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HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance

- Scottish housing – a work in progress?
- Housing and housing finance in Russia at a time of crisis
- Pro-poor housing and energy poverty
- Key findings of the national report on Austria for Habitat III
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International Union for Housing Finance

Housing Finance International

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For further details, please contact Mark Weinrich (weinrich@housingfinance.org)

IUHF
www.housingfinance.org

International Union for Housing Finance
Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium
Tel: +32 2 231 03 71
Fax: +32 2 230 82 45
www.housingfinance.org
Secretary General: Mark Weinrich

Threes

In viewing recent world events some may be reminded that the "rule of three" suggests that things that come in threes are" funnier, more satisfying, or more effective than other numbers of things."[1] For those of a less optimistic frame of mind the adage that bad luck always hits three times may appear more apposite.

Whatever one's temperament, three major and unexpected political events have rocked the political scene and rattled financial markets in 2016. All three exhibited the power of anti-establishment sentiment to upset the political and economic status quo and all three could have a major impact on the housing finance industry going forward.

First there was BREXIT. In the UK, the BREXIT debate has now taken on an arcane constitutional turn. The Supreme Court is currently determining whether the UK Parliament or the Government should decide when and whether to trigger Article 50 and leave the EU. These issues look set to rumble on, but in the meantime, half-acknowledged fears that the UK economy could be crippled by BREXIT have led to a re-appraisal of housing policy as the Government dilutes austerity in public spending in the interests of providing a degree of economic stimulus.

The UK government has announced large increases in public spending on housing, aimed at boosting both the private and affordable housing markets. The Government has even reversed a decision taken only a year ago, that grant funding should be used exclusively to promote low-cost homeownership and grant may now be used to build homes for rent where this is necessary to increase new supply. Domestically, BREXIT is already having an impact on housing and mortgage markets, but its international impact is still evolving.

Then there was Trump. The election to the US presidency of a political outsider who challenges commonly-held policy assumptions has been seen by some- notably by Nigel Farage the erstwhile leader of UKIP, as part of the same anti-establishment backlash that led to BREXIT. Be that as it may, there is now real uncertainty as to what a Trump presidency will mean for the global economy and even for geo-political stability. At home, there is real uncertainty as to how Trump will approach major unresolved issues such as the reform of Fannie Mae and Freddie Mac, and escalating house prices. In terms of housing policy, the appointment of former neurosurgeon Ben Carter to run the Department of Housing and Urban Development [HUD] raises as many questions as it answers; how will a Trump administration square opposition to affirmative action with fair distribution of resources for the inner cities for instance?

And now there is Italy. Although the referendum held on 4th December was formally about reform of Italian governance, the resounding defeat of Matteo Renzi has exposed the strength of populist anti-establishment feeling. The possibility that the 5 Star Movement might ultimately be in the position to hold a referendum on Italy's membership of the euro caused the currency to fall temporarily. The plight of Italy's banks, with an estimated 350 billion euro of bad loans, could pose significant wider risks. The prospect of continuing political, economic and financial instability in Italy (and hence in the EU as a whole) can only increase the uncertainty already engendered by BREXIT and the US presidential election.

All this has real implications for anyone involved with the provision of housing finance. Scottish politics have been unusually turbulent over the past two years and it is therefore fitting that our lead article should be an examination of Scottish housing policy. Ken Gibb, looks at emerging trends, analyses the extent to which there is divergence or convergence between English and Scottish policy and asks whether Scotland has a housing policy that is fully coherent and fit for purpose.

The election of Donald Trump has heightened debate about the appropriate international stance towards Putin's Russia and has introduced uncertainty about the future trajectory of the relationship between the US and Russia. We are therefore pleased to welcome Marina Khmelnitskaya back to the pages of *Housing Finance International*. The title of her article in this issue is *Housing and housing finance in Russia at a time of crisis*. The article examines the impact of Russia's economic crisis- caused in large part by sanctions and falling oil prices, on housing and housing finance markets and on the implementation of housing policy.

The New Year is a good time to remember those who do not have access to an adequate living environment. In his paper, *Pro-poor housing and energy poverty*, Zaigham Rizvi offers a clear analysis of the issues associated with providing decent housing and sustainable energy for those on low-to-middle incomes in an urban context. It has been estimated that globally, around 330 million urban households live in substandard homes and are financially overstretched.

Austria is the subject of a paper by Sandra Jurasszovich and Wolfgang Amann, based on a report for the UN Habitat III conference. The authors offer a very helpful overview of Austrian housing markets with emphasis on affordability and the provision of social housing. In the latter context, there are some valuable sections on limited-profit housing associations; a model that has worked well in Austria over many years.

In our final in-depth article, *Tracking changes in European housing finance*, Jens Lunde and Christine Whitehead draw on their recently published book *Milestones in European housing finance* to analyse how mortgage and funding markets have evolved over the twenty-five-year period since 1990 and to highlight how markets and regulators have reacted to the Global Financial Crisis [GFC].

As we look forward to 2017, the need for those involved in the provision and promotion of housing finance to keep informed has never been more apparent. *Housing Finance International* will engage with the key issues over the coming period, providing our usual depth of analysis at a national, regional and global level. Happy New Year.

[1] Wikipedia

Contributors' biographies

Wolfgang Amann, Director of IIBW, the Institute of Real Estate Construction and Housing Ltd., Vienna/Austria has executed some 300 research and consulting projects on housing finance, housing policy, and housing legislation. He is consultant to the UN and World and teaches real estate economics on several graduate programmes in Austria. Contact: IIBW – Institute of Real Estate, Construction and Housing Ltd., Vienna/Austria – *www.iibw.at Email: amann@iibw.at* Telephone +43 1 9686008

Kenneth Gibb is professor of housing economics and the Director of Policy Scotland, both at the University of Glasgow. He is also a Director of What Works Scotland. His research interests cover a wide range of housing topics but in recent times have focused on the economics of housing policy, subsidy and finance, social security and the interaction of economics and public policy. Recent research has been funded by the ESRC, Scottish Government, the Australian Housing and Urban Research Institute and the European Union. *Email: ken.gibb@glasgow.ac.uk*

Sandra Jurasszovich works as a research assistant focusing on the analysis of housing markets, housing subsidy schemes and spatial planning. She holds two master's degrees, one in Spatial Planning from Vienna University of Technology and one in Urban Studies (4Cities Programme). *Email: jurasszovich@iibw.at*

Marina Khmelnitskaya is a post-doctoral researcher at the Finnish Centre of Excellence in Russian Studies "Choices of Russian Modernisation", Aleksanteri Institute, University of Helsinki. Her research is concerned with politics and policy-making in Russia. She is the author of "The Policy-Making Process and Social Learning in Russia: The Case of Housing Policy" published by Palgrave Macmillan in September 2015.

Jens Lunde Master of Economics, University of Copenhagen. Associate professor, Department of Finance, Copenhagen Business School [CBS] from 1984 to 2016, recently retired. Has previously worked at the Danish Building Research Institute, the Danish Ministry of Housing and as an external teacher at Department of Economics, University of Copenhagen. He developed and lectured in the course in housing economics and finance at the university and CBS. His research area is concentrated around the mortgage system, household debt, owner-occupiers' capital structure, financial stability.

Claudia Magalhães Eloy is a consultant on housing finance and subsidy policy in Brazil, who currently works for FIPE [Fundação Instituto de Pesquisas Econômicas] and has worked for the World Bank [TA] and for the Brazilian Ministry of Cities and Companhia de Desenvolvimento Urbano e Habitacional of São Paulo [CDHU]. Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo [USP], a Master in City Planning at the University of Pennsylvania, a Master in Public Administration at Bahia's Federal University [UFBA] and a BA in Architecture and Urban Planning [UFBA], with a specialization in Real Estate Finance at the Brazilian Economists Order [OEB]. She also attended Wharton's International Housing Finance Program.

Alex J. Pollock is a distinguished senior fellow at the R Street Institute in Washington DC. He was President and CEO of the Federal Home Loan Bank of Chicago 1991-2004, and President of the International Union for Housing Finance 1999-2001.

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA. *Email: zaigham2r@yahoo.com*

Kecia Rust is the Executive Director of the Centre for Affordable Housing Finance in Africa, and manages the Secretariat of the African Union for Housing Finance. She is a housing policy specialist and is particularly interested in access to housing finance and the functioning of affordable property markets. Kecia holds a Masters of Management degree (1998), earned from the Graduate School of Public and Development Management, University of the Witwatersrand. She lives in Johannesburg, South Africa.

Mark Weinrich holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

Christine Whitehead is emeritus professor of housing economics at the London School of Economics. She works mainly in the fields of housing economics, finance and policy. She has worked with a wide range of international agencies as well as regularly for the UK government and Parliament.

Seung Dong You is an assistant professor in the Department of Economics and Finance at Sangmyung University. Pursuing a career in real estate finance, he worked for the Korea Housing Finance Corporation, the Korea Mortgage Corporation, and the Korea Research Institute for Human Settlements. His book, "Housing Finance Mechanisms in the Republic of Korea", was published by United Nations Habitat and he has also published several papers on housing and housing finance markets. He frequently advises ministries, regulatory and legislative bodies, and corporations (*homepage: www.peteryou.co.kr, email: peter.you@live.com* or *peteryou@smu.ac.kr*).

Declaration of the members of the African Union for Housing [AUHF] following the Annual General Meeting held in Abuja, Nigeria on 16 September 2016[1]

↳ By Kecia Rust

We, the members of the African Union for Housing Finance, having met with colleagues from the public and private sectors from over twenty countries over the past three days, and having held our 32nd annual general meeting in Abuja, Nigeria, on 16 September 2016, express our commitment to driving investment in Africa's housing sector so that it contributes substantially to Africa's growth agenda.

We note:

Affordable housing delivery to meet an ever-increasing demand presents a tremendous investment opportunity that can substantially impact on Africa's growth agenda. The construction, management, and occupation of housing is a labour intensive activity with substantial job creation potential, and which stimulates demand for goods and services across the primary, secondary and tertiary sectors of the economy. Calculating these backwards and forwards linkages together with housing backlogs that extend into the tens of millions (26 million units just among nine sub-Saharan African countries and growing annually), the investment opportunity actually runs into the trillions of dollars.

This enormous opportunity, increasingly recognized by both the private and the public sectors, cannot be realised however, in the face of a broken housing delivery value chain. The constraints and inefficiencies that exist at each link in the chain then manifest in growing informal settlements and poor housing conditions which persist notwithstanding a growing middle class and evidence of, albeit limited, housing affordability. This is a problem that requires the active engagement by both the public and private sectors, in setting and implementing policy; and developing appropriate instruments, products and services that meet the needs and capacities of the growing populations in our cities and towns.

The role of affordable and sustainable housing and housing finance, including social habitat production, in economic development, and the contribution of the sector in stimulating productivity in other economic sectors and contributing towards sustainable and inclusive economic transformation at the national, sub-national and local levels is a key commitment (paragraph 46) in the Quito Implementation Plan for the New Urban Agenda. It is towards the realization of this commitment and in the spirit of an explicit role for the private sector in the New Urban Agenda, that we frame our expectations and make our commitments, here, in this Abuja Declaration.

We understand:

Increasing urbanization, growing populations and a growing middle class together contribute towards rising housing demand – we have the choice of meeting this demand effectively, with well-targeted, affordable housing that responds to the capacities of the demand side; or suffering the challenge with ineffective housing delivery systems that lead to growing informal settlements and inadequate housing outcomes. With an urbanisation rate of 3.5% over the past two decades, Africa's cities are the fastest growing in the developing world. Currently, about 40% of the continent's one billion people live in cities and towns; and it is estimated that in the next few years, some African cities will be home to as much as 85% of their country's population. Between 2009 and 2030 it is estimated that the middle class in Sub-Saharan Africa will grow from 32 million people to 107 million. This growth presents a remarkable opportunity to stimulate our economies in the production of affordable housing at scale, transforming our cities into productive spaces that meet the needs of our people. We see an opportunity to turn investor interest towards the large market of middle and lower income housing in urban areas across Africa and to use this to champion both improved housing conditions and economic growth, while also addressing inequality with the asset potential that housing offers.

Housing is infrastructure, fundamental to the functioning of our cities and towns and essential to the ability of our people to operate effectively in our economies. The production and consumption of housing stimulates economic growth and growing property markets support enhanced financial intermediation contributing to the efficient development of national economies. And housing assets, whether geared with finance or not, can act as a financial springboard to micro and medium enterprise and human capital development. Good housing contributes substantially towards good outcomes in health, education, the realization of sustainable livelihoods, and the sustainability of our human settlements. Poor housing has an equal but opposite effect, contributing towards the proliferation of disease and infection, poor access to education, rising inequality and poorly functioning cities. The realization of adequate housing is a matter of international interest and something towards which we must all focus our efforts if we are to be able to achieve any of our individual goals.

[1] The African Union for Housing Finance held its 32nd Conference and Annual General Meeting in Abuja, Nigeria, from 14-16 September 2016. Hosted by the Nigeria Mortgage Refinance Company, an AUHF member, the meeting attracted 184 delegates from about 126 organisations in the public and private sectors across 23 countries. The conference theme – "Housing and Africa's Growth Agenda" – focused on the opportunities for housing investment to stimulate economic growth and job creation across the African continent. Conference presentations are available on the AUHF website: http://www.auhf.co.za/conference/housing-and-africas-growth-agenda/ For more information contact Kecia Rust at kecia@housingfinanceafrica.org or Noluthando Ntshanga at nolu@housingfinanceafrica.org

For this reason, effective housing markets depend on the active participation and cooperation of both the public and the private sectors. Effectively structured public private partnerships are critical and we seek to enter into these in our respective local contexts. The role of government is to set an appropriate and enabling legal and regulatory framework, and to lead in the provision of serviced land for housing. Government can also provide legislative innovation and budgetary support for specific development objectives in the housing sector, such as VAT relief on newly constructed units sold to target market households. Full subsidisation is not required, however, as financial institutions have the capacity and appetite to provide development capital, risk mitigation products and end user finance. Development finance institutions can provide additional capital, technical assistance and targeted risk sharing mechanisms. With the legal and financial framework in hand, developers can then drive the initiative with their development expertise, also taking part of the risk. Lastly, households themselves, have a variety of capacities to contribute towards the realisation of their housing needs, whether financially or with their labour. Public private partnerships are risk-sharing arrangements in which parties bring together their resources, using these collectively to realise the objectives of the project.

A key economic indicator in the developed world, the housing economy is not well-tracked in African countries. Property and construction data, captured as part of the national GDP statistics, conflates activity in the commercial, retail and industrial sectors with residential data; lenders do not differentiate in their monitoring and reporting between loan products; and indeed, in many contexts land rights are not captured on an electronic registry. When data is collected, it is for the high-end market – a very small minority of the overall potential for growth, and of the activity that actually comprises local housing markets. And then, of course, the majority of housing across the continent is owner-built, incrementally, without formal finance. This makes it very difficult to quantify the impact that housing has on the economy, and to then motivate for increased policy attention to address market constraints.

We urge national governments to address the following five critical challenges at the national level:

Macro-economic and monetary policy that is supportive of investment in housing markets: the growth of the housing sector in Africa demands greater financial innovation that increases the capital available, whether for lenders, developers, or households themselves. Our capital markets are shallow and secondary markets are ineffective. Notwithstanding substantial financial capacity in our pension industries we are overly reliant on foreign capital for investment, and this places us at risk of currency fluctuation and other global economic factors. Policy must explicitly enable long term funding and increased investment of local capital, especially pension funds, into affordable housing. The role of the central bank and monetary policy is fundamental in this regard. Key areas for policy attention include interest rates, inflation, tax policy, currency risk, capital requirements, legislation governing the pensions industry, and other macro-economic issues that impact on housing.

Consistent national housing policy and regulatory framework and the inclusion of affordable housing in national development plans. The long-term nature of housing investments makes the current situation of policy uncertainty critically important. Unpredictable regulatory changes, complex legal frameworks and volatile local currencies all limit investment timeframes and challenge exit strategies, encouraging investors to look elsewhere, or upmarket, where the capacity to absorb costs is greater. Government policy and focused national plans can have a significant impact on investor interest and market participation, simply by being reliable and timely. At the same time, good policy can improve the reach of good investment – extending the benefits of investor interest to a wider array of people, and critically, down market.

Transparent and realistic land management systems: the investment of capital in housing markets depends on legal frameworks that confirm and support ownership or tenancy rights as they exist, and allow property to be used as collateral for access to credit. The legal infrastructure necessary to support formal title might not be immediately possible in all jurisdictions so mechanisms that recognize and secure tenancy rights in a practical manner are necessary. Sound planning frameworks that promote the growth of sustainable human settlements are a critical part of the enabling environment on which investment depends. Governments across Africa should streamline and prioritise their land legal frameworks, establishing and improving appropriate and sustainable titling systems, ensuring security of tenure, allowing for efficient foreclosure processes, and clarifying and upholding rights of occupation and use, all in favour of effective housing markets.

Transparent dissemination of key data relevant to the functioning of the housing sector. A fundamental precondition for investment is the availability of data and market intelligence that quantifies the demand, supply and activity of housing markets and enables investors to assess market risk and opportunity with precision. When this is not possible, investors either shift their attention to more easily quantified investments in other sectors, or they set their return expectations higher to compensate for poorly understood markets and risk, compromising affordability. By their nature, governments control access to considerable data in the housing delivery, land and property market, and credit market sectors. Governments should adopt "Open Data" policies, and should actively track and report on housing market performance broadly, to enable and encourage investor participation.

The promotion of a national housing finance framework that addresses the breadth of housing finance needs of households, from mortgage to non-mortgage finance, with specific attention to how such financing products intersect with the housing delivery value chain. There are very positive examples of inclusive housing finance systems across the continent, but these are not yet operating at the scale required. Governments can assist in promoting non-mortgage housing finance systems through the active and regulatory promotion of developmental credit, effective and appropriate credit regulatory systems, and the establishment of land use management systems that provide for and facilitate incremental housing delivery approaches.

At the city level, we urge further attention to the following three local challenges:

The establishment of effective PPPs (public private partnerships) that appropriately allocate roles and responsibilities between the public and private sector, while also drawing in the participation of local population (people as a fourth "P") in support of specific affordable housing projects at the local level. PPPs enable each party to offer their specific capacity to a project – land, services and municipal approvals from government; financial and construction capacity from the private sector; savings, planning and labour from the community.

Clear, efficient statutory approval processes for affordable housing delivery, and transparent and realistic land management systems: the cost of housing is substantially impacted by the time it takes to deliver. Much of the housing delivery process is framed by the approvals that developers have to secure from local government regarding land availability, bulk services connections, environmental assessments, building plan approvals, and so on. Delays in the achievement of these impacts on the overall time it takes to deliver the housing, and therefore the length of time that investment capital sits without return. This increases the peak funding required, which in turn increases costs, lowers profitability and discourages investment. Governments can entice developers and investors into affordable housing by ensuring efficient processing and approval times. Not only will this reduce costs and contribute towards affordability, it will also encourage investor interest in the affordable housing market.

Investment in infrastructure and serviced land for housing: a key constraint facing housing developers in the delivery of housing at scale is access to serviced land for housing. Government can facilitate increased construction by making land available through its regulatory and other levers, and investing in bulk infrastructure to support this. As cities develop, the establishment of effective rating and collections systems can also build municipal capacity to further meet the need on an ongoing basis, while also establishing critical contracts for local citizenship.

We commit ourselves:

- We, the members of the AUHF, confirm our commitment to the growth and development of affordable housing across our continent. As individual housing sector practitioners, and collectively as members of the African Union for Housing Finance, we are committed to:
- Constructive and accountable participation in PPPs that effectively leverage both public and private resources for the benefit of better market targeting and increased scale of delivery of affordable housing across Africa.
- The development of appropriate housing and housing finance products, services and underwriting standards, that are affordable to our populations, that respond appropriately to the reality of informality, and that contribute effectively towards adequate housing for all, across our nations.
- The mobilisation of local capital resources of sufficient tenor, debt and equity, with the appropriate risk underpins and supportive frameworks to encourage the participation of a diverse range of investors across the range of housing solutions, and to enable developers to grow their capacity to operate at scale.
- Investment in housing that is both for rent and for ownership, that supports the increasing diversity of our cities and contributes towards sustainable human settlements.
- Ongoing professional development to support the establishment, and consolidation, of sustainable and robust institutions throughout the housing supply chain, and the provision of capacity support, technical assistance and professional development.
- Data transparency and information sharing. We will support the collection, analysis and dissemination of evidence-based information on effective housing finance practice and the performance of the housing market. In this, we are committed to sharing best practice and building track records that can be monitored on an ongoing basis, setting benchmarks for our peers and one another, in support of more effective housing markets across the continent.
- Increased dialogue and engagement between the public and private sectors, at a local, national, regional, continental and international level.
- Working in collaboration with each other, and other stakeholders, whether in the public or private sectors, to promote the realisation of sustainable human settlements across Africa.

The AUHF is keen to engage with respective governments at the national and local level on both macro and micro economic issues, including interest rates, tax and monetary policy, and housing and land policy as it influences the growth and performance of housing markets. The AUHF and its members look forward to working with governments and other stakeholders, in their respective cities, countries, and across the continent, in driving investment in Africa's housing sector so that it contributes substantially to Africa's growth agenda.

