



***Principles of housing affordability, subsidies and institutions***



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## Structure of the presentation

- *Key trends and challenges in social and affordable housing in the UNECE (UNECE Social Housing Study, 2014).*
- *Principles of housing affordability.*
- *Housing finance instruments and institutions in countries with mature social housing sector.*

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## **UNECE Social Housing Study 2014: Key challenges**

- 1. Increased housing need**
- 2. Limited funding and finance**
- 3. Lack of housing supply and choice**
- 4. Raising aspirations for housing quality, health standards and energy efficiency**



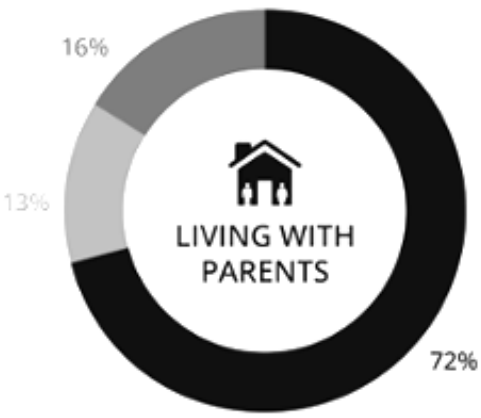


**No income**  
**Low income**  
**Vulnerable/special groups**

**The housing need has diversified**

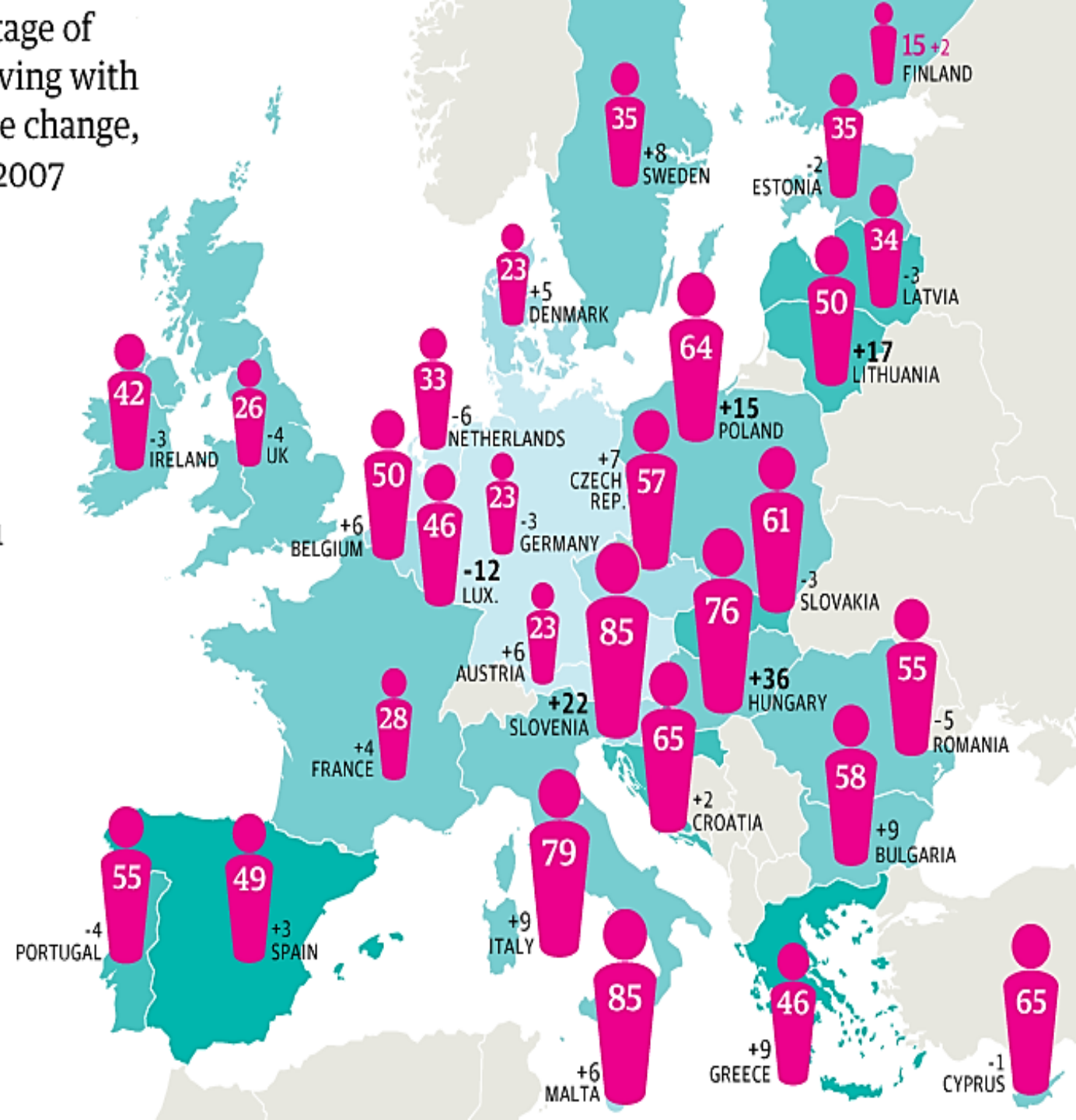
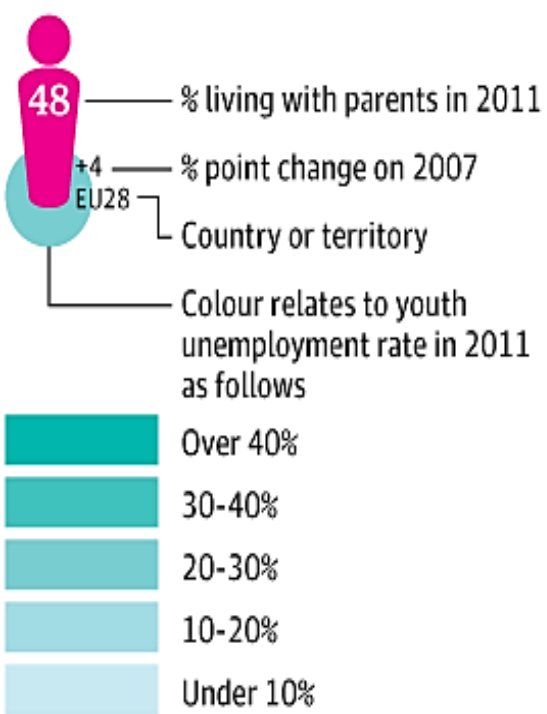
**Aging Population**

