



# FINANCING SOCIAL HOUSING

AFTER THE ECONOMIC CRISIS

Proceedings of the CECODHAS Seminar  
Brussels, 10<sup>th</sup> September 2009





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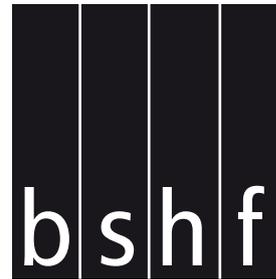
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## **Imprint**

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## Table of contents

<b>FOREWORD</b>	<b>7</b>
<i>David Orr</i>	
<b>INTRODUCTION</b>	<b>9</b>
Towards sustainable funding of social housing in the European Union: A review of current trends and future opportunities	9
<i>Darinka Czischke</i>	
<b>I. TOOLS AND SYSTEMS TODAY TO FINANCE SOCIAL HOUSING</b>	<b>13</b>
European Housing Strategies, financing mechanisms and outcomes	14
<i>Julie Lawson</i>	
Institutional mechanisms: a European comparative perspective	29
<i>Laurent Ghekière</i>	
<b>COMMENTARY:</b>	<b>33</b>
Perspective from Finnish municipal social housing providers	34
<i>Sabah Samaletdin (Kunta-asunnot Oy, Finland)</i>	
<b>TOUR DE TABLE: CASE STUDIES FROM CECODHAS' MEMBERSHIP:</b>	<b>37</b>
Housing Finance and Housing Providers in Austria: Performance in the light of financial and economic crisis	38
<i>Eva Bauer (GBV, Austria)</i>	
Tools and systems today to finance social housing: the case of France	42
<i>Maxime Chodorge (USH, France)</i>	
Financing of Dutch Social Housing	46
<i>Sebastian Garnier (Aedes, the Netherlands)</i>	

<b>II. MAKING THE CASE FOR SOCIAL HOUSING: POOLING RISKS AND OPPORTUNITIES</b>	<b>51</b>
The economic crisis and housing finance: Possible scenarios <i>Phil Jenkins</i>	52
<b>CASE-STUDIES FROM CECODHAS' MEMBERSHIP:</b>	<b>61</b>
The National Italian Housing plan: the Network of National and Local Funds <i>Luciano Caffini, ANCAB (Italy)</i>	62
How to be rated Aa2 by Moodys? <i>Mark Washer, Affinity Sutton Group (UK)</i>	67
Financing social housing: Alternatives from Ireland <i>Gene Clayton, ICSH (Ireland)</i>	72
<b>FINAL REMARKS:</b>	<b>76</b>
Social, public and co-operative housing in Europe: Dealing with financial risks on the housing market <i>Rudy de Jong</i>	77



## FOREWORD

*David Orr*

*CEO, National Housing Federation (England) and President of CECODHAS*

Dear Reader,

In times of deep economic crisis, the only rational response from housing providers to the turbulences of the market would be to retreat, to do less, to build up the balance-sheets and come back in 5 years' time. However rational this sounds, it would certainly be the wrong response, as beyond the economic crisis, there is an unprecedented community recession that is not only worsening the living and housing conditions of a great number of households everywhere in Europe, but also threatening the very cohesion of our neighbourhoods. And if social housing providers were to withdraw because of a lack of financial capacities, this would have tremendous and long-lasting consequences on our common ability to meet a basic requirement of our society: that of providing decent and affordable housing for all in economically, socially and environmentally sustainable neighbourhoods, where each individual can reach its full potential.

How then to continue the work we need to do, how to finance social housing in a sustainable way when individual, private and public resources are made scarce by the crisis and its aftermath? This is the challenge we are confronted with and this is why CECODHAS-HOUSING EUROPE has initiated a discussion with academics, bankers and European policy-makers on what needs to be done and whereto ensure sustainable funding of affordable housing in the European Union.

An important part of that discussion relates to the case for public and private actors to invest in social housing. There is now strong evidence that a well financed and managed social housing sector has a significant stabilising effect for the whole housing market. It is also a sector where contra-cyclical economic measures have the best chance to produce the expected outcomes. Finally, the financial turmoil has made clear that social housing is a low-risk investment sector, susceptible to attract private funding, not least because our non-for-profit organisations have developed a unique culture of efficiency at the service of the community.

But this clear business case for social housing will not make it alone. A favourable European-wide political context is necessary. That is why our strategic dialogue with the European stakeholders on financing social housing will continue.

A handwritten signature in black ink, appearing to read 'David Orr'.





## INTRODUCTION

### Towards sustainable funding of social housing in the European Union: A review of current trends and future opportunities

*Darinka Czischke*

*Research Director, CECODHAS European Social Housing Observatory*

As the examples in this volume show, social housing has experienced an increasing diversification of its finance mechanisms and sources over the last few decades. This includes not only developments in terms of direct and indirect public finance, but also new ways of raising private capital through mechanisms such as bonds via special purpose vehicles, amongst others. However, the sector has not been immune to the effects of the current financial and economic crisis. Indeed, in a context of wide-spread collapse of financial institutions, large-scale state aid to private banks and high unemployment in many European countries, important questions arise regarding the sustainability of funding for social and affordable housing.

Realizing the need to think openly and creatively about this issue, CECODHAS organised in September 2009 a seminar entitled “Financing social housing after the crisis”, which brought together practitioners and analysts from across Europe. The aim was to take stock of recent trends and innovative practices in this field, as well as to think about future possibilities for the financial sustainability of the sector. This publication brings together the presentations held at the above-mentioned seminar in the form of short articles. We believe this is a timely contribution containing a unique collection of perspectives representing a variety of housing systems and professional backgrounds.

This introduction aims to give the reader a brief overview of the main trends and practices highlighted by the contributors to this volume. Lawson’s article sets the scene by looking at European developments in financing social housing since the 1990s. Drawing from earlier research, she lays out key elements of a variety of financing mechanisms for social/affordable housing across European countries. In her analysis she highlights the complexity of choosing the ‘right’ funding strategy that delivers the desired housing outcomes while complying with political objectives and coping with changing market conditions. She recalls the increasing volatility of housing markets over the last 20 years, as well as important reforms to the financial arrangements of social housing systems across Europe. Amongst the latter, she mentions the European Commission with its “...influential and often conflicting demands [...] which impact directly on the capacity of each member state to steer their housing outcomes” despite not having a mandate to determine national housing policy. Another important point raised by Lawson is the ‘supply-demand’ debate dominant in many countries since the mid 1980s, which has led to a decline in bricks and mortar subsidies, an important increase in demand assistance strategies, the privatisation of public providers and the growth of the third sector, as well as a strong shift towards private finance.

### ***The importance of stable government support and financial intermediaries***

As pointed out above, the decline of bricks and mortar subsidies and an overall turn to the private sector both in terms of privatisation of providers and the increasing role of private finance are amongst the main recent developments. Furthermore, as Ghekière points out, the latter trend has often involved a suppression of intermediary structures between providers and the financial market. Interestingly, however, the current economic crisis has shown that countries where these intermediary structures are in place and/or where there is a stable system of providers and strong public sector support for social housing providers have fared better vis-à-vis the crisis than those systems where providers are left directly exposed to the financial market.

A first example of the above is Austria, where—as both Lawson and Bauer explain—policy has contributed towards stable housing markets and modest rises in housing prices, in contrast to a European context marked by over-inflated housing prices, stagnating production levels and declining affordability. According to Bauer, specific features of the Austrian model, such as a bias towards direct, object-related subsidies have contributed to halt dependency on market volatility. Furthermore, in her view, Austria has remained relatively untouched by the crisis due to the absence of speculative developments in housing finance and the regard of housing as a consumer good rather than as an investment, unlike in many other countries.

Another example is the French model, which according to Lawson has proved resilient in the face of the global financial crisis. As Chodorge points out, the French system counts with two main stabilizing elements, one being the system of bricks and mortar subsidies that lower the rent for the majority of tenants, and the other, housing benefits that ensures that the poorest households are able to pay the rent. Furthermore, according to Lawson the French ‘protected savings circuit’ can be considered an example of State guarantee that has secured finance of social housing even at times of crisis. This system is based on the Livret A savings fund, which has a regulated interest rate and is not subject to tax, and that is pooled by a State owned financial intermediary, the Caisse des Dépôts et Consignations. This has allowed a sustained range of housing programmes delivering dwellings for a variety of income levels. Interestingly, as Chodorge points out, this system has proved remarkably strong during the credit crunch, even attracting a historically high number of deposits and offering temporarily a higher yield than usual.

Interestingly, the advantages of having a coherent framework for the social housing sector are recognized even across the Channel. Indeed, in his article dealing with the UK context, Jenkins points out the importance of the implicit support provided by government to housing associations, which acts as an indicator of credit strength, also for credit rating agencies. Moreover, referring to a particular case of one of the largest housing associations in England, Washer also highlights the benefits of being a regulated sector, in terms of being perceived as a secure investment by the financial sector.

