Financing Social Housing in Europe

by Michael Oxley and Jacqueline Smith

INTRODUCTION

Social housing is becoming more 'mar ket oriented' in many countries throughout the European Community. Sometimes social housing is referred to as 'non-profit housing'. This is on the understanding that it is outside of the market sector and no surpluses for commercial distribution should be made from its operation. However, it is possible in some European countries for surpluses which might legitimately be termed as profits, to be made from social housing!

Subsidised rented housing, which is allocated with reference to need, is supplied in Europe by a variety of landlords including municipalities, housing associations, other non-profit organisations and commercial enterprises.

HOW MUCH SOCIAL HOUSING?

Table 1 shows on the basis of combining several estimates the size of the different sectors in the European Community. The figures, however, must be treated with caution. Definitions of the different sectors are not as clearly distinguished nor as readily identifiable in official statistics, as they are in the UK. The table shows that the UK has the second highest social rented sector in the European Community, at 26% of the stock compared with the Netherlands' 40%. The UK is the country with the largest municipal housing stock despite the operation of the Right to Buy and various other stock transfer mechanisms.

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Greece is the only country in the EC not to have a social rented housing stock. There is however, a subsidised 'social' owner occupied sector This is also the case in Spain, Portugal, Luxembourg, Belgium, The Netherlands, Italy and France, where there are social housing programmes which are aimed at making home ownership more accessible to low income families.

The contribution that social rented housing makes to the total volume of housing construction varies considerably between countries and has changed over time as the figures in Table 2 show.

The relative position of the UK has changed considerably with respect to social housing construction. From making the largest proportionate contribution to housing construction in all the EC countries in 1980, social housing production declined in the UK to a position where larger contributions were made in 1990/91 in Denmark, Germany, Spain, France and the Netherlands.

The significance of social rented construction increased between 1980 and 1991 in Denmark, Germany and France. The figures in Table 2 partly reflect the varying state commitments to the subsidisation of public sector production, but the changing proportions over time are also a function of the varying fortunes of private sector construction.

THE NETHERLANDS

The social housing stock in the Netherlands is constructed and provided by two active groups: housing associations and municipalities. However, it is the housing associations that dominate the sector. About 1,100 associations control 2 million dwellings, which account for around 30 % of the total Dutch housing stock. The 330 local authority housing organisations own only about 350,000 dwellings.

Social landlord organisations in the Netherlands are all individual cost centres and usually each block of dwellings is a separate accounting unit. The subsidies and rent levels are therefore directly linked to the historic cost of the property and the work done. Annual programmes of activity are decided through the bids from municipalities, who then allocate the building and renovation work to be done by each individual landlord organisation.

Up to 1988 the majority of housing association and local authority housing construction was financed by central government loans which aimed at keeping rents down to a controlled, government set, level and ensure that high levels of building took place. However, due to the increasing costs of this subsidy system, government loans for constructing new dwellings were stopped after 1988. Since 1989 the government has also stopped guaranteeing housing association loans or providing new loans for improvements. This has meant that housing associations now have to rely on the private market for finance.

To improve access to the capital market, a Guarantee Fund was set up in 1984 into which housing associations pooled a proportion of their resources. This fund acts as a private mortgage insurance institution and is backed by the central government, giving private financing institutions the confidence to finance 100% of investments. The greater security for investors can have a moderating effect on interest rates and other conditions of the loan.

Local authorities also provide loans to finance construction and improvement of dwellings and guarantees the loans taken out under a mortgage insurance scheme.

FRANCE

About 90% of social housing in France is built and operated by Habitations à Loyer Modéré (HLM) organisations. There are currently more than 1,200 HLM institutions with a stock of over 3 million rented dwellings; they have also constructed more than one million owner-occupied dwellings. There are two main groups within the HLM movement: Offices Publics de HLM (OPHLM) and Sociétés Anonymes de HLM (SAHLM). The distinction between them is legal in that OPHLM are part of the public sector and SAHLM are limited liability companies.

The HLM institutions are all individual cost centres and, with limited scope for cross-subsidising costs, any improvements will automatically increase rents. A rigid rent fixing system, set by the government, is also in operation, based on each individual project with maximum rent levels set per square metre.