**Key workers**  
**Middle income**  
**Young adolescents**  
**Middle Class Families**





This map shows the percentage of 18-29-year-olds who were living with their parents in 2011, and the change, in percentage points, since 2007



SOURCE: EUROFOUND, EUROSTAT



At least **100 million low and middle-income people in the UNECE region are housing cost overburdened**. They spend more than 40 % of their disposable income on housing. High housing costs for low-income households leave limited resources for other basic needs, such as food, health, clothing and transportation. This means that lack of affordable housing makes other human rights increasingly unaffordable.





## Principles of housing affordability

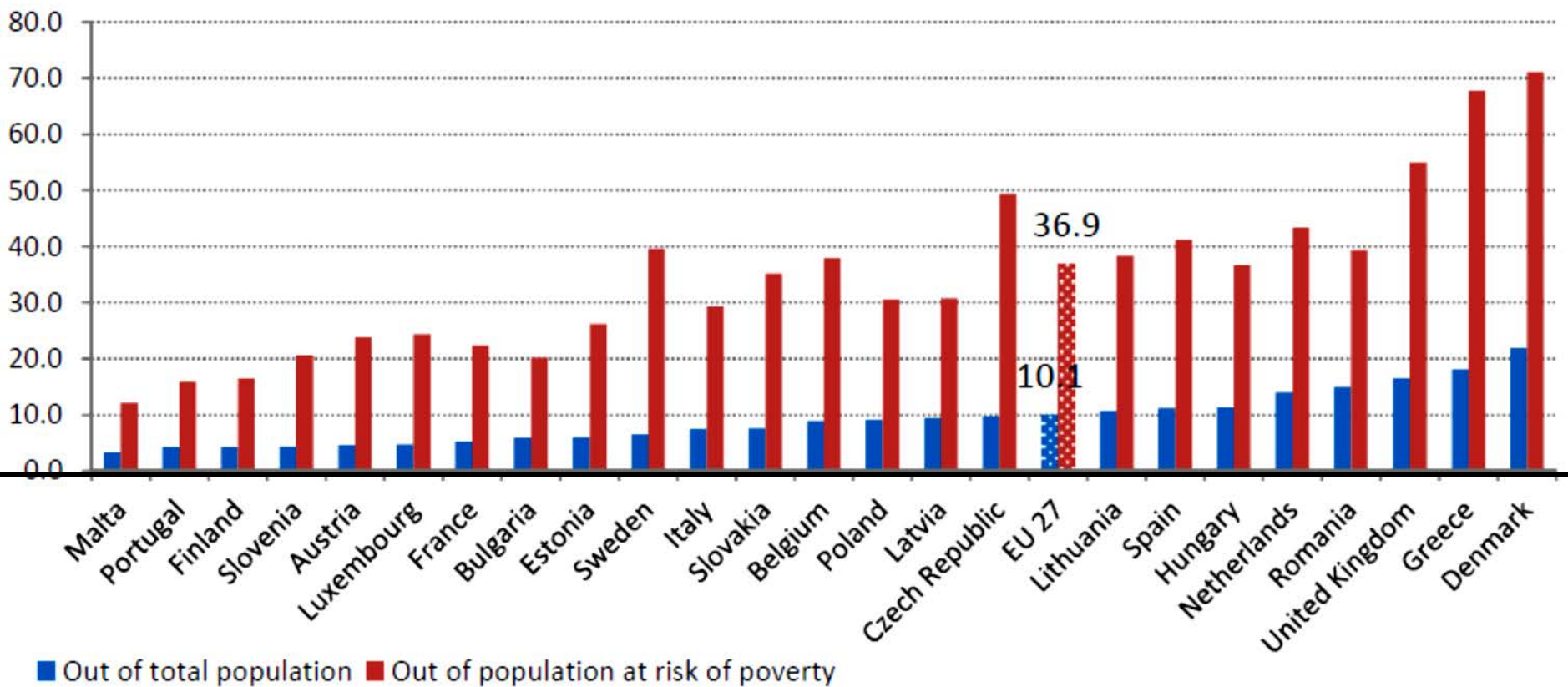
- Housing is considered affordable when the households do not spend more than 30% of their disposable income on housing.
- However, the definition variously include or omit utility bills and expenditure for energy.
- The global financial crisis has changed the context in which the housing system operate.