16 September 2016

AUHF Board of Directors: Oscar Mgaya (Chairman), Charles Inyangete (Vice Chairman), Cas Coovadia (Treasurer), Omar Sarr (Secretary), Femi Adewole, Ruth Odera, Reginald Motswaiso, Joseph Chikolwa

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Housing Finance Group	ZB Bank Limited (ZB Building Society)
International Finance Corporation	Zimbabwe Mortgage Company
Lesotho Housing and Land Development Corporation	Sharon Trail (Honorary Member)

Europe: Vulnerabilities in the residential real estate sector

By Mark Weinrich

The ongoing easy monetary policy of the European Central Bank has caused heightened concern in many quarters with respect to the negative consequences of such a policy. In the wake of the global financial crisis, short-term policy rates approached zero and in June 2014, the European Central Bank became the first major central bank to lower one of its key policy rates into negative territory. Among the discussed negative effects are pressures on non-Eurozone countries, an erosion of the savings culture, downward pressure on the interest rate margins of banks, and, last but not least, rapidly rising real estate prices. The Association of Private German Bausparkassen and the Observatoire de L'Epargne Européenne [OEE] therefore initiated a parliamentary evening in Brussels to discuss the negative impacts of the highly accommodative monetary policy with Peter Praet, executive board member and chief economist of the European Central Bank. Peter Praet defended the strategy of the ECB on the ground that monetary policy inaction would have worse outcomes by far than the current negative interest rate environment.

Andreas Zehnder, President of the Association of Private Bausparkassen, criticized the ECB policy as threatening established business models by affecting small- and medium sized deposit-based credit institutions disproportionally and for helping to fuel a surge in house prices. Jacques de Laroisière, President of the OEE supported this assessment.

There are already many studies and commentaries which address the question of unintended consequences of the ultra-loose monetary policy showing up in the form of rapidly rising house prices and persistently strong growth in mortgage credit. The fears of an emerging housing bubble were fueled by two new studies in November. Although the Deutsche Bundesbank's 2016 Financial Stability Review avoids an alarmist tone it lists several worrying facts. The Bundesbank estimates that house prices in Germany's cities are overvalued by 10 to 20 per cent. However, there is currently nothing to suggest excessive lending or a weakening of lending standards. Banks are issuing an increasing part of their loans with longer maturities. This reduces the risk for private households but it shifts the interest rate risk to the banks and makes them less flexible to respond to future changes. The Bundesbank is concerned about this but believes that the risk can be still managed if actively hedged.

It is therefore not surprising that the report of the European Systemic Risk Board [ESRB] on "Vulnerabilities in the EU residential real estate sector" does not list Germany among the group of eleven countries where vulnerabilities stemming from developments in the residential real estate sector have risen to a worrying extent. These countries include: Austria, Belgium, Denmark, Estonia, Finland, Luxembourg, Malta, the Netherlands, Slovakia, Sweden and the United Kingdom. The objects of the study were the 28 Member States of the European Union. After a second stage of in-depth, country-specific analysis of vulnerabilities and policy measures of the aforementioned countries, the ESRB issued only eight warnings. Estonia, Malta and Slovakia did not receive a warning as the ESRB considers the policy stance in these countries to be appropriate and sufficient to counter the vulnerabilities in the residential real estate sector. The study identified vulnerabilities by identifying and separating them into three "stretches" – collateral, household and banking – where collateral stretch captures the price levels and dynamics of housing markets, household stretch captures the implications of household borrowers' debt for their consumption and other behaviour, and banking stretch captures the potential impact of residential real estate developments on lenders.

The ESRB notices that systemic risk relating to residential real estate may lead to significant risks to domestic financial stability and serious negative consequences for the real economy, as well as potentially leading to negative spillovers to other countries. Although the underlying sources of such vulnerabilities differ, the ESRB claims that they often emerge from domestic structural features, from social and economic policies (e.g. tax deductibility of mortgage interest payments), from cyclical developments, or combinations thereof. The ESRB therefore places the onus on the individual Member States to ensure they have the right structural and institutional factors in place to potentially mitigate the risks identified.

It probably comes as a surprise that the low interest rate environment – for some observers the main culprit for the risks building up in the housing market – is barely mentioned in the report. This fact becomes less surprising if one knows who is chairing the ESRB's decision-making body: it is Mario Draghi, President of the European Central Bank.

Diversification and similarities: shared challenges in Latin American countries

↳ By Claudia Magalhães Eloy[1]

Latin America is a diversified region. Together with the Caribbean, it is comprised of 42 countries and populated by over 630 million people, with total GDP of US$5.3 trillion, ranging from big economies – Brazil, GDP of US$ 1.8 trillion and Mexico, US$1.1 trillion – to quite small ones – Caribbean islands with GDPs of less than US$ 1 billion (Grenada, St. Kitts and Nevis, St Vincent and the Grenadines and Dominica, the smallest of all). Inequality rates and GNI per capita (PPP) also vary widely, the latter from as low as US$ 1.8 thousand (Haiti) to US$ 29,600 (Trinidad Tobago). Yet, amongst the region's 7 largest economies (GDP above US$ 100 billion), Chile, Argentina and Mexico are the only countries that exhibit GNI per capita levels above the region's average of US$15,300 – approximately US$ 22,000 US$ 20,000 and US$ 17,000 respectively.

Despite diversity, there are similar development trends in the region's economies and housing markets. Similarities in economic development have also led to similar challenges.

A brief comparative overview of Brazil and Mexico – countries that house the region's largest cities[2] and that combined contain 53% of the region's total population and 55% of the region's GDP– illustrates the argument. In both countries, there has been a considerable increase in the housing stock enabled by the boost in housing finance, significantly based on their provident funds (FGTS, Infonavit and Fovisst), that coupled with larger subsidies have allowed a down market credit expansion. Also, the emphasis on favoring the production and acquisition of new housing in large scale developments along with the frequent neglect of the quality of planning, construction and access to jobs, infrastructure and services are likewise present in Mexico and Brazil. The choice of governmental policies in promoting homeownership, even for lowest income families, instead of affordable rents is another common aspect of their housing market development. Last but not least, the two countries currently exhibit similar ratios of real estate credit (outstanding balances) to GDP – 9.7% in Mexico and 9% in Brazil (2014) – though the latter exhibits a greater growth rate since the early 2000s. The spring edition of this Journal will bring articles about these two countries.

Throughout Latin America, after an era of important social and economic changes enabled by the commodity boom amidst a favorable global economic environment, growth rates have generally fallen since around 2010. Having suffered from high inflation rates and debt levels, which resulted in various economic and financial crises over the last 30 years that, in their turn, fostered economic, political, financial and legal reforms in the 90s, inflation rates have increased again in many countries. In Brazil inflation rates are currently around 7%, Nicaragua and Haiti, 8%, in Uruguay almost 9% and in Argentina an alarming 24%, not to mention the extreme case of Venezuela (over 700%). Also, persistent problems of low saving, investment, and productivity have again gained significance in many economies. Therefore, the region currently faces important macroeconomic challenges that include overcoming the contraction of overall GDP – 0.6% annual contraction in Q3/2016 in Latin America[3] – as well as exceeding timid growth forecasts for the coming years in its most important economies. Due to the size of Brazil's economy in the region, its current economic recession has made the overall indicators drop. It is noteworthy that Brazil exhibits an unemployment rate of roughly 12% (August 2016). The following Figure presents growth forecasts for the current and following year.

Amongst the social demands of the recently expanded middle class, in a highly-urbanized region (80%), access to decent housing remains an important issue. UN Habitat observes that the quantitative housing deficit exceeds 50% for all households in Honduras and Nicaragua, and is close to, or above, 30% in Argentina, Bolivia, El Salvador, Paraguay and Venezuela. Mexico's overall qualitative and quantitative deficit corresponded to 31% of the housing stock in 2014[4]. In Brazil, that same year, the quantitative deficit, highly concentrated in 9 Metropolitan Regions, was 9% of total housing stock[5]. Indeed, housing needs depend on many variables, ranging from demographic to economic not to mention policies and regulation, and although it is difficult to compare housing deficits throughout the region, since definitions of what can be counted as shortage (quantitative) as well as standards of habitability (qualitative) vary culturally, housing shortage is definitely a common issue to be equated. As UN Habitat concludes: "Without a profound change in

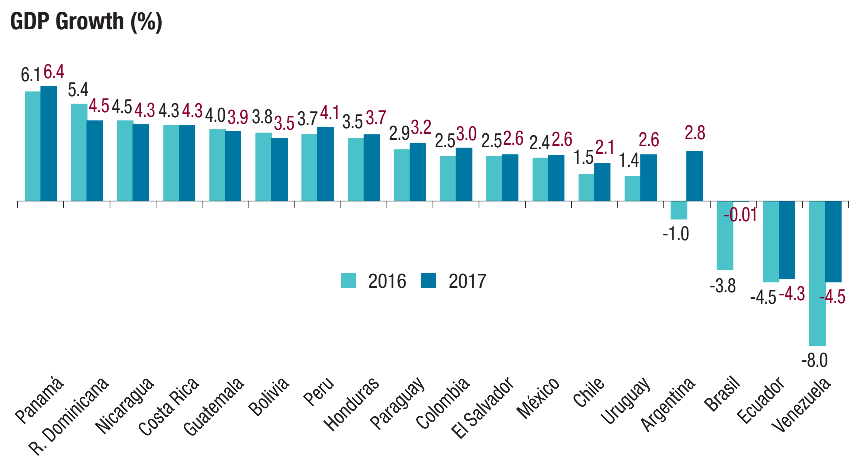
1 Unless noted, sources include: databases of the World Bank, HOFINET and IADB; reports from Focus Economics (2016), Centro de Estudios del Sector de la Construcción (CEESCO, 2016), Uniapravi, ABECIP (2016), IMF (2015), Banco Central del Reserva del Peru (2013) and UN Habitat (2012).

2 The metropolitan regions of São Paulo and Mexico City alone, have over 20 million people each. Other major cities in those countries include Rio de Janeiro, Belo Horizonte, Guadalajara and Monterrey. In the entire region: Buenos Aires, Lima, Bogotá, Santiago and Medellin range from 14 million to 3.6 million people.

3 Economic Snapshot for Latin America, November/2016. Available at http://www.focus-economics.com/regions/latin-america

4 Please refer to Acolin and Kichik's article in the forthcoming Spring 2017 edition of HFI.

5 On the other hand, the qualitative deficit, namely "unsuitable housing" comprises of at least, one of the following: lack of title, lack of exclusive bathroom or infrastructure, inadequate roof and overcrowding of owned units (overcrowding of rental units is considered to be a quantitative deficit). According to FJP's methodology, each aspect is counted separately and cannot be added to avoid double counting. The highest one, lack of infrastructure corresponds to 19.5% of total urban stock. Please refer to Fundação João Pinheiro's latest report (http://www.fjp.mg.gov.br/index.php/docman/cei/informativos-cei-eventuais/634-deficit-habitacional-06-09-2016/file)



Source: Presentation of the Federación Interamericana de la Industria de la Construcción (FIIC), September/2016, based on the Centro de Estudios del Sector de la Construcción (CEESCO), using IMF data.

this trend, housing shortages will continue to be one of the biggest challenges for Latin America and the Caribbean in the coming years."[6]

Since homeownership is the prevailing tenure form in the region[7], affordable and accessible housing finance remains key to housing moderate and low income sectors in Latin America. After widespread financial sector reforms during the 90s, overall credit increased substantially – an average of 9% in real terms – between 2004 and 2011, showing a strong recovery in the latter years, after a brief period of reduction between 2008 and 2009, at the peak of the global financial crisis. It should be noted, again, that in some aspects the region comprises quite a diverse group: the overall ratio of domestic credit provided by the financial sector to GDP is high, over 100%, in countries such as Chile and Brazil but quite timid, less than 50%, in Argentina, Ecuador, Guatemala, Nicaragua, Paraguay, Uruguay and Peru. Yet, recently, domestic credit growth has slowed in LA6[8], due to lower loan demand generally coupled with a deliberate tightening of credit supply.

The increase in overall credit has encompassed the expansion of the region's housing mortgage market. In Brazil, for instance, the outstanding balance of real estate loans to individuals overtook credit for vehicles in August 2011 and, soon afterwards, in July 2013, consumer credit lines. The recent deceleration of the region's most important economies and the increase in risk aversion has also affected the supply of housing credit, in contrast to previous years.

Moreover, quite high interest rates still found in many countries in the region – 24.75% in Argentina, 13.75% in Brazil, 7.75% in Colombia[9] – undermine overall credit and investments and compromise housing loan supply and affordability. Typical lending spreads remain relatively high in those countries, despite the fall observed by Sanchez Castro (2012)[10] in the entire region, between 2003 and 2011 (when average interest rates on housing loans fell from 17% to 10%).

All sorts of subsidies, generally mixing more than one, have been used to expand affordability: subsidized mortgage funding sources (quite common); special government lines of credit; subsidized interest rates, buy-down of monthly interest payments and down-payment subsidies; mortgage interest deductibility from income tax and tax breaks on mortgage bonds and RMBS.

Thus, all in all, despite diversities amongst the countries, many important common challenges still need to be addressed to make the region's housing finance markets more robust and inclusionary.

[6] UN HABITAT. State of Latin American and Caribbean Cities: Towards a new urban transition. 2012, p.63.

[7] It must be emphasized that legal title is frequently absent for (self) declared owners.

[8] LA6 is comprised of Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

[9] Benchmark rates, 2016. Source: Central Banks.

[10] Sanchez Castro, Ronald. Calidad del credito a la vivienda en America Latina. Uniapravi, Cuaderno 231. April-June/2012.

The Cincinnatian Doctrine Revisited

↳ By Alex J. Pollock

Ten years ago, in September, 2006, just before the Great Housing Bubble's disastrous collapse, the World Congress of the International Union for Housing Finance, meeting in Vancouver, Canada, devoted its opening plenary session to the topic of "Housing Bubbles and Bubble Markets." That was certainly timely!

Naturally, knowing what would come next is easier for us in retrospect than it was for those of us then present in prospect. One keynote speaker, Robert Shiller, famous for studies of irrational financial expectations and later a winner of a Nobel Prize in economics, hedged his position about any predictions of what would come next in housing finance. Six months later, the U.S. housing collapse was under way. The second keynote speaker argued, with many graphs and charts, that the Irish housing boom was solid. Of course, it soon turned into a colossal bust. As the saying goes, "Predicting is hard, especially the future."

Some IUHF members, in the ensuing discussion, expressed the correct view that something very bad was going to result from the excess leverage and risky financial behavior of the time. None of us, however, foresaw how very severe the crisis in both the U.S. and Europe would turn out to be, and the huge extent of the interventions by numerous governments it would involve.

Later in the program, also very timely as it turned out, was a session on the "Role of Government" in housing finance. On that panel, I proposed what I called "The Cincinnatian Doctrine." Looking back a decade later, it seems to me that that this idea proved sound and is highly relevant to our situation now. I am therefore reviewing the argument with observations on the accompanying "Cincinnatian Dilemma" as 2016 draws to a close.

The two dominant theories of the proper role for government in the financial system, including housing finance, are respectively derived from two of the greatest political economists, Adam Smith and John Maynard Keynes.

Smith's classic work, *The Wealth of Nations*, published in the famous year 1776, set the enduring intellectual framework for understanding the amazing productive power of competitive private markets, which have since then utterly transformed human life. In this view, government intervention into markets is particularly prone to creating monopolies and special privileges for politically favored groups, which constrains competition, generates monopoly profits or economic rents, reduces productivity and growth, and transfers money from consumers to the recipients of government favors. It thus results in less wealth being created for the society and ordinary people are made worse off.

Keynes, writing amidst the world economic collapse of the 1930s, came to the opposite view: that government intervention was both necessary and beneficial to address problems which private markets could not solve on their own. When the behavior underlying financial markets becomes dominated by fear and panic, when uncertainty is extreme, then only the compact power of the state, with its sovereign authority to compel and tax, and its sovereign credit to borrow against, is available to stabilize the situation and move things back to going forward.

Which of these two is right? Considering this ongoing debate between fundamental ideas and prescriptions for political economy, the eminent financial historian, Charles Kindleberger, asked, "So should we follow Smith or Keynes?" He concluded that the only possible rational answer is: *"Both, depending on the circumstances."* In other words, the answer is different at different times.

Kindleberger was the author (among many other works) of *Manias, Panics and Crashes*, a wide-ranging history of the financial busts which follow enthusiastic booms. First published in 1978, the book was prescient about the financial crises which would follow in subsequent decades, and has become a modern financial classic. A sixth edition of this book, updated by Robert Z. Aliber in 2011, brought the history up through the 21st century's international housing bubbles, the shrivels of these bubbles which inevitably followed, and the crisis bailouts performed by the involved governments. Throughout all the history Kindleberger and Aliber recount, the same fundamental patterns continue to recur.

Surveying several centuries of financial history, Kindleberger concluded that financial crises and their accompanying scandals occur, on average, about once every ten years. In the same vein, former Federal Reserve Chairman Paul Volcker wittily remarked, "About every ten years, we have the biggest crisis in 50 years." This matches my own experience in banking, which began with the "credit crunch" of 1969 and has featured many memorable busts since, not less than one a decade. Unfortunately, financial group memory is short, and it seems to take financial actors less than a decade to lose track of the lessons previously so painfully (it was thought) learned.

Note that with the peak of the last crisis being in 2008, on the historical average, another crisis might be due in 2018 or so. About how severe it might be we have no more insight than those of us present at the 2006 World Congress did.

The historical pattern gives rise to my proposal for balancing Smith and Keynes, building on Kindleberger's great insight of "Both, depending on the circumstances." I quantify how much we should have of each. Since crises occur about 10% of the time, the right mix is:

- Adam Smith, 90%, for normal times
- J.M. Keynes, 10%, for times of crisis.

In normal times, we want the economic efficiency, innovation, risk-taking, productivity and the resulting economic well-being of ordinary people that only competitive private markets can create. But when the financial system hits its periodic crisis and panic, we want the intervention and coordination of the government. The intervention should, however, be temporary. This is an essential point. If prolonged, it will tend to monopoly, more bureaucracy, less innovation, less risk-taking, and less growth, and less economic well-being. In the extreme, it will become socialist stagnation.

To get the 90% Smith, 10% Keynes mix, the state interventions and bailouts must be withdrawn after the crisis is over.

This is the *Cincinnatian Doctrine*, named after the Roman hero Cincinnatus, who flourished in the 5th century B.C. Cincinnatus became the Dictator of Rome, being "called from the plough to save the state." In the old Roman republic, the dictatorship was a temporary office, from which the holder had to resign after the crisis was over. Cincinnatus did—and went back to his farm.

Cincinnatus was a model for the American founding fathers, and for George Washington in particular. Washington became the "modern Cincinnatus" for saving his country twice, once a General and once as President, and returning to his farm each time.

But those who attain political, economic and bureaucratic power do not often have the virtue of Cincinnatus or Washington. When the crisis is over, they want to hang around and keep wielding the power which has come to them in the crisis. The Cincinnatian Dilemma is how to get the government interventions withdrawn once the crisis is past. In other words, how to bring the Keynesian 10% crisis period to end, and the normal Smith 90% to resume its natural creation of growth and wealth.

The financial panic ended in the U.S. in 2009 and in Europe in 2012. But the interventions have not been withdrawn. The central banks of the U.S. and Europe are still running hugely distorting negative real interest rate experiments years after the respective crises ended. Fannie Mae and Freddie Mac, effectively nationalized in the midst of the crisis in 2008, have not been reformed and are still operating as arms of the U.S. Treasury. The Dodd-Frank extreme regulatory overreaction, obviously a child of the heat of its political moment, has not yet been reformed.

The Cincinnatian Doctrine cannot work to its optimum unless we can figure out how to solve the Cincinnatian Dilemma.

Scottish housing – a work in progress?

By Kenneth Gibb

1. Introduction

The Scottish National Party is in the first year of its third consecutive Scottish administration (once again a minority government). Housing is a priority for the Government (Scottish Government, 2016) but one that faces considerable challenges. In an earlier paper for *Housing Finance International* (Gibb, 2012), I argued that Scottish housing policy is largely though not wholly devolved and that divergence from England or the UK is apparent but that this is circumscribed by various external drivers and institutional arrangements (such as specific tax powers, welfare benefits and public spending rules). Scottish housing policy continues to diverge and has moved on in important regards since 2012 (and is set to move further away from policy and practice south of the border in the near term – Gibb, 2015). This paper updates the story, taking account of the major changes that have occurred, emerging policy priorities and the likely challenges that lie ahead.

2. Scottish housing in context

To paraphrase the earlier paper (Gibb, 2012), academic housing studies have emphasized the impact of broader processes of convergence on national housing systems through a lens of national welfare regimes and inferred that the sector was being shaped by meta processes of globalization and commodification (Clark, et al, 2012). At the same time, many writers also argued that national systems display elements of path dependency and that national context, institutional features and other rigidities may both impede convergence and may even sustain elements of policy divergence (Doling and Ford, 2003; Hayden, et al, 2010).

This led the 2012 paper to ask – do these national-level forces of convergence, divergence and path dependency also operate *within* a nation state such as Scotland? Devolution should offer the opportunity for policy to diverge because it reflects local preferences and political demands in ways that unitary Government does not. The existence of a shared set of institutions (e.g. the civil service), a broadly common set of policies from pre-devolution, and a shared macroeconomic and fiscal context – all lend themselves to comparative analysis of the different nations post-devolution by providing a common starting point for a natural experiment. However, policy does not exist in a vacuum. The real world involves party and governmental politics, incrementalism, lags in implementation, and policies must withstand wider shocks to the policy process (such as Brexit).

The earlier paper concluded that, first, the process of divergence in Scottish housing policy from the UK was real, substantial and cumulative. But it was evidently constrained by UK policy levers when big shifts occur, as with the changes to the public finance climate after 2010, and indeed as a result of more global financial upheaval affecting the supply of credit for housing regardless of where such housing was actually located. Second, while there was limited evidence of housing policy lesson-learning across the devolved UK, one could make a case for *reverse convergence* from Scotland to the UK, at least in the enthusiasm that state-backed guarantees were embraced by Whitehall after they had been used first in Scotland. Emulation such as this remains, however, the exception. Third, the paper correctly if not unexpectedly predicted further housing-relevant reforms in Scotland as a result of on-going constitutional and political change.