### ***Risk pooling mechanisms***

One of the points raised by most authors is the rising need to facilitate access to private funding at good conditions in most EU countries as a consequence of the crisis. In this regard, the issue of how the social housing sector is perceived by potential lenders and investors in terms of risk was addressed in many of the articles. Indeed, there are many reasons why the social housing sector can be and is actually seen as a low risk and therefore, attractive investment. As Jenkins explains, amongst the features of social housing providers that investors like, are the fact of being regulated and

often non-profit distributing; their long-term, stable, predictable cash flows; and their implicit or explicit guarantees, depending on what country they operate in.

Moreover, as many of the examples in this volume show, providers in different countries are implementing innovative ways of pooling risks. A first example is the issuing of bonds via special purpose vehicles. Both Lawson and Bauer highlight as a particularly interesting funding tool the raising of private funds in Austria (in addition to federal and provincial funding) through the establishment in the 1990s of specialised housing banks—as a part of five major private banks—via tax privileged Housing Construction Convertible Bonds. These form a special circuit of capital involving the sale of bonds via Housing banks to channel investment into new affordable housing.

Another example is drawn by Lawson from Switzerland, where the Swiss Bond Issuing Co-operative (BIC) raises funds for non-profit housing entities that have formed a co-operative to reduce the cost of commercial loans. This system allows smaller non-profit builders to join together, improving their access to private finance on more favourable terms. One of the big strengths of this model is that institutional investors are attracted to BIC bonds by the State guarantee and high credit rating (AAA).

As Lawson explains, both the Austrian and Swiss bond models are specific and standardised financial instruments designed to raise funds that include the establishment of financial intermediaries (e.g. Housing Banks in Austria or Bond Issuing Cooperatives in Switzerland). Furthermore, they are attractive to investors by additional credit enhancements and consistent regulatory frameworks. These developments coincide with Ghèkière's point on the need for intermediary financial structures, arguing that in those countries where these are in place, the effects of the crisis have been less acute as intermediaries have been able to defer the volatility of the financial market.

Further examples are described for England, Italy and the Netherlands. In England, as Washer explains, there have been recently a number of club bond issues, where housing associations have gotten together to issue capital market issues jointly. In Italy, Caffini explains that a new tool for social housing finance has been created as part of the recently launched National Housing Plan, namely the 'Integrated real estate funds'. These involve a variety of institutional investors, ranging from private to public actors (e.g. government, pension funds, foundations, banks, etc.). This fund has in common with other systems featured in this volume the advantages of low risk and high reliability of the expected profitability.

Last but not least, the Dutch system described by Garnier in this volume also represents a case of risk pooling, but on a larger scale, based on spreading the risks thanks to the large accumulated assets in the sector. Indeed, the three level security structure of the Dutch social housing sector is considered a system that guarantees the solidarity and financial health of the sector, allowing housing associations to get more beneficial interest rates on the market.

### ***Private market finance and credit ratings***

As part of the trend towards raising additional funding through the private financial sector, speakers underlined the need to prove creditworthiness to lending and investing institutions. This volume features the case of one of the largest social housing providers in England, which decided to be rated by a credit rating agency as a way to do this. In his article, Washer explains the many advantages as well as challenges of adopting such a public credit rating when it comes to obtaining funding from the private sector. Internally, it creates a useful financial discipline for the organisation by providing the financial director with the leverage to align all fields of the organisation along the same goal. In addition, it also

provides an independent view of how strong the company is to its corporate and local authority partners. It makes lending more available and easier as it helps persuade credit committees that the organisation is a 'reasonable credit risk'. However, it also means putting the company through a very tough public scrutiny, which includes not only an assessment of its financial strength, but also of its management efficiency. Interestingly, in his commentary from a Finnish perspective, Samaletdin also stresses the importance of demonstrating good management when it comes to proving the creditworthiness of social housing organisations to private investors.

Furthermore, referring to the wider UK context, Jenkins highlights the fact that housing associations in the UK enjoy good credit ratings. He believes that despite more expensive funding following the economic crisis, the sector remains attractive (low risk) for lenders due to, as explained earlier, factors such as regulation, explicit or implicit guarantees, etc. He concludes that the "*(...) new level of risk aversion on the part of investors (borne out of the crisis) in a way benefits the social housing sector*". Moreover, he expects the public sector will demand more efficiency from the sector due to the squeeze in finances brought about by the crisis.

### ***A stronger role for the European Union in social housing finance?***

Moving on to a European scale, speakers reflected on the role of the EU vis-à-vis the need for a more sustainable funding of social housing. Both Samaletdin and Clayton suggest that it would be worthwhile thinking about a common special purpose vehicle for financing the sector at European level. To take the case of Ireland, Clayton explains that the withdrawal of government funding to housing associations for the provision of social housing—following the crisis-led collapse of government finances—means that there is little or no prospect for housing associations to develop new housing for families for some years to come. Hence, one of his conclusions point out to the usefulness of a funding vehicle for social housing at European level which would allow social housing providers across Europe to withstand the ups and downs in capital markets.

In his final remarks De Jong reflects not only on the usefulness but also on the feasibility of such a European-level funding vehicle and asks a number of relevant questions yet to be addressed in more depth—amongst these, how to make best use of the EU single market in the midst of the diversity of systems that seem to stand in the way of using instruments like European bonds or European medium term notes? He suggests that perhaps smaller scale instruments such as EIB loans or a 'social housing brand' in the financial market could be an answer. This coincides with Ghekière view, which highlights the actual role of the European Investment Bank as an intermediary between the financial market and the financing of activities of general interest such as social housing in EU Member States. As he explains, given the fact that the financing system of social housing in New Member States is structured today around a global loan from the EIB, one might expect that the latter becomes an important actor in the future financing of social housing. These questions remain open, and we hope that the contributions in this volume help inform this debate.



**I. TOOLS AND SYSTEMS TO FINANCE  
SOCIAL HOUSING TODAY**



## European housing strategies, financing mechanisms and outcomes

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### Introduction

Sustainable and affordable finance provides a crucial pillar to support the provision of affordable housing in the long term. This finance can take on a variety of forms, comprising grants, public loans, commercial loans as well as shareholder equity. It can be facilitated by various forms of collateral, government guarantees, mortgage insurance and tax incentives, often involving a specialist financial intermediary. Importantly, how this pillar is constructed influences the scale, pace and quality of housing outcomes generated (Lawson et al, 2009). This article focuses on European developments in financing social housing since the 1990s and makes a number of observations regarding their outcomes and resilience amidst turbulent financial and housing markets. The last section focuses on three lesser known systems in Austria, Switzerland and France, and draws out some lessons for progress in housing policy.

### Why consider international developments?

National housing provision structures are a cumulative outcome of local institutional arrangements, economic processes and political relations. They are steeped in urban history, but also subject to globalisation of mortgage and capital markets, the Europeanisation of public policy and dominant ideas such as home ownership etc. For this reason, careful and creative work is required to extract and adapt potentially useful ideas from elsewhere to address local needs and conditions.

### Social housing functions differently in different countries

The diversity of social housing systems stems from different necessary components, which are contingently defined, rather like the pieces of a puzzle which merge together to form a coherent local picture. These components include:

- Land development policy and market opportunities
- Composition and sustainability of financing arrangements
- Principles for setting rents and the business models of providers
- Eligibility criteria, allocation and assistance affecting households
- Management model including limitations on ownership, realm of activities, generation of profits and accountability to stakeholders

Transferring different social housing components across national systems poses a major challenge for policy makers interested in cross-national reforms. No two systems are the same and are underpinned by different principles which define the:

- Rent regime (cost rent, nominal rent, market rent)
- Eligibility regime (universal, targeted)
- Operating cost and profit regime (non-profit, limited profit, for profit)
- Market position of different providers (private, third sector, public)

Social housing systems typically incorporate a specific subsidy strategy, in which governments may:

- Subsidize supply to ensure production levels, set conditions, lever private funding and reduce overall costs
- Subsidize demand to ensure affordability and targeting of assistance to specific groups
- Employ both of these strategies, to varying degrees.

In order to actually produce dwellings, social housing organisations require a flow of capital, which can be channelled via a range and often mix of vehicles including direct public expenditure as grants or loans, via government intermediaries as loans or private financial institutions. Typically each vehicle comes with conditions that contribute towards an overall package steering investment into specific kinds of projects. Table 1 below, illustrates the wide variety of financing mechanisms which influence modes of regulation and regimes of capital accumulation in the social housing sector.

**Table 1 Financing mechanisms for affordable housing**

Financing mechanism	Brief outline
Grants	Directly able to influence housing supply, but limited to available funds and political commitment to housing. Often used to lever and secure other sources of funds.
Discounted land price	Traditionally a key vehicle to manage urban development outcomes, where governments are a major land holder. Can be applied specifically to affordable housing goals. Subject to land availability and market conditions.
Public loans	Traditionally the primary financing strategy for social / affordable housing programs. Cost effective fund raising. Revolving liquidity (through loan repayments) can offer longer term re-investment potential. Recently, curtailed by public sector borrowing limits and the attractiveness of low private mortgage rates. As so called 'soft' loans, may not require same security as for private finance.
Protected circuits of savings for specified investments	Used to achieve a dedicated flow of affordable credit for affordable housing programs. Sustained in some countries, while others have dismantled them to improve competitiveness of local banks amidst foreign competition.

