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Financing affordable housing in an age of austerity

Thank you very much. It is a great pleasure to be here and I want to thank the organizers for inviting me.

I come from London, from the London School of Economics, but I was born in the States. I am a housing researcher. For the last 15 years I have been carrying out comparative research in housing and especially looking at social housing in a number of countries across Europe, Australia and the States. So I'll tell you something about what I have learnt about providing affordable housing. One thing I should say is that Switzerland is one of the countries I do not know a great deal about. That is one of the reasons I was so pleased to be invited to this event because it gives me the opportunity to learn something about things operate here.

Foil 2

The quote is from a representative of the Labour Party which is one of the two main political parties in the U.K. It is just an example of the kind of prominence that the question of housing affordability has in the political debate at the moment. This is referring to the elections for the mayor of London. They are going to take place in a couple of weeks' time, on the 5th of May. Housing is the number one issue in the London mayoral campaign.

That is probably not surprising because London has some of the most expensive real estate in the world, and the population is growing very quickly. But it is not only in London that this is an issue. There is talk of housing crisis in Madrid, in Stockholm, in Munich, in Hamburg, all over the continent.

Now, when we are talking about housing crises, we usually refer to a shortage of appropriate housing at prices that people can afford. But which people are we talking about? Depending on the context we might be talking about people with very low incomes, or about key workers, people like teachers, nurses and bus drivers. We might be talking about young professionals. In the London case we are talking about all of those.

Foil 3

I was looking for something that would show a kind of comparative picture of housing costs, but actually, it is quite difficult, because to get comparative data across countries is not easy. For example in the U.K. we do not calculate prices per square meter which is the standard thing in the rest of Europe – and it is very difficult to get comparable data on rents. These figures are data about house prices for owner occupiers, not rents.

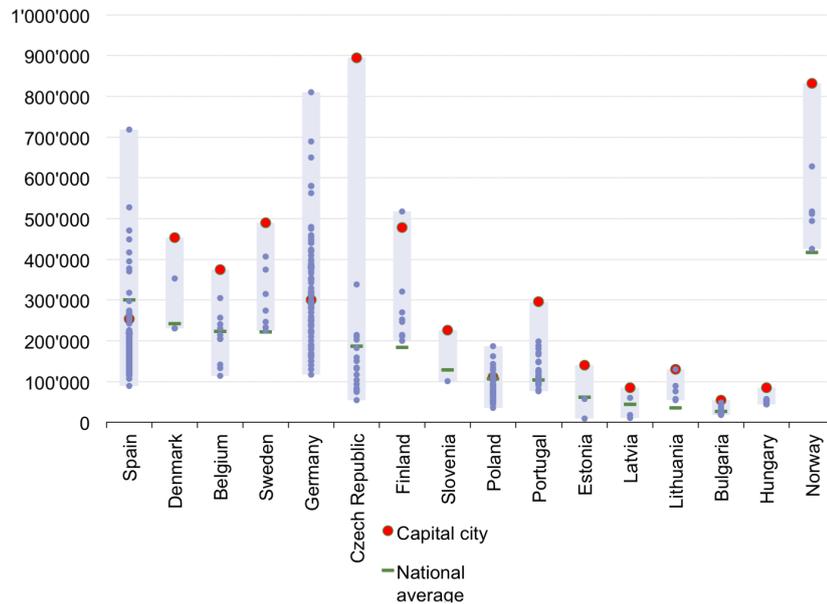
What each vertical bar shows is the range of house prices in different cities in each country. The big red dot for each country shows the capital city.

So, what does it show? Well, first that there is a huge variation across countries, not surprisingly. House prices in Norway are generally very high, in Bulgaria they are generally rather low. It also shows that there is a big range of variation. In some countries the prices are pretty tightly clustered while in other countries there is a big range between the cheapest and the most expensive markets. And finally, it shows



that in most countries, not all - Germany is an exception – the capital city is the most expensive city.

1 Chart: of housing affordability in Europe
 Source: http://ec.europa.eu/eurostat/statistics-explained/index.php/Statistics_on_European_cities#Further_Eurostat_information



Foil 4:

Is social housing the solution to this affordability problem? What role does social housing play? First, I just want to give you one caveat, which is that international comparisons always gloss over important distinctions. This is especially so in the case in the field of housing because it is architecturally, legally, culturally specific to each country.