The period since 2012 did indeed produce tumultuous politics and change. The independence referendum in September 2014 voted 55:45 to remain in the UK but led to a legislative process that further expanded the devolution of powers to the Scottish Parliament making a credible case, when one also includes the earlier 2012 Act, that Scotland is now, outside of Canada, the most fiscally decentralised sub-national government in the OECD (Bell, et al, 2016). Chiefly, this is the result of devolving all income taxation, assigning half of VAT revenues, devolving stamp duty land tax, devolving important aspects of the social security system while retaining the Barnett formula within a complex budget adjustment process seeking to maintain the 'no detriment' principle between the UK and Scottish parliaments. The benefit changes will impact on Scottish housing directly because they include the right to adjust the housing cost elements of universal credit, plus the new devolved land and building transactions tax [LBTT], which is important both for home owners and buy to let landlords. We return to both below.

Surprisingly, at the time, the Conservatives won a majority in the 2015 UK general election at the same time as the SNP took nearly all the Scottish seats. The UK result set in motion an internal Conservative party process that led ultimately to the EU referendum and Brexit. Of course, in the future, this may be viewed as the trigger or the opportunity that led to a 2nd independence referendum (Scots voted strongly to stay in the EU). In the short run this has led to considerable economic and political uncertainty and essentially what is a new UK government under Theresa May replacing the government led by Cameron and Osborne. At the time of writing, it is unclear just how and to what extent macroeconomic and public finance polices will shift under the new Chancellor of the Exchequer in the light of government seeking to minimize emerging Brexit downsides across different sectors of the economy (e.g. agriculture, the car industry, higher education, etc.).

Since 2012, there have been a number of important policy developments unfolding and changing the wider Scottish housing setting. First, the right to buy was finally completely abolished without much fuss or resistance. Second, as we discuss in more detail below, there has been recent far-reaching private rental legislation. Third, unlike the quite cautious approach taken so far with income tax rates, the Scottish Government were happy to be progressive in their approach to LBTT (again, discussed below). Fourth, the Scottish Government supported a (nearly) all-party review of the council tax promising fundamental reform (Gibb and Christie, 2016) but this led ultimately to the new SNP government promoting only the most modest of reforms to upper bands and extra support for below median income households. Fifth, starting with Glasgow and the Clyde Valley, large parts of urban Scotland are now pursuing negotiations over City Region deals aimed at major infrastructure and labour market polices (and sometimes, as in Edinburgh, including additional housing proposals). Finally, in 2011, the Scottish Government committed to building 30,000 affordable homes over the lifetime of the Parliament (2/3 of which would be social). They achieved this target and supported a shift into large scale council house building and significant volumes of low cost home ownership involving mechanisms such as shared equity and shared ownership.

While these divergent policies were underway in Scotland, UK-wide policies also had an impact, most notably through DWP's welfare reform proposals, increasing conditionality and squeezing eligible housing benefit payments at the margin (Scotland decided to pay to compensate in its entirety the *bedroom tax* [or spare room subsidy] introduced in 2013 – Gibb, 2013). Welfare reform continues to be a source of great controversy in Scotland and is part of the reason for devolving significant parts of the benefit system in 2016[1]. The other important development in this regard from London was the state-backed guarantee *Help to Buy*, which along with one or two other policies had a knock-on effect in Scotland since it offered an increase in the Scottish budget which found its way into housing spending through 'financial transactions'. Essentially a long-term loan (usually 30 years) from the Treasury, this route allowed Scotland to provide a tailored Help to Buy product which acted as a boost to new build through shared equity support (a successful intervention quantitatively although there was some criticism that the achieved prices were relatively high – and have since been capped at reducing levels).

Reflected in Table 1, home ownership in Scotland has been transformed in a generation though it has now evidently plateaued. In 1976, the share in home ownership was 34%; in 2007 it reached 65% before falling back to 62% (2013). Private renting has been the major beneficiary and the source of dynamic growth in this most recent period – nearly doubling since 1999 (7%) to 15% (2013). The market now provides more than three-quarters of all homes. Scottish council housing's share collapsed from 52% (1971) to only 13% in 2013. Housing associations' dwellings were 4% of the total in 1997 and grew to 11% in 2013. (Wilcox et al 2015, Table 17b). Essentially, home ownership grew later in Scotland than the rest of the UK but accelerated very quickly before peaking, as was the case elsewhere. Scotland also displays a similar growth trajectory for market renting though less dramatically than elsewhere. Despite its long-term fall, the social renting share has fared better in Scotland in terms of its contemporary tenure share. Table 1 also indicates the long-term decline in housing completions but does not show the structural break associated with the collapse in private housebuilding after 2007, which has still not been restored nine years later.

In terms of demographic change – in the 10 years to 2015, households in Scotland grew by 160,000. Between 2015 and 2039, the population is anticipated to grow from 5.37m to 5.7m with a strong aging effect (it is estimated that between 2012-37, the under-65s will grow by 3%, the over 65s will grow by 54% and the over-85s will more than double from 77,000 to 200,000)[2]. Migration has been the driver of population and it remains to be seen what impact Brexit will have on this engine of housing demand.

Table 1 Housing tenure (dwellings) and completions, Scotland, 1976, 1999 and 2013, % (rounded)

year	Owner-occupation (%)	Social Renting (%)	Private Renting (%)	Total Completions
1976	34	54	12	34,000
1999	61	32	7	23,500
2013	62	24	15	14,800

Source: Wilcox, et al, 2015.
Note: 1976 figures combine associations and private renting

There are many potential measures of housing outcomes (see the 20 indicators for housing within the relevant section of the Scottish Government's national performance framework[3]) but we restrict the discussion here to just two. First, according to the Centre for Housing Market Analysis at the Scottish Government, Scottish house prices have not recovered from the 2007-08 peak as smoothly or as strongly as the rest of UK. Entry costs to home ownership are a material constraint on tenure choice (particularly down payment constraints) and affordability presents a gradient of difficulty in particular areas of Scotland and more localized high demand neighbourhoods[4]. Second, a new national study of housing need (existing and newly arising) by Powell, et al (2015) which has been accepted by the Scottish Government, suggests that housing need is around 12,000 units per annum as a central estimate (up from 8,000 10 years ago). This level of need sparked the Government and opposition parties into pledges to expand affordable housing supply, as we explore below.

3. Main strands of housing policy in Scotland

There are six main policy themes discussed in this section (acknowledging that this is selective and does not include some questions others would focus on such as homelessness, energy efficiency and fuel poverty or the role of community based housing in wider regeneration activities, for instance). It is also an important question to ask whether this all adds up to something systematic and coherent in terms of a sector-wide strategy, policy framework and set of actions (though that would certainly be a challenge in most parts of the UK). We return to this in the final section of the paper.

3.1 Social and affordable supply target

The centre-piece is the 50,000 social and affordable supply target over the life of this (five year) parliament, and the traditional and more innovative mechanisms that are being considered to support the target. The higher number for this parliament (it was 30,000 for

[1] Although less than 20% of funding of benefits is devolved there are important additional powers to amend and top-up varying existing powers as well as potentially introduce new benefits.

[2] http://www.nrscotland.gov.uk/news/2016/scotlands-changing-population

[3] http://www.gov.scot/About/Performance/scotPerforms/partnerstories/HARO/Indicators

[4] http://www.gov.scot/Resource/0050/00506678.pdf

the last – which was achieved) emerged in the wake of the new national affordable needs study suggesting 12,000 affordable units of additional supply were required annually. Nearly ¾ of the budget is allocated to local authorities through a multi-year locally-led planning process. This involves tying together housing needs assessments locally into local housing strategies which are themselves in tune with strategic and local development plans. Each council then receives a three-year resource planning assumption which enables the council to construct a strategic housing investment plan [SHIP] which is approved by the Scottish Government who in turn draft strategic local planning agreements [SLPAs]. These form the basis for local agreements between specific councils and housing associations for the delivery and timing of specific priority sites and projects (Berry, 2016, p.9).

The target includes a set of further targets within it – 35,000 units are to be social housing (which is an increase of 75% on the previous target) and the Government anticipates adopting a range of innovative affordable mechanisms which are being proposed, developed or piloted (see Berry, 2016 and Box 1 below). Individual players like the Wheatley Group are making a major numerical contribution.

Grant per unit has recently increased by £14,000, making the absolute subsidy levels £72,000 for benchmark housing association properties and £59,000 for councils[5]. This must reflect a judgment by the Scottish Government about how far they can stretch overall funding but also what is required on a per unit basis to make the targeted scale of development proceed. But there are always risks – will the developing community of associations and councils determine that they can develop and can access land and the balance of private funding required? Plus, there are exogenous shocks that might reduce development demand but might also, via Barnett consequentials, increase or decrease available funds.

What are the major challenges and barriers to achieving this target? First, not all housing associations and councils who could develop will do so because of the incentives, risks and opportunities they face. Second, a strong social and affordable development programme must rely to an extent on a healthy private development – for instance, more private new build will generate section 75 planning obligation opportunities. But the private sector has not yet recovered the output or capacity levels it had in order to get back to pre-2007 levels of development. Third, despite the increasing appetite for affordable products like mid-market rent, these are still new and therefore immature products (as are many of the new models outlined above). Fourth, as we discuss below, there is a wider set of questions and challenges regarding the general housing supply delivery system (including the planning system).

3.2 Housing and the new welfare powers

The Scotland Act 2016 devolves about 15% of current benefit spend in Scotland when fully implemented but also provides scope for Scotland to top-up existing benefits, add new benefits with a specified range and adjust other existing benefits, recognizing that the Scottish Parliament may pay for these extras at the margin and in some cases will need to consult with DWP in order to do so (see Box 1). In terms of delivering the new welfare powers and implications for housing; it devolves discretionary housing payments and gives the right to vary the rental accommodation costs associated with Universal Credit [UC] including the ability to abolish the Spare Room Subsidy or Bedroom Tax. The Scottish Government has also stated (2016 manifesto) that it wished to restore the proposed future removal of Housing Benefit (HB) for 18-21 year olds and to both shift UC to fortnightly payments and consider restoring direct payments of HB to social landlords (and give private tenants the choice).

If all these proposals regarding using the welfare powers are taken up this will be a major devolved shift in the welfare bundle of rights available to low income tenants in Scotland compared to the rest of Britain. However, these will be subject to uncertain future fiscal calculations about affordable increases in the Scottish social security budget and the opportunity cost on other programmes, the willingness to fund extra spend out of Scottish taxes and the wider public finances at UK level that transmit to Scotland through Barnett and the block grant adjustment mechanism. At the time of writing, the indication is that the Scottish Government will not fully take up the welfare powers until 2020, such is the caution about this step-change in devolved delivery of public services.

We should not underestimate the scale of the challenge in setting-up from scratch a Scottish social security system for the devolved benefits let alone the policy mechanisms and administration required to plan and implement any of these new powers. Even more than income tax this is the biggest policy and administrative challenge devolved Scotland has faced since 1999. On the other hand, implementing key elements of the package from the new social security powers could play an important role in providing reassurance to lenders over security of rent payments and reduced arrears risks. Two likely future areas of tension between Edinburgh and London are the unpopular sanctioning and conditionality system which remains reserved and also the overall benefit cap which limits the amount of HB recipients can receive and will likely become the future lightening rod of the welfare reform machine.

3.3 Reclassification

On September 29 2016, Scottish housing associations along with their equivalents in Wales and Northern Ireland were reclassified by the ONS as public non-financial corporations. This followed approximately 11 months after the English sector was similarly re-classified.

Box 1 Affordable funding innovations

- Charitable bonds (Alia, a social investment charity, issues a bond so that participating associations receive a loan to build affordable housing, but the interest on the loan can be rolled up immediately to support additional social housing investment;
- Local affordable rent housing trust [LAR] involving long term affordable homes via a charity initially funded by a loan from the Scottish Government;
- Guarantee-backed midmarket rent schemes building on the earlier National Housing Trust model;
- Pension Fund investment – the Scottish Government has given enabling support to one local authority pension fund so far in order to fund 300 units of affordable housing;
- The Housing Association Resource for Investment Scheme [HARIS] which is a not for profit partnership established by SFHA and the Scottish Futures Trust that will reduce borrowing costs and ability to borrow for providers with covenant or financial capacity problems (SPICE, p.13).

Source: Berry, 2016, pp.12-13

[5] These are 'greener' benchmark grant levels.

Box 2 Welfare powers and devolved benefits flowing from the Scotland Act 2016

Benefits to be devolved:

- Attendance Allowance; Carer's Allowance; Disability Living Allowance; Personal Independence Payment; Industrial Injuries Benefit; Severe Disablement Allowance
- Cold Weather Payment; Funeral Payment; Sure Start Maternity Grant; Winter Fuel Payment
- Discretionary Housing Payments.

Other powers to be devolved:

- expanded power to provide discretionary payments and assistance
- the power to top-up reserved benefits
- the power to create new social security benefits (but not in the reserved area of pensions)
- the power to legislate for Welfare Foods
- powers to vary the housing cost element of Universal Credit for rented accommodation and to change payment arrangements for UC
- there will also be Scottish powers over support for the unemployed through employment programmes.

Source: Wane et al (2016)

What this means is that assets and liabilities are treated as public sector for statistical purposes but also it can mean that HM Treasury may seek to control future borrowing since it now is reflected in the national debt (and was the case with a similar reclassification recently of Network Rail). The three devolved governments are also following the English by using legislation or similar measures to deregulate the sector sufficiently to bring it back into the private sector. Not to do so would risk the continued independence of the sector, the future of mixed funding and the delivery of key policy objectives. But deregulation brings its own risks.

The key to all of this is the Scottish Housing Regulator, now reclassified as part of central government. ONS argues that they exert control over key aspects of housing associations, in particular, powers over the disposal of housing and land assets, the appointment of members and senior staff, as well as over constitutional governance change within housing associations. Even before the announcement, the Scottish Government signaled in its programme for government (Scottish Government, 2016) that it intended to follow the English approach and deregulate. The proposals are to:

- Remove the need for the Regulator's consent for the disposal of assets by registered housing associations
- Limit the Regulator's ability to appoint members and managers to registered housing associations, other than when they are in breach of regulation
- Remove the need for the Regulator's consent for the reshaping, winding up and dissolution of registered housing associations.

The widely-held belief is that this will allow an orderly and relatively trouble-free transition back to the earlier position with associations back in the private sector. The question does remain about the impact of deregulation on a sector premised on the comfort that the regulator provides for lenders and other commercial partners. Can sufficient deregulation take place to keep ONS happy without impacting adversely on the ability to borrow and the terms on which loans are made? The path back to the earlier classification may not be as trouble-free or as uncontentious as is often claimed.

3.4 A dynamic rental market

Table 1 emphasized the remarkable growth of private renting in the last 15 years in Scotland as across the rest of the UK. As elsewhere, this has been dominated in Scotland by small Buy to Let [BTL] landlords – a Glasgow commentator recently pointed out that while there are over 60,000 rental properties in the city there are more than 35,000 landlords.[6] This is a sector locally impacted by UK policy change e.g. reducing loan tax relief, upping stamp duty (although this was a discretionary decision to emulate the UK changes in Scotland through the new Land and Building Transactions Tax in Scotland) and not passing on reductions to CGT. At the same time, there are undoubtedly significant and visible problems at the bottom end of the sector, most obviously if we look at parts of the inner south side of Glasgow. More broadly, there is a distinct failure to grasp the diversity and segmented nature of private renting in Scotland as far as purposive policy goes. This starts with the limited private renting evidence base but such an absence leads on to often simplistic and faulty diagnoses and consequently flawed interventions.

There are three other key things going on in the Scottish private rented sector. First, the anecdotal and intuitive sense that demand-side growth now includes a significant proportion of younger households who are content to be tenants and accept that home ownership is both difficult to access but that in any case the rental market offers positive attributes – there are *volunteers* as well as *conscripts* but this remains un-evidenced.

Second, the Scottish Government in the last Parliament passed legislation to be enacted in 2017, that will de facto lengthen the proposed new standard 'private rented tenancy' into a more open-ended contract, make it harder for landlords to evict without recourse to a specified set of reasons and opens the door for localised rent limitations on rent increases in pressured markets (so-called 'rent pressure zones')[7]. This is a potentially significant change and one that the rest of the UK will watch intently – will the sector continue to grow or will there be disinvestment (not helped by the tax changes alluded to above)?

Third, there is also a proposal to provide a time-limited rental income guarantee scheme to support the holy grail of institutional investment in the private rented sector (i.e. underwriting a proportion of the revenue risk for PRS developments (Berry, 2016). This emerged from research carried out for Homes for Scotland (Scanlon et al 2013) and the decision to support a private renting champion for Scotland. All in all, there is much going on in terms of rental market policy intervention, if not all consistently or coherently heading in the same direction.

3.5 Challenges for home ownership

Home ownership has been seriously inhibited since the Global Financial Crisis [GFC] in Scotland (in part because of UK level mortgage market retraction and enhanced regulation), as has the private development sector. This is one reason why Scotland has embraced the shared equity new build variant of Help to Buy (funded through financial transactions from HM Treasury

6 A discussion with the author at a recent Glasgow local housing strategy meeting

7 See – http://www.tcyoung.co.uk/blog/2016/private-landlord/private-housing-tenancies-scotland-bill

to Scotland) targeted first time buyers rather weakly (averaging £189,000 sales prices). The Scottish Government expects around 7,500 purchases under the provisions of the scheme in the three years to March 2019 (Berry, 2016).

The 2012 Scotland Act allowed Scotland to introduce its own stamp duty tax, called the Land and Buildings Transactions Tax. This led to the rather ridiculous and costly experience of three different tax regimes in one year for stamp duty, as Scotland introduced a much more progressive (non-slab structured) scheme which, even before it was introduced, was then trumped by reforms announced by the then Chancellor leading to a revised version of the tax in Scotland. Arguably, the removal of the slab structure (those liable paying a single rate on the whole property value) replaced by a progressive set of rates that only apply at the margin, reduced pricing distortions to an extent, but the higher rates at the top end of the market may well have resulted in similar practices in any case. What is clear is that transactions were postponed and the tax had a real if arguably temporary impact on the housing market in terms of levels of activity. The precise outcomes are controversial and subject to a government evaluation of the new tax by the Finance Minister. Meehan (2015) concluded that revenues from LBTT were initially lower than expected for high value properties because sellers sought to complete transactions before the new tax came in. The decision to increase the tax rate on second homes and landlord purchases by 3% at each rate (the Additional Dwelling Supplement) allowed the revenues to reach the forecast level in the first year of operation.

Finally, Scotland has also been through a commission on local tax reform which was charged to fundamentally review the present system of council tax[8]. It recommended replacing the council tax with a property tax that might include an income-based element and also to end the 9-year freeze on council tax bills. This ultimately led to debate in the recent Scottish election but only modest reform (increased weightings on the higher bands, compensation for below median income households in those higher banded properties but no general revaluation) and no sense that for the time being there will be further more comprehensive reform of property taxation (Gibb and Christie, 2015; 2016).

3.6 Housing supply delivery

At the heart of the affordable housing supply target and production of new market supply, is the question of the effectiveness of the housing supply delivery system – land, planning permission, construction and delivery. Why is the housing supply in Scotland as elsewhere in the UK so inelastic or unresponsive? In Scotland, sites with planning consents significantly numerically outweigh what actually gets built (Scottish Government, 2016a). Going back to the Lyons review, there has been a concern about the decline of SME builders and that the underlying business model of larger developers has been to build out slowly and conservatively to meet current demand. At the same time, various aspects of the planning system are widely criticized e.g. delays to decisions, the time required to put major applications together but also the lack of planning resources in councils. An independent review of planning in Scotland (Beveridge, 2016) reported in the summer and the Government is proposing a White Paper in the next few months that among others things seeks to reform planning specifically to support the new housing pipeline for both market and affordable housing.

A slew of further potential interventions to assist housing delivery have been proposed by various official or non-official sources in the consultation period over the planning reforms (Gibb, 2016). On the question of bringing forward land for housing, policy proposals have included: removing planning consent if not used, a vacant and derelict land tax (part of the council tax reform proposals and recently introduced as a levy in Ireland), more use and capacity to work with Compulsory Purchase Orders or Compulsory Sale orders to help with land assembly. Others have called for a land development agency either at national or city-regional (strategic) level, as well as local revolving land funds – where under any of these proposals serviced sites are sold on and the model is largely self-financing but could be of direct use to SME builders. Government is also considering whether to replace S75 planning agreements (the Scottish equivalent of S106 agreements) with some form of community infrastructure levy.

4. Conclusion

Scotland is moving into a new era post 2016 where the Scottish Government has to think much more about future tax revenues and to make much more explicit budgetary choices and priorities between spending areas and sectors. Housing will have to compete with other priorities in a different way in the future than it did in the past once tax powers and devolved benefits and other new social security powers are fully operational. Critical here is that new housing can augment the tax base and make places more attractive for incomers and potential stayers with attendant economic and fiscal benefits (no longer just about meeting need)[9].

The growth of the private rented sector has led to different UK and Scottish interventions that on the one hand increase the tax burden on BTL providers but also change tenancy conditions and offer the prospect of local rent limitations. Whether this actually reduces future investment remains to be seen but on the positive side, longer normal tenancies will widen demand by encouraging key groups like families with children to consider a sector that had seemed hitherto too transient and temporary. Government plans to look at some form of income guarantees for institutional investors and a continued interest in a prospectus for Build to Let in Scotland, alongside the evident growth in mid-market rent and other affordable provision by social landlords are all potentially positive components that may help the Scottish sector evolve and mature.