**>30%**

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## Housing cost overburden rate in the EU 27 as a percentage of population, by poverty status







## Principles of housing affordability

European Commission considers that the households are housing cost overburdened when they spend more than **40%** of their disposable income on housing.

The Harvard University considers families who spend more than **50%** severely overburdened.

**There are over 100 million people in the UNECE region who are housing cost overburdened.**

**<40%**

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## Principles of housing affordability

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- The definitions are based on the assumption that housing finance (mortgages) are main the route to home ownership and are accessible to the majority of the population.
- West: Access to mortgage finance is more restricted (interest rates 3-4%). Middle income excluded from homeownership.
- East: Access to mortgages is limited and expensive (interest rates 7%-22%). Homeownership unaffordable to the majority.

**40%?**

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## Utility bills affordability benchmarks (% of household income/exp.)

Source	Electricity	Heating	Water	Total
The World Bank (2002)	10-15		3-5	
WHO (2004)	10			
IPA Energy (2003)	10	30		
EBRD (2005)				25
UK Government		10	3	
USA Government		6	2.5	

Source: EBRD (Fankhauser and Tepic, 2005).

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## Principles of housing affordability

Utility bills costs have become increasingly significant part of households' expenditures across the UNECE region. Devoting a large proportion of the households' income to utility bills combined with high mortgage interest rates will seriously hamper the ability of first-time buyers to afford and sustain housing once the privatisation of socialist public housing is over. Future housing policies should take into account the utility tariff reforms vis-à-vis housing affordability.

**30+25=  
55%**

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# Need for Social and Affordable Housing



There is a need for social as well as affordable housing supply in order to meet the housing needs of diverse groups of population and respond to the housing market dynamics.

(EU Parliament, 2013; UN Human Rights, 2013; OECD, 2014).