So for every generalization that I make today I warn you that there will be somewhere in Europe that is not true. But now I am going to make lots of generalizations.

First, historically social housing was provided for low-income working households. That was generally the target market when housing was first built from the late 19th Century by charitable providers to the postwar construction by city governments and national governments.

Now, however, it is more often targeted at the people who are in most need, who are often not working. So, they have very low incomes. Generating affordable housing for them requires deep subsidy.

Obviously, the contribution of social housing depends on how big the sector is and whether it is growing.

Foil 5

This is a table that gives the size of the social housing sector in various countries in Europe. The top section, the blue section shows countries with what we would call large sectors, where a quarter or more of the housing stock is social. The Netherlands is the biggest by far and we are going to hear more about the special features of the Dutch model later today.



Then we have this middle group in light blue with social housing making up about 20 % of the sector. The Scandinavian countries, England and France fall into that category.

At the bottom, in the lightest colour, are the countries with small social sectors. Here is where Switzerland falls, as well as Germany, Ireland and Spain. If we had figures for the other Southern European countries (including Italy, Portugal and Greece), they would also be in this smaller category. The final column shows how the size of the stock has changed in the last decade. In five of the countries shown here the proportion has been roughly stable, plus or minus 1 %. In the others it has been shrinking. So, there is nowhere in Europe at the moment where the social housing as a proportion of the stock is really growing fast.

Foil 6

Besides knowing how much social housing there is, we need to ask who lives in it. The formal regulations give a varied picture of who is eligible. In half of the countries there are formal income ceilings but in half there is no rigid income regulation. In principle anyone is eligible.

In practice, if you look at who lives in the sector, it is a pretty similar picture in most countries. Social tenants have lower than average incomes. They are more likely to be from ethnic minorities, they are more likely to be unemployed and/or single parents. In those countries where large percentages of the population are eligible, there are often very long waiting lists. For example in Denmark until recently it was possible to sign your child at birth for social housing and then hopefully by the time they were 25 or 30 they would have got to the top of the list.

Foil 7

Subject today is affordable housing. If a housing crisis refers to a shortage of affordable housing, what is affordable housing exactly?

The most widely accepted definition is housing at a cost that the households can pay without difficulty. The generally accepted rule of thumb is that the cost of housing should not make up more than about 30–35 % of household income. Countries differ as how they calculate the cost of housing. In the U.K. for example we only look at rent but in a lot of countries particularly in Eastern Europe they also include the cost of heating which can, in some places, be much higher than the cost of the rent itself.

Only Ireland explicitly links social rents to the incomes of the individual household; social tenants there pay a percentage of their income in rents. That is not done anywhere else.

But rents that households can pay without difficulty is not the only way to define affordable housing. I will come back to that later.

Foil 8

Is social housing always affordable? Well, one thing we have done in our research is to compare social rents to private rents. In the top group of countries on this slide - Scandinavia and Germany - social rents and private rents are not very far apart.

Then there is a fairly big group of countries where social rents are half to 2/3 the level of private rents. Finally in Ireland and Spain social rents are very below of priva-



te rents. That is not surprising in Ireland because as I said social rents are a percentage of the income of the household.

The final column describes the mechanism for setting social rents. In most countries they are set based on the cost of constructing the building historically. This can lead to some real distortions for example in Denmark the cost of old, attractive, very desirable social housing in the middle of Copenhagen is much cheaper than the rents of new suburban estates that nobody wants to live in because the old stock was built in the 1920s or 30s, and the newer stock was more expensive.

Foil 9

The previous slide showed that in some countries social rents and private rents are not so very different. Then we have to ask how can low-income families afford social rents? The answer is that in all countries there is some kind rent subsidy for very low-income or even not so very low-income families who cannot afford to pay their housing costs otherwise.

In some countries only tenants, only renters are eligible for these subsidies.

In others only occupiers can get them especially if they are retired.

Some countries cover all of the rent with this subsidy. And in some countries they make the household pay part of the costs themselves.