The centerpiece of housing policy is the 50,000 target and it remains a formidable challenge despite the levels of funding (£3 billion over five years) and the growing array of policy instruments to support it that have been introduced, pledged or are being considered. Apart from the array of national to local planning mechanisms to support targeted housing delivery to meet need there is also a sector-wide national joint policy and delivery board also. Critical to the success of the programme will be the environment shaping the capacity of the private sector to build but also willingness of major councils and housing associations to make the scale of development happen.

Do these policies: Help to Buy; tax reform; private renting legislation; grant in aid and related affordable housing innovations, plus land and planning reform – actually constitute a coherent policy as a whole? Are they systemic and fully reflective of interdependencies, spillovers and unintended consequences? Do they address big Scottish-level issues like inequality and the role of housing wealth in that intergenerational set of problems? Is there a unifying long term vision? Probably not completely but then again it is a high bar that is not really met in many other places either. Nevertheless, should we not aspire to a vision, strategy and instruments to achieve the outcomes we seek?

Finally, it is worth reiterating that the undoubted improvements in housing policy, this work in

[8] See – http://localtaxcommission.scot

[9] This line of argument has been made by Duncan Maclennan in particular.

progress, is occurring alongside considerable political and constitutional uncertainty given the advent of the Brexit vote and its ever-extending uncertainties and risks, the political domination of the Scottish Nationalists, long term financial pressures on public budgets and related controversial reforms in areas like welfare. There is, furthermore, no real sense that the decade of global economic and financial uncertainty is yet over. Recent forecasts and scenarios for the Scottish economy by the Fraser of Allander Institute (2016) painted a rather gloomy picture for the Scottish economy – these sorts of considerations will impact on Scottish public finance decisions, the housing programme and indeed the option of a possible future independence referendum. It would probably be wise to look at these issues in the round once again in another three or four years.

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Housing and housing finance in Russia at a time of crisis

By Marina Khmelnitskaya

1. Introduction: Russian housing and housing finance 2014-2016

Over the past three years[1] housing and housing finance in Russia, as well as relevant government policy have been shaped by two important and interlinked influences.

On the one hand, government policy has continued to pursue goals identified at an earlier period. These have involved trying to find solutions to Russia's "housing problem" by promoting predominantly private ownership of housing and mortgage borrowing. Amongst the important measures were those aimed at improving affordability by increasing rates of new housing construction and lowering costs of producing construction materials against the background of increasing household incomes. Another important element of the policy was associated with the improvement in the terms of mortgage borrowing by developing the mortgage operations of Russian banks, increasing competition and improving access to sources of secondary funding including specifically use of mortgage securitization. While the main emphasis has remained the promotion of private tenure, policy-makers have not given up on the idea of housing rentals. A new development over this period was that housing came to be seen as one element within a more encompassing policy goal of advancing improvement in the quality of human capital in the country. This aim increasingly requires integrating policy efforts in the housing sphere with that of other related policy domains.

The other dynamic affecting housing, as well as the entire Russian economy, was the economic crisis that started in late 2014. The crisis resulted from a twin shock: the imposition on Russia of economic sanctions in the summer 2014 by a number of international governments as a result of the Ukraine crisis plus the dramatic drop in the price of oil, one of Russia's main exports and source of budget revenues (Connelly 2015, World Bank 2016). Oil prices fell dramatically by nearly 50% in twelve months, from an average USD 99/barrel in 2014 to USD 52/barrel in 2015 (Brent spot price, BP 2016: 14). Prices have eroded further in 2016, with the current spot price of Brent at USD 46/barrel in mid-September.[2] The Ruble exchange rate plummeted by nearly 40% over the course of 2014. Over two years 2014-2015 the Ruble lost half its value – from 35.69 Rub per USD in the first quarter of 2014 (49.05 RUB/Euro) to 72.88 RUB/USD (79.69 RUB/Euro) by the end of 2015.[3] It regained 12% of its value against USD and 10.5% against Euro in the first half of 2016.

Following this, in 2015 Russian GDP contracted by 3.7% and by another 0.9% in the first half of 2016.[4] Inflation rose to 15.5% in 2015, but improved to 7.8% in January-July 2016.[5]

The combination of the aims for housing development set by government policy with drastic changes in the external environment had important implications for the two areas of Russian housing and housing finance. This article will first consider the effects of the economic crisis on the rates of new housing construction. I will consider both the national dynamic and important variations among the Russian regions. Then the article will turn to the developments in the sphere of housing finance, highlighting the importance of the government programme for mortgage market subsidisation, which has sustained this sphere over the last two years. After that, the paper will turn to the changes in property prices, market activity and savings. This section will cover the national trends and examine the housing price dynamic of the Russian capital. In the final section, I will address the main vulnerabilities of the current state of housing and housing finance spheres in Russia. The central challenge at present is that of the decreasing incomes of the Russians, which have discouraged investment. Another challenge identified relates to the need to design policies that effectively integrate policy initiatives in the area of housing with those existing in adjacent policy spheres.

2. Effect of the economic crisis on housing construction

The effects of the economic crisis on housing construction began to be felt after a two-year lag, i.e. only in the first half of 2016. According to data from the Russian Statistical Service, housing construction continued to grow through 2014 and 2015, when it reached an all-time high (see Table 1). In the first half of 2016, however, rates of new construction of all types dropped by over 5%. Yet, housing construction was the most affected segment. It declined by 9.2% in

Table 1 Housing construction in the Russian Federation, 1990-2015

Year	Million square metres
1990	61,7
1992	41,5
1994	39,2
1996	34,3
1998	30,7
1999	32,0
2000	30,3
2002	33,8
2004	41,0
2006	50,6
2008	64,1
2010	58,4
2012	65,7
2013	70,5
2014	84,2
2015	85,3
1 ½ of 2016	31,5

Source: Rosstat[6], AIZhK

[1] For a review of earlier developments and government policies see Khmelnitskaya (2013).

[2] See www.iea.org

[3] See Central Bank of Russia, www.cbr.ru

[4] Rosstat data, see http://www.gks.ru/free_doc/new_site/vvp/vvp-god/tab3.htm and http://www.gks.ru/bgd/free/b04_03/Isswww.exe/Stg/d01/182vvp9.htm, accessed September 2016.

[5] Rosstat, reports "Social and Economic Development of Russia" for different years available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140086922125 accessed September 2016.

[6] See table: *Vvod v deystvie zhilikh domov v RF*, available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/building/# accessed September 2016.

the first half of 2016.[7] In January-July period of 2016, however, the Russian statistical agency recorded a lesser reduction of 7.4%.

The way the crisis has affected housing construction has an important regional dimension (Zubarevich 2016). Russia displays a substantial differentiation in the rates of housing construction as well as highly varied economic performance between its regions. For instance, while real incomes in most of the regions experienced a reduction during 2015 and the first half of 2016, in a number of regions, a mild growth of real incomes was recorded (e.g.: Moscow, Belgorod, Kostroma and Yaroslavl' regions, Krasnodar Krai and Tatarstan) (Maleva 2016: 18-19). The decline of personal income levels and rates of investment throughout the economy – in its third year in 2016 – represented the most serious challenge (ibid, AIZhK 2016c). In the first half of 2016 investment in the Russian economy dropped by 4.3% compared to the level of 2015, itself lower than that of 2014 (minus 8%). The front-runners in attracting investment continue to be resource-rich regions of West Siberia and vibrant metropolitan areas of Moscow and the Moscow region, St Petersburg, as well as Tatarstan, Krasnoyarsk and Sakhalin (Zubarevich 2016). The level of real incomes of the Russians contracted by 4.7% during 2015. In the first half of 2016 personal incomes contracted by a further 5% (see Table 2).

Such uneven economic performance and investment in different Russian regions have been reflected in regional housing construction rates. Two thirds of Russia's regions have shown reductions in rates of new housing construction. This trend is expected to continue and even worsen by the end of the year (Maleva 2016). The pre-crisis levels of housing construction in individual regions do not always explain the growth or decline of construction rates during the recent, crisis-ridden period. A number of regions in the North, Far East and Southern Russia, with low rates of housing development prior to the crisis have experienced growth in residential construction in 2016. Construction continued to grow in St Petersburg (an increase of 6%) in January-July 2016 and remained relatively stable in the surrounding Leningrad *oblast'*.[8] By contrast, the city of Moscow[9] has recorded a sharp decline in housing construction that amounted to a drop of 25.9% during the same period. The Moscow region – the leader amongst Russian territories in housing construction[10] – has experienced a small reduction in the rates of housing development (minus 2% in the first half of 2016). In a number of other regions with high initial rates of new housing development the trend was also negative: Krasnodarky *krai*, Rostov region, Tatarstan and Bashkortostan experienced reductions ranging between minus 2 and minus 7%. Housing construction in the oil-rich Tyumen region plummeted by over one-third, minus 34.4% – a dynamic similar to the one observed in Moscow.[11]

3. Effects of the economic crisis on housing finance

If 2016 has been a challenging year so far for residential construction, the drama in the market for housing finance started in 2015 when mortgage borrowing "collapsed" by 34.2% from the 2014 level in monetary terms (see Table 2). This decline pushed down the 2015 volume of mortgage lending in Russia to the level of early 2012.[12] In the meantime, interest rates on mortgage loans shot up from an average of 12.4% during 2014 to 14.5-16% in January 2015. Interest rates came down during the year to an annual average of 13.3% for 2015. Mortgage securitisation, which was growing in 2013-2014, in 2015 dropped to 8% of the volume of mortgages issued during the year.

The first half of 2016 has experienced a partial recovery, with the volume of mortgage credit exceeding that of the first half 2015 by 44% (AIZhK 2016b). Interest rates returned to the level of 12.7%, more familiar to Russian borrowers. According to the industry regulator, the Agency for Home Mortgage Lending (AHML/*AIZhK*), in the first half of 2016 390,000 families were able to buy new homes using mortgage credit. Yet, mortgage lending remains some 16% below the level of the first half of 2014 (Maleva 2016: 15-16). 2014 has so far been the best year for the volume of mortgage finance in Russia. (See Table 2). According to experts, given the persistence of the negative personal income dynamics, recovery to the levels reached two years ago will be a difficult process (ibid, AIZhK 2016d).

The reduction in personal incomes has affected current mortgage holders, an increasing number of whom are struggling to service their debts. Research shows that 9% of households in Russia are repaying mortgage loans, while 36% were repaying other types of loans. About a third of those who were repaying a mortgage loan said that they struggled to find enough money to buy essential foodstuffs (Burdyak and Grishina 2016). According to the data of the United Credit Bureau[13] the number of overdue mortgage repayments increased in the first half of 2016 by 22%, reaching 102 thousand loans by the end of June 2016. This comprised 3.8% of the total number of outstanding mortgage loans. The volume of the delayed payments increased by 17% during this period, reaching 157 billion Rub or 4.5% of the total outstanding mortgage debt. As during the financial crisis (in Russia – 2008-2009) the Government put in place measures to assist failing borrowers. Generally, it can be noted however, the segment of mortgage finance represents the better performing area of retail credit debt in Russia: while the proportion of mortgage repayments in arrears was as noted as less than 5%, the proportion of arrears for credits of all types in the first half of 2016 reached 18%.[15]

3.1 The programme of government subsidisation of mortgage borrowing

Returning to the issuance of new mortgage loans, the greatest contribution to the recovery of mortgage lending observed since mid-2015 and through the first half of 2016 has resulted from the programme of government subsidisation of mortgage borrowing. The programme introduced in March 2015 and currently funded until the end of 2016 (AIZhK 2016b) can be seen as a part of the group of measures associated with the recapitalisation of the financial sector undertaken by the Russian government in response to the crisis (World Bank 2016). This programme subsidises the interest rates on mortgage loans for the purchase of newly-built housing units in multi-apartment tenements. The allocation of funds for 2016 was one trillion

[7] See Rosstat, *Srochnaya informatsiya po aktual'nym voprosam: O zhilishchnom stroitel'stve v I polugodii 2016 goda*, available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/building/#

[8] The data for the first six months of 2016 records a 12% decline in housing construction for St Petersburg (Rosstat, as per reference 6), also reported in Maleva 2016. Yet, the data for January – July 2016 demonstrates growth (Zubarevich 2016).

[9] Moscow is geographically lying in the centre of the Moscow region, yet it is administratively separate from the surrounding *Podmoskovie* region – see Khmelnitskaya 2014.

[10] 10% of all new accommodation in Russia was built in *Podmoskovie* prior to the crisis. This slightly dropped in 2016 to 9.4%.

[11] Rosstat data as per reference 6; also see Zubarevich 2016.

[12] Central Bank of Russia, Mortgage statistics, available at http://www.cbr.ru/statistics/?PrtId=ipoteka

[13] www.bki-okb.ru

[14] See http://www.ahml.ru/mortgage/assistance/

[15] This according to the Russian United Credit Bureau happened for the first time in 12 years. Here I am referring to the proportion of the number of loan repayments. The proportion of loans that are in arrears by value was 13.5% or 1.23 trillion Rub. Overall, Russians hold some 76.13 million credit loans of different kinds, to a value of around 9.1 trillion Rub. Mortgage debt comprises 4.18 trillion Rubles, or 45.9% of the total amount. See http://www.bki-okb.ru/press/news/po-itogam-ii-kv-2016-g-dolya-prosrochennyh-schetov-v-obshchem-kolichestve-otkrytyh-kreditov and the AHML Analytical reports, available at http://www.ahml.ru/analytics/.

Rubles. 39.2% of new mortgage loans issued in the first half of 2016 have used funds made available as a result of this government initiative (Maleva 2016: 16, AIZhK 2016b). The amount of investment thus directed towards housing construction during this period was equal to 417 billion Rubles. Borrowers contributed 37% of this sum which went towards financing the construction of 7.2 million sq. meters of housing, according to AHML statistics (ibid).

The reliance on mortgage finance – particularly for the primary housing segment – has now increased as a result of the crisis. Prior to the crisis in 2014, 40 to 50% of all new house purchases and 25% of joint housing construction projects used mortgage credit. In 2016, 37% of joint construction projects in the early stages of construction relied on housing credit.

Apart from easing the impact of the crisis on housing provision and for mortgage lending banks, budget funds have saved the mass housing construction industry from a crash. This has helped to avoid mass lays offs and a rise in unemployment levels. Generally, there has not been any significant increase in unemployment during the current economic recession (See Table 2).[16] The reduction in the rates of new housing construction referred to above, according to the AHML statistics, was almost entirely due to the decline of individual housing construction. Meanwhile the mass construction of blocks of flats, predominantly performed by large developing companies, went down by just 1 percent (AIZhK 2016b). Mortgage funding has been the instrument that has sustained the housing construction industry while the Government programme and state reserves directed towards subsidization of mortgage rates were the backbone of this process.

Table 2 Macro-economic performance, housing construction and mortgage lending in Russia, 2011- 1 ½ 2016

	2011	2012	2013	2014	2015	1 ½ 2016
Macro-economic indexes						
GDP growth	4.3	3.4	1.3	0.7	-3.7	-0.9
Inflation	8.4	5.5	6.8	7.8	15.5	7.8
Average per capita income, 000 Rub/month	20.8	23.2	25.9	27.8	30.2	30.0 (second quarter)
Real income growth, %	0.5	4.6	4.0	-0.7	-4.0	-5
Unemployment rate, %	6.5	5.5	5.5	5.2	5.6	5.4
Housing Construction						
Housing construction, mln sq. m	62,3	65,7	70,5	84,2	85,3	31,5
Average size of apartments, sq. m	79.3	78.4	75.8	74.9	71.4	-
Number of apartments built, 000 units	786	838	929	1,124	1, 195	-
Mortgage Lending						
Mortgage Lending, Billion RUB	717	1,029	1,354	1,763	1,147	665 [Annual, projected 1,500]
Growth to the same period previous year, %	88.6	43.9	31.2	30.3	-34.2	44.0
Annual Lending to GDP, %	1.20	1.54	1.91	2.26	1.44	-
Mortgage Debt to GDP, %	2.48	2.98	3.73	4.53	4.93	-
Average Interest rate	12.0	12.2	12.5	12.4	13.3	12.7
Mortgage securitisation, % to the annual volume of mortgage lending	15.2	9.9	17.0	15.3	8	-

Source: www.ahml.ru, CBR 2016, Rosstat

Nonetheless, despite government support, the decline of purchasing power and real incomes of Russians (see Table 2) have left their mark on the construction industry. The strain is mostly felt by small and medium size firms which run out of orders from larger developers and funds raised from homebuyers. 1,600 companies have filed for bankruptcy in the first half of 2016. This is twice the number recorded during the same period a year earlier. Furthermore, the number of companies which had at least one unfinished construction project at the time of bankruptcy, has nearly tripled from 22 a year earlier, to 61 in August 2016 (Merzalova 2016). These companies have left unfinished 385 construction sites throughout the country, including 50,900 apartments. From a regional perspective, the leader is Moscow with seven bankruptcies and 19,200 unfinished units, followed by Bashkiria, St Petersburg and the Novosibirsk region.[17]

4. Property prices, savings and market activity

House prices have decreased as a result of the crisis. New-build accommodation costs 2% less than in the first half of 2015, while second-hand market prices went down by 5%, with the average prices of 53.6 and 54.8 thousand Rubles respectively (See Table 3). In the second-hand market the trend towards price reductions started before the onset of the current crisis, indicating market saturation. The picture is not uniform, however, when the regional dynamic is considered. House prices for new accommodation grew in St Petersburg (by 6%) and in another 28 Russian regions – in Tatarstan, for instance. The second-hand market demonstrated the upward dynamic in some parts of the country as well, for instance in Kaliningrad (5%).

Moscow is an outlier in terms of house prices[18] and the recent price dynamic in the capital deserves specific attention. The USD price per sq. meter of Moscow properties at the end of August 2016 was in the region of 2.600-2.700.[19] Homebuyers' were active over the summer 2016 when offered prices, including discounts, which were some 20% lower compared to the same period in 2015. This tendency was evident in both the primary and secondary segments of the capital's housing market. See Graph 1.

Another trend which has been evident concerns the average size of an apartment in the new build sector which has decreased over the last two years, in all segments of the market from budget accommodation to premium-class properties. This has reduced the average price of individual

[16] This is consistent with what Stephen Crowley (2015) calls "the Russian model of labour market adjustment" – existing in other post-Soviet states as well – when labour shedding is discouraged in order to preserve social stability, while it is the employees' pay packets that take the hit.

[17] Also see www.irn.ru

[18] For a set of reasons making Moscow a special case among the Russian cities – some of the reasons are common to national capitals in comparative terms, while others are country-specific – see Khmelnitskaya (2014a).

[19] www.irn.ru, see: http://www.irn.ru/news/110035.html

transactions in Moscow. This trend is in line with long-term national developments, see Table 4. The gradual reduction in the average size of new dwellings, while allowing an ever greater number of households to improve their housing conditions, is compromising one of the aims that the Russian state has been pursuing in several policy domains – housing included – over the recent years. This pertains to the aim of encouraging families to have more children to help with the country's dwindling demographic outlook, as will be further addressed in the concluding section.

Another important development that occurred as a result of the current crisis is the increase in the volume of savings. Bank deposits grew by 18.3% in annual terms, reaching 22,925 billion Rubles in May 2016 (Maleva 2016: 15). In December 2014, Russian banks reacted to the Bank of Russia increasing the base rate to 17%, as an anti-crisis measure.[22] By spring 2015 interest rates offered by Russian retail banks had risen to around 15% at the largest banks, and were as high as 20% at a number of smaller banks, incentivising Russians to save. The one-year deposits that matured the following spring increased the equity of potential homebuyers by some 10-12%. Overall, an effective average reduction of Moscow house prices – the difference between buyers' equity and the property prices in real terms – has amounted to one third. The cumulative effect of the observed trend was the increased activity in the housing market in the Russian capital through the summer 2016.

The increased amount of savings in Russian bank accounts has in effect created latent demand in the housing sphere. This potential in the increased availability in funding could be realised, as the Russian housing industry regulator hopes, when the macro-economic and other external conditions improve and personal real incomes start to grow again (AIZhK 2016 b,c).

