

Urban housing finance report completed by OECD

THE Organisation for Economic Co-operation and Development (OECD), which comprises the major industrial nations, ran an Urban Affairs Programme from 1982 to 1986. This new report brings together the results of the work of the project group on urban housing finance which is one component of the programme.

The report is based on information prepared by 16 member countries and on two special studies, one on tax policies and the urban housing markets and the other on housing maintenance and modernisation policies.

The urban housing finance project was charged specifically with examining housing finance policies in OECD countries with a view to identifying the objectives of major housing policies and programmes, examining the role of housing finance policies as an instrument for the regeneration of urban areas, reviewing taxation policies and financing mechanisms with regard to investment in housing, and advising

'Concern over housing affordability'

governments on policies and programmes for urban housing finance.

The report begins with an examination of housing markets and housing policies. It is noted that in most OECD countries concern about the overall supply of housing has now been either supplemented or replaced by

questions concerning maintenance and modernisation, neighbourhood quality and housing affordability.

New concerns have emerged such as the reappraisal of the balance between public and private provision of finance, changing of responsibilities between central and local governments and the introduction of new techniques of housing management.

The report notes that most OECD countries have experienced the process of urban decline and that governments have developed specific urban regeneration programmes, although in most countries these are still in their infancy. Certain common policy directions are observed, in particular that greater decentralisation of functions and responsibilities and greater public participation will improve the operation of housing markets.

The report notes that most governments have sought to encourage owner-occupation through tax concessions to home owners, low-interest loans and the encouragement of innovation by loan financing institutions. Tax expenditures (that is, relief from taxation) are a major source of housing subsidy, but it is argued that there are drawbacks in that they do not always appear in public expenditure accounts and therefore escape the scrutiny to which specific subsidies are subjected.

Also, it is argued that they are inefficient, inequitable and have adverse effects on urban housing markets. It is suggested that many of

the adverse effects of subsidy programmes could be reduced if they were more carefully targeted.

Chapter IV deals specifically with housing loan finance. This notes that housing finance systems were subject to considerable pressures during the 1970s through inflation, interest rate volatility and fluctuations in the supply of funds. Inflation causes "front end loading" and various loan instruments have been devised to deal with this, including deferred payment mortgages, index-linked mortgages and equity or shared appreciation mortgages.

However, it is noted that despite the wide availability of such instruments they are rarely used extensively, even in times of rapid inflation. This is partly attributed to lack of

'Subsidies' adverse effect on housing markets'

publicity for such schemes and consumer caution.

The problem of greater interest rate volatility has been dealt with partly by the more widespread adoption of adjustable rate mortgages, suggesting that they are a necessary form of loan finance instrument in those countries where lending institutions borrow short and lend long and where interest rates fluctuate significantly.

Various methods of increasing the supply of funds from institutional

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investors to the housing market are considered, including direct loans to housing finance institutions, the purchase by institutional investors of marketable unsecured securities issued by housing finance institutions and secondary mortgage markets. The huge expansion of secondary mortgage market activity in the US is described.

It is suggested that there is no longer a major problem of shortage in the supply of mortgage credit as

housing finance markets are now more closely integrated into general financial markets. From a borrower's point of view it is argued that, although the supply of mortgage credit will be increased, cost and availability will also be expected to increase and this poses the potential problem of affordability for marginal and first-time buyers.

In the policy conclusions (set out in full below) it is suggested that in

those countries seeking to achieve greater owner-occupation, special mortgage instruments, such as deferred payment loans, may have a greater role to play, and that governments may wish to consider methods of improving the targeting of subsidies to home-owners to contain their costs and reduce the other negative aspects.

Urban Housing Finance, Final Report of the OECD Project Group on Urban Housing Finance, OECD, 1987.

Conclusions of the OECD report

THERE are wide variations in the housing systems and policies in OECD member countries, but most of them have experienced difficulties in achieving the basic housing objectives of efficiency and equity. In particular, historical development of housing finance and tax systems has led to a pattern of subsidies which obscures the real cost of housing.

Many countries are in the process of reassessing their housing policies. The first task is to determine the appropriate role of central and local government in housing. Within their fiscal restrictions governments may wish to produce a more cohesive and consistent housing strategy to cover all tenures. This might be primarily designed to meet housing objectives rather than as a subsidiary component of other policies, for example, employment or regional policies.

New priorities

Rising incomes and changes in demographic composition have led to increased aspirations for smaller but higher quality dwellings in many OECD countries. There is an increasing trend for this to be met by the private market through new construction and adjustments to the existing stock.

Concern is shifting in many countries away from the provision of new dwellings and towards maintenance,

repair and improvement of existing dwellings. Governments may wish to consider whether their housing policies emphasise sufficiently both this need and the necessary stock adjustments. In countries still experiencing migration into urban areas and higher population growth, however, policies are likely to continue to focus on new construction.