Table 1 (continued)

Financing mechanism	Brief outline
Private loans	Increasingly play a role in financing affordable housing, either partially or entirely. Vulnerable to changing financial conditions and alternative investments. National approaches vary in cost effectiveness and the appropriateness of the fund raising and distribution mechanisms that are used.
Interest rate subsidies	Useful in the early phase of a mortgage to reduce higher relative costs. Containing the cost to government over time relies on steadily rising wages and house prices and stable interest rates.
Tax privileged private investment	Used to channel investment towards affordable housing and to compensate investors for lower rates of return and profit restrictions.
Government secured private investment	Government backed guarantees to reduce risks to financial institutions investing in affordable housing, passed on in a lower cost of finance.
Tax privileges for providers of affordable housing	Many countries provide a variety of tax privileges to registered organisations, for example income and investment deductions, depreciation allowances, reduced sales and property taxes, exemptions from capital gains tax. These allowances compensate the efforts of the preferred providers towards achieving the social policy objectives of governments.
Use of own reserves and surpluses	Mature housing organisations can leverage their balance sheets, reserves and surpluses to invest in additional housing. Funds raised may be pooled to support weaker organisations or to promote innovation and competition.
Use of tenants' equity	Some funding models incorporate a small tenant equity contribution. Governments may assist low income tenants to make this contribution. Larger contributions may lead ultimately to tenant purchase of dwellings.

Source: Milligan, Gurrán, Lawson, Phibbs and Phillips (2009:34)

### Financing arrangements, the social task of social housing provision and conflicting EU demands

Ideally, the selection of a financing strategy should be based on a well informed and integrated vision of desirable housing outcomes, which is both politically sustainable and sufficiently flexible to cope with changing market conditions. These conditions include the house price boom of the late 1990s; intense labour market and socio-economic restructuring emerging from de-industrialisation and the current global financial crises.

In the past 20 years, we have seen housing markets become ever more volatile and for young households, less affordable. An evaluation of which strategy has best served households during different market circumstances is long overdue.

Alongside these challenges there have been significant reforms to the financial arrangements of social housing systems across Europe. Potentially, these changes could have influenced the role and performance of social landlords. One of the key agents in promoting change has been the European Commission. While there is no European mandate to determine national housing policy, influential and often conflicting demands are imposed which impact directly on the capacity of each member state to steer their housing outcomes. These include the requirement to reduce government deficits (Stability and Growth Pact, Maastricht Treaty)—placing pressure on direct grants and public loans for affordable housing production, despite their potential efficiency and cost effectiveness; the requirement for competitive allocation of supply subsidies and increasingly narrow targeting housing outcomes produced. These pressures have not only reduced direct government support, but exposed the sector to more commercial players and narrowed the tenant base of social housing in some countries. These trends have occurred despite concerns of social segregation and spatial and tenure based concentration of poverty and EU demands for greater social inclusion and economic stability (Lisbon Treaty). Amidst these constraints, the EU has also promoted aging in place, increasing the need for home based care and demanded greater innovation in energy efficient residential design and renovation.

For several countries, such as the Netherlands and Germany, the supply-demand debate has dominated housing policy since the mid 1980s. It has led to changes, which include a decline in bricks and mortar subsidies and a substantial increase in demand assistance strategies, including a shift towards market rents and demand assistance targeted to those ‘outside’ the market alongside often regressive tax rebates for home owners. It has also led to the privatisation of public providers and growth of the third sector and a strong shift towards private finance—either asset based or revenue based—in order to maintain existing stock and continue production.

Recently, EU competition law (private sector participation in privileged or protected markets) has prompted or even forced some governments to review the charitable tax status of housing providers leading to the removal or reduction in tax exemptions, financial guarantees and subsidies and raised fundamental questions concerning allocation systems (eg Sweden and the Netherlands, Milligan and Lawson, 2008).

Despite these strong pressures, there remains a wide variety of funding strategies rooted in national-urban institutions concerning land development, the channelling investment through particular tenure forms and related cultures of consumption, as illustrated by table 2.

**Table 2 Variety of funding strategies by country**

Country	Model	Brief outline
Ireland	Public grants model	Centrally funded grants to approved providers for construction, statutory financial intermediary provide low interest loans for land acquisition, interest financed by central government, limited grants from local authorities.
UK	Debt equity	Debt finance raised against grant equity (50%), future social rental income, secured by rising rents and a generous housing benefit as well as discounted land and development contributions under “section 106” provisions.

Table 2 (continued)

Country	Model	Brief outline
France	Savings scheme model	Tax free household savings scheme (CDC) finances off market loans to HLM providers alongside state and local subsidies, tax incentives and other loans. Land provided by local authorities and development contributions.
Austria	Structured finance model	Long term low interest public loans and grants, combined with commercial loans raised via HCC Bonds and developer/tenant equity sustains tightly regulated form of cost rent limited profit housing. Promotion supported by municipal land policy and land banking.
Switzerland	Co-operative finance model	Commercial loans, loans from a bond issuing co-operative, revolving loans, and own equity and supported by municipal urban policy and land banking. A liberal rent policy allows landlords to raise rents to recover costs, including changing financing costs.
Netherlands	Revolving fund model	Replaced direct loans and subsidies with guaranteed capital market loans and rent assistance. Dutch Guarantee Fund (WSW) and Central Fund (CFV) provide security and assist to reduce financing costs. Associations are free to determine own investment strategy, asset base and surpluses intended to be used as a revolving fund to achieve social tasks.
Germany	Tax privileged model	Federal government has withdrawn from direct supply support and shifted towards demand side subsidies. Municipalities develop their own programs and housing companies are private entities, with a variety of shareholders. Private investment in social housing is promoted via tax concessions. Rents and eligibility depends on level and duration of public subsidy. Production levels declined and foreign investors are selling better quality stock (Droste and Knorr-Siedow (2007).
Sweden	Capital market model	Corporate tax exempt municipal housing companies have always been financed by capital market loans which were sometimes backed by municipal guarantees, grants as well the Ministry of Housing's own resources. In the past interest rates subsidies ere provided by the central government but these have ceased.

Whilst this paper only touches the surface of key trends in financing social housing, there are researchers who have investigated the consequences, which are referred to below.

In Sweden we have seen a shift away from universal subsidisation of municipal housing companies, which have involved cuts to tax breaks and allowances amidst EC competition criticisms. Housing outcomes during the past decade include rising housing costs, declining levels of production, sales to tenants as co-operative shares in central location and the concentration of vulnerable tenants in remaining social rental housing (Magnusson-Turner, 2008, Turner and Whitehead, 2003).

Conversely in France the core financing mechanism (CDC, state grants and HLM equity, low VAT) has been sustained, albeit with reforms to the issuing of savings accounts (Jan 2009). These reforms have arguably improved financing conditions. There has also been an increasing rate of social housing production and renovation in recent years. However, housing markets vary across the country with considerable scarcity in major employment centres. In some urban areas there is also considerable decay in the built environment amidst social conflict and public image problems (Schaeffer, 2003, 2008, 2009, Tutin, 2008).

Austria has also largely sustained its structured financing model with generous supply subsidies. Production levels are strongly related to certainty of public grant programs and have gradually increased since 2001. However increasing quality and thus project costs have required the contribution of tenant equity, prompting a trend towards the right to buy (Lawson and Nieboer, 2009, WIFO, 2007, Amman, 2006).

Switzerland has sustained a small revolving fund, co-operative financing mechanism and guarantee promoting modest growth of sector yet this is constrained by the scarcity of development sites in urban areas. There have recently been additional and significant federal contributions to the revolving fund, but no Federal loans program. Low interest rates have improved cost rent outcomes but the Bond Issuing Co-operative has been less effective in raising funds during the credit crises (FOH, 2006, Gurtner, 2009, Lawson, 2009).

In the Netherlands, the privatisation of municipal housing companies into non-profit private associations has been almost total. Housing associations are largely self regulated and reliant on capital market financing and their own equity. During the 1990s they undertook increased activity at the higher end of market, with sales equivalent to the production of new dwellings. Some associations have large financial surpluses. They are highly independent, yet have deteriorating political legitimacy. This has led to the abolition of tax exemptions and reregulation of their social task in 2009 (Lawson and Elsinga, 2008, Boelhouwer, 2006).

## **A critical assessment**

Based on a preliminary literature review, a number of tentative assessments can be made:

- Adaptation to the new financial regime since the 1990s has produced vastly different results, attracting a vast amount of private capital to the mortgage sector but at some cost to public policy—production levels, affordability and access.
- Substantial growth in housing costs in tight and unregulated home ownership markets, sucking in large demand subsidies from the public purse.
- In many countries, increasing levels of household indebtedness, individualisation of risks concentrated amongst young buyers.
- During the past decade there have been declining levels of social housing production in most countries.
- A strategic and sustained public role is required in land and finance markets in order to influence scale and pace of production, influence affordability and ensure fulfilment of the social task.