# Social and Affordable Housing Subsidies

Demand Subsidies

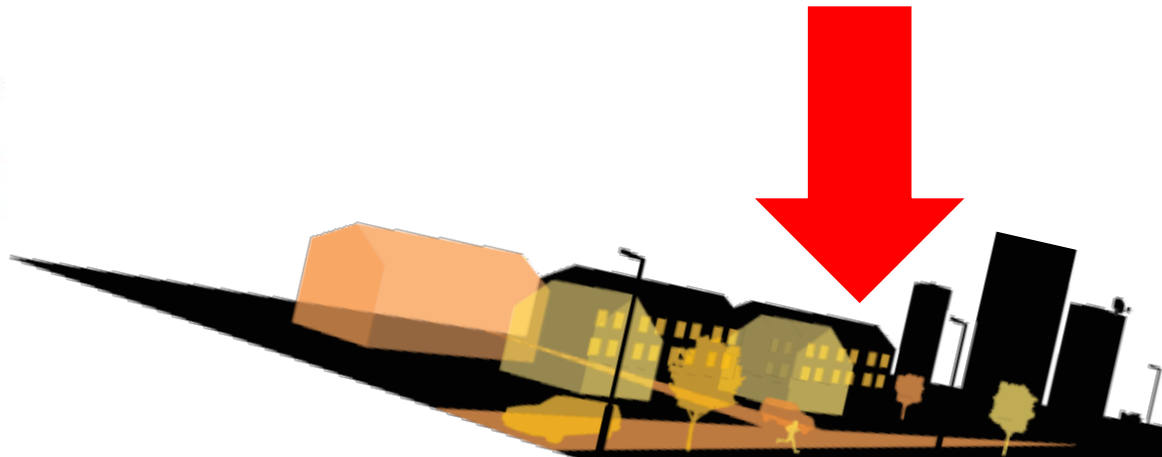
Supply Subsidies

also called

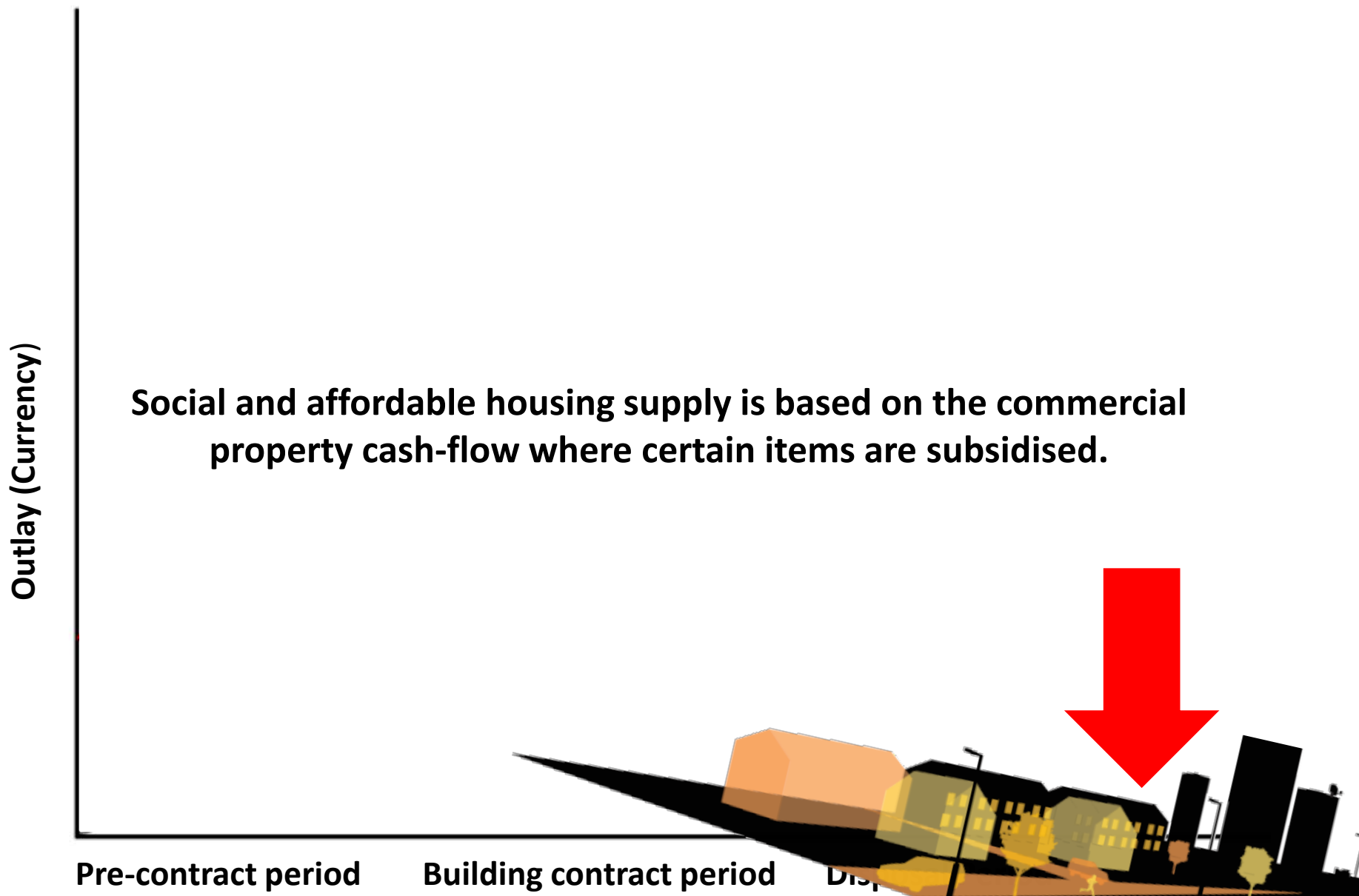
**Subject Subsidies**  
**'Housing allowance'**