There is usually a rent ceiling, and often rules about how big the dwelling can be, so that the subsidies cannot be used for luxurious housing or housing that is too big for the number of people living there.

Foil 10

I said before that there is more than one way to define affordable housing. The first way was in relation to the tenant's income. And the second way is to compare the price to the market price. This is usually the system that operates for so called intermediate housing which is housing for families which are in work. They do not earn enough to pay the market price of housing but they are not eligible for social housing.

In England so-called 'affordable rents' can be up to 80 % of market rents, in Italy there is a system of public private partnership producing housing that also has rents that are 80 % of market levels. The use of this term is a bit controversial in England because people point out that in many parts of London, especially inner and central London, 80 % of market rent is still a very, very high rent. To pay 80 % of market rent in the Centre of London, you might need a household income of over 100'000 Euros. Is that really affordable?

Foil 11

I will say a little bit about who provides social housing. In most countries it is either local authorities or housing associations, and the split between them varies. In the Netherlands is all provided by housing associations; in England it is about half and half. There are some places where there are other types of provider – in Spain for example social housing is not rented, it is low-cost provision for people to buy. In Germany private developers get subsidies from the government in return for renting the dwellings at a low rent for a certain period (often 40 years). After that they can sell or rent them on the market.



Foil 14

I need to say something about the European Union, even you are not in the European Union here. Technically housing is not a European Union competency. Even so, the operation of social housing in EU countries is constrained by competition law. Some years ago there were cases brought by the organizations of private landlords in Sweden and in the Netherlands against social housing providers saying that under EU competition law, they were unfairly competing with the private sector because they were in receipt of state subsidy. Both of those countries, Sweden and the Netherlands, had a tradition of accommodating at a broad range of households in social housing, so middle-income households as well as low-income households.

The European Court ruled that they could not continue this system, and that housing that was built with the help of state subsidy could only go to low-income households. The countries affected have had to restructure their social housing systems to make a clear division between the subsidized housing for low-income households and the rest of it.

Foil 15

I won't say anything about the Netherlands actually because we are going to hear a lot more about it today but I did want to show you this nice picture.

2 Housing in the Netherlands



Foil 16

This is a Dutch social home with a bicycle in front, of course. I'll tell you a little something about how the system works in 3 other countries.



Foil 17

In France, HLM housing is provided by housing associations. I won't attempt to say in French. Most of the population is technically eligible for some form of social housing. There are three levels of social housing with different levels of subsidy.

A recent change in the law requires each French municipality to have 20 % of its housing stock as social housing. There are some municipalities for example in peripheral areas of Paris where more than 50 % of the housing stock is social housing and there are some very wealthy municipalities with very little social housing. The idea was to force the wealthy areas to take more social housing. They have generally resisted this. They have to pay a fine if they do not move towards this 20 % goal. Some of them have just said: "Fine, we'll pay the fine but we are not building more social housing".

Foil 18

This is a picture of a rather elegant new social development in the South of France.

Foil 19

In Spain they have a very different model. There is a very small amount of social rented housing provided by municipalities. It is less than 3 % of the stock.

Most social housing is in the form of subsidized units for purchase.

There are very generous income ceilings and there is no restriction on resale. You can buy this home at a discount and sell it after a couple of years on the open market and make a big profit. So, the subsidy just leaks away.

Foil 20

Here is a picture of some of these so called VPO dwellings on the outskirts of Madrid.

3 Housing in Spain



Foil 21

In the UK about 60 % of social housing is owned by housing associations and the rest by local authorities.

When Margret Thatcher took power in 1979 one of her first actions was to give local authority tenants the right to buy their properties, the homes that they lived in, at a discount to the market value. This was so called “Right to Buy”. It was tremendously popular and a high portion of the stock was sold to sitting tenants. Housing association landlords, on the other hand, did not have to offer the right to buy. There is a bill now in parliament that would give housing association tenants the right to buy as well.

