

# Affordable Housing: Global Trends

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# What Is Meant by Affordable Housing?

The capacity to pay for an adequate standard of housing and still afford the other necessities of life.

Inherently a market based concept:

- Interpretation 1:

Market outcomes are by definition affordable in that people pay those prices and rents – housing as a private good.

- Interpretation 2:

Society (through government) sets acceptable standards and then helps to ensure that households can afford that standard of housing – housing as a merit good.

# Rationale for Government Intervention

- Interpretation 1:

Efficiency: the price people are being asked to pay does not reflect real resource costs, so government intervention necessary to improve the allocation of resources.

Distribution: minimum standards of income rather than housing per se because households benefit from choice.

- Interpretation 2:

Efficiency: as under 1, the price people are being asked to pay does not reflect real resource costs, so government intervention necessary to improve allocation.

But also, society values housing as a social good, so wishes to encourage consumption.

Distribution: redistribution of income and wealth through housing.

# Main Policy Approaches: Principles

- Comparative static efficiency: adjustments to address market failures; main emphasis on spatial externalities through regulation.
- Dynamic efficiency: supporting productivity and growth in the economy; main emphasis on encouraging or providing infrastructure and housing investment to support labour market and competitiveness.
- Merit good/distribution: social contract between government and citizens to ensure the necessities of life for all; emphasis on welfare or socialist state substituting administrative for market allocation and pricing.

# Traditional Policy Approaches: Practice

- Massive variations across the world in terms of extent of proactive intervention in housing provision, allocation and pricing.
- Most systems mixed and most become more complex as the economy grows and governments attempt to achieve conflicting goals.
- Vast majority of instruments are targeted on urban housing, partly because prevailing movement of population is from rural to urban as well as because international migration goes to major urban areas.
- Also, rural housing can be more readily provided by the household or the community because of low densities and low value of land.
- Two big trend issues in addition to population growth:
  - i) demand to live separately is strong and highly income elastic;
  - ii) now four generations to house rather than three, as people live longer; elderly remain as separate households; and younger people aim to leave home earlier for education/job/independence.

# Typology of Traditional Practices

## (I) Market Based

- Static efficiency – with emphasis on regulation to organise and develop land and finance; highly restricted income related benefits (including social housing rent determination).  
Examples: USA, Australia.
- Dynamic efficiency – enabling infrastructure and sometimes housing provision through improved regulation and incentives. Again very limited emphasis on distributional aspects.  
Examples: World Bank (site and service), Japan (new towns).

# Typology of Traditional Approaches: (II) Government supported provision and allocation

## Dynamic efficiency

- Land and housing development: Hong Kong, Singapore, post war Northern Europe.
- Public sector funding sometimes based on increased land values from projected productivity growth; more generally relies on land ownership and state subsidy to support provision.

# Typology of Traditional Approaches:

## (III) Government involvement in provision and allocation

Merit good/redistribution through mixed economy

- Supply side subsidies to ensure affordability across income spectrum: Western Europe, Hong Kong, Singapore.
- Regulation to ensure minimum standards above market based level: Western Europe, Hong Kong, Singapore.

State based approaches

- State housing provision as an element in the social wage and social contract. Historically based on nationalised land and often on employment based allocation. Russia, Eastern Europe, China.

# Major Factors Determining Policy Trends

- The role of land in housing provision both with respect to spatial externalities and as a store of increasing value – linking efficiency to the capacity to provide for lower income groups and particular categories of households such as key workers.
- The relative capacity of different sectors - private, public or non profit - to undertake investment in infrastructure and housing which depends crucially on the means of financing investment at different stages of economic development.
- The extent to which government wishes to provide universal housing services or to target those unable to provide for themselves. In this context an important distinction is between the distributional impacts of policies to increase efficiency and productivity and pro-active policies to redistribute resources through housing.

# Trends in Affordability: Fundamentals

- Standards – in industrialised economies, housing standards based on regulation and provision are usually far above those necessary to remove the negative externalities relating to health/fire etc – but costs increase with these standards.
- Income growth increases the demand for housing but also for housing and neighbourhood related services – so what is an acceptable standard of housing changes. Again costs are increased.
- The distribution of income is becoming more unequal across the world both between income groups and between areas. Those with income (and more than acceptable standards of housing) can out-compete poorer households worsening the problems of affordability for those further down the market.
- Productivity growth increases the relative value of land in general and that with the benefits of access, infrastructure and agglomeration in particular. This necessarily increases the cost of good quality/accessible housing (even though housing in marginal areas may still cost only the rural opportunity cost plus construction costs).