also called

**Object Subsidies**  
**'Brick & Mortar' Subsidies**



# Stylised Development Project Cash-flow



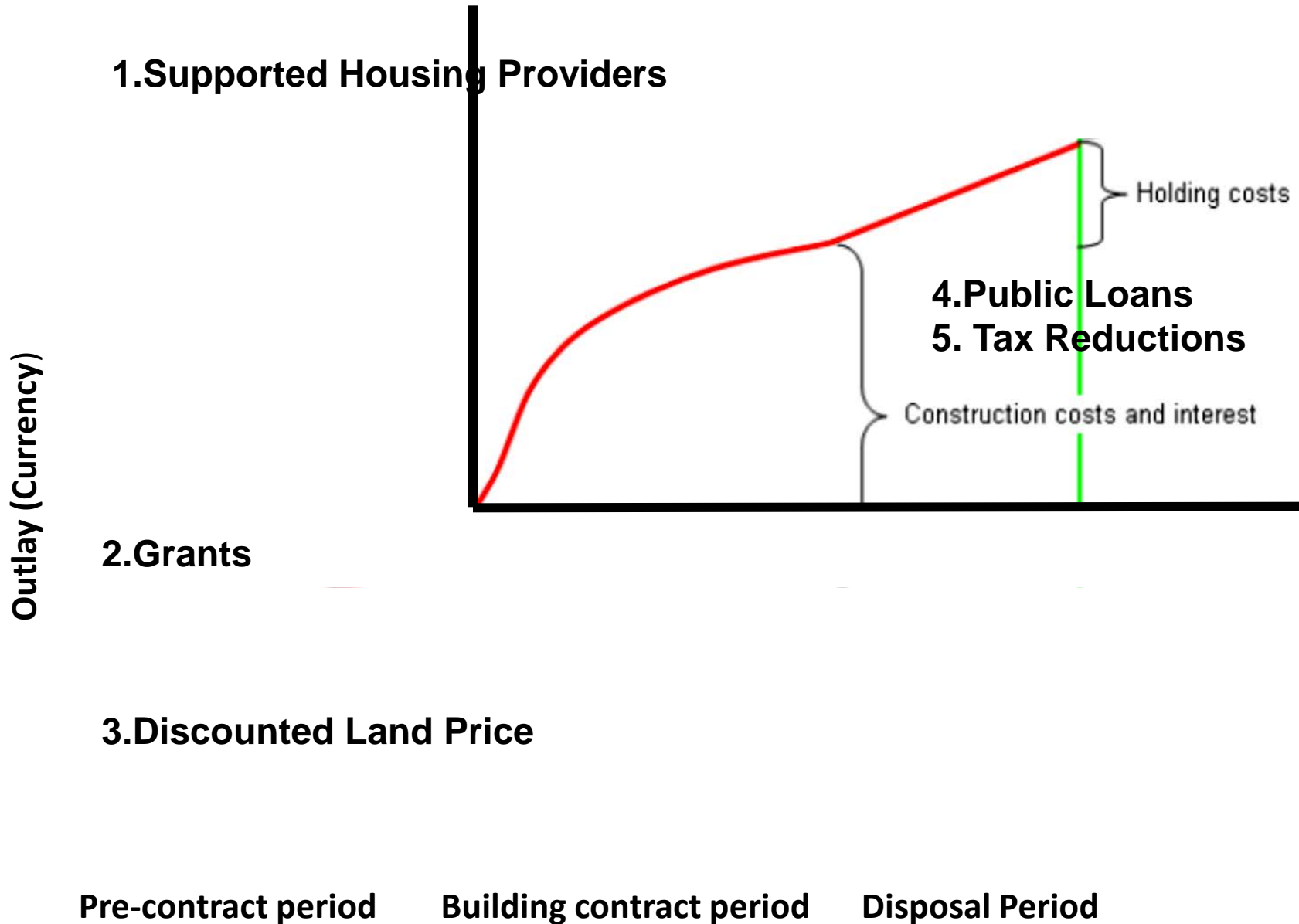
Social and affordable housing supply is based on the commercial property cash-flow where certain items are subsidised.