5. Government policy towards housing and housing finance: challenges, opportunities and new directions

The latest World Bank report (2016) has characterised Russian government policies to keep the economy afloat and recapitalise the Russian banking industry as effective for the interim period. In the sphere of mortgage lending the current crisis has led to the reduction in the number of mortgages being taken out, but the

Table 3 Average house prices, 2011- first half of 2016

		2011	2012	2013	2014	2015	1 ½ 2016
Average house prices, Rub 000/ sq. m	New-build market	43.7	48.2	50.2	51.7	51.5	53.6
	Second-hand market	48.2	56.4	56.5	58.1	56.3	54.8
Annual change in house prices, %	New-build market	106.7	110.7	104.8	105.7	99.7	98.8
	Second-hand market	105.8	112.1	103.6	105.1	96.8	95.0

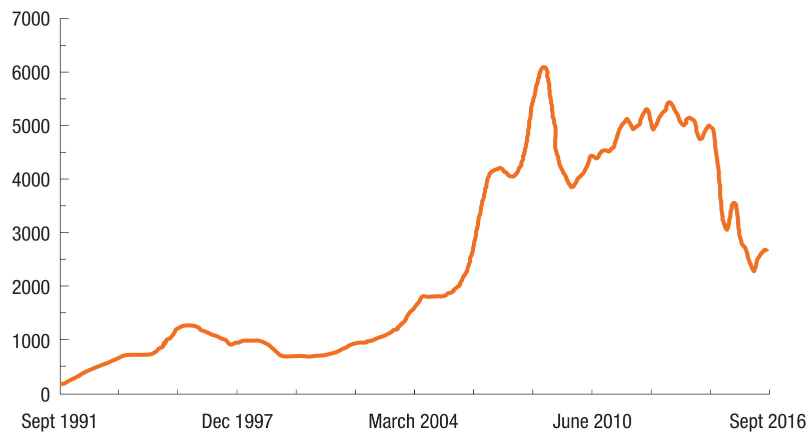
Source: www.ahml.ru, CBR 2016, Rosstat

Table 4 Number of apartments built and their average size, 2000-2015

	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013	2014	2015
Number of apartments built, 000 units	373	396	477	609	768	702	717	786	838	929	1 124	1 195
Average size, sq. m	81.1	85.3	86.0	83.1	83.4	85.3	81.5	79.3	78.4	75.8	74.9	71.4
Out of which, type of apartment, percent from total:												
one-room[20]	20	21	25	29	33	33	34	36	38	39	41	43
two-room	29	30	31	32	32	31	32	31	32	31	31	30
three-room	34	32	29	25	23	23	23	21	20	20	19	18
four-room and larger	17	17	15	14	12	13	12	12	10	10	9	9

Data source: Rosstat[21]

Graph 1 House prices, Moscow, 1991 – 2016, USD per sq. metre



Source: www.irn.ru

[20] Unlike in the West, in Russia properties are characterised by the total number of rooms with the living room included in the count, rather than by the number of "bed-rooms". The usual apartment would also include a separate kitchen, unless it is a studio apartment, which would be normally indicated.

[21] See table: *Chislo postroennykh kvartir v RF i ikh razmer*, available at http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/building/#

[22] Before the crisis, in 2013 exchange rate was 5.5%. It was reduced to 11.0% in 2015 and was further reduced to 10.0% at the time of writing.

Table 5 Average prices for second-hand housing, 1996-2016, at the end of the period, Rub per sq. metre

Year	Russia	Moscow
1996	2,545.8	6,504.4
1997	2,704.3	5,461.6
1998	4,940.9	8,755.3
1999	6,150.7	17,707.3
2000	6,590.2	15,414.0
2001	9,072.4	20,328.9
2002	11,556.6	26,809.8
2003	13,967.0	34,680.9
2004	17,930.8	42,132.1
2005	22,166.0	52,444.0
2006	36,615.1	101,334.3
2007	47,206.0	127,874.0
2008	56,495.0	155,271.0
2009	52,895.0	158,915.0
2010	59,998.0	170,131.0
2011	48,243.0	163,203.0
2012	56,370.0	176,320.0
2013	56,478.0	177,899.0
2014	58,085.0	191,268.0
2015	56,283.0	188,000.0
2016	54.800.0 *	174,000.0**

* 1 ½ of 2016 ** November

Source: Rosstat, www.irn.ru, www.ahml.ru

number would have been even lower and interest rates higher without the state programme of subsidisation. The reduced average incomes of Russians meant that for an increased percentage of mortgage-holders it has become harder to service their debts. Yet, as noted earlier, when compared to loans of other types, mortgage loans emerge as the better quality segment of the market for Russian retail finance.

While the overall amount of lending was reduced because of the crisis, the share of housing transactions that relied on mortgages increased. In other words the current crisis has led to a further spread of mortgage finance as a means for Russian households to improve their housing conditions. Russians, it may be noted, not so long ago were sceptical of the idea of mortgages or knew little about them (World Bank 2003).

The increasing use of mortgage credit can be also considered in the light of what appears to be an ongoing shift in values held by the Russians in relation to the use of informal practices. Pooling agencies, for instance, report that a greater proportion of the public put trust in receiving official salaries as opposed to "grey" unreported earnings (Manuilova 2016). The latter form supplemented or replaced official incomes of a large proportion of the Russians in the early post-communist period and has continued to be a significant problem to the present day. Such practices represented individual survival strategies in the context of the transition from the command economy in the 1990s and, specifically, were encouraged by low trust in the failing institutions of state administration and taxation. They have persisted during the more recent period and tended to deepen at a time of economic crisis, as at present. According to Rosstat reporting, the volume paid in "grey" salaries in 2014 amounted to 14.2% percent of the GDP or over Rub 10 trillion (Petrova 2016). The development of more modern practices in this sense will be helpful for the future of the banking industry and of mortgage finance in particular.

The greatest challenge at the present time is the declining levels of personal incomes. The reliance on budget funds to prop up mortgage lending and housing construction is not a sustainable policy in the long run. Further financing of budget needs with the resources from the Reserve Fund, economists warn, would mean that the Fund may be depleted by the end of 2016 while the excess liquidity in the banking sector may result in the further reduction in the Ruble exchange rate (World Bank 2016; Bozhechkova and Trunin 2016: 10). Specifically, concerning the one trillion Ruble mortgage market support package, over half of that amount was used in just three months during 2016. Even though its share in the amount of new mortgages taken out during the year has been gradually declining, industry experts argue that the need for market instruments for the support of mortgage lending in Russia is high (AIZhK 2016d). There have been proposals to further increase the use of mortgage securitisation, while the introduction of building societies has continued to raise objections from policy-makers[23] (Kolesnikov 2016). However, speaking of the Russian economy as a whole, the recommendation of the World Bank's experts involved improving the quality of governance and diminishing regulatory uncertainty to encourage investment and income growth.

Related to the quality of institutions, are the challenges facing policy-makers in the housing sphere which could be described as the challenge of "policy integration". By this I mean devising policies that avoid treating interrelated problems in an unrelated manner (see Howlett and Rayner 2013, Rayner and Howlett 2009). Perhaps, the most interesting development of the past three years has been that the new policy goal to promote the quality of human capital has become the key priority of government policy for many areas (Maleva et al 2015). It has already been some time since the housing policy-makers connected housing policy to the problems Russia is facing in relation to its demography. The Maternity Capital programme introduced in the mid-2000s used housing subsidies to incentivise further births while promoting mortgage funding (Khmelnitskaya 2015, Kulmala et al 2014, Zavisca 2012). The key concern of the general public which this programme addressed was associated with the affordability of housing for the majority of Russians. The new version of the "Housing" programme issued in April 2014[24] included a sub-programme "House for the Russian Family" which aimed to assist construction of affordable housing for what leading experts on Russian social policy (Maleva et al. 2015: 42) termed "between under class and middle class" families, i.e. those are families which do not qualify for social housing but whose income is insufficient to buy their own dwelling at the market price. 25 million square meters of housing were to be built for this low-income category in the 2015-17 period, according to the Programme. The Government's role was in working with the local

[23] For analysis see Khmelnitskaya (2014b).

[24] *Gosudarstvennaya programma Rossiyskoy Federatsii 'Obespechenie dostupnym i komfortnym zhil'yem i kommunal'nymi uslugami grazhdan Rossiyskoy Federatsii'*, adopted 15 April 2014, available at http://www.minstroyrf.ru/trades/realizaciya-gosudarstvennyh-programm/29/, accessed March 2015

authorities, developers and utility providers and in providing assistance with the construction of the local infrastructure in exchange for a share of apartments in new housing developments. The apartments were to be sold at a below-market price to the target households. Yet, bringing the interests of these diverse actors together at the local level and between the levels of government (federal, regional and local levels) has been proving a hard task, which has held back the implementation of the "Home for the Russian Family" programme (Kosareva et al. 2015).

This is where the capacity of policy-makers to design and implement integrated policies remains limited. Thus, in the long run they are facing the challenge of policy integration.[25] In relation to promoting housing development, housing policy goals and instruments have to be aligned with the aims and instruments that exist in related policy domains, such as territorial planning, transport, industrial and social policies. This, for instance, would mean providing incentives and balancing various interests involved with land use planning and construction at the municipal level, such as those mentioned above. At the same time, the social element of housing provision has to be integrated with other elements of Russian social policy. The latter, however, at present is also highly disjointed and lacking in integration of its various parts and instruments (Maleva et al. 2015).

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[25] Yet, the claim that policy integration is an easy process in developed democracies would equally be an oversimplification, as comparative literature demonstrates.

Pro-poor housing and energy poverty

By Zaigham M. Rizvi

1. Introduction

Providing decent housing to its people is the primary social responsibility of every country around the globe. Very large segments of population in the countries of Asia, Africa and Latin America do not even have a shelter in a decent environment. Access to decent, affordable housing is so fundamental to the wellbeing of people and to the smooth functioning of economies that it is embedded in the United Nations Universal Declaration of Human Rights. Yet, in developing as well as advance economies alike, cities struggle with the dual challenge of housing their poorest citizens at reasonable cost to their low-and middle-income population segments[1]. Poverty around the globe is deep rooted and all-pervasive. Almost half of the world's population lives on less than $2.5 a day, and nearly four out of five people on the planet earn below $10 a day. They all need affordable housing and economic empowerment to fulfill their dream of a decent home. Cities are growing in number and in population. Every second person on the globe lives in an urban area, and with continuing urbanization, soon the number is expected to reach to three out of four people. While the urban population is growing due to massive urbanization, the state and the urban planners have failed to meet the housing needs of these new urban dwellers, forcing them to create slums and inadequate environments. Worldwide some 830 million live in urban slums, and by 2020 it is estimated that the world's slum population will exceed one billion people. Some critics say that the actual number is much higher, but not reflected in available data, due to poor data gathering in most of the developing world.

A study on affordable housing by McKinsey estimates that 330 million urban households around the world live in substandard housing and are financially overstretched in terms of housing. Some 200 million households in the developing world live in slums. Based on current trends in urban migration, the study estimates that by 2025, about 440 million urban households around the world, comprising of at least 1.6 billion people, will occupy crowded, inadequate, and unsafe housing, or will be financially stretched. Though there is some awareness of the challenge of a growing housing backlog, this is more at the level of political slogans, without any real political will to deliver on these promises. The primary factor hindering any political initiatives to deal with the backlog is lack of the necessary financial resources. To replace today's substandard housing, and to build the additional units needed by 2025, would require an investment of US$.9-11 trillion for construction, and with land, the total cost could be $16 trillion1. Once there is the political will, the first step would be that, all housing stakeholders, both on the supply-side and demand-side should sit alongside urban planners, related state authorities, fiscal and regulatory agencies and move forward to deliver. There are many best practice case studies which could be of value in sharing wisdom. For affordable housing, the issues are known, and answers are needed. Without these, the already existing massive backlog would simply keep increasing.

Housing is a numbers game. The more people, the more need for housing. The number of people to living on available land is growing phenomenally, making Malthusian Theory rather conservative. The land supply not only remains the same, rather it is shrinking due to the limited supply of habitable land (serviced land), and massive urbanization. This makes habitable land a scarce commodity, thus making it unaffordable for a large segment of the population. This factor leads to the massive growth of slums and inadequate environments. Therefore, while population growth and massive urbanization leading to the development of slums is one challenge, the limits on transformation of "raw land" to "serviced land" is another.

2. Urbanization, urban congestion and slums

Nearly all cities and metropolitan areas around the globe are faced with the issue of rapid urbanization, resulting in mushrooming growth of slums and inadequate housing. As a result, while the population of cities is growing much faster than overall population growth of the country, the supply of land remains limited. The factors responsible for land scarcity are zoning limitations on providing 'raw land", and its transformation to "serviced land". Whatever land is available to urban planners, for various reasons it is occupied by illegal settlements and mushrooming slums. Even if land supply could be enhanced by redefining zoning, the scarcity of financial and physical resources limits the capacity of urban planners and municipal administrators in respect of rehabilitation of illegal habitat/slums and in transformation of "raw land" to "serviced land". Worldwide, some 830 million people live in urban slums, and by 2020, it is estimated that the world slum population would exceed one billion people. The situation is even worse in some major metropolitan areas of Asia, as in Mumbai, Karachi, Manila and Dhaka where more than half of the urban population lives in slums and illegal settlements. The study conducted by the International Finance Corporation [IFC], as part of its Global Lighting Program reveals that in certain countries around the globe, mainly in African and Asian regions, a large proportion of the urban populations is electricity starved, in spite of living in on-grid areas, due to long spells of power outages. For example, in Pakistan, it is estimated that nearly 74 million people, about one-third of the country's total population, is under-served for electricity, facing on average more than 12 hours of power outages. This already existing electricity demand/supply gap, which is widening over the years, gives no hope to the people living in off-grid areas that they can be on-grid and have any light/electricity in the foreseeable future.

3. Affordable housing:

Affordability in its generic sense is what a person can afford. A billion-dollar house in Mumbai-India, owned by Mr. Mukesh Ambani is "affordable" since Mr. Ambani could afford that. (Fig.-3 shows ANTILIA: The Mukesh Ambani

[1] Source: The Author and *A blueprint for addressing the global affordable housing challenge*-McKinsey Global Institute Oct 2014.

House in Mumba which is valued at one billion Dollars, has 27 Stories, a floor area of 400,000 sq. ft. and 600 Staff.)

The housing units generally available in the market are indeed affordable by their "buyers" since there is an active buy/sell market for them. The market segment, in which there is a vibrant housing supply and demand is termed as "Market Housing". Mostly the housing supply in this market seems to match the demand, if it does not exceed it. Affordability is an issue for the low-income segment and for those at the bottom of the pyramid [BoP people], where the housing backlog and incremental demand is massive, whereas market forces via developers do not come forward with matching supply due to viability constraints. This market segment is termed "social housing" and in the developing world it constitutes a predominant segment designed to meet overall housing needs. Affordability issues genuinely arise in this segment, which has an acute affordability mismatch between income, cost and mortgage affordability. It is in this market segment, where, if the housing supply system does not offer any affordable solution to those without shelter, they grab it outside the system, thus leading to development and growth of slums and inadequate environments.

Affordability needs to reach and empower the homeless who cannot afford a decent house. Generally, affordability is defined in terms of three parameters:

Figure 1 Another view of affordability

a. Income Affordability: When 35-40% of the disposable income match the equated mortgage installments [EMIs], Loan to Value [LTV] ratios are typically 70:30 to 90:10, and loan terms are long; 20-30 years. All this is to ensure that mortgage installments can be paid and are sustainable by low-income segment clients.

b. Cost Affordability: The cost of a housing unit is equal to 50-70 times (4-6 years) of monthly income.

c. Socially Equipped Habitat: Housing developed on serviced land, having basic health, education and transport services etc. The commuting time to the work place does not exceed one hour.

Figure 2 An affordable shelter; better than being without shelter

Figure 3 Being without shelter

Figure 4 An affordable billion dollar house in Mumbai

4. Challenges of affordable housing supply

The supply of low-income affordable housing is primarily constrained by factors like supply of serviced land, rising construction costs, political support to urban planners, absence of fiscal and regulatory incentives, provision of physical and social infrastructure, low cost construction technologies and materials, and transport to work areas. In the following paragraph the article will discuss the most critical factor; supply of affordable serviced land.

4.1 Transformation of "raw land" into "serviced land": electricity is the most critical factor

While large parcels of raw land may be available in pery-urban and rural areas around the urban zoning limits, unless this raw land is transformed into habitable land by provision of essential social and physical infrastructure, thus transforming it into serviced land, no decent settlement can be developed there. Provision of electricity is the critical resource in the provision of social infrastructure. With provision of electricity, the basic health and education facilities could be made functional. Availability of electricity would ensure supply of another important ingredient i.e., water through water- pumps/tube-wells. By and large these affordable raw land parcels are located in off-grid areas i.e., not served for electricity by the national grid. Even in on-grid areas, the settlement faces long spells of power outages, extending from an average 12 hours per day to more than that. The only viable option for electricity which is now being promoted in such areas is the solar power option. Solar solutions are being developed on a wholesale (community based) as well as on a retail basis i.e., roof-top power houses. In Bangladesh, a large section of the population lives in boats. As such they were largely deprived of accessible health and educational services. The boat people would get light through kerosene lamps, which were not only prohibitive in terms of cost, but were also a potential fire hazard. The boat people would also use a cloth cover to protect them from sun and the rain. Grameen Shakti, the solar power entity of Grameen Bank Bangladesh offered them a solar alternative. A solar panel roof would protect them from sun and rain and in the night it would replace kerosene lamps by using a solar lantern. Interestingly enough, the cost per day of the solar option was cheaper than the kerosene option, and indeed much safer as well. Apart from providing a more reliable option for lighting, the solar lamps were also equipped with a cell phone charger, thus improving their communication within the community and outside. The roof protection from sun and rain, which was earlier being provided by a cloth cover and now replaced by solar panels, provided a much better option for the purpose. Soon, the boat people saw the emergence of solar powered boat schools and boat medical clinics. This made the boat people community around Bangladesh an empowered and self-sustaining community.

In areas, where there is no electricity and no water, solar water pumps are becoming increasingly popular. Solar Power is providing a viable and reliable option for water and electricity to a large population of Africa and Asia, and the trend is on the rise. To promote and support this affordable solar option, the International Finance Corporation [IFC] of the World Bank Group has launched a Global Lighting Program. The article will discuss its "Lighting Asia" component and its impact on empowering communities.

4.2 Lighting Global and Lighting Asia Programs of the IFC

Nearly 1.3 billion people worldwide live without any access to electricity (being off-grid). Asia has the largest off-grid population in the world, at 55% of the global off-grid population. Nearly 800 million people in Asia live in a state of near darkness, coping with no access, or with limited access to electricity on a daily basis. Of this, over 700 million or 90% are located in rural Asia. An estimated 85% of off-grid Asians are in seven Asian countries, namely India, Pakistan, Cambodia, Indonesia, Nepal, Bangladesh, Philippine. India alone has 400 million people, one-third of India's total population and half of the continents off-grid population, living without the distinct advantage offered by modern lighting of any kind2. In the absence of grid- supplied electricity, the most popular source of light in these countries is kerosene lamps, which aside from being an unsafe and un-healthy option, is quite expensive as well. As per the IFC Report[2], the total estimate of expenditure on kerosene in the seven countries covered in the study was US$ 3.68 billion per annum. The bulk of this relates to India, where kerosene expenditure for lighting is estimated to be approximately US$ 2.2 billion per annum[2]. The slow rate of electrification and the lack of technical and/or economic feasibility make extending the grid to these households a remote possibility, since these countries are already facing acute electricity shortages even for the on-grid population. For example, in Pakistan, one-third of its on-grid population is under-electrified, facing power outages of 12 hours or more per day[3]. As an answer to this challenge of providing electricity as a basic essential for a decent environment (where settlements are un-electrified and under-electrified), the IFC has launched a global program of Lighting Global, under which it has certified a few manufacturers of solar lighting, including solar lanterns and solar home solutions [SHS], solar fans, solar TVs etc. Under the program, the IFC is providing such solar solutions to these settlements. Most of these devices are affordable and reliable, since the IFC has certified the participating manufacturers on quality standards and ensured affordable pricing. It is quite encouraging to see that solar off-grid products, such as lanterns and solar home systems [SHS], are emerging as alternatives for meeting basic lighting needs.

The effects on these vulnerable communities are considerable. Social services, primarily health and educational opportunities and services, are severely constrained, health risks are heightened by unclean lighting alternatives (largely kerosene lamps and candles). Thus, in order to develop viable and sustainable communities where habitat settlement is affordable for economically weaker segments of society, provision of lighting is the primary ingredient. Since availability of affordable land is the main constraint in development of such communities, these communities emerge in areas which are either off-grid with no provision of electricity (un-served) or, or are faced with power interruptions expending 12 hours or more (under-served). IFC's Lighting Global Program, under which the Lighting Asia program is run, aims at providing electricity to these communities via a solar energy option.

The IFC has launched a Global Lighting Program, and Lighting Asia is the Asian component of the program. Under the program the IFC has assessed a few solar light manufacturers for quality certification. The IFC has partner organizations, which include companies engaged in solar business, NGOs and Microfinance institutions. The IFC also promotes this program through consumer awareness and policy advocacy as and where needed.

India faces the most acute challenge of electricity access in the world with 75 million plus of its 226 million households off the grid, the highest proportion across the globe. In addition, it has a very high population that faces under-electrification. Of the off-grid population, a vast majority (94% or 71 million households) are spread across rural India where the electrification rate dips to 52.5%[2].

Bangladesh has a population of 163 million people (or 29 million households) and a low electrification rate of 41%, with 17 million households being off-grid. Of the off-grid population, a vast majority (89% or 15 million households) is concentrated in rural Bangladesh, including the people living on boats. In rural Bangladesh, the electrification rate dips to 28%. A large segment of the on-grid population is also under-electrified, facing significant daily power outages. There is a heavy dependence on kerosene oil for lighting in Bangladesh.

In Pakistan, with a population of 197 million (or approximately 11 million households), an estimated 60 million people are un-electrified off-grid and another 74 million people, though connected to the grid are under-electrified[3]. Of the off-grid population, 81% people are in rural areas. Here again kerosene is the main source of light, while candles are also in use.

Indonesia is a large archipelago of islands with a total population of 231 million people (or 57 million households). Of this, an estimated 35% or 20 million households are currently off-grid, of which 91% are located in rural areas and remote islands, where the electrification rate is 32%.

5. Conclusion

Affordable housing is a major challenge in all developing countries, and even developed countries are no exception, but the challenge there is on a much smaller scale. While addressing the challenge of low-income affordable housing, the primary issue is the supply of affordable land. To be habitable and to provide a decent environment, the land is to be equipped with basic social and physical infrastructure in terms of health, education, income-generating economic activities and transportation. Land equipped with social and physical infrastructure, if it is available is situated within the city limits. It is thus un-affordable for developing affordable housing. Ironically land parcels to develop new affordable and self-contained habitat are either in un-electrified or under-electrified areas.