# Major Global Trends (1) Privatisation

Away from government and social provision towards enabling increased private sector involvement, reflecting:

- The increasing importance of choice in housing as incomes rise and the attributes of housing become more complex.
- Political change, notably in socialist countries but also in Western Europe. This has often involved transfers of ownership to individuals at zero price.

# Major Global Trends (1) Privatisation (cont)

- The development of more sophisticated financial instruments to support private development and the transfer of ownership to individuals and private and non profit landlords.
- The need for public expenditure constraint and public asset realisation—particularly important in Western Europe.
- The most extreme changes have been in socialist countries resulting in very little direct provision of affordable housing and major problems of deterioration in the existing stock.

# Major Global Trends (2) Targeting

Away from general subsidies towards more targeted supply subsidies; adjustments towards market rent levels; and income related housing allowances, reflecting:

- The desire to reduce the deadweight losses associated with general subsidies.
- Increased pressure to allocate housing in relation to demand and therefore to increase consumer benefits, improve mobility etc.
- The need to limit public sector financial commitments by shifting to capital grants rather than interest rate subsidies.
- The objective of distinguishing policies to improve efficiency from those aimed at redistribution through housing subsidy.
- These trends have been particularly obvious in Western Europe where they are strongly supported by the European Union.

# Major Global Trends (3) Contributions towards housing from land values

Away from direct public subsidies towards transfers from other sectors – notably land owners (often still government) and to a lesser extent employers, reflecting:

- An increased capacity to value land and land value increases and to relate these increases to the investment and services provided.
- Political acceptance that some element of land value is based on spatial externalities and local services and that this additional value can be taxed to support affordable housing.

# Major Global Trends (3) Contributions towards housing from land values (cont)

- The development of regulatory and other instruments to enable land values to be tapped for the purposes of providing affordable housing.
- Concerns about the extent of segregation and social exclusion generated by market pressures and therefore the need to develop policies that achieve mixed communities – and mixed tenure.

Examples across the world but particularly the UK, USA, Korea, China, Germany, Australasia.

# Major Global Trends (4) Rehabilitation and Redevelopment

Emerging concerns about how to address more sophisticated market failures in the context of improvement, regeneration and neighbourhood management, reflecting:

- The apparent incapacity of the market to manage required investment in maintenance, improvement and regeneration.
- Growing interest in large scale, planned redevelopment projects based on public/private partnerships and land value increments.
- Mixed developments both within housing and between housing and commercial and, to a lesser extent, industrial uses.
- Increasing densities of provision especially in the context of the redevelopment of public sector estates linked to concerns about sustainability.

Examples across Western Europe and to a lesser extent transition economies.

# Major Global Trends (5) Tenure

A shift towards owner-occupation and shallow subsidy intermediate tenure solutions, reflecting:

- The extent to which incomes in general have grown and therefore housing demands have shifted towards higher quality housing.
- Increased evidence of administrative failure in large scale public provision.
- Extensions in the range of financial arrangements available to enable a better fit with individual requirements.
- Increased capacity for individual households to match housing expenditure and consumption over their lifetime.
- Continued pressure to reduce public expenditure and so develop solutions through affordable rather than public housing that enable mixed funding.

# Major Global Trends: A European Example

- Wide range of affordable tenure structures across Europe from municipal, non-profit, co-operatives, regulated private renting to subsidised home ownership.
- Social housing proportions vary from 35% in the Netherlands through around 20% in the UK, Sweden, Denmark and France to 6% in Germany and even lower levels in transition countries.
- Massive shift from the 1980s away from public provision toward private ownership and non-profit providers of social housing.
- But in this century growing concerns both about affordability and about the capacity to undertake regeneration resulting in new types of tenure and public/private organisational structures.

# European Example: Debt Finance

- In many European countries funding traditionally provided through the public sector (so at risk free rate of interest).
- Major changes over the last twenty years, as financial markets have been deregulated and social housing organisations are able to borrow from global sources.
- In countries with independent landlords (e.g. Germany, Netherlands and the UK) those landlords may borrow from the private sector – sometimes with government or local government guarantee. Using the capital assets and rental streams as security, interest rates can be similar to those for utilities.
- Borrowing costs may be reduced by either capital grant or subsidised interest rates.
- Extreme case: Germany – purchase by private equity with license agreement, risks of differential sales and demolitions to increase rate of return as well as cherry picking tenants.

