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# **Social Housing**

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## **Financing of Social Housing**

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# Financing of social housing : outline

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Introduction

Description

Conclusions

Recommendations



## **Generation of resources**

- Financial balance
- New investment
- Maintenance and renovation

## **Form of financial support**

- Loans
- Securities
- Subsidies

Case studies

Glossary

# Economic balance of SRH

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- Financing new investment in SRH requires a long-term view
  - ⇒ privilege a global approach, including investment and operation costs.
- Keep expenses under control
  - ⇒ needs for professional management, self-discipline and control.
- Key role of rent setting
  - ⇒ cost rent principles.

# Rent setting: cost rent methods

- The rent calculation is based on the actual cost of the investment.

## Investment account

<i>Investment costs</i>	<i>Investment finance</i>
Developers' profit	Direct subsidies
Loan takeout costs	Loans
Construction costs	Own funds
Land improvnt costs	
Land costs	

## Operation account

<i>Expenses</i>	<i>Revenue</i>
Maintenance costs	Chargeable rents
Management costs	Billable charges
Utility costs	Operating subsidies
Property tax	
Loan repayment	
Losses (unpaid rents)	
Equity rebuilding	

# Rent setting (2)

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- How to make rents affordable to low-income groups?
  - ⇒ by using object and subject subsidies,
  - ⇒ not by setting rents at a low level;
  - ⇒ beware of negative effects of too wide gaps between social and market rents on mobility and housing consumption.

# Object and subject subsidies: see glossary

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- Object sub. ~ Bricks and mortar  
~ Production + investor  
~ Supply-side;
- Subject sub. ~ Housing allowances  
~ Consumer  
~ Demand-side.

# Finance new investment

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- Housing policy-makers' decisions:
  - ⇒ rent setting,
  - ⇒ balance between object and subject subsidies,
  - ⇒ provision of financial instruments:
    - investment = {
      - Loans / securities
      - Direct subsidies
      - Own-funds

# Financing SRH: public or private?

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- Market finance for housing requires macro-economic stability and a well-functioning and developed financial system.
- When these prerequisites are fulfilled, market finance is often more efficient than public finance.
- If they are not: prefer public financing, but evaluate hidden costs and distortions.

# Loans to SRH: specific requirements

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- Key issues:
  - ⇒ ensure a stable access to long-term credit with low interest rate;
  - ⇒ Access to credit in similar terms to all social landlords (not a normal market behaviour).
- Thus requires special guarantee systems, such as mutual funds (Netherlands, United Kingdom).
- Providing inexpensive access to market finance without leaving anybody outside remains a difficult challenge.

# Object subsidies

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- Are the counterpart of the social commitments of the landlord and should be proportionate to these commitments.
- Should be associated with controls on various costs.
- Prefer the “ex ante” calculation (cost rent method):
  - ⇒ provides a good overview of balances of investment and operation accounts;
  - ⇒ however, not a panacea ...

# Own funds

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- Injecting equity into new investment finance can help in partic. circumstances:
  - ⇒ housing needs are important and land costs are high (central metrop. areas),
  - ⇒ limits on resort to loans,
  - ⇒ scarcity of subsidies.
- Cannot be a sustainable policy (except when flow / stock is small).
- Sales to sitting tenants ...

# Other ways of generating low-cost resources

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- Revolving funds (Austria, France):
  - ⇒ mix of external (such as earmarked taxes) and internal resources (loan returns),
  - ⇒ sustainability to be carefully planned and monitored.
- International banks (EIB and CEB):
  - ⇒ SRH financers are advised to check eligibility of programmes.

# Financing maintenance and renovation

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- Adapting or adopting cost rent principles:
  - ⇒ finance maintenance according to the initial planning,
  - ⇒ avoid accumulating needs for heavier renovation in the future.
- Specific financial needs for renovation:
  - ⇒ needs for heavy renovation exist in transition economies and western European countries;
  - ⇒ may require specific financing solutions.

# Forms of support

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- Loans: Prefer “inflation-proof” loans as SRH needs long-term loans;
  - ⇒ dual-index mortgages with repayments pegged to the same index as rents (reduces the risk of mismatch between expenses and revenue).
- Securities: “mortgage bonds” and “MBS”
  - ⇒ increase wholesale funding;
  - ⇒ provide opportunities to transfer risks.

# Subsidies: object or subject?

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- Housing allowance is the most flexible way to make rental housing affordable to low-income households;
  - ⇒ requires relevant and up-to-date information on households' income and composition;
  - ⇒ has little impact on housing supply.
- Housing allowances and object subsidies should be used in parallel, in particular if housing needs remain important.

# The scales of housing allowance

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- Scales of housing allowances should:
  - ⇒ depend closely on the household's income and composition;
  - ⇒ be adjustable without delay, especially to compensate for major losses of income;
  - ⇒ avoid to create poverty traps, inflationary effects and a lack of incentive to adjust the size of the unit to the real needs of the hh.
  - ⇒ remain simple and transparent.

# Forms of object subsidies

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- Prefer transparent and measurable subsidies:
  - ⇒ avoid hidden or unpredictable subsidies,
  - ⇒ avoid subsidies which create long-term liabilities.
- Prefer direct subsidies to subsidized loans:
  - ⇒ subsidy and finance are distinct fields (transparency),
  - ⇒ subsidized loans create long-term liabilities.