covers 10 percent of the renovation costs with a maximum of €13,000 (US\$20,985) per dwelling. The Palulos subsidy cannot be used in combination with other subsidy arrangements as such but a Palulos grant can be complemented by a specific 15 year Palulos loan. This loan is also available for renovations that do not qualify for the Palulos subsidy and is called PAM: Prêt à l'Amélioration. The loan is provided by the CDC and has the same interest rate as the PLUS loans. Since 1980, more than 60 percent of the social rental dwelling stock has been renovated with the help of the Palulos scheme (Amzallag and Taffin, 2003, p48).

## FUNDING SPECIAL PURPOSE INSTITUTIONS

Social housing providers can themselves provide funds for a special purpose institution (7b). For example, over 50 percent of the surpluses generated by rents covering more than costs (because cost rents have been calculated as if interest on loans still has to be paid, even if loans have been repaid) for the Danish associations has gone to the National Fund for Non-Profit Housing Associations. The funds have been recycled from the fund for the renovation and repair of older social housing stock. More usually the special purpose institutions have been supported, as in the case of the English Housing Corporation, by funds from central government (8). In this case the special purpose institution is essentially a vehicle for the distribution of government funding.

The French CDC is funded through household savings accumulated in the state-regulated *Caisses d'épargne*. Most of these savings are in tax-free or fiscally advantageous saving accounts for such as the *Livret A* scheme or similar schemes (Amzallag and Taffin, 2003). The interest rate on the loans for social landlords is connected to the *Livret A* interest rate (this is the mean of the Euribor interest rate on the one hand and the inflation rate + 0.5 percent on the other hand). In the second half of 2007, the *Livret A* interest rate was 3.0 percent. Currently the CDC provides four different loans that can be used for the construction, acquisition, or renovation of social rental dwellings. Each loan focuses on a specific segment of the social rental market.

Special purpose institutions can borrow from commercial sources (10). For example the Danish National Building Fund for Social Housing has borrowed long term to support social housing. In England, the National Housing Finance Corporation is dedicated to raising private sector finance to develop social housing. It was established in 1987 as a joint initiative between the Housing Corporation, the National Housing Federation (an umbrella organisation of non-profit housing associations in England) and the private sector. It has raised over £1.5 billion (US\$2.92 billion) for lending to housing associations. It raises money by issuing bonds and borrowing from banks.

### SUPPORT FROM PRIVATE SECTOR DEVELOPERS AND LANDOWNERS

Developers and landowners are required in some countries to contribute to the provision of affordable housing as a condition of planning permission (11). This sort of measure is well developed in England but it is also important in Ireland and the Netherlands. In England private sector developments above given thresholds are required to have a particular proportion of affordable housing which can be a mix of social rented housing and low cost home ownership dwellings. The details vary from locality to locality and are subject to site specific negotiations. There is a preference for the affordable dwellings to be on the same site as the market dwellings to promote mixed tenure communities, but affordable provision can also be on other sites and another option is that money is provided instead of dwellings.

### THE ASSETS OF SOCIAL HOUSING PROVIDERS

Social housing providers can use their own asset base to support investment in housing. This can be done by a variety of means, including the liquidation of assets (12a) and reinvestment in new stock or refurbishment (12b). Liquidation can involve the sale of dwellings to tenants or to other housing providers. The use of assets can mean that equity capital is provided directly by social housing organisations. In France, the share of equity capital provided by an HLM depends on its financial situation. Some are relatively well off, with a very low level of debt and a strong asset base while others have a large volume of borrowing. Many Dutch associations have a strong asset base and are able to invest large amounts of capital in new provision. In 1995, through the so-called “grossing and balancing operation” (*bruterling*) the government wrote off all outstanding loans to associations and at the same time cancelled bricks and mortar subsidies. Dutch housing associations are therefore funded by rents and sale of properties and their own assets. However, an ongoing question is who actually owns the associations’ assets; the associations themselves or the government (Elsinga & Wassenberg, 2007). In Sweden, municipal housing companies’ net worth (total assets less total liabilities) averaged 20 percent in 2005, and return on total capital was 6.1 percent, even though this varies considerably across the country. Many municipalities receive a 6-8 percent return on the capital contributed by the municipality to the company (Turner, 2007).

## CHAPTER 11

# EUROPEAN COMMISSION AND THE FINANCING OF SOCIAL HOUSING

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It has been shown that “Countries where social housing caters for employed households on reasonable incomes are running into problems with the EU for subsidising the undeserving – only housing for the poor is considered to be ‘a service of general economic interest’ (Whitehead & Scanlon, 2007, p7).

