New roles for older housing

By Duncan Maclellan

NATIONAL housing policies reflect social priorities, economic constraints, beliefs about how to relate cause to effect and, of course, the institutions through which policy can be developed. It is, therefore, unsurprising that the details of rehabilitation policies vary across the European democracies. However, there are broad concerns which emerge simultaneously in different countries.

In the field of housing policy, the period from 1950 to 1980 was largely dominated by government measures to increase housing output. For a number of European countries, notably the Netherlands and the Mediterranean countries, continuing population growth and urbanisation will ensure that new construction remains a key concern of government.

By the end of the 1970s, however, a new policy issue had begun to achieve a growing prominence in policy. Reinvestment in the existing housing stock (variously labelled modernisation, renovation, rehabilitation, revitalisation, etc) became an issue of international importance. Unfortunately this new policy concern, often related to broader aspects of urban decline, emerged when the fiscal resources to support housing policies were restricted or curtailed. In consequence, rehabilitation policy has had to compete for resources with other policy areas.

In the 1980s, unlike the 1970s, rehabilitation policies have been restricted by resource availability rather than by problems of perception (a constraint into the 1970s) or knowledge of appropriate technical or planning solutions.

A number of factors contributed to the growth in reinvestment policy. First, as countries began to balance household/stock numbers, increasing attention was paid to the condition of the stock. Second, as broad “household needs” were met, “special needs” policies developed in relation to groups such as the elderly, young single people and ethnic minorities. As we shall see below, disproportionately high proportions of these groups live in older, poor condition units.

Third, the problems of “inner cities” began to concern governments, especially in the UK, Holland and Germany. Although a great deal of policy discussion focused upon economic development policies to ameliorate urban decline, it was recognised that housing conditions influenced neighbourhood quality and, in turn, the overall attractiveness of cities.

More recently there has been a growing volume of opinion that it was key housing policies such as rent controls, owner tax reliefs and the demolition process associated with social rehousing rather than “economic” decline which had deteriorated older housing areas. That is, policy rather than the market process per se caused decline. This realisation does offer hope for the future, even in a difficult resource environment.

The problem of deteriorating neighbourhoods at the centre of declining cities is commonplace but by no means ubiquitous in North European cities. In some declining cities central neighbourhoods remain in good condition, such as Edinburgh, whilst they may deteriorate in expanding metropolitan areas, e.g. Dublin and London. Further, with continuing urbanisation, this latter concern was not a general one in the Mediterranean area. Although some older core industrial cities in Northern Spain and Italy did manifest pressures, core urban areas generally retained their population (at least until 1980) amidst growing suburbs.

However, in these growing southern cities the expansion of commercial core areas into adjacent housing areas created congestion problems, requiring detailisation rather than revitalisation, and often threatened to overwhelm historic core centres of architectural merit and national symbolism, such as the Plaka in Athens or the Ribeirão-Barreiro area of Oporto.

Although home improvement policy measures had existed in many European countries since the late 1940s, it was only in the 1970s that their wider utilisation, requiring new legislation (often area based), was introduced: Denmark, Sweden, the UK, Germany, France and the Netherlands all introduced legislation to facilitate reinvestment before 1977. Now, on the basis of past experience, these countries are revising legislation and strategies. Further, urban oriented housing reinvestment legislation has also been developed since 1980 in the Mediterranean area, for instance in Portugal, Greece and Yugoslavia, and the Spanish measures of 1982 have been important.

This short paper cannot hope to capture all the nuances of such developments but must be confined to general observations. The paper focuses first on the national scale of policy spending and condition problems. Then attention is drawn to the types of neighbourhood problems...
encountered in different countries. A third consideration is the structure of government required to implement reinvestment strategies and this is followed by a brief consideration of the broad financing and subsidisation of "buyout" and "market-led" approaches to area reinvestment. Finally, the paper sets out some broad considerations which have to be borne in mind in developing reinvestment policies.

Problem scale and spending responses

A broad understanding of the growing importance of reinvestment policy can be gained from a number of indicators. In Sweden, real spending on housing modernisation grew from less than 5% to more than 20% of housing investment between 1971 and 1981. When housing maintenance expenditure is included this share rises to around 50%. In the United Kingdom the equivalent share rose from 24% in 1973 to 37% a decade later.

Similarly in West Germany, almost half of the housing stock received some modernisation in that same period. Leaving aside tax concessions, the government subsidy effort in Germany for that decade amounted to £1 billion and in the UK roughly double that amount. Reinvestment programmes clearly existed on a massive scale in these countries.