Most housing policies are nationally-based, yet housing conditions and problems can differ significantly between regions within a country. Governments may wish to consider whether their systems offer

'Revitalisation of urban areas an increasing concern'

sufficient flexibility to deal with the variety of regional problems encountered.

Urban regeneration

Revitalisation of urban areas is an increasing concern in many countries. Governments may wish to consider the extent to which the required reinvestment can be initiated by housing activities. Also, attention may need to be devoted to the relative roles to be played by the public and private sectors, in partnership, in reviving confidence in an urban area.

Successful urban regeneration encompasses non-housing as well as housing reinvestment; this needs to be spatially concentrated in well-defined neighbourhoods. It is also desirable to decentralise public services. It is important that housing policies are consistent with these aspects, and that they are supported by other activities, such as social and environmental improvement programmes, which allow for comprehensive area improvement.

Pricing

In order to develop efficient housing policies governments have to be aware of the real cost of housing and aim towards a pricing structure which in general reflects these costs. In the social housing sector, too, rent structures need to correspond more closely to the value of housing services provided by dwellings.

However, housing is an expensive commodity and most countries will wish to continue to limit the level of cost borne by consumers. Some countries will wish to maintain a broad-based support system, while others may prefer a greater degree of targeting and selectivity. They may consider adapting their policies to achieve greater targeting in terms of some of the following criteria:

- Households on low incomes.
- Households wishing to enter or

having recently entered the housing market such as first-time buyers, new entrants to the rental sector, etc.

Households with special needs, eg people with handicaps, mental disabilities etc.

Household expenditure on specific aspects of housing for which the social benefit is greater than the private benefit, eg energy saving features.

Households moving into or improving dwellings in areas undergoing revitalisation where the social benefit is greater than the private benefit.

Tenure choice

It may be the case that the expansion of a particular tenure is the most efficient way of achieving a general housing or social objective. But countries may wish to consider whether there is a case for greater emphasis on tenure neutral approaches.

Owner occupation

In those countries seeking to achieve growth of owner occupation, special mortgage instruments such as deferred payment, index-linked and equity sharing mortgages can help to reduce the outlay of home owners in the first years and may have a greater role to play than they

'Improving the targeting of subsidies'

have to date. They will be of special help to families with modest incomes and help to defray the transaction costs associated with movement.

Some governments may wish to consider methods to improve the targeting of subsidies to home owners to contain their costs and reduce their other negative aspects. These could include restricting them to first-time buyers; introducing a ceiling on tax relief; restricting the period of time over which it is available; intro-

ducing tax credits; or directing aid to home owners on low incomes.

The rental sector

Some countries are concerned to encourage the growth, or maintain the size, of their rental sectors because of the advantages they offer by providing a tenure suitable to some households' circumstances and facilitating mobility.

The Private Rental Sector. In the private rental sector this may best be achieved by the gradual decontrol of rents, for example, decontrolling new lettings at a pace which allows the supply of housing to adjust and thereby avoids the incidence of windfall capital gains. This must not jeopardise security of tenure and may need to be supported by housing allowances. This strategy is most likely to achieve the necessary broad political consensus. Rent decontrol may also lessen the problems of disrepair and maintenance. Within the private rental sector, arrangements which enable tenants to be consulted about the ways in which their housing is managed can also contribute to maintaining the quality of this housing.

The Public Rental Sector. In seeking to encourage the public rental sector, some countries may wish to adopt initiatives that are already under way elsewhere which aim to improve management, and introduce more flexibility in setting rents and improving housing conditions, especially on large scale estates. In response to criticisms of over-centralised and bureaucratic management practices — which do not respond sufficiently to tenants' preferences — a number of countries are developing new management systems. These involve the decentralisation of functions, responsibilities and budgeting, and may incorporate a greater degree of tenant participation in decision making. In some countries poor housing conditions and social problems are particularly acute in the

large tracts of post war social housing. These may require a greater level of maintenance and reinvestment than is presently taking place. Countries may consider how best to achieve a more balanced mix of tenants on these estates. One means of integrating public housing tenants into the life of the city, in a way that spatial segregation does not permit, is to build public housing in small-scale developments at locations throughout the urban area. Another could be building or converting dwellings for private ownership on existing estates.

The Non-Profit Rental Sector. In countries where non-profit organisa-

'Ensuring an acceptable quality of life'

tions have developed into large-scale operations, their division into smaller units is favoured as a means of improving efficiency and accountability. Elsewhere, small-scale non-profit organisations may offer an attractive alternative tenure in the rental sector. They have a number of features such as relative autonomy, using a combination of public and private finance, often decentralised management structures, and frequently incorporating tenant participation. This may make them particularly suited to the changing housing situation.

Concluding remarks

Many aspects of housing finance and tax systems have direct implications for urban development. Although there is a tendency for governments to decentralise responsibilities, there is nonetheless a continuing need for national governments to ensure consistency between housing policy and their objectives for cities. Due attention to these linkages is a necessary prerequisite of successful urban regeneration strategies and for ensuring an acceptable quality of life for people in urban areas. ■