The European Commission (EC) has warned against social housing providers being too competitive and thus damaging the prospects of private sector suppliers (Oxley et al., 2008; Gruis and Priemus, 2006). Thus, despite the concept of housing policy being an area for subsidiarity (Oxley, 1999b; Doling, 2006), the EC has become embroiled in discussions about the position of the social housing sector in member states. Although subsidiarity requires that the EC should not make housing policy, but should rather leave this to national governments, it has expressed concerns about social housing competing unfairly with housing in the market sector. The issue has arisen most clearly in the Netherlands and Sweden. In most other member states, this problem has not yet been apparent (Whitehead and Scanlon, 2007).

In the Netherlands, the need for subsidised social housing organisations to avoid unfair competition that threatens the competitive position of unsubsidised commercial housing suppliers has been stressed in statements over the last three years from the European Commission’s Director General of Competition. The EC is concerned about the risk of cross-subsidy: government support leaking into non-social dwellings (Elsinga et al., 2008; Priemus, 2006). In Sweden, the European Property Federation filed a complaint with the EC in 2005 alleging that the municipal housing companies that provide social housing are receiving direct and indirect subsidies that harm the competitive position of commercial suppliers of housing. The situation is complicated by the fact that Swedish rent legislation links private sector rents to those charged by the social sector and unsubsidised commercial suppliers have to charge sub-market rents (Turner, 2007). Agreement with the EC on the substantive issues is a matter of ongoing deliberations by the national governments and the EC.

The concerns of the EC illustrate the problem of subsidies to social housing addressing social needs without impeding the ability of the private sector to function in an efficient fashion. An over-subsidised social sector that makes it unprofitable for private suppliers to supply housing at competitive rent levels contravenes the EC requirements for a “level playing field” for suppliers. The issue of competition between social and private rented housing is, however, complex. If social suppliers cater for a wide spectrum of the population and supply housing to some households which could afford market sector dwellings, as is the case in the Netherlands, for example, the possibility

of competition is much higher than in a country such as England where the profiles of social sector and market sector rents suggests a wide gulf between the two. The much higher income levels and high rent levels in the private sector in England suggest that the idea of competition between social and market rented housing here is likely to be very limited indeed (Oxley et al., 2008).



## CHAPTER 12

# EFFECTIVENESS OF SOCIAL HOUSING FINANCE AND TRANSFERABILITY ISSUES

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### JUDGING THE EFFECTIVENESS OF SOCIAL HOUSING FINANCE SYSTEMS

The effectiveness of a social housing finance system is about the ability of the system to achieve its purposes. The effectiveness of a social housing finance system cannot, therefore, be judged in isolation from what it is expected to do. It would be completely wrong to design a new social housing finance system or to propose changes to an existing system without a clear view about the purpose of social housing. This should logically be examined within the context of the overall purpose of housing policy and the place of social housing within that policy. The design of the social housing finance system will then be influenced by the mix of policy instruments that are used to achieve the policy aims. A new or reformed system might work within existing institutional structures or it might, more radically, require the development of new institutions. Political choices will need to be made about the degree of subsidisation that is to support social housing and about the market/state funding mix, that is the extent to which funding is to come from commercial as opposed to public sources. There will also have to be a view on the key levels of decision making. This means essentially how much is to be determined nationally, regionally and

locally and it means how much discretion exists at each level of government and how much discretion rests with individual housing providers. There will thus not be a single 'best' housing finance system but rather there will be some finance systems that are more fit for purpose than others, given the context within which they operate.

### THE PURPOSE OF HOUSING POLICY

A possible but not exhaustive list of policy aims is to:

1. Help low income groups access decent housing
2. Help low income households have adequate post housing expenditure incomes
3. Improve the quality of housing consumed by low income groups
4. Increase housing choices for households with unmet housing needs
5. Increase the supply of housing
6. Improve the quality of urban neighbourhoods
7. Improve the functioning of urban labour markets

8. Promote community cohesion
9. Improve the functioning of the macro-economy
10. Promote environmental sustainability

In Europe, housing policy has become increasingly integrated with a wide range of social and economic objectives that mean that policy is reaching further down the list above than was the case in past decades. A housing policy that has broad goals is much more complex than one that simply focuses on housing low income households. Any finance system must be compatible with the goals of policy in the given country.