Pre-contract period

Building contract period

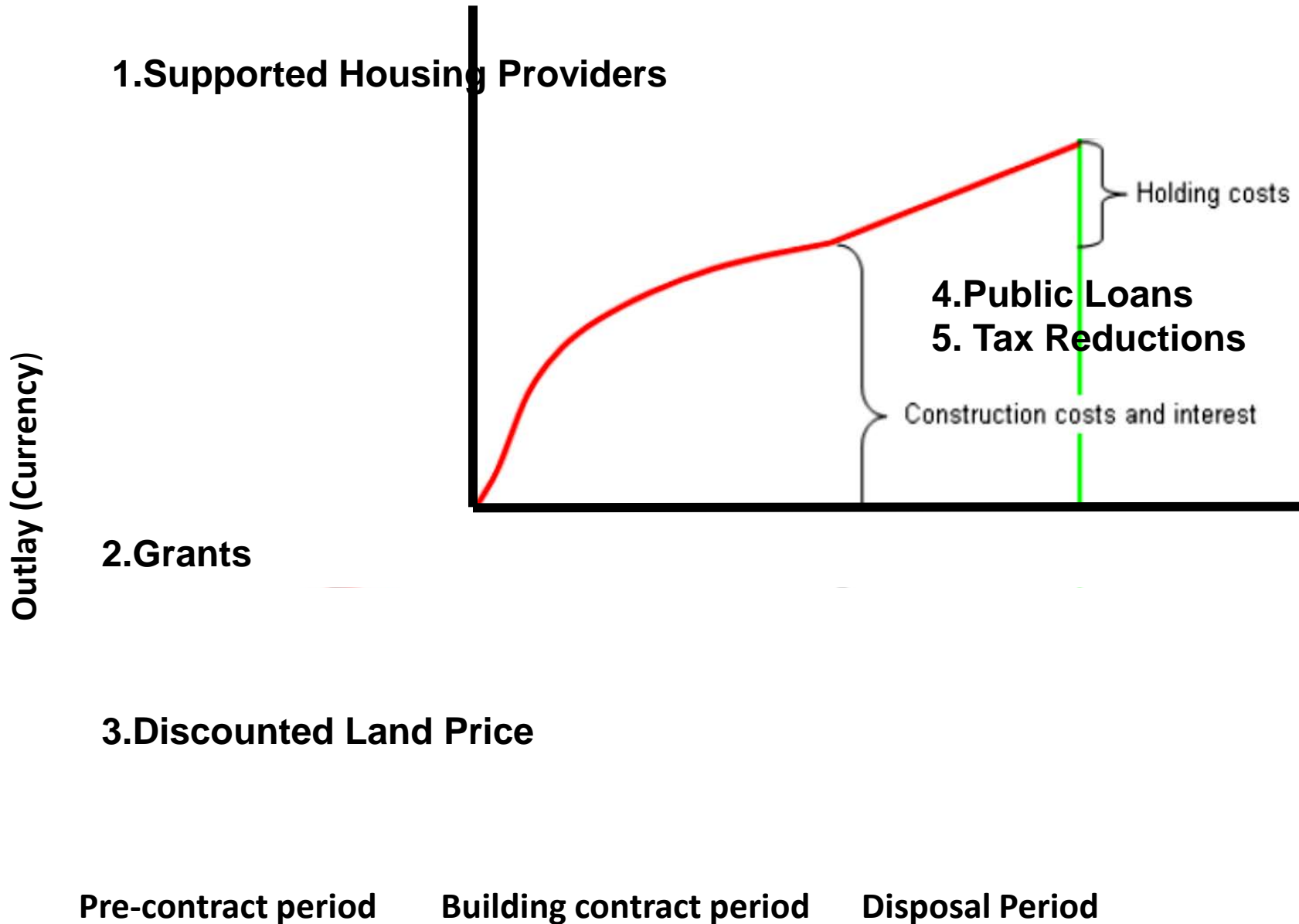
Dis

# Development cost reduction








# Development cost reduction



# Social and affordable housing subsidies

Discount Mechanism	Trend	Provided by	Description	Discount points
<p>Development cost reduction</p> <p>Supported Housing Providers</p>		<p>Support provided by Government (different tiers)</p>	<p>Variety of actors providing social and affordable housing depending on the country (eg. local authorities, housing associations, cooperatives, private developers etc.).</p>	<p>Developers profit</p>
<p>Discounted land price</p>		<p>Government (different tiers)</p>	<p>The option depends on the land ownership and other local factors. This option is not readily available in densely populated areas.</p>	<p>Site Purchase, Interest on site costs</p>
<p>Capital Grants</p>		<p>Government (different tiers)</p>	<p>Public sector (ei. government) grants for new building and refurbishment are being cut across the board as a part of the austerity measures.</p>	<p>Construction Cost.</p>

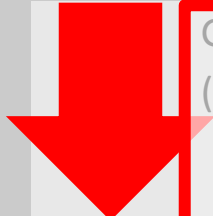
Public Sector

# Social and affordable housing finance

Discount Mechanism	Trend	Provided by	Description	Discount points
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Financial Mechanism

Public loans



Government  
(different tiers)

Traditionally the primary financial strategy for S&A housing programmes. Currently being cut.