- Narrowing eligibility criteria and allocation mechanisms have exacerbated socio-tenural and spatial polarisation and also created affordability-eligibility gap for middle income households.
- Inherent conflicts between market conditions (scarcity) influencing the financial continuity of semi-commercialised providers and a focus on their social task.
- Loss of public legitimacy has undermined subsidy arrangements (charitable status, tax exemptions).

### **Where are we heading?**

There is a need for a more balanced conception of assistance in different housing market conditions that appreciates the need for policy to be better informed, efficient and flexible (Milligan and Lawson, 2008, Oxley, 2007, MacLennan, 2005).

Indeed, it can be argued that ideas about housing policy are going through a period of reassessment, the signs of which emerged in the mid 2000s. This process has been accelerated by the current economic recession. A more positive appreciation of the role of social housing in contributing towards economic, social and environmental goals is being translated into the following:

- Increased efforts to address urban decay and polarisation via soft and hard renewal
- Reversal of decline and efforts to increase the supply of affordable housing
- Social housing perceived as a vehicle for innovation and sustainable design
- Application of inclusionary zoning and housing affordability development requirements
- Reviews of regulatory arrangements to improve social outcomes
- Re-evaluation of home ownership for all and shift towards a complementary range of tenures

A wide range of evidence of a return to supply policies can be found in the report by Milligan et al (2009) and the related conference paper Milligan and Lawson (2008).

### **Innovations in social housing finance and regulation**

The remaining section of this paper concerns specific innovations in social housing finance and regulation in Europe:

- Limited profit, cost-rent regulation and housing bonds: Vienna, Austria
- Small scale co-operative arrangements in a facilitative urban policy: Switzerland
- A dedicated circuit of investment and savings—France’s savings scheme

#### ***i. Limited Profit Housing in Vienna, Austria***

In Austria social housing is procured and managed by limited profit landlords, which include associations and companies owned by municipalities, public organisations, unions, co-operatives or private organisations. There are more than 190

limited profit housing associations (LPHA) with an average 3900 dwellings that are typically professionally managed, credit worthy and market strong. In total they own 22.5 per cent of primary residences (865,000 dwellings, Bauer, 2004) in Austria.

Unlike many other social housing systems across Europe and North America, the Austrian system of provision has not been pauperised or residualized and bricks and mortar subsidies remain un-displaced by the growth of demand assistance schemes. Further, it has been argued that Austrian policy and programs have contributed towards stable housing markets and modest rises in housing prices. This is an exception in Europe, where over-inflated house prices, stagnating production levels and declining affordability are the norm (Deutsch, 2009, WIFO, 2007, SOCOHO, 2003). This model is currently being adapted for application in several CEE (Central Eastern European) countries (IIBW/Amman, 2006).

Key features of this model include:

- Cost rent cost capped limited profit rental and ownership housing
- Facilitative land policy of urban governments
- Structured financial arrangements
- Strong legislative framework
- Core features and social task retained throughout 90s

Access is more universal in Austria than most social housing systems and research shows that it has become an integral part of many households housing careers, moving in an out during different life phases (Deutsch, 2007). Municipalities can also create their own allocation schemes which specify nomination rights dependent on subsidy levels, which are high in Vienna (25–50%).

### ***Structured Finance and HCC Bonds***

The core business model involves the recovery of cost rent. Affordability is produced by reducing housing supply costs and does not heavily rely on demand side assistance (Bauer, 2004). Mortgage conditions are very favourable to LPHA, due to high credit worthiness being well supervised by their umbrella organisation, financially sound, of large size (average around 4000), have a mature asset base and a clear ownership structure, they are a low financing risk given co-financing with the state.

To raise additional private funds, legislation was passed in the 1990s to establish specialised housing banks as a part of five major private banks, via tax privileged Housing Construction Convertible Bonds. This mechanism is discussed in more detail below.

Total housing expenditure in Austria equals about 1% of GDP, which is mid range in terms of European levels. Public loans are financed by a predetermined proportion of federal government revenue which is capped around €1.6 billion annually over 12 years (72%), additional contributions by provincial (state) governments (6%) and returns on outstanding loans (22%). This is dedicated towards refurbishment and new residential development (92%) as well as demand assistance (8%) (Amman, Lawson and Mundt, 2009). A typical project comprises the following elements of finance:

**Table 3 Elements of finance of a typical housing project**

Element of finance	Proportion out of total funding
Conditional subsidies (grants, low cost loans) with limits to keep construction and financing costs down.	20–40%
Equity of developer	5–10%
Equity of future tenants (right to buy in some circumstances)	0–15%
Commercial loans: today financed by commercial loans and via Housing Banks, which refinance by housing construction convertible bonds (HCCB) with very favourable conditions.	50–70%

### ***Austrian Housing Bonds and Banks***

Of particular interest is the special circuit of capital involving the sale of bonds via Housing Banks to channel investment into new affordable housing. This involves progressive tax incentives for purchasers of Housing Construction Convertible Bonds (HCCB). Investment raised this way has to be used to finance approved limited profit housing projects by registered social landlords within 2 years. Several major banks have created subsidiaries called Housing Banks with preferential underwriting criteria allowing them to operate with lower transaction costs.

Purchasers of HCC Bond coupons are required to hold them for a minimum of 10 years. In return, they receive favourable tax relief on the first 4 per cent of returns. After 10 years, the initial expense of the bonds can also be partially deducted from taxable income at progressive rates for particular income tax brackets from year 11. It has been estimated that for every €1 of foregone tax revenue, €19 of commercial investment has been committed to affordable housing production (Housing Bank Austria, 2006).

Housing Banks assist approximately 45 percent of financing requirements of new housing and refurbishment of LPHA, generating approximately €1.5 billion annually. However, they have been affected by international takeovers of national banks which incorporate a housing bank and amidst the global financial crises, government guarantees applicable to deposits have drawn risk averse investors away from HCC Bonds (Lawson et al, 2009, Lawson and Milligan, 2007).

### ***ii. Small scale co-operative arrangements—Swiss LP housing***

For more than a century, non-profit housing has been part of the Swiss residential landscape but camouflaged by similarity and inclusion within the dominant rental sector. The main difference between Swiss social housing and private rental housing is its cost-rent, non-profit orientation: whilst making adequate returns on equity, they do not aim to maximize rental income, dampening rather than passing on market fluctuations. More than 1,700 associations and cooperatives account for 8% of all dwellings (up to 20% in urban areas) and 14% of rental accommodation. State ownership of public housing is limited to around 3%. Providers are typically small and self managed (<100 dwellings) but there are around 30 larger social landlords (4,000–5,000 dwellings) significant enough to influence rent levels and provide a range of innovative and environmentally sustainable housing options in major cities.

A number of features of interest in this model:

- The importance of public agencies in facilitating access to land.
- Cost effective and cooperative role of small and regionalized umbrella organizations in providing professional support, project assistance and managing revolving funds.
- The supportive role of the Federal Government in facilitating access to capital markets, when public funds were limited, by providing a guarantee and contributing towards a revolving fund
- A strategic and collaborative approach to establishing institutions, setting standards, assessing proposals, and conducting post occupancy project evaluations.

The Swiss government has sporadically assisted the supply of rental housing, recently focusing on not-for-profit landlords for renovation and new build via cheap loans for individual dwellings assistance to households in need.

The following sections focus on the financing arrangements.

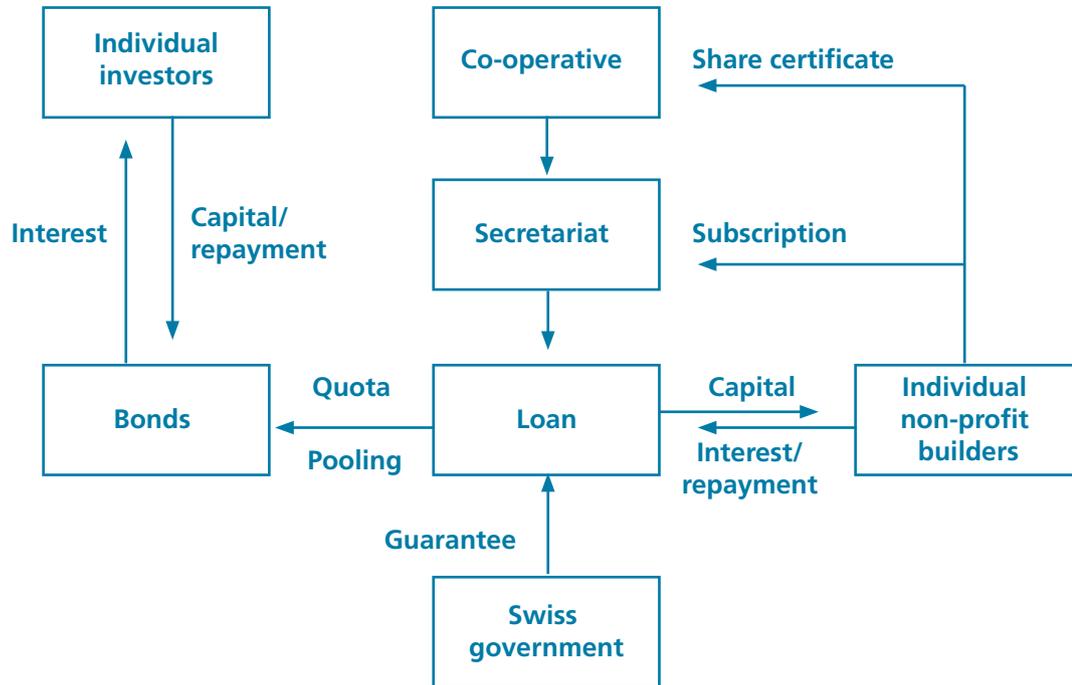
Limited profit housing is financed via private investment and small grants. Small low-interest loans are competitively allocated from a revolving fund (managed by the sector) that contributes around 5 per cent of total project costs. To reduce the cost of commercial loans, the Swiss Bond Issuing Cooperative (BIC) (Emissionzentrale für Gemeinnützige Wohnbauträger, EGW) raises funds for non-profit housing entities that have formed a cooperative. The federal government secures all loans released by a Bond Issuing Cooperative for Non-Profit Builders (Hauri, 2004).