When policy focuses on the aim of helping low income groups access decent housing, the setting of the appropriate standards for decent housing is a key element in the success of policy. The difference between needs and demand was explained in Section 4. Meeting housing needs for decent housing means that governments will have to have policies that bridge the gap between what is needed and what is demanded. If the standards of decent housing are set too high and what is needed is too great, housing policies will be extremely expensive. It has been argued that setting standards at inappropriate levels has been one of the failures of policies in developing countries (Habitat, 1994).

## THE PURPOSE OF SOCIAL HOUSING

As has been argued before, at one level social housing may be seen as a means of helping low income households access decent housing. At another, as we have seen, in some countries social housing has a wider inclusive role with the purpose of housing a broad spectrum of the population. Social housing may also be expected to contribute to economic, social and environmental objectives: that means it has a role in adding to the economic strength, social cohesion and sustainability of local

communities. Any financial system has to be orientated towards the principal objectives of social housing provision.

## THE MIX OF POLICY INSTRUMENTS

Most housing arrangements include a mix of conditional subject and conditional object subsidies. The more housing problems are viewed as demand side affordability problems, the greater is the propensity to use conditional subject subsidies. The more the emphasis is on supply side housing shortage problems, the greater the emphasis is likely to be on conditional object subsidies. Whilst housing finance systems can support housing suppliers directly by means of conditional object subsidies, they can also support suppliers indirectly by conditional subject subsidies that underpin the rental revenue stream.

## INSTITUTIONAL STRUCTURES

The institutions responsible for delivering and for financing social housing might at one extreme all be in the private sector and at the other extreme all in the public sector. Mostly there is a mix of both and often specialist quasi-governmental institutions are established to support social housing. Policy makers may decide to use the institutions that exist, possibly promoting provision with the help of subsidies. Alternatively, it might be concluded that new institutions need to be created.

When they have been assisted by adequate conditional object subsidies tied to contracts to supply decent housing at affordable levels, private sector institutions have proved capable of supplying social rented housing. For developing countries in particular, the barriers to market sector institutions being social sector suppliers might usefully be investigated before alternative new institutions are created.

It has been widely argued that a strengthening of property rights and reductions in transactions costs are needed to enhance the role of market sector suppliers in several developing countries (Habitat, 1992, Buckley, Groves, 2004). It has also been suggested that government-imposed high transaction costs have driven out formal sector suppliers and contributed to the growth of informal slum settlements (Boudreaux, 2008).

## SUBSIDISATION

A housing subsidy involves a direct or indirect flow of funds that reduces housing costs (for consumers or producers) below the level that would otherwise prevail. Direct flows of funds involve governments using powers of taxation and/or borrowing to channel money into a housing organisation. This might be a lump sum or a periodic flow of funds. The funding might be a non-repayable grant or it could be a loan that is made available on terms that are better than those obtainable from commercial sources. Typically this means a lower rate of interest but it could also involve longer term lending than is available commercially. Both options can reduce current repayment costs. Rather than supplying the loans themselves, governments may choose to reduce the costs of loans from commercial providers. There are a variety of means by which this can be done, including underwriting the loans to reduce the risk and thus the interest rate. Governments may also create a 'special circuit' for social housing finance by actions that allow financial institutions to gather funds (that are to be re-lent for social housing provision) at preferential rates. They can do this by either subsidising depositors, through for example bonuses that increase the rate of return on savings, or by legislation that requires certain types of organisations, e.g. firms with more than a specified number of employees, to deposit funds with the financial institution. This amounts to a special tax that is hypothecated for housing purposes.

Subsidies can be paid by any level of government and can include assistance in kind as well as direct financial assistance. A major form of provision in kind occurs when housing providers are given land at sub-market costs. This includes the provision of land at zero cost.

Actions initiated by government can lead to cross-subsidies being available to housing providers. The prime example is the subsidisation that comes from developers and/or land owners as a result of arrangements that require developers to supply a given proportion of housing or cash in lieu as a condition of planning permission for private sector development.

## MARKET/STATE FUNDING MIX

It has been common for an increasing proportion of funding to be provided by financial markets as opposed to the state. This change has come about as governments have sought to reduce the budgetary burden of social housing. State funding can be used to lever in private sector funding with housing providers expected to use commercial sources as a condition of the receipt of public funds. The degree of mix will depend on political decisions and be influenced by the maturity of the housing providers and the willingness of commercial institutions to support social housing. As explained previously, the availability of state guarantees can improve the availability and the cost of market funding.