This policy effort intensified in many countries towards the end of the 1970s, and from 1979 to 1983 reinvestment policy spending increased. In Denmark, France and the UK policy spending more that doubled and in Finland and the Netherlands it increased by more than 150%. Leaving aside tax concessions and income related housing allowances, in most countries reinvestment measures had come to absorb at least half of overall policy spending. Of course, this expansion has occurred in periods when both public and private spending on housing were being severely pressurised by the overall public spending restrictions.

In the Mediterranean countries, where policies only emerged at the onset of the 1980s, reinvestment spending still only contributes around 10% of total housing investment. The Spanish programme implied in the 1987 plan is almost three times as large as equivalent programmes for Portugal and Greece. However, the annual total expenditure for subsidies to rehabilitation for the whole amount of Spain is approximately half of the amount spent annually in the city of Glasgow, the most rehabilitation intensive city in Western Europe.

Most countries, with the exception of Sweden and Germany, where past achievements have been so extensive, intend to maintain or expand the annual scale of programmes into the next decade. National surveys of dwellings from 3.2 million to one million. This still represents a substantial target for policy, covering 12% of the housing stock.

There has also been a change in the nature of condition problems. There has been a sharp reduction in the number of dwellings without basic amenities (reflecting demolition and modernisation). However, the extent of growth in disrepair in properties with standard amenities represents an important problem.

Public housing, of largely postwar origin, contained 5% of houses in serious disrepair (30% of stock). The number of houses in England estimated to require more than £7,500 of repairs rose from 326,000 to 574,000 in 1971-81. The private rental sector, which comprised 11% of the stock, contained 51, 47 and 49% of stock which was unfit, lacking amenities and in serious disrepair. In all of the tenures in Britain we are beginning to recognise the importance of broader definitions of housing disrepair and of including neighbourhood/environmental quality as a related rather than distinct, separate issue.

In the Netherlands, from 1976-83, the proportion of dwellings in 'good' and 'reasonable' categories (taken together) rose from 65 to 70% of the stock. In older pre 1945 housing in the social rental sector the equivalent figure rose from 41 to 58%. It is noteworthy that 32% of owner occupied units were regarded as being either "moderate to bad" or "very bad," and the equivalent figure for private rental units was 47%. The mixed tenure and age structures of British and Dutch housing make clear that the modernisation and maintenance problem exists in all tenure sectors.

Whilst these overall patterns may be interesting, more disaggregated analysis is required. In all countries, as in France and Britain, the tenure sector with the greatest proportions of disrepair and deficient amenity is the private rental sector. However, it is becoming increasingly clear that problems, especially of disrepair, are
becoming evident within home ownership. Even more urgently, disrepair within post 1960 social housing is a growing and often acute problem, especially in the United Kingdom, France and the Netherlands. Although this latter problem now constitutes the key task facing urban municipalities, the rest of this paper focuses on reinvestment in older, usually private housing.

The urban/neighbourhood perspective
A recent study for OECD revealed that regardless of the national proportion of poor condition, this proportion was almost invariably 50% higher in large cities and, in turn, commonly affected three-quarters of the stock in particular neighbourhoods of cities. In Northern Europe, older neighbourhoods of working class housing dating from the late 19th century, and usually close to the city core, were the key locus of problems along with new, peripheral neighbourhoods of postwar social housing. In the Mediterranean countries, historic core areas, often surviving from before the 18th century, were particular problems as were squatter or illegal settlements on the edge of metropolitan areas. Some countries, such as Spain, contain elements of all these difficulties.

In spite of their different urban and policy histories the areas forming the focus of reinvestment policies had important common characteristics. The houses were old (especially in historic cores), they were generally small, with two or three rooms. They were low in internal amenity, disrepair was extensive and external appearance deteriorated. The works cost of putting these dwellings in good order ranged from £15,000 to £250 per unit of housing. These small densely developed dwellings, often in four or five storey tenements containing up to 15 individual units from a common entrance, were mixed in with commercial land uses, including small workshops in back spaces.

Where the dwellings within a building were within multiple ownership then co-ordination problems arose in the comprehensive rehabilitation of areas. Rehabilitation requires not only that the interior of a unit is improved, but that the common parts of structures are renewed or repaired and that associated neighbourhood environmental improvement is required. That is, the financing and legislative requirement should not merely be aimed at houses but also, in co-ordinated fashion, at the buildings and blocks in which they are located. Countries have been generally slow to learn this lesson, but are now doing so, even if it means changing the scope or definition of "housing" policy.

The co-ordination problem is often severe as multiple ownership prevails. In all the localities studies, the private rental housing sector was the main form of provision, offering from 60 to 80% of the units. This was true regardless of whether the national tenure share of rental housing was large or small. The minority sector was low value owner occupied units, generally bought from disinvesting landlords in the last two decades.