Alternative energy sources like solar, wind, biomass etc. offer the most viable and sustainable option. Out of these alternative energy options, solar is the most appropriate since it can be provided on a very small scale like solar lanterns, solar home solutions etc. The IFC has launched a Lighting Global Program, which has its regional components like Lighting Asia, Lighting Africa and its sub-segments at country level like Lighting India, Lighting Pakistan etc. Water is another critical resource to make a community self-contained. Here again solar water pumps offer a viable and sustainable source of water to the community. This paper suggests that the solar option is most appropriate to provide electricity while developing affordable land for affordable and sustainable communities.

[2] Source: IFC Study Lighting Asia: Solar Off-Grid Lighting, Market Analysis of India, Bangladesh, Nepal, Pakistan, Indonesia, Cambodia and Philippine.

[3] Source: *Lighting Pakistan:* IFC country specific study

Key findings of the national report on Austria for Habitat III

↳ By Sandra Jurasszovich and Wolfgang Amann

1. Habitat III

The authors were responsible for the preparation of the Austrian national report for the third United Nations Conference on Housing and Sustainable Urban Development (Habitat III). This paper is based on this national report and presents the main findings with a focus on housing affordability and the system of social housing in Austria.

The United Nations Human Settlements Programme, UN-HABITAT, is mandated to promote socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all. In a bi-decennial cycle, the UN organizes global conferences on housing and sustainable urban development: Habitat I in Vancouver/Canada 1976, Habitat II in Istanbul/Turkey 1996, Habitat III in Quito/Ecuador 2016. Prior to the conference, countries were called upon to prepare national reports that consider the implementation of the Habitat II agenda as well as new challenges and emerging trends for sustainable urban development. With over 40,000 participants, Habitat III was the largest conference on cities in the history of the United Nations. At the conclusion of the Habitat III summit, 170 U.N. member states signed the New Urban Agenda – an agreement that serves as guideline for sustainable urban development. A critical review on this New Urban Agenda can be found in the following article.

2. Austria – an introduction

Population growth, an aging population and continuing growth of population with migration in the background: These headlines reflect some of the main issues relating to demographic development in Austria. In 2015, Austria had a population of 8.6 million inhabitants. According to the main scenario of the population projection by Statistics Austria, the total population will increase to 9.3 million people (+8%) by 2030. The population growth can be attributed first and foremost to positive net migration (balance of immigration and emigration). In contrast, the natural increase (balance of births and deaths) makes only a comparatively small contribution to population growth. The latest immigration wave set in with the end of transition regulations for the new EU member states and was reinforced by the increasing inflow of refugees in 2014 and 2015 as a result of the humanitarian crisis in the Middle East. In 2015, Austria saw a strong 56%-year-on-year increase in its net immigration rate as net immigration reached a high of 113,000 persons, which is equivalent to 1.3% of the resident population.

In general, Austria is characterized by a low pace of urbanization. According to the World Bank, the percentage of the total population living in urban areas changed only marginally from 65% in 1980 to 66% currently. The capital city Vienna stands out as the only metropolis, with currently 1.8 million inhabitants, while the second largest city Graz only has 280,000 inhabitants. However, the latest demographic developments indicate that the rate of urbanization will be faster in the future. The strongest population growth is expected to be in Vienna and its surrounding area as well as in and around the major provincial capitals, whereas peripheral and structurally weak rural areas will continue to face population decline. The dynamic demographic development of urban regions poses new challenges for planners and policymakers regarding technical as well as social infrastructure.

For decades, Austria's regional pattern has been characterized by a distinct west-east divide in economic dynamics that had its origins in the geopolitical position of the country along the Iron Curtain. Since the opening of the borders and the enlargement of the EU towards Central Eastern Europe, a remarkable catching-up process of the Eastern regions has been apparent, contributing to the decline in regional disparities. According to the OECD, in 2013, Austria had the second lowest regional disparities in GDP per capita in OECD countries. Economic and social strength of the rural areas is one main reason for the overall quite competitive economic performance of Austria.

Austria is a Federal State; consequently, it assigns major responsibilities to the nine provinces (Länder) as well as to municipalities. The federal level holds important competencies in sectorial planning fields, such as national transport and energy infrastructure or monument protection. Legislation and implementation of spatial planning, however, belong to the autonomous responsibilities of the provinces. The Länder enact their own spatial planning laws and they are responsible for planning at the provincial and regional levels. As a result, there are nine spatial planning laws and building codes in Austria, one for each province. On one hand, this situation reflects the regional differences and variety in Austria; on the other hand it creates unnecessary redundancies and/or unreasonable differentiation. In the context of housing, the federal state holds legislative competence regarding Rent Law, Condo¬minium Law and Limited-Profit-Housing Law, whereas the Länder have legislative competence over the housing subsidy schemes, supervision of the limited-profit housing associations and social welfare. For this division of competences, housing policy differs to some extent between the Austrian provinces. Tax collection is basically in the hand of the Federal State, disbursement to federal provinces and municipalities is ruled by a financial equalization act. This system is of particular importance for local authorities because it accounts for a significant share of their total revenues. A significant aspect of negotiations is funding of the housing subsidy scheme of the provinces. Until the late 2000s, a substantial part of those tax earnings dedicated to the Länder were earmarked for housing with some supervisory functions exercised by the Federal State. Since then, funding of the housing subsidy schemes is fully under the responsibility of the Länder.

3. Challenges and lessons learnt in the context of urban development in Austria

The following sections give an overview of some of the most pressing issues and trends regarding urban development in Austria.

3.1 Urban land management and governance

In Austria, no general planning law exists at the federal level. Despite major differences in the existing spatial planning acts and building codes of the federal provinces, common trends on the local and regional level are becoming discernible. Recent revisions to building codes and planning laws have focused on regulations regarding energy legislation, accessibility and sprawl. Nevertheless, integration of legal planning-related competencies between the local, regional and federal level remains a challenge for coordination. In Austria, this process in the field of spatial planning and development is tackled by a joint permanent conference between the different administrative levels (Österreichische Raumordnungskonferenz – ÖROK), which is hosted by the Federal Chancellery as co-leaders with the Länder and the associations of cities and municipalities.

The main planning instruments at the local levels are the local development plan (Örtliches Entwicklungskonzept), the land-use plan (Flächenwidmungsplan) and the building regulation plan (Bebauungsplan). In recent years, contract based spatial planning (Vertragsraumordnung) is seen as a suitable means for contributing to sustainable development. In consultation with private landowners and developers, such contracts govern burden-sharing between municipalities and the private beneficiaries of legally binding land-use plans, usually in return for increases in land values caused by zoning. Hence, change of zoning from e.g. agricultural use to building land results not only in windfall gains to the land owner, but also benefits to the public, as some of the land may be dedicated to social housing at a discounted land price or social or technical infrastructure may be financed by the land owner. However in 1999, the ruling of the Constitutional Court on Salzburg's Contract-based Spatial Planning created uncertainty regarding the use of contracts in relation to amendments of land use plans. The reason for the repeal of the contract-based spatial planning at the time was the defined compulsory linking between private law agreements and mandatory regulations. Today, all provinces have regulations in place to provide for contract-based spatial planning, but final legal certainty on this issue is missing and would require confirmation in the Constitutional Law (ÖROK, 2014).

As another important aspect of governance, urban-regional partnerships aiming at a sustainable development of agglomerations can be identified. The Austrian Spatial Development Concept 2011 (ÖREK 2011) states as one aim to involve cities and regions in new forms of collaboration to achieve sustainable economic growth, and social and ecological development. Examples like Urban-Rural Management of Vienna and Lower Austria, Urban Region Graz, Intercommunal Development Central Region Linz-South-West and Rhine Valley in Vorarlberg show that Austria`s urban regions already use a series of platforms. However, considering the widely divergent situations within a region it has become clear that there are limits to voluntary collaboration and that binding instruments are necessary. The Austrian Conference on Spatial Planning produced recommendations encouraging cooperation platforms among urban regions in Austria. Key points among others are the definition of urban regions as areas of planning and as a spatial reference for revenue sharing and the establishment of regional advisory boards for design and planning. Urban regions, including semi-urban areas around the cities, have to become established in the mindsets and actions of the actors involved in spatial development (see ÖROK, 2016).

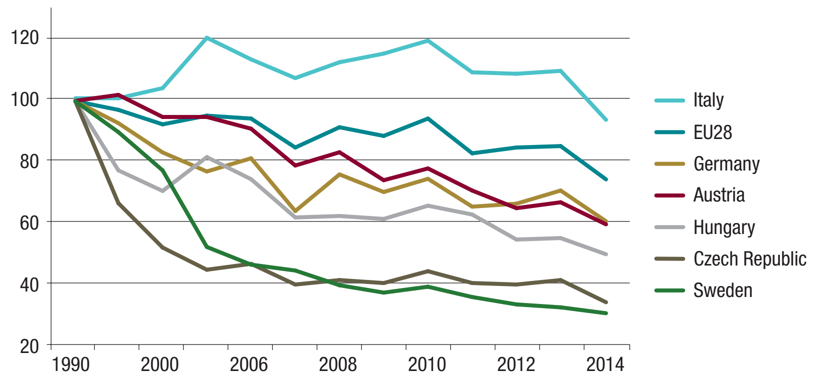
3.2 Environment and urbanisation

Austria is hit hard by climate change: In the period after 1980 global temperatures rose by approximately 0.5°C, compared to an increase of approximately 1°C in Austria. A further temperature increase in Austria is expected and will influence the weather-dependent sectors such as agriculture and forestry, tourism, hydrology, energy, health and transport and the sectors that are linked to those (APCC, 2014). As one of the first EU member states, Austria formally started the ratification process of the Paris Agreement on reducing global warming (2015) in July 2016. Austria is currently developing an integrated energy and climate strategy which will need to be consistent with the Paris agreement.

During the period of the Kyoto Treaty (1990-2012), but particularly since 2005, greenhouse gas emissions in buildings have been substantially reduced due to ambitious energy standards of new buildings, continuing efforts regarding refurbishments and conversion of heating systems (see Figure I).

The high energy standards in the construction of new buildings are linked to the Austrian system of housing subsidies as the schemes have been continuously extended towards including energy efficiency criteria and renewable energy systems. Good energy performance in new construction is guaranteed by the maximum permissible thermal heat demand and energy efficiency indicator in the building codes of the regions, and by the stipulations on energy performance within the regional housing subsidy laws. The minimum standards for new construction have been tightening severely since the early 2000s and converged at the limit of 25 kWh/m^2/year heating demand in 2012, which is close to a zero energy standard. Since a large part of new constructions makes use of these regional subsidies, the limits regarding thermal standards function as a strong incentive. The EU Energy Performance of Building Directive (EPBD 2010 "recast", 2010/31/EU) is implemented in the building codes of all Austrian federal provinces and regulates gradually increasing thermal standards of all new construction (not only subsidized housing) to a nearly zero-energy standard until 2021. In the face of increasing standards in the building codes it is decided to fade-out minimum thermal standards in the housing subsidy schemes of the Länder by

Figure 1 Development greenhouse gas emissions in buildings in Austria and selected countries, 1990 = 100



Re.: „buildings" = Sector CRF 1.A.4
Source: Eurostat, IIBW

2017. This measure -aims to simplify permission procedures in housing construction and to re-establish attractiveness of the subsidy schemes.

In addition to the measures taken in the field of new construction, the refurbishment rate is bound to increase in order to reach the 2020 goal of reduction of final energy consumption in the building sector. In spite of strong incentives for ambitious thermal refurbishments in the subsidy schemes of all provinces and a federal building refurbishment programme (Sanierungsscheck) that aims at the thermal refurbishment of residential and commercial buildings, the thermal refurbishment quota is lagging behind.

3.3 Social inclusion and equality

Austria only ranks 36th (out of 142 countries) in the Global Gender Gap Index 2014. Weaknesses

are particularly inequality of wages and low participation in highly-paid and influential jobs (WEF, 2014). Nevertheless, Austria is committed politically and legally to implement gender mainstreaming at national level, whereby the implementation is based on the European embodiment of equality and equal opportunities for women and men in all activities and areas of life. In this context, gender-responsive budget management became enshrined in the Austrian Federal Constitution making Austria to a frontrunner in Europe. Gender budgeting can be described as the application of gender mainstreaming in the budgetary process with the aim to analyse the federal, state and municipality budgets with regard to their impact on the lives of women and men, and to adapt them according to gender equality objectives (IMAG GMB, 2014). The implementation of gender budgeting, however, is difficult and critical voices have been raised regarding the inadequate way in which the policy is carried out (WIDE, 2010).

As in other European countries, immigrants in Austria tend to settle in cities and urban areas. In Vienna, the share of people with foreign backgrounds (UNECE definition: a person whose parents were born abroad) was with 42% twice as high as the Austrian average (21.4%) in 2015. The integration of the arriving migrants in the education system and labour market is a big and increasing challenge. Integration processes always have a spatial dimension as they happen locally and are significantly influenced by communal and regional policy measures. The Austrian Conference on Spatial Planning calls for an active integration policy in order to prevent potential conflicts, on the one hand, and also to take advantage of the potential of in-migration, on the other.

As well as the work place and school, housing can be seen as central issue of integration. On the one hand, housing conditions and spatial distribution patterns of migrants in a city can be considered important indicators of the status quo of integration; on the other hand, housing policies are an important part of overall social policy at the local level. When comparing the housing of migrants and nationals some disparities become apparent. The average floor space per person rose between 1971 and 2014 from 22.9 m^2 to 44.7 m^2. However, the average floor space for persons with a migrant background was 31 m^2; about one third lower. Migrants from the former Yugoslavia and from Turkey were most likely to live with 26 and 22 m^2 average floor space per person respectively, i.e. in more confined housing conditions than the population without a migration background (48 m^2) (Statistics Austria, 2015, p. 77). The right to adequate housing for all persons according to the Habitat Agenda seems widely fulfilled. Nevertheless, additional efforts are needed to meet the needs of the most vulnerable people. A big challenge is to accommodate the large number of migrants with legal asylum status. Some of the federal provinces have introduced new housing subsidy programs which are in particular directed towards low-income households, including migrants with legal asylum status.

4. Housing affordability and social housing

The provision of adequate shelter has been the main objective of Austrian housing policy for many decades with an impressive degree of continuity. Within the framework of housing subsidy schemes, the nine Länder were able to set up a large and internationally acknowledged social rental housing sector. The following overview of the framework within which the social housing sector operates in Austria, tries to contribute to the ongoing discussion about housing affordability, an issue that has re-emerged as a priority topic on the political agenda.

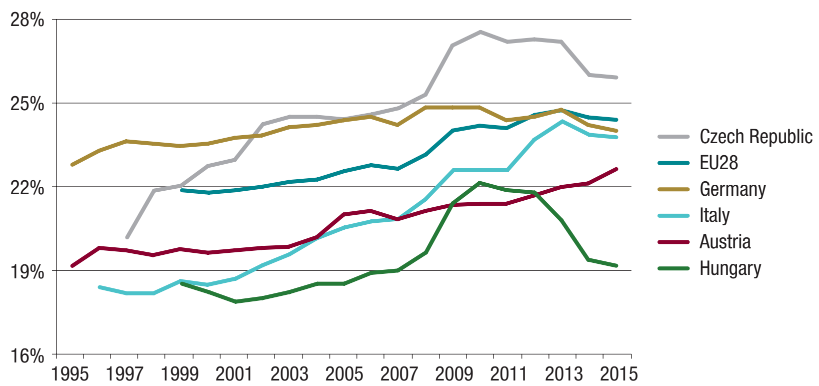
4.1 Performance indicators

The number of dwellings (main residences) across Austria is, according to micro census data, 3.8 million (2015). Out of these some 38% are owner-occupied single-family houses, the rest are dwellings in apartment buildings (approximately 11% are owner-occupied dwellings, approximately 42% are rented dwellings, and the remaining 9% consist of other forms of tenure). Thus, the total home ownership rate reaches some 49% and with 42% of rented dwellings the rental market segment is one of the largest in Europe.

The following analysis illustrates that Austria has relatively low public expenditures on housing, but performs well in terms of quality and quantity, when compared to the housing outcomes of other European countries, particularly in terms of housing costs and stability of housing production.

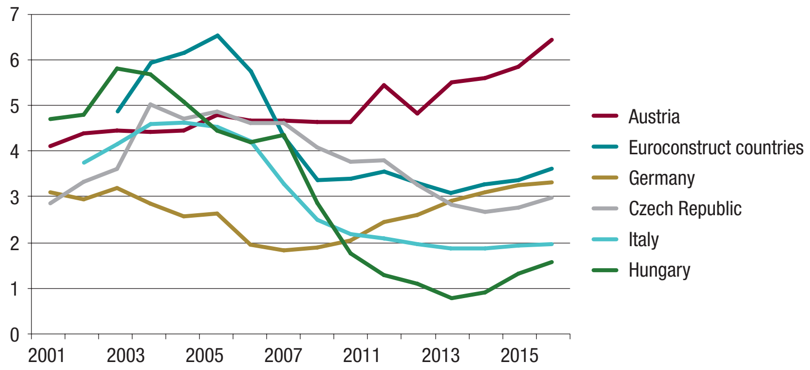
The general housing cost level is significantly below the EU average; in 2015, private consumption on housing (National Accounts) was 22.7%, compared to the EU average of 24.4% (see Figure 2). The performance looks even better when analysing EU-SILC data, where Austria, with a stable housing cost ratio of

Figure 2 Development of housing cost ratio (national accounts) in Austria and selected neighbouring countries



Re.: 2016 is forecast
Source: Eurostat, IIBW

Figure 3 Housing permits per 1,000 inhabitants



Source: Euroconstruct, IIBW

18.4%, ranks far below EU average of 22.5%. Consequently, there is a relatively low proportion of households that see their housing costs as a heavy burden (15.6% as opposed to the EU28- average of 36.9% in 2012).

The housing cost ratio in Figure 2 includes a number of components, particularly rents, maintenance costs and household energy. Internationally, costs for household energy decreased significantly after 2013. Representing a much higher share of total housing costs in CEE countries, this led to strongly decreasing total housing costs in the Czech Republic and Hungary, but had minor effects in Western European countries. In Austria, revived dynamics on the housing market had stronger effects on total housing costs. Whereas in the 1990s and early 2000s, market rents increased below the inflation rate and at much lower pace compared to the Euro zone (ECB, 2009), this has changed thereafter. Particularly in urban areas market rents increased strongly in the late 2000s and early 2010s, e.g. in Vienna by around 5% on the average from 2009 to 2012. In recent years, rental market dynamics have flattened again. Strong institutional interrelations and the large social rental housing sector have contributed to comparatively smooth market rent increases throughout most of the last decades.

As an indicator of stability in housing construction the development of housing permits is analysed (Figure 3). New construction is on a stable and relatively high level of 4.4 to 5.8 permits per 1,000 inhabitants for the past decade (2005-2015), compared with a much higher volatility or a much lower level in most other European countries. While the Global Financial Crisis has hit the construction industry in several Western countries hard, with decreases of up to 90% in Ireland and Spain, social housing construction in Austria clearly functioned as a shock absorber and stabilizer against rapidly dropping private and commercial housing construction. Housing completions are developing at a similarly stable rate with 5.1 units per 1,000 inhabitants in 2015; in comparison, the average of the Euroconstruct countries was at 3.1 units per 1,000 inhabitants.

Despite of a strong focus on supply-side subsidies and a high share of subsidized housing within total housing construction, Austria spent only approximately 0.9% of GDP on housing subsidies in 2011, where 0.6% was spent on supply-side subsidies, and 0.2% on housing benefits comprising tax advantages and concessions. This is below the average of Western Europe and suggests an efficient system for tax payers. Noteworthy, too, is the great stability of the investment in housing for many decades, also in the years of the Global Financial Crisis 2007/08. In comparison, in 2011 the Netherlands spent 3.2% of its GDP on housing, France 2.2%, UK 2.0% and Spain 1.1% (Wieser, Mundt & Amann, 2013). The impacts of the Global Financial Crisis have shown that the housing subsidy scheme is – despite limited budget resources – a successful instrument of social, employment and labour market policies.

4.2 The system of social housing

In the analysis of welfare regimes, Austria is seen as a typical example of the conservative-Corporatist welfare regime: "displaying all the attributes of such an ideal type: strong regulation of the labour market, welfare provision based on fragmented systems of social insurance, a strong role for the family vis-à-vis market and state, and kinship, corporatism and etatism as the dominant mode of solidarity." (Matznetter, 2002, p. 267)

There is no official definition of social or affordable housing but there are different forms of housing provision other than the private market. The different forms of social housing include rental housing provided by municipalities and housing by limited-profit housing associations [LPHAs] which have access to public subsidies and have become a dominant force in the housing market. 16% of all dwellings in Austria (600,000) are owned by LPHAs. Additionally, LPHAs have constructed a large number of subsidized owner-occupied apartments, which may also be attributed as social, and usually remain in the management responsibility of the LPHA. They add up to another 7% of the total housing stock (300,000). In total, LPHAs manage around 900,000 housing units (2015, Amann/ Lugger, 2016). Another 8% of the Austrian housing stock is owned by municipalities. Together, both groups of social rental housing make up 24% of the total housing stock in Austria which is approximately 10 percentage points above the EU-15 average. Moreover, social housing is primarily situated in multi-story buildings and consequently in urban areas. Social rental housing comprises 42% of all housing units in multi-story buildings (Reinprecht, 2014). The municipal housing stock in Austria mainly belongs to the City of Vienna, where the municipal housing makes up 23% of the total housing stock (approximately 220,000 housing units).