### ***The Bond Issuing Co-operative pools smaller financial demands***

The Bond Issuing Cooperative raises funds for non-profit housing entities, which are typically 1 percent below market rate, enabling lower rents for tenants. It allows smaller non-profit builders to join together, improving their access to private finance on more favourable terms. The financial cooperative issues 8-15 year bonds, which are covered by a state guarantee.

It is able to issue loans to members with a fixed interest rate over a fixed term and has helped to finance approximately 30,000 non-profit dwellings since 1991. (Lawson, 2009)

Figure 1: Swiss Bond Issuing Co-operative (FOH, 2006)



Funds generated in this way contribute up to 70 percent of the cost of the total project. The remaining amount is financed by small favourable loans from the revolving fund, second mortgages and owners' equity. Institutional investors, such as pension funds and insurance companies, are attracted to BIC bonds by the state guarantee and high credit rating (AAA). BIC raised 200 million CHF annually. (Lawson, 2009)

Federal payments began slowly to what would become a revolving fund in 1978. Only since 2004 has the fund been able to issue small, low-interest loans which have assisted the construction of 4,663 dwellings. Today, the fund contributes about 5 percent of required project finance, being around CHF 30,000 per standard dwelling and these loans are used to draw in additional project finance. There is now provision for CHF 45,000 per dwelling for proposals meeting higher environmental standards. Interest on revolving loans is currently 2 percent and always 1.5 percent below the going market rate; loans have less than 20-year terms and are administered by the umbrella organisations of the non-profit sector.

In addition to the Revolving Fund, the sector has cooperatively established a Mortgage Guarantee Fund (CHF 32.6 million), which guarantees banks for 90 percent of loans for new buildings and renovations. It is a sector funded (238 members), state backed guarantee, through which eligible non-profit builders can access lower interest rates for their first or second mortgages.

There are a number of common features which can be abstracted from the two bond models:

- The establishment of financial intermediaries (such as the Housing Banks in Austria or the Bond Issuing Cooperative in Switzerland).
- The development of a specific and standardised financial instrument (such as a bond) to raise funds.
- These bonds have either been subsidised by the tax system or have additional credit enhancements (provided by preferential underwriting or guarantees) to increase their attractiveness to investors.
- Bond holders are additionally protected by regulations requiring registration of housing providers. These delivery agents must comply with legislated requirements and regulatory codes.
- Finally, packaging (or pooling) of the various forms of assistance (such as direct public grants and in-kind support) is also facilitated.
- Pre-requisites for a flow of private investment towards affordable housing
- Institutional and subsidy arrangements to attract private investment on a scale that is necessary to make a difference;
- A resolute and consistent national framework for using the planning system to promote affordable housing, by capturing a share of development gain and redirecting it towards affordable housing, providing access to suitable sites for affordable housing development and promoting social inclusion, environmental sustainability, urban regeneration and affordable housing outcomes;
- A regulatory framework for social housing organisations which gives high levels of confidence and assurance to all stakeholders, including institutional investors;
- Rents that cover the cost of operating and financing decent housing, breaking the nexus between rents received on affordable housing and the incomes of resident households;
- Adequate demand side subsidies to address the gap between incomes and the cost of decent housing; and
- Management of assets by social housing providers in a manner that enhances their value and enables further leverage of private funding (Lawson et al, 2009).

### ***iii. The French model: a more direct way?***

The French model is another example of a diversified social housing system which has been sustained amidst countervailing housing policy and production trends across the EU and has been insulated from the impact of the global financial crisis to a greater extent than other countries. Off market loans financed by a protected savings circuit have ensured that a sustained range of housing programs have been able to deliver dwellings for a variety of income levels. Indeed, they have sustained some of the highest social housing production outcomes in the EU (70,000 new units in 2007-8) (Schaefer 2008 in Milligan et al, 2009).

French social housing is built and managed by one of 563 public offices and privately run companies known as Habitation à Loyer Modéré (HLM). Their performance is controlled by the Ministry of Housing and Finance, which can force

mergers in the event of non-compliance. These organisations manage an average of 7,400 dwellings, they are limited profit (4 per cent return) organisations, whose rents are linked to the costs of construction and finance and who are exempt from company tax (Schaefer 2008).

Sources of public funding are:

- budgetary credits from the State budget which contribute to construction subsidiaries and some individual allowances;
- finance loans, the primary lender is the Caisse des Dépôts et Consignations which provides funds from the "Livret A" fund (a savings fund with regulated interest rate and not subject to tax); the Crédit Foncier de France and the Comptoir des Entrepreneurs are also involved. These are both specialised financial institutions from the private sector;
- the employers' contribution (the so-called "1% housing contribution"), which was designed to promote housing for employees. These funds are used for loans and for grants and to promote rental accommodation or home ownership;
- local authorities can also contribute to housing operations. Most of the time this will take the form of supplementary funding, topping up that provided by the State (Schaeffer, 2009).

As mentioned above, the French social housing system relies on a dedicated circuit of investment and savings. It is one of few systems which have retained a protected circuit to promote housing goals, incorporate state subsidies (3 per cent), local authority subsidies (7 per cent), CDC off market loans (70 per cent) and other commercial loans (13 per cent) (Schaefer 2008a).

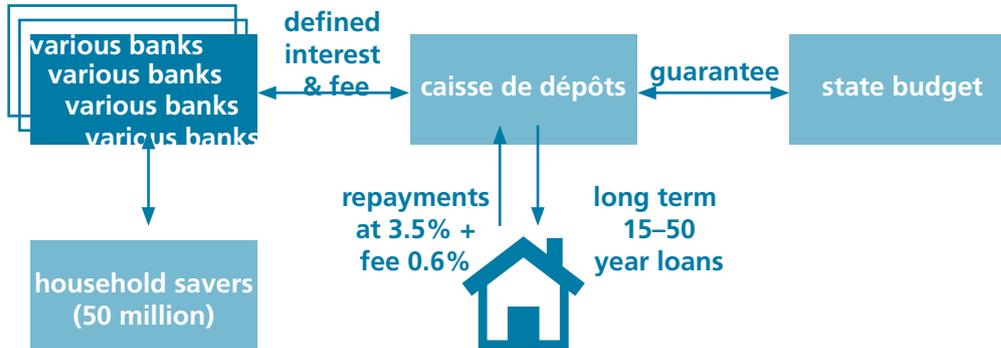
A number of tax provisions promote lower social housing costs. These include a lower sales tax for social housing construction (5.5% instead of 19%) and eligibility for land tax rebates as well as collateral provided by local authorities. The following section focuses on the most significant proportion of social housing finance that is provided by off market loans.

### *French Livret A Savings Accounts*

The French scheme converts short term deposits into low interest long term loans for social housing. Every French household has the right to open a tax free Livret A Savings Account at their local bank (since 2009 all banks, formerly only two savings banks and the Post Bank), depositing up to €15,300 which has been capped since 1990, with the average deposit being €3,000. Their savings are pooled by a state owned financial intermediary known as the Caisse des Dépôts et Consignations (CDC), which pays a fee to the banks for collecting the funds and a defined interest rate.

Recent negotiations, broadening the number of financial institutions that could host the savings accounts, had a favourable outcome for the cost of social housing finance despite fears it may reduce the overall volume of investment. Before 2009 the interest rate on social housing loans was equivalent to the interest rate of Livret A accounts (3.5%) plus the fees paid to the Savings Banks (or Post Bank), 1.1% , a total of 4.6%.

Figure 2 Livret A savings account: How it works



In January 2009 the interest rate on social housing loans was lowered to 4.1%, comprising 3.5% interest on savings deposits and a lower 0.6% fee for the banks holding the accounts and transferring the savings to CDC (Schaefer 2009). As the CDC issues loans to social housing programs, this reduced fee also enabled lower cost long term finance.