## LEVELS OF DECISION MAKING

Depending on the structure of the state, key funding decisions may be made at national, regional or a more local level. The degree of power and the level of discretion that exists at each level of government have important consequences for housing finance systems. It has become common in Europe for detailed financial decisions to be devolved to the municipal level and in some countries the principle subsidies are available only from regional and local government rather than the central state. In Germany, for example, since 2007 no more bricks and mortar subsidies are available from the federal government. Federal states can now set their own legislation based on local needs. In France, various tiers of government (municipalities, groups of municipalities, *départements*, regions) may provide financial aid to social rental landlords. The support may take the form of direct funding, but it can also involve the provision of cheap building land (Amzallag and Taffin, 2003). Since 2004, groups of local authorities have been able to take responsibility for distributing State grants for social housing. Although these grants represent only 5 percent of the construction cost, they can leverage in other financing. So far, 66 local authority groups have signed an agreement with the state, and this number is expected to grow rapidly in the next years.

A further component of the decision making process relates to the degree of discretion that is left with individual housing providers. Subsidies are sometimes tied to particular projects but providers that are given some choice about the application of funding, including possibly the application of their own equity and borrowing powers are able to make important decisions about investment for themselves.

## KEY CHALLENGES

It is essential that a housing finance system fits the circumstances of the country in which it is to be applied. Renaud (1999, p755) has pointed out that in countries where the majority of people are poor and there is rapid demographic growth, “private as well as public institutions are often weak and fiscal resources are severely constrained”. The search for alternative forms of finance systems has to have regard for the financial sector as a whole and “There is no such thing as a homogeneous ‘Third World’ across which identical policies and instruments could be conveniently applied”.

A discussion of the housing finance lessons for countries in transition, based on the experiences of developed countries (UNECE, 2005) rightly points out that there is no “best” system and whether a particular technique is appropriate depends on such factors as the level of economic development, monetary and fiscal policy and the legal and administrative structure. This applied equally to developing countries as does need for a reliable system for securing property rights and transactions. After detailing these prerequisites it is suggested that “Once these conditions are established, the appropriate finance institutions will emerge” (UNECE, 2005, p1).

## CHAPTER 13

### SUMMARY AND CONCLUSIONS

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#### THE NEED TO ANALYSE THE HOUSING POLICY PROBLEM

The starting point for the design of a social housing finance system should logically be a statement of the housing policy problem that social housing is expected to address and an analysis of the causes of that problem. European social housing systems have been expected to address affordability and production problems. These problems arise in a context where governments have been concerned about minimum acceptable housing standards. The inability by households to afford housing of an acceptable standard can be viewed as a housing need and the source of inadequate effective demand by households. It can also be viewed as a lack of supply of housing of an acceptable standard. Housing markets are geared to meeting housing demand but not necessarily housing need. In recent decades the problems that social housing has been expected to address go beyond affordability and housing supply issues and now include an expectation that social housing will contribute to much broader economic, social and environmental problems.

#### A SUPPLY PROBLEM?

Social housing systems arose and were supported strongly by governments when housing was seen mainly as a supply side problem. That is, there were shortages of decent housing and institutional and financial arrangements developed to respond to this deficit. In many cases the institutional arrangements involved public sector and non-profit suppliers who were assisted by state subsidies. This was not always the case however. In some cases, Germany for example, private sector firms have played an important part in the supply process. Governments have given such firms conditional object subsidies that have allowed them to supply housing at below market rents for households on lower incomes. In all cases, whatever the form of supplier, some form of subsidisation that has involved a redistribution of resources in society has been required. When housing problems came to be viewed less as a supply side problem and more as a lack of effective demand by lower income households, finance systems that relied heavily on housing allowances were developed. As has been explained, in several countries, including England, there has been a renewed recognition in recent years of housing as a supply side problem and fresh initiatives to expand social housing have been developed.

For countries that view housing needs as a supply side problem, the nature of that problem should be probed in some depth before any changes in the finance system are put in place. A failure to supply might be related to inadequacies in physical infrastructure such as roads, drainage and utility services. Alternatively it might be related to a lack of appropriate supply side institutions that can develop and manage sufficient housing or it might be that the necessary institutional arrangements are in place but there are insufficient financial incentives for these institutions to supply housing of the required volume, quality and rents or prices to allow housing needs to be met in a way that allows lower income households to have access to decent housing. In the first case, a flow of funds into the provision of infrastructure should be the priority. In the second case, the development of appropriate housing production and management institutions should be the priority and in the third case, finance to encourage supply from existing institutions should be the priority. In each case, extra supply of adequate housing can be viewed broadly to include more construction, improvements to the existing stock and an improved flow of maintenance and management services from the stock. Taking the third case, where existing institutions are judged to be capable of delivery but financial incentives are inadequate, the focus should be on the best form of incentives.