Whether one examines Copenhagen, Glasgow, Rotterdam, Strasbourg, Oporto or Madrid, for instance, almost three-fifths of the residents in such areas are in small, elderly households. Young single person households are the other major user groups in northern European areas but in the Mediterranean areas, where there has been less social rehousing of slum area residents, low income families also live in over-crowded conditions.

The historic, major thrusts of housing policy have often had negative impacts in such older neighbourhoods. Rent controls, which had existed in most of the cities for more than four decades, if they had historically benefited residents in these areas, had now produced badly maintained units in low-socioeconomic dwellings. Private owner occupiers had few effective subsidy or often restricted lending (having adopted the view that such areas were to be avoided as being potentially risky rather than adopting purposive renovation strategies).

As noted below, experience shows that co-ordinated government action can alter such perceptions. Social rehousing had removed younger married households and large families from these areas but often left behind derelict, vacant sites following slum clearances.

Co-ordination of effort was clearly essential in such localities. However, even more apparent was that the high costs of renovation set beside the low rates of return for controlled landlords and low incomes of owner occupiers usually precluded any spontaneous, market led renovation strategy. Reinvestment had to be co-ordinated as well as subsidised and the major measures taken are outlined in the following sections.

The form of government intervention
Sensitive, well planned renovation of older areas requires a clear understanding of the role that a specific neighbourhood plays within a city. Further, given the expensive and protracted processes of compulsion, which exist but are seldom used in most countries, it is essential that local residents and property owners are involved in a participative, co-operative effort. Externally "imposed" rehabilitation solutions have often produced slow progress and resident discontent. These considerations require that strategic planning is undertaken at the municipal/metropolitan level of government but that the implementation of renovation and subsequent management may require the local area presence of a housing agency.

In some countries, such as the Netherlands and Portugal, the muni-
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A more common arrangement, as in Sweden, France, Britain, Denmark and Germany, is for special housing companies or housing associations to undertake renovation and subsequent management. When a national housing rehabilitation programme is in its infancy, usually with sites in national or regional capitals, it is not uncommon for central government departments to have a very direct role in project design, implementation and monitoring. This is still often the case in the Mediterranean countries. As the programmes develop, however, central government must redirect its attention to the equitable geographic distribution of scarce capital resources and the development of systems to monitor the effectiveness of proposals generated from the local scale.

The review for OECD suggested two relevant points. First, few central governments had developed clear cost and benefit criteria for project evaluation and in practice both the costs and benefits of renovation projects are probably underestimated. For instance, in Glasgow it was only realised after five years of intensive action that programmes were changing neighbourhoods rather than merely houses.

"New image built in Glasgow"

Such changes are vital as they gradually reduce, over time, the ratio of public/private finance required to secure wider urban change. But for this to happen programmes, at the outset, require a "vision" of the "new" cities that can be recreated. Glasgow has, despite continuing economic decline, built a new image (culminating in the 1990 European City of Culture) on these programmes. Second, at the local scale there was considerable architectural, technical and social expertise in implementing projects. But again few governments accurately assessed the employment impacts of such programmes. Moreover, there was a much less acute awareness of the housing market and financial implications of programmes. In the Mediterranean countries, including Spain, there may be some merit in national mortgage banks and other large financial institutions developing a much closer associations with area renovation programmes. In the 1980s the close strategic involvement of building societies with rehabilitation agencies has had a more positive impact on the diversity and quality of programmes in the UK.

In such countries national mortgage banks, long used to conceiving of housing investment as new construction and their role as rationing mortgages, may have to give higher priority to housing spending and the share of reinvestment within such totals. The economic consequences of reinvestment spending are, emphatically, not the same as for new construction and in general they have higher employment and lower import consequences.

Financing change

The strategies adopted to promote area reinvestment can be largely subdivided into "buyout" policies, where a "social" or not-for-profit agency is financed to purchase and renovate units, and "market-led" approaches wherein governments stimulate private property investment via tax arrangements, loan subsidies, grants and revisions of rent policy. "Buyout" strategies characterise the rehabilitation of the most rundown areas in Portugal, the Netherlands, the UK (and especially Scotland) and in Denmark. In Denmark, however, the buyouts are relatively temporary in that there is a long term intention to return units, as they fall vacant, to market owners. In all of these instances a social housing agency buys an area of stock from existing owners, and these areas range from around 200 houses in Oporto, to several thousand units in Rotterdam. Existing residents are not displaced.

In Oporto, the Portuguese government and the municipality effectively meet, via subsidised loans, almost 96% of programme costs and subsequent rents are low. Clearly this programme could not develop into a national financing model.