### Catalysts for strategic land policy

This article has covered a number of different approaches to financing social housing:

- Revolving public loan programs financed by a capped percentage of taxation revenue.
- Favourable household savings schemes channel investment towards social housing
- Jointly funded revolving funds (sector and government)
- Privileged bond financing mechanisms (guarantee or tax incentives)
- Specialised financial intermediaries with appropriate expertise
- Co-operative financial intermediaries
- Government guarantee funds to reduce the cost of private lending

Their illustration is intended to be catalyst for and contribution towards the development of more stable and effective financing methods to promote the adequate supply of social housing. They incorporate different strategies to achieve desired housing policy and socio-economic outcomes using a variety of tools such as inter-governmental agreements, revolving sector loans competitively allocated on the basis of value for money, good design and innovation; and public loans to lever private investment and stabilise weak housing markets. Various methods of raising private investment are also reviewed involving tax privileged bonds via special purpose vehicles within private banks or a bond issuing co-operative with state guarantee and a protected tax free savings circuit involving private and public banks.

This article also stresses the importance of retaining a responsive, flexible and stabilizing role for government in these arrangements (via grants, tax incentives, guarantees) to ensure an adequate flow of investment via third sector provision, through both the good times and most importantly, the difficult times.

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## Institutional mechanisms and social housing finance: a European comparative perspective

*Laurent Ghekière*

*Director of the Mission Europe, Union Sociale pour l'Habitat (France)*

I will outline some introductory elements regarding the debate launched today in Brussels on the issue of financing the economy, notably the activities of general interest, such as social housing, in relation to the economic crisis.

My presentation is structured around three main topics, namely:

1. The issue of state aid given to social housing
2. The need for intermediary financial structures
3. The role of the European Union in financing social housing

### **1) The issue of state aid given to social housing**

In view of the fact that today almost all major European banks are 'surviving' thanks to state aid given to them because of the economic crisis, we can consider that in a certain way social housing is being financed with state aid received by the banks. Indeed, if this state aid had not been given to the banks, the system would have simply collapsed. Hence, this need of state aid by the financial sector puts in perspective the specific question of state aid to social housing, which we have been addressing over the last few years. This is a very important issue with regards to our actions vis-à-vis the European Commission, DG Competition, our national governments and the European Parliament. Indeed the principle of banning of state aid can be completely questioned today in relation to the public intervention in the financial sector being justified by the need to avoid the bankruptcy of the system.

From this new starting point, the evaluation of the Community decision about the compatibility of state aid to social housing changes totally. The latter is a decision taken in November 2005 that exempts the notification of state aid given directly to social housing, but which envisages an evaluation of this measure by the end of 2010 through a report to be produced by the European Commission on the basis of national reports. Hence I believe that from this point of view the EC will be much more cautious than it was in November 2005 when questioning the Member States about the compatibility of state aid to social housing, in the context of the whole variety of state aid that has been granted to the banking sector, even if it is for a limited period, and within a fairly precise Community framework.

Hence, from that stand point, the two major cases which concern us today are the Dutch and the Swedish cases, respectively, which have to be analysed in a different light compared to the way they have been analysed to date. This is because even though the financing mechanism through subsidies or through public guarantees specific to social housing may be compatible in relation to the notion of public service, we still depend through banking finance on the state aid that these have obtained. I believe that this situation should completely redefine our policies regarding the control of state aid to the social housing sector. This means that we may contest more strongly the imposed measures on the social

housing sector, e.g. we could demand complete exemption of notification; or argue against the non-proportionality of the control imposed on the social housing sector by these measures, even if this decision is positive for the sector. Overall, we could be more active and, have more ambitious proposals, not just try to 'solve the problem' but rather use to our advantage what has happened with the economic crisis and the aid given to the banks.

## **2) The need for intermediary financial structures**

A second element I would like to highlight is that, in fact, the financial crisis has clearly shown that the social housing sector should not be directly linked to the financial market. It should rather rely on a system of intermediation, i.e. avoid a direct relationship between social housing organisations and the financial market, a relationship of borrower to loan-giver. Instead, the sector would benefit from financial intermediaries who are able to defer the (volatile) developments of the financial market. I have studied the impact of the different systems of financing social housing, and the more direct the contact between social housing organisations with the financial market, the more difficulty the former have in finding credit lines, or these credit lines being much more expensive than before. We have indeed seen an effort at renegotiation of financing conditions linked to the crisis, while the social housing organisations that are financed by an intermediary, i.e. structures meant to make the link between the market and the providers, have had much less difficulty because these structures are generally supervised by public authorities and are under an obligation to provide funding to social housing organisations, whilst the banks are not.

These intermediation systems are very important and of a very different nature. They can be organisations created specifically to finance social housing by issuing bonds or specific financial products; they generally depend on the State and have public guarantees that grant them access to resources at lower prices compared to banks; and, most importantly, they have an obligation to provide this funding irrespective of the circumstances in the financial markets. They use specific resources, for example in the French case, the households' savings that are collected through the Livret A system. It is not the financial market that finances social housing, but rather a specific resource collected by the specific banking network linked to social housing. Therefore, again we see how the financial crisis has completely rebalanced the cards in terms of what we call the 'trivialisation' of social housing financing, i.e. the trend, pushed politically and economically, towards suppressing the intermediaries and putting the provider in direct contact with the financial market actors.

We have seen that the existence of financial intermediaries has been a stabilising factor in countries where this financing system has been implemented, where the financial conditions have changed very little, because these conditions are fixed by the public authorities. There has been an effort to regulate and take counter-cyclical action based on these intermediary actors. Meanwhile, in those countries where there is a direct relationship between social housing providers and the financial market actors, there has been an important impact on the financial mass that can be mobilised, as well on the costs, resources and mechanisms, all of which has impacted negatively on the new construction or rehabilitation of social housing in those countries. Again, in this case we ought to reconsider the analysis we have done in the past in terms of the trend towards the trivialisation of the financing of social housing. The financial crisis has reawakened interest in maintaining and/or developing the notion of financial intermediaries in the sector.

### **3) The role of the European Union in financing social housing**

A third element I would like to highlight is the Community dimension of the financing of the social housing sector. Today we see two particularly important trends, which are relatively recent. The first one, still marginal but developing fast, is the FEDER allowing the financing of social housing activities in the New Member states in general, and in the Old Member States in respect of energy. The opening of this possibility, which has been achieved through a large extent by CECODHAS, shows us that the door is open and can therefore be extended to other aspects of housing. This is an important achievement; even though the scale of funding remains small (a maximum of 4% of the FEDER funds can be allocated to energy efficiency in housing, approximately €8 billion for the 27 EU Member States). The scale of this funding clearly cannot be compared to the scale of national funding. However, it should be noted that the co-financing requirement can have a leverage effect on raising national funding.

The second trend that is quite recent, but which is also developing quite fast, both in New and Old Member States, is the intervention of the European Investment Bank (EIB), which can be considered as a typical intermediary between the financial market and the financing of activities of general interest that the market does not finance or finances only partially. The EIB is a Community institution created by the Member States, whose Board is made up of representatives of each Member State and that enjoys the public guarantee of all Member States. Hence, we are talking about the consolidation of a typical financial intermediary between the financial market and providers, with the development of EIB loans for housing. This is because the bank in fact issues bonds on the financial market, bonds which have the public guarantee of all 27 EU Member states. In fact EIB products are highly rated by the financial market and at the same time the loan conditions are not fixed by the market, but by a mandate given by the Commission and the Council to the EIB of investing in areas of activity such as the environment, sustainable development, and today in urban development and social housing. Therefore, interestingly we see that at Community level that principle of intermediation between the market and providers is under development, while one could have thought that at Community level the trend towards the trivialisation would have predominated. This proves that the financial market is not necessarily the best performing sector in respect of funding social housing activities, since at Community level it has been deemed necessary to create the EIB, which develops today these activities in response to a political mandate from the European Parliament, the Commission and the Council.

### **Conclusion**

Looking at these three trends, my conclusion is firstly a political one. It concerns how to take stock of the positive elements in these developments, which we should be able to capitalize on. In fact, today there is a political consensus to recognize all these trends I have outlined above. When the high point of the crisis has past in a couple of years, we should avoid forgetting about this and starting from scratch again without having learned anything. How can we indeed use these developments politically? What type of discourse should we have? Should we review our discourse on state aid? Should we become more aggressive in terms of demanding total exemption of notification, or instead should we continue to engage with compensation mechanisms? We can raise these questions today now that we have seen the amount of aid given to banks.

Another element that seems indispensable to me, even though it might seem a bit premature, is what the role of the European Union should be in terms of financing social housing. We see that at the level of New Member States, the financing system is totally structured around the EIB intervention. The loans of EIB, supplemented by FEDER, finance the

national investment funds, which are granted to certain banks, with which the EIB has got an agreement for the commercialisation of loans. Those banks commercialise the individual loans to the social housing organisations, the cities or other providers. So we see that the whole financing system of social housing in New Member States is structured today around a global loan from the EIB, which is redistributed to the banks in those countries, who grant these loans under conditions established by the EIB through agreements between the EIB and the respective Member States, to which FEDER is added, which has specific eligibility conditions. Will the EIB become an important actor in the future financing of social housing, urban development, and of energy performance in the social housing sector, in countries that are today lacking any financing structure in these domains?