4.3 limited-profit housing associations

The above figures reflect the important role of limited-profit housing associations in the Austrian rental housing sector. Limited-profit housing associations in Austria date back to the early 20th century and have continuously gained importance since the 1950s. The foundation of the first housing associations is closely linked both to the housing question and the social question of poverty and inequalities against the background of the industrialisation. Today, the main idea is setting up a long-term social housing stock at below-market cost-rents directed at large parts of the population mainly with the help of regional supply-side subsidies (Mundt & Amann, 2010).

LPHAs are regulated by the Limited-Profit Housing Act of 1979 (Wohnungsgemeinnützigkeitsgesetz) which is a federal state responsibility. The legal definition of the Limited-Profit Housing Act describes LPH associations as enterprises whose activities are directly geared towards the fulfilment of the common good in the field of housing and residential matters, whose assets are dedicated to the fulfilment of such tasks and whose business operations are regularly reviewed and monitored. However, regardless of this orientation towards the common good, limited-profit housing associations are nevertheless part of the private sector. In short, the system of LPHA created by the Limited-Profit Housing Act can be characterizes as follows:

Cost coverage principle: Rents are determined by costs; remaining below the level of costs is not allowed. The definition of costs includes repayment and interest for (mortgage) loans as well as interest for own funds. A special mark-up for periodic renovation and maintenance works is considered. Cost rents are calculated at the estate level, there is no rent pooling at the LPHA level.

Limitation of profit: Housing associations ought to make profits. But these profits have to be reinvested in the purchase of land, refurbishment or new construction. A tightly limited part of the profit may be divided to the owners or shareholders.

Tie-up of assets principle: There is no way for owners of LPHAs to cash out dormant assets represented in the quickly growing number of rental apartments. In the case of merger and acquisition of LPHAs the seller will get no more than the originally invested capital (appropriate interest is usually disbursed on a yearly basis by way of limited profit division).

Limited field of action: The housing associations have to focus on housing construction, refurbishment and housing management. In fact, it is a strong incentive for high construction quality and social balance if housing associations function as long-term managers.

Obligation to build: Any interruption in building activity requires the express permission of the respective regional government.

Today, 187 LPHAs are active in Austria, differing in their legal status and owner composition. Cooperatives are owned jointly by their members while the for-profit companies (limited-liability companies, joint stock companies) are owned by local or regional public authorities, charity organisations, parties, unions, companies, the financing industry or private persons. This multi-faceted picture of housing providers reflects the fact that housing associations are intertwined with the Austrian political landscape. A driving force behind political support for LPHAs was given by both the parties that in Austria formed a hegemonic coalition for the main part of the post-war period. While subsidized owner-occupied apartments were the favourite product of the Conservatives' housing policy, subsidized rental housing was on the Social Democrats' housing agenda (Matznetter, 2002, p. 273).

Since 1994, the Limited-Profit Housing Act contains the right to buy for tenants who contribute a certain amount of their own funds to co-finance the costs of land or/and construction. After a period of 10 years (until recently 20 years), tenants of these new-build apartments have a 5-year time-frame to exercise their right-to-buy. This new form of tenure was introduced as a trade-off between lobbies in favour of a growing share of owner-occupation and those supporting the social rental sector. However, even though the majority of LPHA new construction can be attributed to this form of tenure, only a relatively small proportion of tenants decide to buy. For the future, Mundt et al. (2009) have estimated that only about 20% of the affected rental stock will be sold.

4.4 Audit and control

There is a very tight system of control over LPHA activities and expenses: LPHA are both self-auditing and publicly regulated. A supervisory board is mandatory for every LPHA and all LPHAs have to join the umbrella organization (GBV). Its function is twofold: On the one hand it acts as a lobbying organization in the interest of its members and represents them in negotiations with the government; On the other hand it incorporates the Audit Association (Revisionsverband) which is responsible for the annual auditing. In addition to the general auditing procedures, the Audit Association examines whether the provisions of the Limited- Profit Housing Act are observed, in particular, the calculation of rents and the acquisition of property. The audit is also understood as a form of economic supervision and is used to offer limited-profit housing associations with qualified information and assistance to improve the productivity and competitiveness of the member enterprises. The auditor's report has to be made public (short version) and must be presented to the regional governments which act as a supervisory authority and have a number of possible sanctions, such as the withdrawal of public subsidies or the rescinding of the LPHA status.

This arrangement has proved to be an effective tool to avoid misconduct. The tight operational framework given by the Limited-Profit Housing Act, the supervision through the regional authorities and the fact that many housing associations are owned by semi-public bodies have produced the result that housing associations are regarded as the "lengthened arm of housing policy".

4.5 Economic maturity

Despite the cost rent principle, the Limited Profit Housing Act defines a number of activities which are allowed to generate profits for the LPHA. These are e.g. fees for project development in new construction and refurbishment, lump sum fees for housing management, interest on invested own equity or rents of fully amortized buildings. This provides for stable and predictable incomes. Nevertheless the equity ratio differs substantially over the sector. A number of LPHAs with older and hence amortized rental housing stocks are today economically quite mature with equity ratios of up to 50%. On the other hand there are younger housing associations with a focus on owner-occupied housing or more rural markets, which have a much poorer performance (Amann & Wieser, 2015). But very rarely did LPHAs go bankrupt; and for decades no single buyer or tenant lost money for this reason.

4.6 Quality and state of preservation of the housing stock

The housing subsidy schemes of the Austrian provinces have developed over time to a quality assurance standard in terms thermal and ecological standards, quality of planning and social integration. For this reason we face a peculiar situation that LPHA housing has on average a higher quality standard than most private market products. Additionally, legal regulations on the LPHA sector allow for higher maintenance fees and endowments to refurbishment funds than the private market or owner-occupied housing. This is why this sector has a significantly higher refurbishment rate than all other housing sectors.

4.7 Social housing finance: public support and market funding

The housing subsidy scheme is under the authority of the Länder. Formerly earmarked transfers from the federal state are, since 2009, unconditional. Nevertheless, all of the nine Länder spend a large part of their funds on housing policy measures and, with a strong focus on supply-side subsidies to new construction in the form of soft loans or annuity grants. This housing strategy contrasts with the drift towards more demand-side strategies to achieve housing goals in most European countries (see Wieser, Mundt & Amann, 2013; Mundt & Wieser, 2014).

Altogether, the nine Austrian provinces spent € 2.5 billion on their housing subsidy schemes in 2015. 50 to 60% of these expenses are directed to new multi-apartment construction, well below 10% to subsidies of single-family houses, only 10 to 15% are demand-side subsidies in the form of housing benefits and 20 to 25% are direct refurbishment subsidies. These figures show that the construction ("bricks and mortar") and not the individuals are predominantly subsidized. The idea behind this is that supply-side subsidies produce affordable dwellings for a large part of the population for the entire life-span of the buildings. Fiscal incentives to boost homeownership such as reduced VAT rate, deduction of housing investments or non-taxation of the sale of one's own property are of minor importance for housing policy in Austria compared to the volume of direct supply-side subsidies. Recently, indirect subsidies were cut due to the elimination of tax deductibility of housing bond purchases and a reduction of the state premium for contract saving. The trend towards reducing indirect tax subsidies started back in the early 1990s.

In addition to the public subsidy schemes of the Länder, there are three types of special purpose banks entrusted with the task of raising money for affordable housing construction: the Mortgage Banks that issue covered mortgage bonds (Pfandbriefe), the Contract Savings Banks (Bausparkassen) and the Housing Construction Banks (Wohnbaubanken). Their main aim is to manage special purpose, closed circuits of finance for housing construction or housing purchases. Such closed financing circuits in addition to global financing market integration proved efficient as a shock absorber during the Global Financial Crisis of 2007/08, when international capital markets almost came to a halt.

Currently a federal housing construction investment bank (Wohnbauinvestitionsbank, WBIB) is established to channel € 700 million of low interest loans provided by the European Investment Bank and partly guaranteed by the Federal State into affordable housing throughout Austria. The WBIB is expected to act as a lever for the housing construction initiative of the federal government in addition to the subsidy schemes of the Länder.

4.8 The social mandate

The question 'cui bono' has always accompanied debates about social housing. A distinct benefit of the Austrian social housing model is that it does not restrict policy measures to low-income households. Quite the contrary, the diversity of its occupants is seen as an important aspect of the model and as part of the social contract in Austria. Similar to most Scandinavian countries and the Netherlands, Austria follows a universalistic understanding of social housing, this means that the majority of the population is targeted by the housing policy measures. There are fairly generous income limits for access to social housing. Only the top income deciles are excluded from this scheme of transfer and subsequent salary increases are not taken into account (Reinprecht, 2014, p. 69). Taking the total LPHA housing stock, middle income households are over-represented and lower-income households are under-represented (Kunnert & Baumgartner, 2012). This has caused some discussion about the proper allocation of social housing and efficiency of social targeting of public subsidies. The issues are not only the quality of supply and the high-income limits of beneficiaries, but also the low mobility of households. Newly allocated LPHA dwellings, both new construction and from the stock, mainly target young households with usually under-average incomes. But over time their financial situation improves. Because of concerns about social integration and administrative difficulties, no later income examination is carried out.

However, most policy makers agree on keeping up the universalistic approach towards social housing as a kind of public good in terms of social cohesion and thus avoiding socio-spatial segregation and social ghettos. Since the social housing sector is accessible to a very broad range of social groups, the limited-profit sector and the free market sector compete and households choose the better price-quality-bundle. If the limited-profit housing sector can provide high quality rental housing at a lower price, for-profit landlords will have to lower their rents in order to stay competitive. Thus, the limited-profit sector is also able to act as a damper on general rent levels and influences market prices of commercial projects. The enabling effects of housing subsidies contribute to a more egalitarian society.

4.9 International context and current challenges

Social housing in any country is embedded in a particular legal, political and economic framework,

which impedes both direct comparison and transfer of good practice. Nevertheless, the Austrian social housing system, in some respects, can be compared with other European social housing sectors, where nonprofit or limited-profit housing associations play a major role in affordable housing provision. Examples are the Dutch Woningcorporaties; the French Housing at Moderated Rents [HLM] and the Danish non-profit housing associations [almene boliger].

Social housing sectors across countries face similar challenges against the backdrop of fiscal austerity and increasing demand for affordable housing due to unstable labour conditions and rising rents (Scanlon & Whitehead, 2014, p. 435). The availability and price level of social housing will remain a prior challenge anywhere. Firstly, most of the bigger cities face increasing land restrictions and scarcity of building land for affordable housing. New methods for mobilizing building land will have to be explored (Jurasszovich, 2015). Secondly, cost-rents, one of the main principles of limited-profit housing, are growing less affordable, as certain cost components are increasing faster than the incomes of the target groups (Vestergaard & Scanlon, 2014, pp. 85-86; Levy-Vroelant, Schaefer & Tutin, 2014, p. 140; Kadi, 2015, p. 254). As a result, what is meant as affordable may increasingly come out of reach for low income households. Furthermore, affordable housing is more and more pushed to the outskirts of cities. Growing competition in land acquisition will be the major future challenge regarding the spatial structure and location choice of social housing schemes.

Though housing models similar to the Austrian play an important role in many Western and Northern European countries, hardly any implementation in transition countries succeeded. There have been a few trials e.g. in Poland and some Western Balkan countries, but almost as many errors. It remains an open question, why such beneficial schemes hardly serve those countries, which turned to the market economy only in the late 20th century.

5. Conclusions

Following a global trend, current demographic developments indicate growing pressure on cities and sub-urban areas in Austria. To avoid an unsustainable transition and urban scattering, compact, mixed-used settlement structures with high urban quality have to be a central paradigm of planning, both in cities and semi-urban areas. However, previous experience exemplifies the limits of voluntary collaboration between cities and their hinterland. For the future, innovative and collaborative instruments and rules are necessary in order to achieve sustainable growth.

Considering the importance of residential construction to society and urban development as well as the universal need for adequate and affordable accommodation, affordable housing should be more firmly established as a goal in urban planning regulations.

Austrian housing policy has transformed many features of the post-war housing policy scheme to meet present-day requirements, especially the large and growing importance of limited-profit housing associations, the focus on supply-side subsidies and a broad understanding of social housing. Austria performs well regarding housing policy outcomes, particularly in terms of affordability and stability of housing production and markets. The limited-profit housing sector has developed into a very efficient tool for the implementation of housing policy targets. Affordability is promoted by reducing the costs of housing through low interest public loans and grants and measures to level out land and construction costs. The containing influence of social housing on rents leads to a unitary rental market, where competition between the private and social segment fosters overall efficiency. The universalistic approach towards social housing avoids residualisation and stigmatization of social housing and its tenants.

To achieve large quantities of social housing, instruments which combine the strengths of the state with market instruments are needed. Beside state subsidies, capital market instruments have proven their effectiveness. This combined approached has enabled LPHAs to play a strategic role in the housing market. The sustainability of affordable rental housing is achieved with cost covering rents, legally defined fees for maintenance and repair and a solid equity base for the housing associations. Subsidies play a supporting role in producing below-market supply and in helping the poorest with additional benefits. Nevertheless, LPHAs are private sector enterprises. There are strong incentives to manage for economic efficiency. There is clear evidence that those LPHAs with the best economic performance are also the most innovative in terms of new building concepts or social innovation.

The Austrian model of housing finance is suitable for adaptation in countries seeking to reform, reinvigorate or establish new social housing systems. It is particularly relevant when combined with the business model of limited-profit, cost-capped housing and may well serve the urgent needs of many countries to provide rental housing in substantial quantities, serving the needs of middle and lower income groups.

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Tracking changes in European housing finance

By Jens Lunde and Christine Whitehead

1. Introduction

Earlier this year we published *Milestones in European Housing Finance* which examined how mortgage markets and funding had developed across Europe over a 25year period from around 1990 (Lunde and Whitehead, 2016). Country experts from twenty European countries, together with Australia as an international comparator, clarified the main trends in their own countries, while other chapters covered developments in European regulation and brought out similarities and differences in both mortgage and housing markets. During much of that period in almost all the countries studied, mortgage debt expanded rapidly – in some from an already high starting point, in others from almost nothing. Developments in funding mechanisms were just as extraordinary – moving in some cases from wholly government funding or highly protected special circuits of retail finance to fully liberalised systems, using a wide range of wholesale market funding instruments. The range of providers expanded as did the types of instruments used. Finally, the impact on housing markets was considerable, notably in terms of house price increases but also in relation to housing investment and market volatility.

It is worth remembering that the reasons for this move towards private finance were two-fold: governments were increasingly looking to cut public expenditure, in part to meet EU borrowing constraints but also as one element in a more fundamental move towards liberalisation across the Western world. Housing was at the forefront of change, partly because in many countries numerical deficits had been overcome but also because, with growing incomes, people were looking for higher standards and control over their own housing asset. They were prepared to pay for that choice and were tempted by greater access to funding and lower interest rates. Importantly in the early stages, liberalisation generated markets where the supply of finance increased at the same time as real interest rates fell – so it was a win-win situation (Turner and Whitehead, 1993). After the break-up of the Soviet Union, the extent of change for most Eastern European countries was far more extreme, as state funding dried up and finance markets had to be developed from scratch, based mainly on US and German models (Hegedus and Struyk, 2006).

Although early evidence was mainly positive, after the turn of the century lending increased particularly rapidly and there was growing concern that mortgage debt and house price increases were feeding on one another in an unsustainable fashion (OECD 2006; Girouard, Kennedy & André 2007; IMF, 2012). This period of expansion was brought to a halt as national housing market conditions worsened in the mid-2000s particularly from 2008 after the global financial crisis. The crisis was seen by many as at the least exacerbated by high levels of indebtedness and by others as more fundamentally the outcome of under-regulated mortgage lending. Whatever the source of the problems, the crisis led to the near closure of mortgage markets in many European countries, widespread recession and massive declines in housing investment (although not always in indebtedness). Since then, most of the policy emphasis has been on reducing mortgage institutions' risk exposure through higher capital requirements and tighter regulation at both national and international levels aimed at reducing the risks of arrears and possessions.

While there were considerable similarities across countries at this general level, looking in more detail suggests a much more complex picture, with periods of considerable volatility in many European countries as well as a range of country specific risks. The aim of our paper is to draw on the analyses presented in the *Milestones* text, together with additional information from the country experts, first to bring out some of these complexities and second, to ask whether eight years after the crisis the position with respect to European housing finance markets has adjusted to the post-crisis realities.

2. The picture around 1990

The evidence from 1990 suggested that the countries included in our analysis could be grouped into three main categories: countries where much of the liberalisation had already taken place in the 1980s or even the 1970s; others where there was some movement towards liberalisation but markets were still subject to considerable regulation which often involved special circuits of housing funding; and still others where most funding for housing was government sponsored and entry into owner-occupation was mainly limited to those with their own equity. The implication was that most countries were going in the same direction through the removal of special circuits of housing finance, deregulation of finance markets more generally and a decreasing role for government finance and subsidy. The expectation was that access to cheaper funding would enable more people to enter owner-occupation as had happened in countries such as the UK and Australia where deregulation had started in the 1970s (Turner and Whitehead, 1993).

The first group included most of North West Europe, notably the Scandinavian countries, the Netherlands, Ireland and the UK. Spain, which already had very high owner-occupation rates based mainly on family support, was also part of this group. The second group comprised countries which, while extending their housing finance markets, had also chosen to keep in place their special funding arrangements as well as government support. Germany in particular, continued to maintain its specialist funders using an on-balance sheet funding approach (Tomann in Turner and Whitehead, 1993). Austria was moving on similar lines but with greater government support (Deutsch et al in Turner and Whitehead, 1993). France, while introducing considerable deregulation in the private finance market, had kept in place a well-established government sponsored special circuit of finance which provided support across tenures (Lefebvre in Turner and Whitehead, 1993).

The third group of countries was one where private finance markets were in their infancy and where the institutional arrangements still had mainly to be put in place. Most of these were countries in transition from Soviet rule and state sponsored investment (including Russia itself). These were generally concentrating on putting in place the infrastructure to enable finance markets to operate and enable some level of housing investment to be maintained. Turkey, while institutionally very different, was also at a very early stage of development relying mainly on government or household equity.

3. The picture in 2014/15

Despite the ups and downs of European housing markets over the 25-year period from 1990 on, the details of the operation of housing finance systems showed far fewer differences in 2015 as compared to 1990 than might have been expected, at least outside Eastern Europe. There were two main reasons: first, as already noted, many countries had put in place almost all the formal legal frameworks for a deregulated system much earlier – in the 1970s and 1980s; the second reason was that by 2014/15 the effects of the global financial crisis and subsequent monetary policy and market and regulatory changes had reversed many of the changes introduced in the earlier part of the new century. So, it was not so much stability but a cycle of deregulation followed by re-regulation that was observed. Within the period up to 2008 it was mainly market pressures that led to the rapid expansion of the sector. The continuing decline in interest rates of themselves generated lower loan payments, which in turn fuelled demand and housing prices. Competition between lenders to increase market share and the scale of the total market also resulted in looser lending conditions. Further, new mortgage instruments were put in place which expanded access to home ownership in countries with deregulated markets (Scanlon et al, 2008).

In many ways, the groupings identified in 1989/90 still pertained in 2014/15. The first group of already liberalised systems had continued to develop along lines that were already in place. Some of the second group with more regulated markets, had continued to move towards greater liberalisation and in formal terms looked much more like the better operating countries already liberalised by the 1980s. These countries included France, Belgium and to a lesser extent Portugal which had in the meantime suffered a major real economy recession. Finally, all the countries without a private finance infrastructure at the end of the 1980s had put one in place. This final group of countries, which at the end of the 1980s had been highly dependent on government funding, showed the most change. In Eastern Europe, in particular but also in Turkey, governments had all but fully withdrawn from housing support. In all countries in our sample it was now possible to borrow against property and legal mechanisms were in place to address default. Even so these markets were generally still quite small by Western European standards and households clearly had to rely more on their own resources. These countries also faced a range of country-specific problems in relation to mortgage instruments (especially foreign exchange mortgages), as well as at least initially reduced levels of housing investment.

Table 1 The most used funding methods in 1989/90 and 2014/15

	Number of countries 1989	Countries using these methods in 1989	Number of countries 2014	Countries using these methods in 2014
Little or no market lending	5	Czech Republic, Hungary, Poland, Russia, Slovenia	0	
Retail deposits only	10	Australia, Belgium, Czech R, Finland, Hungary, Ireland, Netherlands, Portugal, Slovenia	2	Slovenia, Turkey
Retail deposits in combination with other funding methods	6	Austria, UK, France, Norway, Spain, Sweden	17	Australia, Austria, Belgium, Czech R, UK, France, Finland, Germany, Hungary, Iceland, Ireland, Norway, Poland, Portugal, Russia, Spain, Sweden
Covered bonds dominant or in combination with other funding methods	7	Denmark, France, Germany, Sweden, Austria, Iceland, Spain	18	Australia, Austria, Belgium, Czech R, Denmark, France, Finland, Germany, Hungary, Iceland, Ireland, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden

Note: the numbers add to more than 21 countries, as some have been mentioned more than one time.

As table 1 shows, the most important developments were in relation to the shift away from using only retail deposit instruments towards much greater use of wholesale funding. Importantly, covered bonds were now in use in most countries – and covered bond legislation was in place in 26 out of 28 EU member states. Securitisation on the other hand has been generally out of favour since the global financial crisis. The only exceptions are countries where it had been a particularly important source of funding in the early 2000s – notably Australia, Ireland and the UK where vanilla issues have been successfully placed. The period also saw further decline in the relative importance of specialist housing finance providers with households often using a mix of sources.

Importantly there has also been large-scale restructuring of the banking sector as a result of the GFC, resulting in greater concentration among mortgage providers and reductions in the range of available mortgage instruments as compared to the early 2000s.