In Glasgow, as in the rest of the UK, around 95% of the costs of renovation spending are written off by a grant from central government and income related allowances further reduce the tenant burdens. In this approach, at least in the medium term, rehabilitation does not induce displacement of existing residents.

In all these large, expensive programmes, central government bears more than 90% of the costs. However, two key points should be noted. First, such zones may often act as rehabilitation "growth poles," for instance the Glasgow example cited above, which re-establish confidence in older areas and, in turn, attract "market-led" and even unsubsidised investment to adjacent neighbourhoods. This raises the ratio of city-wide private to public financing of rehabilitation. Second, such schemes are not only effective measures by which the social sector captures the gains from upgrading, but as elderly residents die, units can be offered for sale in the housing market which has been regenerated.

It is also important in such contexts not to equate the improvement cost per house with "subsidies" to residents. For instance, in Glasgow if the annualised value of rehabilitation subsidies had been "offered" to residents...
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Dentists survey evidence suggests that they would have spent less than half of it on upgrading housing consumption, and almost always by moving out of the deteriorated areas.

Most of the countries with buyout strategies have parallel “market-led” sectors. However, market-led strategies are important in France, Germany and, perhaps, Scandinavia. In the private rental sector there are a range of measures available to increase investor confidence and returns and indeed France and Germany make interesting contrasts in this regard. In the French context, where there are concentrations of rundown units an OPAH may be designated. The area offers, for a three year period, a range of preferential aids to improving landlords. All landlords pay ANAH, a 3% tax on their profits. From these funds ANAH offers grant aid to landlords. Further, landlord are then free to charge a new, higher rent level to recoup part of their costs and their tenants are allowed access to personal housing allowances, which are not a universal entitlement. Under this system, where effective subsidies are around 60% of costs, some 25,000 units have been improved annually. By international standards France has been extremely successful in this regard. But does this strategy miss the poorest neighbourhoods?

German landlords have, by European standards, operated under a higher rent/housing allowance scheme (for more than 20 years) which favours investment. Aside from generous depreciation allowances, rental housing effectively acts as a tax shelter since, if a property is held for at least two years, capital gains tax is not levied upon the eventual profits from resale. Rent rises following modernisation are defrayed by housing allowances. Overall subsidy effects are of the order of 35-45% of projector costs. Since 1983 the German government has actually reduced modernisation subsidies as there was a growing concern that too much expensive upgrading was occurring with negative consequences, for young households.

In almost every West European country owner occupiers, up to some income limit or property value range, have access to home-improvement aid. They are too numerous to discuss here but they rarely offer more than a one-third subsidy on work undertaken and seldom exceed a cash limit of £2,500. The UK is a major exception with larger and more heavily subsidised entitlements (50 to 75% of up to £12,500).

Special loan arrangements to encourage rehabilitation are not widely developed. In Denmark index linked loans have successfully promoted “buyout” strategies. British building societies have developed maturity loans whereby older owner occupiers improve units and interest and loan costs are set against their property value after it is sold or when they are deceased. However, the uptake rate has been extremely low and government has now stimulated “Care and Repair” projects to increase the awareness of elderly households and to assist home improvement.

More recently the British government suggested a more widespread use of loans secured against housing equity. All improvements could acquire loans and the ratio of loan to property value would be calculated. When the property was resold the loan to value ratio would be applied to sales proceeds and this share recouped by government.

Conclusions

Many countries with long established housing rehabilitation policies are now reconsidering the efficiency, equity and broader economic impacts of these programmes. There are many important lessons to be gleaned from past experience. For countries newly embarking on such strategies, particularly Spain, Portugal and Greece, in a period of particular economic difficulty for public and private housing systems, these lessons are even more critical. There are seven key lessons:

1. There is no single “correct” reinvestment strategy, appropriate action varies from city to city as well as country to country.
2. Housing reinvestment strategy should not examine houses in isolation from their surroundings. Houses exist in buildings set in neighbourhoods. An area basis for policy, preferably linking housing activities to environmental programmes, social development and local employment creation is required.
3. Such strategies require the development of new partnerships between central and local governments, social housing agencies and private finance and housing market institutions.
4. Policy must not be short-sighted nor static in form. Recreating neighbourhoods is an evolutionary process and the balance between public and private action has to be altered over time.
5. Reinvestment should not, as has happened in many countries, displace demolition-renewal activities. Sensitive renewal, as now happens in Madrid, can be married to careful reinvestment.
6. Major reinvestment strategies will always be more glamorous than sustained management and maintenance. Most countries need to raise consciousness about the prevention of serious disrepair and this must be a responsibility of the school system.
7. Existing mainstream national housing policies, such as rent controls and mortgage tax reliefs etc., must be examined for potentially negative impacts on older urban areas and they should be designed to stimulate maintenance.

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