# European Example: Supply Side Subsidies

- Traditionally, funding social housing in most European countries was seen as the responsibility of government - assistance usually in the form of revenue and interest rate subsidies to ensure affordable rents.
- Shift towards more targeted household based subsidies with associated rent increases, based more on values than cost – allowing increased use of the capital base to support borrowing from the private sector.
- Equally, shift towards upfront capital rather than revenue subsidy which can be more readily targeted at specific areas and groups.
- The decline in the capacity and preparedness of municipalities to support local housing through local taxation.
- This has been offset by the increasing use of capital subsidies in the form of land both publicly and privately owned.
- The use of subsidies to transfer tenants out of the social rented sector, funded from historic cost increases in capital values.

# European Example: Using housing and land assets more effectively

- Cross subsidy between tenants – paying for new investment or for poor households through increasing rents more generally.
- Realising housing assets for reinvestment through sales of dwellings to tenants and other groups – bringing in additional private finance.
- Bringing in private equity through the transfer of ownership to private landlords/financiers.
- Increased borrowing against increased housing values leading to higher rents.
- Taxing private land values to support the provision of infrastructure services for social housing.
- Increasing densities and mixed use regeneration in order to use land more productively.
- Overall, making social housing more efficient and self-sufficient?

# Major Trends in Social Housing in Europe: Conclusions

- Increasing capital values and deregulated private finance markets have enabled lower government subsidies and the restructuring of housing finance.
- Higher rents helping to cover higher outgoings in management and maintenance.
- Low incomes of the majority of tenants which is putting increasing strain on income related subsidies and on neighbourhoods.
- Incentives for better off tenants to transfer to other tenures and thus increase their own contributions but also to move to better areas.
- Continuing/increasing use of publicly owned land, and contributions from developers to support new investment programmes.
- The introduction of private equity (as opposed to debt) finance only just beginning – can it continue in the current financial environment?

# Major Trends in Affordability in Europe: Conclusions

- Increasing house prices in relation to incomes, worsening affordability for new entrants.
- Increasing concentrations of poverty and exclusion especially in social housing and among migrants.
- Intergenerational issues arising from the worsening distribution of income/wealth/employment.
- Lack of social support/housing support in many transition economies.
- Growing emphasis on new forms of tenure which enable a better match with individual requirements.
- However the current recession has shifted policy interest back to more public sector involvement, especially to support the development industry.

# Major Global Trends: Conclusions (1)

- Thirty years ago many commentators argued that the problems of affordable housing would be solved by increased incomes and improved financial markets.
- They also suggested that problems of housing-specific spatial externality and the need for regulation to ensure minimum standards would decline as incomes rose.
- What would then be necessary would be support to the poorest groups and to provide greater freedom of choice but also greater responsibility for the majority of households – involving far greater private sector involvement.
- More fundamentally, given expected economic growth, housing was seen as housing a private good which could be provided by the market.

# Major Global Trends: Conclusions (2)

Now the position across the industrialised world looks far more problematic, with many problems unresolved:

- Worsening distribution of income and increasing land costs with differential access to funding have worsened affordability for many lower income and younger households.
- Increasing complexity of housing and its relationship to neighbourhood, services and infrastructure have generated massively greater spatial externalities and market failures. Moreover the costs of these failures are seen to be higher, because of higher incomes.
- Sustainability and climate change issues have moved up the agenda, requiring more regulation and government involvement if they are to be addressed.
- Strained public finances and other spending priorities require more innovative approaches to subsidy and financing – which have faltered in the face of the global financial crisis.

# Major Global Trends: Conclusions (3)

- Overall, issues of affordability and the more fundamental objective of a decent home for all, have not been solved by general income growth.
- The problems turn out to be a lot more difficult than simply providing more housing units. Economic growth both increases the costs of provision and of spatial negative externalities. It also increases the relative value of good neighbourhood and services.
- So even when there is a numerical surplus of housing the problems of affordability remain and even increase – especially if the distribution of income becomes more uneven both between households and between areas.
- Yet the evidence over the last thirty years also suggests important lessons about how to move forward across the globe through effective planning and regulation on the one hand and innovative public/private solutions on the other.