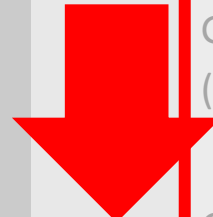
Revolving Funds and Equity Loans



Public Sector

The repaid loans are reinvested in new development. At the moment, loan repayment is challenging.

Interest rate subsidies



Government  
(different tiers)

Being cut. They can be costly to government over time, especially in time of raising interest rates.

Protected circuits of savings for S&A housing



Government  
(different tiers)

Sustained in some countries, while others have dismantled them.

Construction cost and interest.

# Social and affordable housing subsidies

Discount Mechanism      Trend      Provided by      Description      Discount points

Sweating excising assets

Use of own reserves and surpluses



Supported Housing Providers

Instead of using government funds, the supported housing providers are increasingly being asked to use their own assets. This option is possible only for mature well established S&A providers.

Investment from selling off equity or selling properties



Supported Housing Providers

The supported housing providers are resorting to selling part of the equity to their tenants, or selling properties all together in order to subsidise new ones or renew the existing ones.

Provision of commercial properties (cross subsidy)



Supported Housing Providers

Developing and selling properties for market price is used increasingly to subsidise provision of social and affordable housing (by supported housing providers).

**Supported Housing Providers**  
 (eg. local authorities, housing associations, cooperatives, non-profit org., private developers)

Construction cost and interest.



# Social and affordable housing finance

Discount Mechanism      Trend      Provided by      Description      Discount points

Financial Mechanism

Private loans



Private banks,  
Private investors

Increasingly play a role in financing S&A housing. Limited access and high cost of finance.

Bond finance



Bought by  
private investors

Increasingly play a role in financing S&A housing. Generally cheaper than loans.

Government secured private investment or state guarantees.



Guarantees provided by Government (different tiers) to access private funding.

Used to reduce cost of finance and secure private investment in social and affordable housing (see Lawson, 2013).

Loans provided by development banks



EIB, EBRD, CEB

The international development banks are increasingly called to fund the social housing projects. While the number of project has increased in the past decade the provision is still quite limited.

Private Sector

Inter. Banks

Construction cost and interest.

# Conclusions

- 1. As the result of the Global Financial Crisis and recession housing sector is going through reassessment in the majority in the UNECE countries.*
- 2. The future policies will have to address increased and diversified housing need while operating in the context of reduced funds and limited access to finance.*
- 3. In order to provide value for money integration of the efforts of different disciplines, sectors, and national agencies is vital.*
- 4. Mix of policies and their system-level coherence for cost effectiveness.*