## CONTRACTS TO PROMOTE SUPPLY

The use of a contractual form of provision is a useful means of tying incentives to supply and thus potentially promoting good value for money. The contracts can be between any level of government or government agency and any form of supplier. A financial system that promotes competition between suppliers for the award of such contracts can be a means to promote efficiency in supply and in the use of public finance (Maclennan, D & More, 1997).

These contracts to supply social housing can be with profit or non-profit institutions, but the suppliers need to be motivated by the incentives that are built into the contracts. The payments to suppliers in these contracts can be seen as subsidies if they allow provision to be at sub-market rents or prices, but they can also be seen as payments for the supply of the service defined in the contract. Aspects of contract provision with the use of conditional object subsidies has typified social rental housing provision in many European countries, but one crucial aspect has usually been lacking; this is competition between suppliers for the award of contracts. Explicit, or more often implicit contracts, have frequently been awarded to uncompetitive, privileged and protected social sector suppliers. This is changing a little in some countries. In England, for example, since 2004, housing associations and approved private firms have been able to bid competitively for contracts from the Housing Corporation for the award of public funds.

An effective form of contract provision requires that the products and services to be delivered are closely defined in the contract and there are financial penalties for a failure to deliver. It also requires open competition between suppliers that have the capacity to deliver. Payments under the contract can in principle take several forms, including flows of funds, the provision of land and the granting of tax concessions. The flows of funds might be grants or cheap loans. The key point is that there should be a connection between the payments and what is delivered. The contract might be just for the delivery of real estate but, if it is for the management of social housing, a flow of housing services will be expected for several years and on-going monitoring of delivery, including customer satisfaction, should be linked to contractual payments. Whilst in practice, contracts are often for the perpetual supply of services, time limited contracts increase the opportunities

for the contract provider to ensure effective delivery. If a satisfactory service is not being delivered, the contract should not be renewed. Tough contract clauses should also ensure that contracts can be terminated before the end of the contract period if delivery is unsatisfactory.

## EFFECTIVE REGULATION

Ensuring that the quality of housing service delivered is adequate requires a strong link between the contractual obligations of the social housing supplier and the rewards and penalties that the supplier faces. This can usefully mean placing the supplier in a risk taking situation where other suppliers can take over provision in the event of unsatisfactory performance. In a competitive situation, and especially in situations where there is no potential competition from alternative suppliers, there should be a strong connection between finance and the regulation of social housing providers. Regulation needs to involve significant rewards and penalties if it is to be effective in improving standards of delivery, including promoting high quality management and maintenance.

## COMMERCIAL FUNDING

Borrowed funds have been central to the development of social housing providers in Europe. These funds have been necessary for new building and for improvements to the existing stock. The source of borrowed funds and the cost of these funds are key features of social housing finance systems. The private sector has provided a growing proportion of this funding. It has been shown that well run and effectively supervised social housing providers with a predictable revenue stream and an acceptable risk profile are more likely to attract commercial funding on favourable terms than poorly run risky institutions. The underwriting of the loans by government, in

either a formal or informal fashion, can also help to facilitate this flow of funds as can governmental support for providers' revenue streams by means of housing allowances. The use of guarantee funds coupled with effective regulation and supervision can reduce the cost of commercial credit.

## SOCIAL HOUSING PROVIDERS' EQUITY

It has been shown that the use of social housing institutions' own equity can be an important source of finance. This is dependent on the maturity of the institution, its debt profile and its costs. In countries without mature social housing providers that have been allowed to retain their equity such opportunities will be sparse.

## THE NEED FOR SUBSIDIES.

As pressure on governments to reduce public subsidies has increased as a consequence of macroeconomic policies, new sources of subsidies have been sought. An important and growing source of cross-subsidy is the implicit taxation of developers and landowners through the planning system. The potential for such "affordable housing through planning" both within and outside of Europe is constrained by several considerations. These considerations relate to the planning system and the buoyancy of the land and housing markets. Affordable housing through planning can only work well if the planning system results in significant private sector gains, when land is developed for housing purposes. These gains are likely to be bigger, and the potential for cross subsidy to social housing development greater, when land and house prices are rising. In situations where the amount of affordable housing provision required from developers is negotiated, as in the English case, the relative skills and bargaining powers of the private sector developers and the public sector planners are additional factors influencing delivery.

