

Urban Housing Finance

THIS OECD publication (*Urban Housing Finance*, OECD, 1988) is the result of a three-year study undertaken within the framework of the OECD Urban Affairs programme. It is based on reports provided by OECD governments considering the overall direction of their housing policies and main concerns, and in-depth studies on tax policies, and maintenance and modernisation of urban housing, and on the results of a seminar on housing investment and urban change. The report was written by Ray Robinson, Reader in Economics at the University of Sussex, in co-operation with the OECD Secretariat.

The report comprises five chapters: (a) The context of housing policy, recent trends and prospects for the future; (b) An overview of housing markets and housing policies; (c) Policies towards owner-occupiers; (d) Housing loan finance; (e) Policies towards the rental sector; (f) Housing re-investment strategies.

The chapter giving an overview of housing markets and housing policies contains much useful statistical material. It is noted that most countries now have a balance, or an aggregate net surplus, of dwellings over households, and have increasingly turned their attention to the

issue of housing quality. No internationally comparable figures are available on this, but it is possible to analyse figures on space. As far as dwelling size is concerned Canada and New Zealand are at the top of the range with an average of five to six rooms per dwelling. Luxembourg, The Netherlands and the United Kingdom also have a large average dwelling size. In all countries 90% or more of dwellings have inside running water, and the level of provision of inside flushed toilets is high in most countries, although Japan is a notable exception with less than 50% of its dwellings possessing this facility.

In many cases the quality of a dwelling is closely related to its age. The United Kingdom and France have a particularly high proportion of old housing, and these are a source of concern.

Attitudes towards the different forms of housing tenure vary between countries, although in most owner-occupation is viewed favourably, both by individual households and by governments. The proportion of households within the owner-occupied sector rose steadily throughout the 1970s in most countries.

The chapter on housing loan

finance is of particular interest to housing finance institutions. During the 1970s housing finance markets were subject to pressures resulting from inflation, interest rate volatility, and fluctuations in the supply of funds.

Among the responses to inflation have been deferred interest mortgages, index-linked mortgages, and equity or shared appreciation mortgages.

Greater interest rate volatility has posed serious problems for those countries such as Canada, the United States and the Netherlands, where loans have been at fixed rates of interest. Such countries have tended to move to the variable rate system.

The problem of the supply of funds has been dealt with by interest rate deregulation and also by institutional finance being invested in the housing market by a variety of means.

The group recommendations in the report are reproduced in full below.

This publication is a very welcome addition to the modest range of publications dealing with housing and housing finance problems at the international level.

Introduction

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.

At the moment 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 restric-

tions 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 a subsidiary component of other policies, eg 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 con-

struction and adjustments to the existing stock.

Concern is shifting in many countries from the provision of new dwellings to 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 those countries still experiencing migration into urban areas and higher population growth, however, policies are likely to continue to focus on new construction.

46 →

← 45

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 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 needs 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 this, 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.

Subsidies to Consumers

Housing, however, 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.

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 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 in order 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; introducing 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 for 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.

Public Rental Sector

In seeking to encourage the public rental sector, some countries may wish to adopt initiatives that are already underway elsewhere; these aim to improve management and to introduce more flexibility in setting rents and improving housing conditions, especially on large 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

48 →

← 47

operated very closely with the African Union and the training courses which that Union provides. The group has, however, felt the need for a high level executive development facility. To this end, a Leadership School was launched in Johannesburg in 1988 at the University of the Witwatersrand and underwritten by the Association of Building Societies of South Africa.

Delegates attended from 10 countries in Southern Africa. The first School ran for two weeks and covered a wide range of subjects. To a large extent, building society officials were used to lecture. Although the School was successful in building bridges and bringing the practitioners from the other countries closer together, it was not an academic success. The venue was also not good and two weeks away from their offices was too long a period for persons running small organisations.

Notwithstanding the adverse aspects of running the School, the Group of Ten decided that a second attempt should be made. The Building Societies Institute of Southern Africa undertook to organise a second School on the basis of uplifting the subject matter to chief executive status (no compromise being made whatsoever to any delegate

who may not be at the required level). Lecturers were to be the best professionals available, the venue to be first class and the duration of the course to be restricted to one week or five working days.

The subjects covered during the course were all those items which a chief executive of a building society anywhere in Africa would be expected to deal with. The subjects covered by the experts acknowledged as the best in their respective fields were:

1. *Marketing*
Advertising
Creativity
Research
Sales
Public relations
Attainment of targets.
2. *Personnel Management and Development*
Dealing with unions
Organisational diversification
Manpower diversification
Executive development
Future trends in manpower development.
3. A special report on the effect of AIDS on the world economic trends was presented by the author of a most thought provoking book.

4. *Financial Risk Management*
Financial markets and instruments
Financial derivative instruments
Instruments of monetary policy.
5. *Building Society Management*
Negotiating skills
Electronic banking
Building societies as envisaged for the year 2000.
6. A final presentation was organised by the delegates based on their proposals to be made to their respective societies to solve actual problems which existed in their own environments. (This section was incredibly well presented and most stimulating.) Although very little free time was allocated to the delegates and only one social function arranged, I was impressed by the apparent amount of time that had gone into the preparation of the presentations and also by the amount of reference that was made to the study material and the content of the various lectures. I can only deduce from this that the subjects covered must have been well chosen for their relevance.
The second School was an undoubted success and has now generated its own momentum and will, I am sure, become a permanent feature of the activities of the Group of Ten. ■

← 46

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 housing in small scale developments at locations throughout the urban area. Another could be build-

ing or converting dwellings for private ownership on existing estates.

Non-Profit Rental Sector

In countries where non-profit organisations 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 possess 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, which 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. ■