New HLM housing has been financed since 1977 by subsidised loans - the Prêts Locatifs Aidés (PLA). The term of these loans is usually around 35 years and a low interest rate will apply. They are made by a special state sponsored funding agency, the Caisse des Dépots et Consignations (CDC). The PLA's are granted for both new construction and the purchase and improvement of existing stock - they can also be granted to individuals who want to build social rented housing. The percentage of housing costs

Table 1: Estimated percentage of housing stock in given tenure groups, 1988-1990

Country	Owner-occupied	Social Rented	Private Rented	Other
Belgium	63	6	29	2
Denmark	56	22	22	
France	54	17	20	9
Greece	77	0	23	
Ireland	81	11	8	
Italy	67	7	21	5
Luxembourg	68	1	30	1
Netherlands	45	40	15	
Portugal	58	4	35	3
Spain	77	2	16	5
UK	67	26	7	
Germany	40	20	40	

Source: Estimates by the authors from a variety of sources including; 'Statistics on Housing in the European Community, 1992', Netherlands Ministry of Housing, Physical Planning and Environment, 'Marches et Politiques du Logement dans La CEE' (1991), Ghekiere L. and Quilliot R., and official data from housing ministries and statistical offices.
The data for Germany is for West Germany.

Table 2: Social rented dwellings as a percentage of all dwellings completed

Country	1980	1991
Belgium	n.a.	1
Denmark	24	43
Germany	10	20
Spain	n.a.	23*
France	15	19
Ireland	22	9
Netherlands	34	27
Portugal	n.a.	2*
UK	45	17

* 1990
Source: 'Statistics on Housing in the European Community, 1992', Netherlands Ministry of Housing, Physical Planning and Environment.
The data for Germany is for West Germany.

that the PLA will cover varies with the type of organisation, and clear conditions are attached concerning the quality, costs and allocation of the housing.

Loans are also available from the loan bank connected to HLMs (Caisse des Prêts aux Organismes d'HLM) and from the capital market. Various other property subsidies exist in the form of bonuses for the improvement of dwellings, from the Agence Nationale pour l'Amélioration de l'Habitat (ANAH). An additional form of financing for social housing is the '1% patronal' scheme. It applies to companies that have a minimum of 10 workers. Under the scheme, the employers make a compulsory contribution out of gross wages. This was originally 1% although the contribution had fallen to 0.67% in the late 1980s. Funds from this scheme are often used to supplement PLA and other loans.

GERMANY

Together with private landlords, who control around one third of the social rented stock, social housing in Germany is provided by non-profit landlords which are either Genossenschaften (cooperative associations) or Wohnungsbaugesellschaften (limited liability housing companies). These are registered with the Gesamtverband der Wohnungswirtschaft (GdW) which is the umbrella organisation for non-profit landlords. The GdW acts as a lobby and advice centre for the movement, with a regional and federal network. It also audits the profit and loss accounts of the associations at the regional level. In 1992 there were 1,781 member organisations in the GdW controlling a total stock of over 3.3 million dwellings - however, not all of these will be in the social rented sector. Some of the non-profit organisations have a further role as builders and developers of owner-occupied housing and also manage housing for third parties.

As in the Netherlands and France, social landlords in Germany operate as individual cost centres with privately financed and subsidised stock being treated on separate accounts. Private landlords providing social housing are entitled to tax advantages and receive building subsidies providing that they charge the controlled social rent (Kostenmiete) and accept tenants under a set income ceiling. The non-profit landlords receive the same subsidies but are not entitled to tax concessions. The subsidies amount to the difference between the cost rent of a dwelling (based on construction costs, land costs and financing costs during the construction period) and a pre-determined social rent.

HOUSING INVESTMENT

The wider research project[1] which this article relates to is examining housing investment levels in the EC. Investigating the relationship between social housing and aggregate housing investment involves unraveling many difficult questions of definition which have been apparent in this paper. There is no common European model of social housing. A variety of providers operate under a range of financing arrangements. Social housing provision has been a means by which the state has, via these providers, influenced housing investment. As the state tries in several countries to shift towards more market oriented provision, while keeping the same providers, the ability of the social rented sector to sustain the levels of investment achieved in the past is in doubt.

The efficiency of different mechanisms for influencing production is an important issue. The relationship between public expenditure and production is an aspect of this efficiency. However, government guarantees for loans and detailed aspects of the regulations under which social housing providers operate may also have a significant impact on investment. In this respect, examining the different systems across the EC provides a range of different ideas about what the mechanisms might be and learning lessons from other countries becomes a potentially important aspect of how social housing will evolve in the future.

The use of the private sector to provide social housing has developed most strongly in Germany and the advantages and drawbacks of the German system are particularly relevant to the developments elsewhere in Europe. In the Netherlands the use of the Guarantee Fund for social housing which reduces the risk of borrowing for development in the money market may also provide significant lessons for other countries. ■

NOTES

[1] A European Perspective of UK Housing Investment, funded by Avebury Projects, Milton Keynes.

Copies of the working paper 'Social Housing in the European Community' which gives more details of various aspects of social housing across all the countries of the EC are available for £4.50 (cheques payable to 'De Montfort University') from:

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