All social housing finance that supports low income households is likely to involve a subsidy. Subsidies involve redistribution of resources within countries or flows of funds in the form of aid into countries. The important political decisions for governments centre around how much redistribution they wish to support and how much of this redistribution is to come from taxation, cross subsidisation and external sources. The transfer of ideas from Europe to developing countries must have proper regard for the purpose of social housing and the institutional structures in specific countries under consideration. The analysis has shown that there are no “easy fixes”. Some form of subsidy and thus some form of transfer of resources into social housing will be needed if social housing is to have a social purpose that includes meeting housing needs, as opposed to satisfying housing demand.

## KEY LESSONS

1. The purpose of social housing needs to be carefully defined. It should be clear whether it is to help low income households, boost housing supply, ensure an adequate supply of labour, promote social cohesion or whether it has some other objective.
2. A definition of adequate housing standards is central to logical analysis of housing problems and to an examination of housing need.
3. Markets work on the basis of demand and supply. The case for providing social housing is based on the existence of housing needs (not demands) that are not met by market provision.
4. If the aim of government is to assist low income households, the case for direct provision of housing has to be carefully weighed against the case for supporting households through housing allowances.
5. Social housing can be provided by private sector firms as well as housing associations, municipalities and central government.
6. The use of ‘contract systems’ whereby governments have used the private sector to supply housing in return for ensuring a secure flow of revenue or the receipt of grants or tax concessions have been used in several countries.
7. Regulation needs to effectively link the performance of social housing providers to effective rewards and penalties.
8. Private sector funding has played an important role in supporting the supply of social housing in Europe.
9. Some form of subsidy has proved essential to the funding of social housing in Europe.
10. There are ways of assisting low income households that do not involve social rental housing. These other forms of government activity, including promoting private sector supply and the provision of housing allowances, need to be considered critically in the context of particular countries.
11. Several European countries have in recent decades put reduced emphasis on social housing as a means to support low income households and put more emphasis on housing allowances whilst attempting to expand home ownership amongst low income households.
12. Any suggestions about the transfer of ideas and experiences from Europe to developing countries need to be tempered by a cautious appreciation of the wide differences in cultural, institutional and economic circumstances between nations.



## RECOMMENDATIONS

1. Define adequate housing standards in the context of the social and economic circumstances of a given country
2. Define the purpose of social housing in the context of a given country.
3. If social housing is intended to help households in poverty, examine (a) the alternatives to social housing and (b) the causes of poverty in the context of the given country before looking at the design of a social housing finance system.
4. Consider reforms to property rights and other institutional changes that will enable the private sector to supply housing to low income households.
5. Consider supplying social housing via contracts with private sector suppliers.
6. Establish institutional structures that either promote private sector provision of social housing or allow social housing suppliers to function as secure and efficient non-profit organisations.
7. Consider promoting institutional reforms that will make social sector suppliers attractive customers for private sector financiers.
8. Evaluate the place of supply side subsidies and housing allowances in the light of housing production and affordability targets.
9. Consider public guarantees or under-writing loans to approved social sector suppliers.
10. Establish a rent setting policy in the social sector that relates rents to the relative popularity of the dwellings.
11. Establish a transparent social housing allocation system that gives priority to those in greatest need whilst allowing a degree of individual choice.
12. Ensure that the relationships, at a household level, between incomes, rents and housing allowances promote access to decent housing with, where appropriate, effective work incentives.

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This evaluation of social housing finance in Europe is placed in the context of the purpose of social housing, the sources of funds and the institutions that are used for provision. The effectiveness of social housing finance systems and the transferability of European approaches to other countries, particularly the developing world, are discussed. The analysis shows that an examination of the appropriate standards for decent housing and the barriers to market sector institutions meeting housing needs can usefully be investigated before alternative new institutions are created. If existing institutions are judged to be capable of delivery but financial incentives are inadequate, the focus should be on the best form of incentives. The use of a contractual form of provision is seen as a useful means of tying incentives to supply and potentially promoting good value for money. It is argued that the European experience shows that housing finance that supports low income households is likely to involve a subsidy and that some form of subsidy and thus some form of transfer of resources into social housing will be needed if social housing is to have a social purpose that includes meeting housing needs as opposed to satisfying housing demand.

HS/1188/09E

ISBN (Volume): 978-92-1-132158-6

ISBN (series): 978-92-1-132027-5

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