It is also making some other important changes to the social housing sector, including a provision that would require social landlords to increase rents for households whose incomes go up about the income ceiling. In the past, a household’s income was only looked at when they first moved into a flat. Now, the landlord will look at their income every year and if it goes above a certain level raise the rent. That is called “Pay to Stay”. There are also provisions already in place for charging more to households that have extra bedrooms. That is known as the “Bedroom Tax”. You can argue that these are both ways of making this sector more efficient, making as we heard from the previous presentations, the size of the household match better with the size of the dwelling, but they are tremendously unpopular amongst housing activists in the UK and are seen as a basically an attack on social housing.

Foil 22

Here is an example of some social housing in London. I cycle through this estate every morning on my way to work. It was built in the 60s and you cannot see it in this picture, but there’s an amazing sculpture by Henry Moore of a reclining nude on a little hill in the middle of it. It is very beautiful.

3 Housing in London



To finish I will say a few words about financing new social housing. I already said that the overall proportion of social housing is not expanding massively anywhere in Europe. Those countries that built a lot of social housing in the 1950s and 1960s have the legacy of a very large stock but no one is building on that scale now. No one is creating a large stock for the future. You know, there is population growth and changing population dynamics everywhere. Social housing still is being built - just not on the scale of 50 years ago.

In principle there are three ways of financing new housing. Each of these or some combination of them can be seen somewhere in Europe.

First you can use the rental income from your current tenants.

Second you can borrow the money either from commercial lenders (banks) or from some state-backed housing finance organization; or third you can use payments from others including other tenants, or the owners of land. For example in England the planning system is used to extract value from landowners to build social housing. Some countries have special taxes on employers that go towards construction of new social housing and of course, the government can just provide some money.

The choice of these depends on the legal ownership of housing. It depends on how the rents are structured, the legal framework and of course on the political commitment to new social housing.

There is a big variety of mechanisms operating throughout Europe but there are some trends that seem to be working across the continent.

First there is reduced availability of government subsidy in most cases which means landlords have to look elsewhere. In some countries, especially in the Netherlands and the UK, the financing now comes largely from the private sector on market terms. So, there are private mortgage contracts with private banks.

One alternative to government financial subsidy is that governments can supply cheap or free land to social housing providers. This is often attractive because it may not show up on the government's accounts as a financial expenditure.

Of course, some providers who have a legacy of assets that were built up in the 50s and 60s and have big financial reserves, for example in Denmark or the Netherlands, they really have such a strong financial base that they can recycle previous subsidy. They do not really need to look outside much for resources to build new housing.

Finally there is an interest everywhere really in seeing if there is a role for institutional investors such as pension funds and insurance companies in investing in rented housing - both private rented housing and social rented housing.

Switzerland is probably the place where this is best developed. That is because of the particular legal framework for institutions here. Everywhere else in Europe is very jealous that Switzerland does manage to get this kind of investment into its rented sector. It has not really happened to such an extent elsewhere. In England for example the government has been trying to encourage this for many years but it is not yet happening at scale.

Foil 23

Finally I will say what the challenges are.

First, the need for affordable housing in general is the greatest in high cost areas, and this is where it costs most to provide. So, subsidy has to come from somewhere to close that gap.



Second, political discussions about the affordability crisis often center not just on the very lowest income people but also on young professionals and families on middle incomes. The existing allocation procedures for social housing often mean that these families have basically no hope of ever getting into social housing and yet they are priced out of market housing. So, there is a real challenge about how to meet that need.

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Conclusion: Social housing does provide affordable and stable housing for many households but it is not the answer to all affordability problems, partly because the scale of need is too great to be met by the existing stock, and we are just not building a lot of new stock.

Expensive cities where the need is the sharpest have expensive land and that is the main element of the cost of the building. New social housing is not cheap. Those people who cannot get into social housing end up in a private renting sector and then, you have the same issues of affordability and tenure security in that sector as well.

Foil 25

And finally, no housing system is perfect. In every country some things work well and other things do not. At the moment, in England, Germany is seen as the model of an excellent housing system because the private rented sector has secure tenancies, families live in it for the long term and that is seen, in contrast how it works in England, as a much better way forward. However, my comparative research has told me that it is never sensible to simply take a policy from one country and say: "That seems to solve the problem" and bring it into another system without a lot of analysis because things are successful in one environment, in one legal framework, in one cultural system might have a very different impact elsewhere.

Herzlichen Dank unseren Projektpartnern



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