Within the most highly deregulated group of countries there was a sub-group which had run into problems that totally disrupted their banking systems. In this context, Iceland, Ireland and Spain in particular could be regarded as a separate category because their finance systems were still in many ways dysfunctional, even in 2015.

At the other extreme, the group that had remained least affected included the fairly heavily regulated but highly sophisticated countries such as Germany, Austria – and indeed Switzerland, which is not covered in detail in our text. In these countries there had been big changes on the Treasury management side and in the range of providers but relatively few in either the role of government or the operation of the mortgage market.

4. The expansion in mortgage debt

The biggest issue in assessing the impact of structural change in the private housing finance markets is with respect to the growth in mortgage debt. Its rapid expansion over the last 25 years, clearly provided great housing opportunities for large numbers of households. However, where, as was the case for many European countries, outstanding mortgage debt and house prices moved in parallel the risk of still higher debt was seen as generating unsustainable house price increases and instability not just in housing markets but also at the macro level. Again, however, there are complexities once one examines the picture across countries and over time.

Table 2 Residential mortgage debt to GDP ratio, 1990-2015; selected years (%)

	1990	2001	2008	2015
Austria		13.5	24.7	28.7
Belgium	20.3	26.1	38.7	50.7
Czech Republic		1.5	9.2	19.2
Denmark	70.1 (1992)	55.6	86.0	89.7
Finland		21.1	34.9	44.4
France	19.7	20.8	35.1	43.6
Germany	42.5	51.5	46.6	42.3
Hungary		2.2	20.8	13.7
Iceland[1]			59.0	72.0 (2014)
Ireland		31.5	87.3	41.5
Netherlands		68.6	92.6	94.4
Norway	49.4	41.9	50.1	69.3
Poland		2.7	12.7	20.6
Portugal		42.2	58.8	54.9
Russia		0.3(2003)	2.3	4.1
Slovenia		0.4	9.0	14.3
Spain	10.6	31.6	60.4	52.1
Sweden	47.3	45.7	58.5	84.3
Turkey		0.1 (2003)	3.1	6.1
UK	54.5	52.6	63.4	67.6

[1] Household debt to GDP. Source: Central Bank of Iceland.

Source: European Mortgage Federation (latest update, 2016)

Table 2 (taken from the annual Hypostat publication from the European Mortgage Federation) shows the ratio of residential mortgage debt (the majority of all consumer debt) to GDP for most of the countries we examined. Mortgage debt includes mortgages secured against housing assets and in some cases also loans to households for residential and non-commercial purposes where personal guarantees are used, issued by private banks and lenders.

The ratio of mortgage debt to GDP was not a statistic of interest in the economic-policy debate until the 1990s. By 2001 the data were generally available and were used by national and international commentators as an interesting comparative measure. Ratios were clearly related to the maturity/openness of housing finance markets as well as to the extent of regulation with most of the interest centered on markets with both high levels of debt and rapid growth in their ratios.

Over the period of our analysis the Netherlands has generally had the highest residential mortgage ratios to GDP ratio. These have been fostered by public guarantees, by maximum loan-to-value (LTV) ratios as high as 120 % (now lowered to 104 % and planned to fall to 80 %) and unconstrained tax reliefs for mortgage interest (now removed for interest-only mortgages and increasingly limited across mortgage types especially for new buyers). Many of the other countries have seen increases in the debt to GDP ratio of over 50% with some of the strongest increases to be found among the countries which already are at the highest debt levels. Among those at the other extreme are Austria and Germany with much more limited growth in debt in relation to national income.

Strong economic forces were also behind the growth in household and mortgage debt. The fact that interest rates continued to fall at least in money terms meant that the payments on loans were reduced significantly. Deregulation and liberalisation of finance systems in general and housing finance in particular over the last 25 years – and in the decade before for several countries – made it easier for those with lower incomes and wealth to enter the market and improved mortgage market efficiency. Rapid rises in house prices meant that more collateral was available against which to borrow, while also worsening housing affordability and thus increasing the 'need' to borrow.

With respect to changes in the debt to GDP ratio, the first point to note is that among the European countries included in our survey only one, Germany, had seen a fall in the mortgage debt to GDP ratio over the period from 2001 to 2015. These debt levels peaked in 2004 and have since fallen by some 19% even in the face of a growth in owner-occupation rates. Secondly, while most people perceive ratios to have fallen since the financial crisis in the face of stronger regulation, in the majority of countries ratios are actually higher than in 2008. In addition to Germany only in Hungary, Ireland, Spain and Portugal are ratios lower than in 2008. In a number of countries however these continued increases after 2008 mainly reflected declines in GDP rather than higher levels of debt. These rises were then followed by sometimes large scale reductions in the ratio as incomes stabilized and mortgage activity remained depressed. Among this group were Ireland down 52% from its peak in 2009; Hungary, Iceland and Spain down 45%, 13% and 17% from 2010; the UK down 12% from 2012; and the Netherlands and Portugal peaking in 2012 and declining by 7% and 16% respectively.

The use of equity as a source of housing finance for the initial purchase of the dwelling and thereafter over the lifetime of the mortgage has declined remarkably over the 25 years. Downpayment requirements were reduced in many countries especially in the early 2000s. Maximum loan terms were also lengthened to help make mortgage outgoings more affordable. The low interest rate environment removed the front-end loading problem (where high interest rates created high payments in the early years of the loan and low payments later on). Instead however early year costs are maintained throughout the whole loan term and equity re-payments are more even. One approach to addressing this problem has been interest-only mortgages which became widespread in a number of countries. Finally, it became possible in many countries to make equity withdrawals either separately or combined with remortgaging activity.

Thus, homeowners have been generally more leveraged over their housing careers. Maintaining affordability for owner-occupiers in the face of higher house prices has therefore been paid for in part by higher risks for borrowers and lenders and therefore a greater need to manage these risks more effectively.

5. The housing crisis, national banking crises and the global financial crisis

In this context, it is interesting to categorise countries specifically with respect to the global financial crisis [GFC]. (An earlier summary of this section was published by the European Mortgage Federation – see Lunde and Whitehead, 2014).

Experts in seven countries among the 21 represented here suggested that housing finance and housing markets in their countries were *relatively unaffected* by the global financial crisis. These include in alphabetical order: Austria; Belgium, the Czech Republic; France, Germany, Norway and Sweden. As is obvious from earlier discussion these countries do not come, as many commentators have argued, wholly from particular institutional frameworks. Some of these countries have very open finance markets, e.g. Norway, Sweden and Belgium; others, such as Germany and Austria, remain quite strongly regulated; and France in particular is still partially dependent on a special circuit of housing finance. Not surprisingly the reasons given for the limited impact also differ greatly – ranging from a quite small private finance sector in the Czech Republic through to continuing high levels of government involvement as in France and Austria.

While the mortgage markets in these countries may have hardly been disrupted, some of these countries experienced major problems with respect to the capitalisation and asset holdings of banks. This led in some cases to very significant government intervention to support the banking system and to large scale restructuring as well as consolidation and reduced competition – trends which are continuing in some countries. These funding issues generally had relatively short term impacts on the flow of funds into mortgage markets but have had longer term effects on housing supply.

Moreover, in at least three of these countries there is now considerable concern around current housing market trajectories in part arising from post GFC pressures. In Sweden household debt has continued to grow against the general trend and house prices have also increased in some parts of the country; in Austria, there are seen to be major housing shortages resulting in rapid growth in house prices but also political pressures for change and reduced government involvement; in Germany, there are similar issues around the rise in house prices and rents although from a low base and only on some cities.

A second, to some extent overlapping, group of countries are those that suffered quite badly in the immediate aftermath of the crisis but then, often with the help of specific government intervention, were able to revive and stabilise their housing market, to build stronger regulatory arrangements and were able to come out of the crisis quite quickly. Some of those we have identified as relatively unaffected might also be placed in the category of having an *effective government response* – notably the Czech Republic, Norway and Germany. The group also includes Australia, where there was a three-pronged approach: a stimulus to housing supply; support for financial flows and better targeted regulation; Finland, which had learned a great deal from the early 1990s' crisis; and Turkey, where government moved to rebalance the drivers of housing demand and supply, resulting in short term setbacks but longer terms benefits.

Thus, almost half of the countries in our survey were either relatively unaffected in terms of housing finance, or the impact was short term and successfully addressed by government responses. This is not to say that these markets have remained unchanged, nor that housing markets have been unaffected (Priemus and Whitehead, 2014). Rather it is to say that these finance systems have proved relatively resilient into the medium term.

The other eleven countries, those much more affected, can be split into three main groups: those that had by 2015 returned to some sort of normality even if there are still underlying longer term tensions; those where there are still continuing problems, specifically in the housing finance market, but considerable signs of improvement; and those where housing finance was a key element in a broader economic crisis which had yet to be fully resolved.

In the first sub-group are Denmark, Finland, and to a lesser extent Poland and Russia. The initial disruption was very considerable but finance market activity returned to reasonable levels in the following years. In most cases market demand had fallen so there is no shortage of funding. In Finland, the immediate crisis lasted only a year; in Denmark and Poland the adjustment took a bit longer; in Russia activity levels had recovered by 2012 with the help of government support. But issues of over-indebtedness and credit risks and therefore the risk to borrowers remain in Denmark and Finland; in Poland the negative effects of the disastrous foreign exchange mortgage lending will take years to unravel (although the impact has not been as great as in Hungary); and in Russia, while the housing finance market for mortgages and development are seen to have recovered to above pre-crisis levels, there have been growing concerns about the capacity of institutions to borrow on international markets.

Countries in the second sub group, where the effect of the crisis on housing finance and housing markets was very significant and where, while there has been improvement, financial markets are still seen to be adversely affected, include the UK where initial credit constraints have been followed by much tighter regulation as well as lack of demand; Slovenia and Portugal where lending continued to fall for some time after the crisis and signs of recovery are still quite tenuous and the Netherlands where the nature of the problem has changed as a result of government measures to restrict mortgage tax relief and other housing subsidies so that recovery has been further delayed. Hungary is also a special case because the mortgage market has been paralysed by the 'unorthodox' mortgage rescue programme and there are as yet no signs of either economic or finance market recovery. In identifying this group, it is important to clarify that in all of these finance markets the credit crisis was very significant, there has been major restructuring of both banks and regulatory systems and the levels of activity continue to remain low by historic standards.

The final sub-group of three countries, Iceland, Ireland and Spain, are distinguished by the fact that the housing market crisis morphed into much broader based financial crises and then into large scale disruption in their real economies. Prior to the GFC, housing output levels had been historically high and in all cases cutbacks in investment in the real economy as well as the near- collapse of their financial markets led to international as well as national intervention to support and restructure markets. In all of these countries there are some limited signs of improvement at the margin but the extent of over-indebtedness and the loss of asset values means it will take many more years before well operating finance and housing markets are likely to be observed.

6. After the crisis: the re-imposition of stronger regulation?

As soon as the scale of the crisis became obvious the vast majority of countries included in our project took immediate action with respect to housing finance market liquidity. These measures were usually part of a broader approach to keeping finance markets functioning. Many countries, including some where mortgage markets continued to operate, found that parts of their banking system required restructuring and often recapitalisation. These problems required an immediate response, followed by more structured approaches which in the worst cases involved 'bad banks', takeovers and transfers to government ownership plus higher capital requirements implemented at both national and EU levels.

Initial interventions are being replaced in many countries by more coherent approaches to evaluating risk and introducing more consistent and coherent regulatory requirements addressed at financial institutions in general and mortgage lending in particular. Examples here include Australia, Finland, Ireland, Iceland, Norway, Portugal and the UK. Into the medium and longer term the majority of countries are working towards compliance with the EU Mortgage Directive and Basle III which generally means putting in place higher capital requirements. Consistent with these requirements some countries are looking to reduce loan to value ratios [LTV] and debt to income [DTI] ratios – although from very different starting points. By 2014/15 all the 21 countries included used LTV rules (either advisory or imposed by law). In most countries the maximum LTV is around 80 %. In the Netherlands loan to value maxima remain above 100% until 2018; in Finland, they are set at 95% for first time buyers and 90% for existing owners; while Sweden is reinforcing their 85% requirement. Others, notably Poland and Hungary, are looking to introduce lower rates.

Borrowers must fulfil DTI rules in eleven countries but these are only legally required in two. More generally, at least 14 countries have debt-service-to-income rules as usual business practise. In addition, the experts from all the countries in the Milestones book indicate that a cornerstone of all credit assessments is to verify that borrowers can pay their future debt service requirements in the face of changing interest rates.

Many regulators are also looking to broader-based and more detailed affordability assessments which take better account of a household's overall financial commitments as well as their capacity to cope with higher interest rates. A report published by the European Systemic Risk Board [ESRB] earlier this year found that all the countries that they cover, i.e. the EU countries, Norway and Switzerland, had in place countercyclical capital buffers and in the specific context of mortgage loans half of the thirty countries covered had loan to value limits in place either as a requirement or a recommendation. On the other hand, relatively few countries have spelled out new regulatory rules about loan or debt repayment to income requirements.

An issue in the run up to the crisis had been the growing use of mortgage instruments aimed at increasing affordability (including, depending on the country, variable rate mortgages, interest-only mortgages, longer terms and many other variants which improved immediate affordability but sometimes also longer term risks). These have in the main been withdrawn by the market as much as by governments. There are exceptions, notably Sweden where interest-only mortgages remain readily accessible but with a requirement to make some repayments.

Finally, some countries have seen the post GFC environment as an opportunity to make major policy changes by reducing subsidies for owner-occupation, notably in the Netherlands and Hungary and through the regionalisation of support for owner-occupation in Belgium. These and other policy changes impact directly on the operation of housing finance and housing markets in these countries – often slowing recovery despite lower interest rate costs.

More generally, and perhaps most importantly, since 2008, expansionary monetary policies with low interest rates and quantitative easing have tried to stimulate economies and thereby also housing markets. However, at least in the most market-oriented economies, the effects have in some sense been the reverse – asset price inflation, together with higher LTVs and most importantly greater labour market uncertainties, have resulted in lower levels of owner-occupation and stagnant mortgage markets in many Western European countries.

This discussion of the varying impact of the GFC has concentrated on financial market changes. Yet in many ways it is the effect on housing markets of the subsequent – and probably consequent – recession that followed rapidly on from the GFC that has been both more consistent across countries and longer lasting than the financial crisis itself (Priemus and Whitehead, 2014). The outcome has, in almost all countries, been lower levels of private sector housing investment as well as cutbacks in government support for social housing. This in turn has been followed by increasing pressure on house prices and rents in higher demand areas across Europe.

It is possible by use of house price statistics for the years from 1970 to estimate the length of a housing cycle as being around 10 years (André 2010). Statistically, the average length of financial crises is not as easily assessed, although commentators have suggested it is normally considerably shorter. We are now nearly ten years on from the GFC so we might expect some sort of resolution both with respect to financial institutions and housing markets. However, Europe still seems to be dealing, by no means always successfully, with the effects of the GFC and indeed of earlier pressures to increase borrowing and later recession. The crisis itself was worldwide and across many sectors. Most governments, not surprisingly, have prioritised macro-economic stability often with negative consequences to housing markets (OECD, 2013). As a result, we still seem a long way from a fully functional housing finance system across the different groups of European countries. As importantly, the negative effects on housing markets, arising not just from the financial crisis but also from subsequent recession and stagnation continue. The lack of new housing investment in many countries, increased risks to both consumers and institutions, the possibility of further market volatility as well as broader political uncertainties are all still very much current causes for concern.

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Book Review

The Housing Challenge in Emerging Asia: Options and Solutions; edited by Naoyuki Yoshino and Matthias Helble, Published by The Asian Development Bank Institution, 2016

Reviewed by Seung Dong You

On housing policy issues, *The Housing Challenge in Emerging Asia: Option and Solutions* is the first study published by the Asian Development Bank Institute (ADBI). It has a foreword by Takehiko Nakao, president of the Asian Development Bank. The book is edited by Naoyuki Yoshino and Matthias Helble; the former is dean of the ADBI and professor emeritus at Keio University and the latter is a research fellow at the ADBI. The book provides policymakers, professionals, and academics with insights into the process involved in designing and implementing housing policy measures to provide adequate and affordable housing in urban areas. The topics that this wide-ranging book covers touch on most issues related to housing policies, particularly in Asia, but are not limited to those issues.

Housing demand in Asian cities has increased significantly due to rapid economic growth. At the same time, many people have moved into urban areas in Asia; according to the United Nations, one in two Asians lives in an urban area, while only one in five Asians lived in an urban area in the 1950s. As the editors observe, people need shelter, one of the most basic elements of life for every human being. Beyond simply meeting the basic need for shelter, however, households need affordable and adequate housing: a "home, sweet home" in which family members can interact and relax.

The Housing Challenge covers nine housing markets, whose policies are well-documented and supported by sound empirical evidence. It investigates three housing markets in the most advanced Asian economies – the Republic of Korea, Japan, and Singapore – and two in the largest Asian countries – India and the People's Republic of China, including Hong Kong. In addition, the book discusses public housing policies in three countries on other continents: Switzerland, the United Kingdom, and the United States.

With Toshiaki Aizawa, a research associate at the ADBI, the editors propose a housing policy matrix in a simple framework of demand-side and supply-side policies. They divide housing policies into two categories: one for promoting homeownership and the other for supporting solutions that make affordable rental housing more available. This is a useful tool for analyzing public policies in housing markets, which can also be divided into two types of markets: asset markets and rental markets. Within the book's framework, chapter 1 reviews the merits and demerits of the most popular housing policies. Chapter 2 then proposes a normative model for the housing market, which tends not to be considered in much international comparative research. The remaining chapters, beginning with chapter 3, discuss in detail the housing policies in each country included in the study. Relating each country's historical sociology and economic history to real estate markets, the policies that each chapter examines and evaluates include, but not are limited to, housing subsidies, upgrading quality standards, housing construction and provision of land, rent certificates, housing vouchers, rent control, public housing, and subsidies for suppliers. The book's careful exposition and analysis of each country's housing policy experience provides valuable information on public policy tools that other emerging countries can adopt or utilize.

From the perspective of real estate finance, *The Housing Challenge* examines in detail both demand-side and supply-side policies. With limited accessibility to housing finance markets, many ordinary urban families cannot afford a seemingly ordinary house on their annual incomes. It is striking to see that, in the twenty most expensive cities in the world, the price-to-income ratios are over 25; as of 2015, for example, the ratio was 40.67 in Kathmandu, Nepal and 36.83 in Hong Kong. An ordinary urban family seeking to purchase a house in one of those cities must depend on securing a mortgage loan. As clearly shown by the theoretical model, from a policy perspective an ordinary urban family would be served best by improved mortgage debt availability. According to the Asian cases in the book, moreover, supply-side housing finance policies, on which the theoretical model seems to be silent, are expected to have positive effects on both consumers and producers in a housing market.

Real estate finance involves two components or sides: real estate and finance, which means there are two points of view that housing policy must acknowledge. On the real estate side, observers argue that focusing on real estate benefits real estate financing decision-makers in real estate markets. On the finance side, others argue that real estate financing should be regarded as involving financing decisions in which real properties are taken into account. In other words, the real estate perspective tends to put more weight on real estate markets and the finance perspective tends to put more weight on financial markets. The book under review adopts the first approach; it examines a wide range of topics related to housing markets and then discusses housing finance issues that play key roles in housing markets. The book should serve as a valuable resource for readers who are not familiar with Asian markets or with issues in housing (or real estate) markets. In addition, in highlighting policy issues, the book primarily offers the big picture regarding financial products related to real estate, focusing less attention on their detailed structures. *The Housing Challenge* can therefore serve as an excellent guidebook for those who want to become familiar with housing finance markets (or products).

The book surveys and analyzes the efforts of the Asian countries it covers to increase accessibility to housing finance markets. To expand household accessibility to mortgage debt, for example, major Asian countries have directly established state-run organizations such as the Korea Housing Finance Corporation (previously the Korea Mortgage Corporation) in Korea, the Government Housing Loan Corporation in Japan, the Housing and Development Board in Singapore, and the Hong Kong Mortgage Corporation in Hong Kong. They have also organized special funds such as the Housing Provident Fund in China. Detailed information on such direct supply-side policy tools or entities can be found in the book. In the theoretical model, moreover, we can see clear positive effects of demand-side housing finance policies such as marginal interest rate deductions and mortgage interest deductions from income taxes, which increase housing consumption by ordinary families. Applications of demand-side policy tools in Asian countries are well documented in the book. As a result, *The Housing Challenge* offers constructive lessons and guidelines for other economies.

Since the recent global financial crisis, which was triggered by the US mortgage market, macro-prudential regulations have become a new topic for economic policy. Before the early 2000s, deregulation of real estate finance markets was highly favored; policymakers regulated the markets to improve an ordinary family's accessibility to the housing finance market. Since the crisis, however, the mortgage market has received greater attention from professionals in various fields; this book is evidence of that trend. Recent developments in macroprudential regulations in Asia are also discussed. Moreover, the effects of such regulations on housing markets and the relationship between regulations and other public policies also are well documented.

Through careful comparative research on public policies across international housing markets, *The Housing Challenge* offers many lessons on housing policies for emerging as well as advanced economies. Moreover, the book documents developments in the primary and secondary real estate finance markets in Asia and also covers housing policy issues that pertain to those developments. Housing finance professionals all over the world will find the book worth reading.

This book can be purchased for $33 from Brookings Institution Press.

https://www.brookings.edu/book/the-housing-challenge-in-emerging-asia/

The book may also be downloaded from the following URL as well.

https://www.adb.org/sites/default/files/publication/190060/adbi-housing-challenge-emerging-asia-options-solutions.pdf