Going a bit further, in view of the fact that the public guarantee systems in the housing sector are very important in this period of financial crisis; can we imagine future European public guarantee systems for the social housing sector? Again, even though it might seem marginal and somehow premature, we see increasing cross-border activities amongst social housing providers; more and more providers are working in other Member States, be it in free service provision of services of no general interest, or in services of general interest, or in development cooperation. For example, there are such activities between the Netherlands and Belgium. If we think of a possible development of a cross-border system of social housing provision, such a cross-border financing mechanism does not seem unlikely, as well as a European public guarantee system. Because in fact the public guarantees granted by the Dutch government to the Dutch housing associations cannot be used by in Belgium to securitize its investments in critical areas. In this context, a relevant question is how to manage these national systems of public guarantees when providers are increasingly mobile, given that they have know-how that is worth being exported to other Member States.

A last point is whether we are interested in the EIB pursuing these investments. Is there a danger of a sort of 'Europeanization' of financing conditions; or rather is it an opportunity to build a financing system based on intermediaries that protect the sector from the volatility of the financial market? Since, as I have explained, the EIB loans are regulated, they are fixed by its Board by mandate of the European Council. Hence it is a political system, with priority sectors, duration of intervention and bargaining mechanisms of interest rates, etc. Should the social housing sector push for an enlargement of the competency of the EIB or rather aim to stick to the status quo in order to avoid its distortion by a new system? Furthermore, should the sector push for a system of financial intermediaries?



**COMMENTARY**



## Perspective from Finnish municipal social housing providers

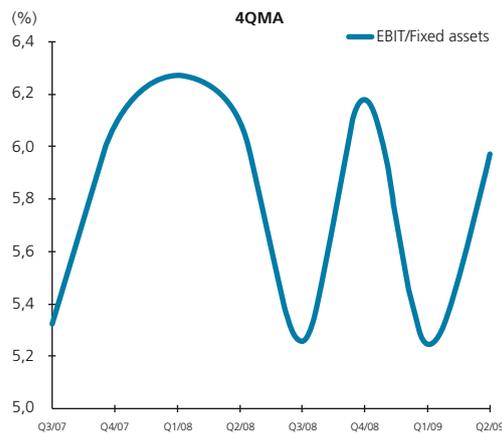
**Sabah Samaletdin**

*Senior Executive Vice President, Kunta-asunnot Oy (Finland)*

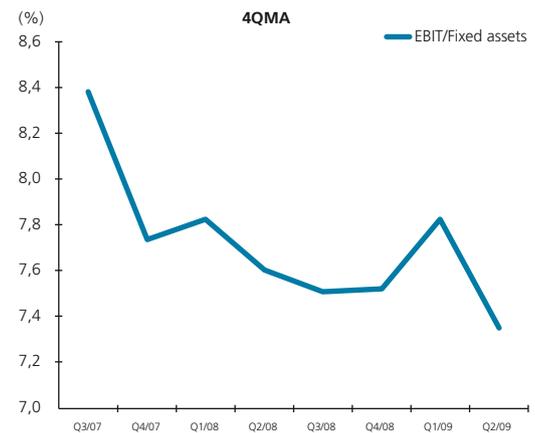
I would like to show charts from two different Finnish companies operating in the social housing sector, as well as in the private sector (the latter including real estate activities). On chart 1, the left side shows a four quarter's moving average for EBIT and on the right side we see its EBITDA. Both are divided by fixed assets. For the purpose of my commentary, only the trend is of interest. The difference is depreciation. Thus we see that there are clear differences between both companies. More generally, this shows us that some companies started to have problems even before the credit crunch. Yes, the top management does make a difference.

Chart 1

### Company A



### Company B

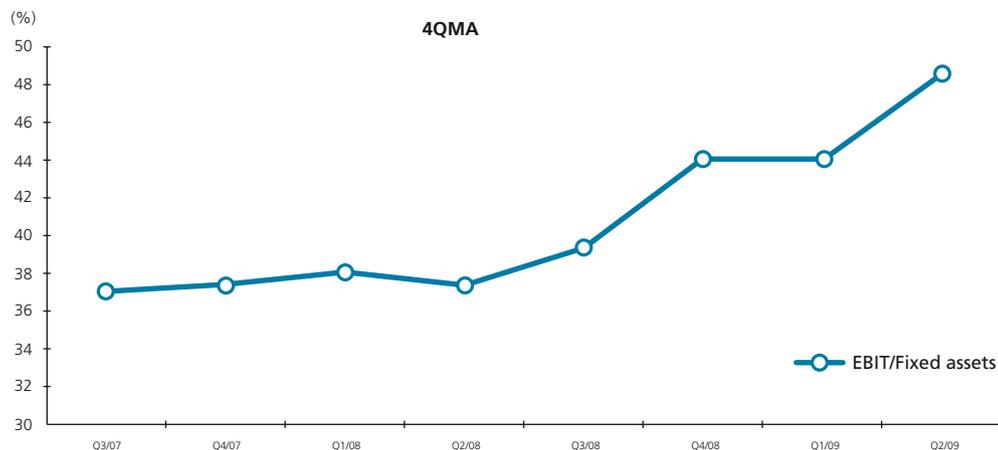


Source: Companies A and B's quarterly reports and Kunta Asunnot's calculations

The point I would like to make here is that in Finland (as possibly in other countries as well) there are at the same time some public sector housing companies that are doing well and others that are clearly doing less well. The problem in the Finnish case has been that the latter have made big strategic financial mistakes. In my opinion, although they might blame it solely on the crisis, this is not really true.

The second graph shows us how much of a company's operating profit goes into paying interest rates. We clearly see that this trend cannot continue. If it does, banks will realize this inefficiency and the company will lose its creditworthiness, making matters even worse.

Chart 2: Proportion of the company's profit going into paying interest rates, Company B



In addition, there is also the question of moral hazard. At the beginning of 2009 there were some discussions as to whether the Finnish government should assist the public sector housing, and under what conditions it should do so. In my view we should reflect whether one can really ask the public sector to give more and more aid, if companies are inefficiently managed. There is less will to help if the recipient does not show a will to change.

Then we come to the bridge. The efficiency and moral hazard questions come together: if we are efficient, the public sector will trust us; it's easier to go and ask for aid when your company is efficient. And I would like to stress the importance of efficiency. In Finland one can have project-specific public sector guarantees; but what happens if a specific project goes sour or the company is badly managed? In that case, the company has to go to the private sector, who wants to be reassured that the company is able to pay back. This capacity to pay back is backed by numbers. This means the company is kind of a public company in the sense that investor relations have to be put in place for the debt side funding, i.e. we have to communicate in the way that creditors want, and in a way they really believe what we say—given that they are not forced to fund particular companies. In my company one fifth of the debt is without any guarantee, without subsidies. This is a small proportion but we cannot afford to go bankrupt, so we have to prove to insurers and banks that we can do our job.

This is because so to speak, 'markets won', and the continental European banking model lost, i.e. banks' leverage will be lower and thus their ability to fund companies is weakened as it can be seen by the humongous bond issue while the senior loan officer questioner clearly shows banks' reluctance to provide loans to companies. We have to accept that in the future banks will have even less money to loan. This means that we have to go to the markets and 'play by the rules' unless one has got enough wealth, which is not our case. Why? If we look at our equity ratio, if we have €100 in the balance sheet, only €9 is equity, so we are more risky than a bank. In real life we have a commercial paper programme, which means we give a piece of paper and promise to pay back after one or six months and this without giving any guarantees. Hence, we have to convince a number of people that they will get their money back.

At the most difficult period we were able to issue only one month's papers and nobody was able to issue 12 month's papers, though there were companies issuing six month's papers. In those periods long term planning with high gearing were simply not possible when the whole focus went to secure the short term funding. Today the situation is better because we get 12 months loans, while others may be able to issue only three months' papers. The market is 'nervous' at the moment and we need to put a lot of time and effort into convincing those who are not really interested in the social aspects of housing.

Another thing one should remember in Finland is that mezzanine financing is also possible. From a loan provider's point of view, mezzanine finance is something between equity and a normal loan. So if we were to go bankrupt, we would first have to pay back those who have given us a loan, then those who gave us mezzanine finance, and only then to shareholders. So mezzanine is extremely risky. We did need funding from these too as we also have a commercial paper program to help optimize cash management and other short term funding needs. So we try to be more efficient to show the private sector our creditworthiness. In addition, it is important to have a good relationship with the public sector, for example when they consult us on the need for any legal changes. We are more than careful not to misuse the good name we have amongst the policy makers.

In the future, I would say one of the biggest risks that social housing companies will have is that if we grow too much, private sector companies will complain that there is going to be a market distortion. Hence, we need to be careful, how to show legislators that there is no market distortion because of social housing providers. But at the same time we need to secure higher margins i.e. profits before net financial items. And here's the catch: we need higher margins and we are promising our loan givers that—because they can choose not to give us those loans. This means we have to be 'tougher' to our tenants. This means a less accommodating approach to those in payment arrears and a lighter approach to non essential specialist services. This is not a positive thing—it is an unfortunate necessity.