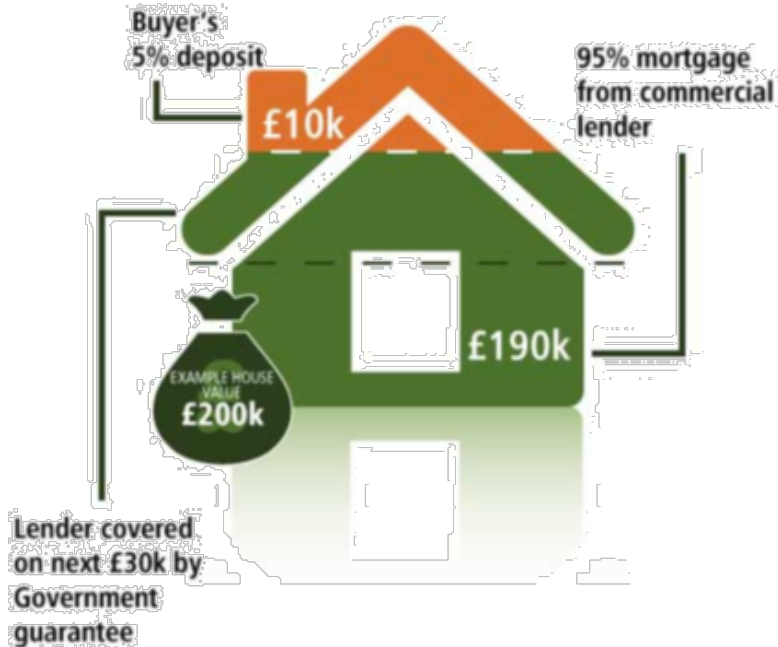
**Thank you.**

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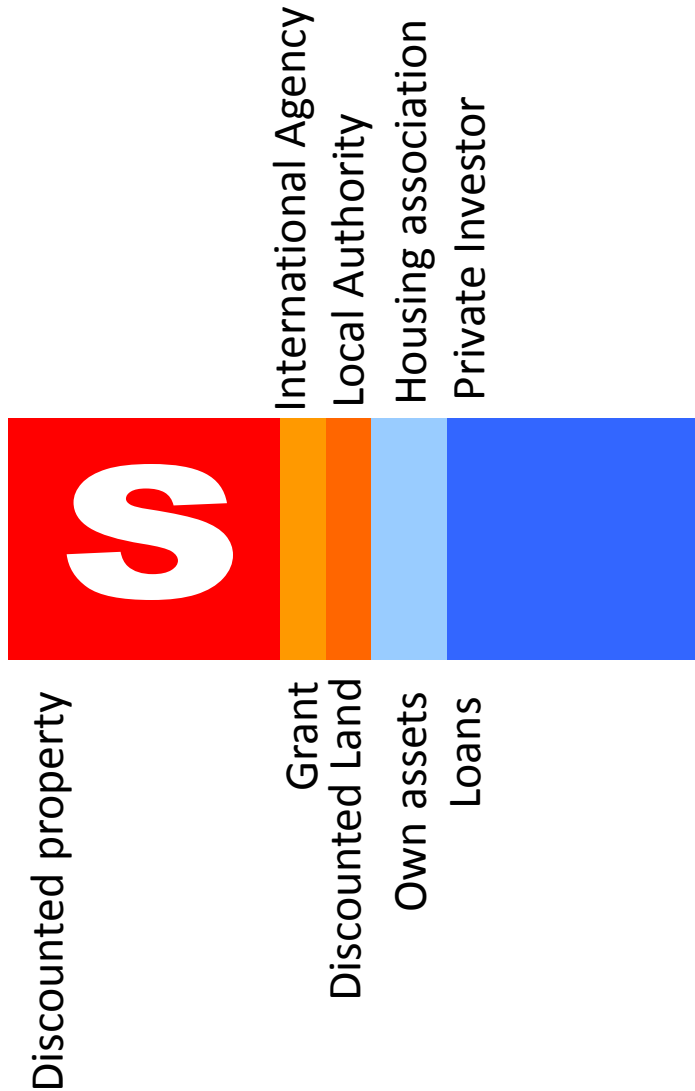
# Key Trends



Help to Buy  
Scottish government guarantee

1. Affordable housing policy, while financially much reduced, is remarkably fluid and subject to innovations and novelty in the countries with mature housing stock.
2. There is a shift from state /public sector funded subsidies to private loans and investments, bond finance and government guarantees, resulting in shallow subsidies and affordable rather than social housing (Gibb et al., 2013).
3. There is an increased interest in 'self-financing'. This may represent a transition from sustainable growth in housing supply towards stagnation (Driant & Li, 2012) and underprovision.

# Key Trends



4. Policy makers are increasingly interested in management of various income streams, blending different subsidies creatively and encouragement of competition among supported housing providers.
5. As the result of restructuring and innovation new actors are joining the process of social and affordable housing provision in number of countries (for example private developers, private banks, private investment institutions).
6. The actors no longer include only national agents but cross border and international agencies (eg. EU banks, investment funds). In some cases new structures (eg. aggregator bonds, market intermediaries) are needed.



# **Key Challenges**

- 1. There is a strong case for arguing that governments should be prepared to increase borrowing to finance social and affordable housing (Gibb et al., 2013, EU Parliament, 2013). However, increased reliance on private finance may increase the price of housing and social rents in long term.**
- 1. There are challenges in regards to new governance arrangements. There is a need to take into account and examine long term dependency on private finance and investment in social and affordable housing, need to clearly define the accountability, roles and responsibilities.**
- 2. Most importantly, in long term fundamental market failures such as the land and credit markets will need addressing, and funding programmes for social housing prioritised, if raising need for housing is to be met (Gibb. et al., 2013).**
- 3. In the countries in transition there is a growth in the National Housing Agencies this is a positive development that could secure cheaper finance in the markets where credit is expensive and hard to attain.**