Last but not least, it is important to consider that if in the future there were lots of social housing companies demanding money, there could be even strong competition between them—unless there would be cooperation and for example a common special purpose vehicle for financing the sector. I would like to refer to Municipality Finance Plc as an example. It is a Finnish financing company for the municipalities and public housing sector and it works efficiently. Hence, lenders can be more secure, compared to other countries. Both individually and without these specialised financiers, the total financing costs are unnecessarily high. We in Kunta-Asunnot have tried to broaden the range of potential lenders. For example, not long ago we met with one of the world's largest real estate consultancies with their corporate finance arm in London to let them know who we are. We also met with the equity side fund manager from a big asset management company, someone with deep knowledge about the real estate sector. The idea was to let these specialists get to know us and to spread the good word if we would need to gather funding outside Finland.

Overall, our sector would benefit from a common special vehicle to "do the talking" for us. Why should each company go individually to ask for money from the same investors? However for this to happen, we would need to have a common view.



**TOUR DE TABLE: CASE STUDIES  
FROM CECODHAS' MEMBERSHIP**



## Housing finance and housing providers in Austria: Performance in the light of the financial and economic crisis

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### Introduction

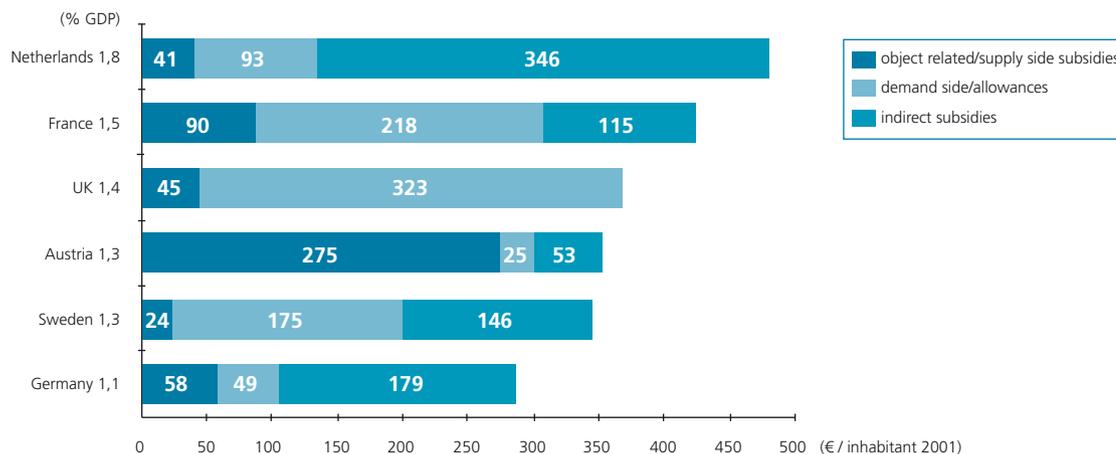
In this article I will refer to three aspects: firstly, I will briefly outline the key features of the Austrian housing model; secondly, I will summarize the main elements of the Austrian housing finance model, briefly referring to the impact of the current economic crisis; and thirdly, I will refer to the situation of limited-profit housing providers in this context.

### **1. Basic Features of the Austrian housing model**

It is important to start by recalling some of the key features characterising housing in Austria:

- Low share of home owners and owner occupiers: < 60%;
- High share of public/non-profit rental housing (22% of total stock), plus non-profit housing provision of owner occupation;
- Modest public expenses for direct and indirect housing subsidy and allowances (1,3% of GDP);
- Specific model of public intervention: bias toward object-related subsidies (0,84% of GDP) (see figure 1 for comparison with other Western European countries)
- 75% of new housing production enjoys public financing assistance
- In addition, it is worth noting the main effects and advantages linked to that model, such as:
- Sufficient supply of decent and affordable housing.
- Low level of housing costs: new completions in subsidised housing:  
net rent: €3,75–€4,20 / m<sup>2</sup> (€7 / m<sup>2</sup> gross) plus down payment.
- Low level of individual allowances: < 5% of households with individual grants.
- Low level of indirect subsidies: there are tax allowances for individual housing costs, and tax exemptions for „Bausparen“ (saving deposits for home owners' financing) and for „Wohnbauanleihen“ (covered bonds for financing multi family housing)

Figure 1 Public expenditure for housing subsidisation: Austria and selected Western-European countries (2001)



Source: GBV (2004)

## 2. Housing Finance System

### 2.1. The emergence of real estate crisis: recent observations concerning the background in housing finance in international comparison

According to recent investigations on housing finance—which seems to experience a boom similar to the recent price boom on housing markets—Austria is amongst those very few countries that remained untouched by any severe crisis in real estate markets. The reason obviously lies in the absence of speculative moments in housing finance and the use/regard of housing as a consumer good rather than an investment.

The following observations concerning the housing finance system have been made for Austria in recent international comparisons:

- Low share of mortgage debt: 20% of GDP (2004; United Kingdom 74%; The Netherlands 68%; Germany 43%; France 26%)
- Low loan to value ratio of mortgages (60%)
- Equity release products are not used.

- IMF mortgage market index to measure the „closeness“ of a system to market financing (versus bank financing): Low 0,31 (USA 0,98; UK 0,58; France 0,23; Germany 0,28)<sup>1</sup>
- No housing booms and/or busts (price increase/decrease above „normal“ trend) since 1970 (perhaps in former periods not registered due to lack of data; but for sure no recent boom/busts)<sup>2</sup>

One weakness of recent analysis is the neglect of elements of direct or indirect public financing, including tax incentives for certain instruments. Their contribution in supporting or preventing the emergence of real estate price bubbles, irresponsible lending, and overproduction in combination with a shortage of affordable housing should be worth some more reflection in housing finance studies.

As shown above, public intervention into housing (finance) seems to be a universal principle—but there are interventions of very different nature that can also be linked to different systems of housing (finance) defined according to their “market-closeness”. Usually objects-related, direct subsidies—which dominate in the Austrian model—are identified with less market-relation than individual allowances and tax incentives. To what extent that specific feature of public intervention contributed to the balanced development in Austrian housing provision is not questioned in any recent research; but it is most likely that it has played an important role.

## *2.2 Details of housing finance in Austria*

We find in Austria a long tradition of directly subsidising housing investments. Public (non repayable) grants and public loans covering in a ‘historical’ average of about 50% of costs of construction have assisted the production of affordable housing for generations. But it was only some months ago that the system experienced a severe change: Until 2008 it was the central government that distributed earmarked public funds to the federal provinces for the use in housing developments. Until 2009 it was up to the provinces to define the financial framework for housing subsidy. Not that that will destroy housing subsidy; but the systems have become more sensitive to problems in public finance, which are not unlikely to follow public interventions devoted to anti-crisis measures (which had been necessary in Austria, as apart from housing, many sectors suffered from negative effects of the worldwide crisis as well as ‘home made’ problems in some sectors emerged).

Nevertheless, also in Austria indirect subsidies gained some importance during recent years; but this did not happen due to a change in the basic system but more or less via introducing a new element into the financing system: convertible bonds.

The combination of direct subsidies—to investors—and indirect subsidies (tax reliefs) as incentives for re-financing mortgage financing of the private banking sector has for long been in use in private home ownership (Bausparkassen/building societies). The system of Bausparen is a promotion system of bank deposits of individuals which is supported by the State via a contribution to raise the rate of interest for the saver. The money collected by the Bausparkassen may be channelled into mortgages for home owners and owner occupiers. The system is very popular and in recent years there was an over-supply of money, which led to opening the system for financing other ‘odd’ purposes, such as loans to students or for the purpose of long term care.

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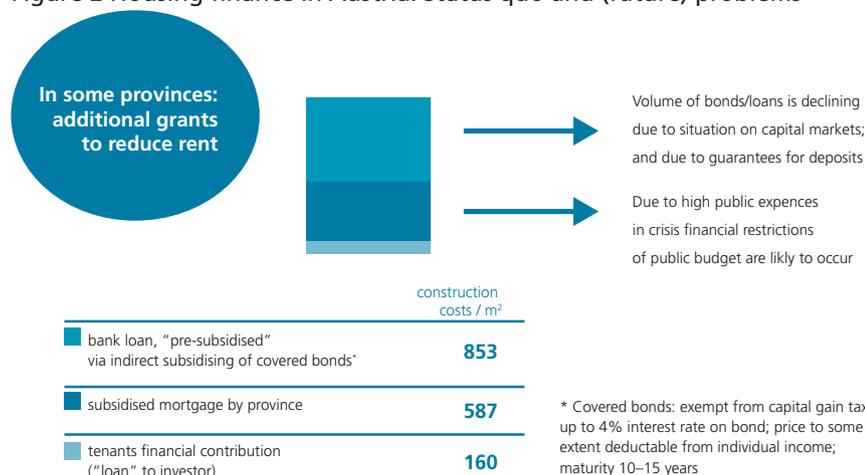
1/ Housing Finance and Monetary Policy; ECB Working Paper Series 1069/2009; [www.ecb.int/pub/pdf/scpwps/ecbwp1069.pdf](http://www.ecb.int/pub/pdf/scpwps/ecbwp1069.pdf)

2/ Booms and Busts in Housing Markets; ECB Working Paper Series 1071/2009; [www.ecb.int/pub/pdf/scpwps/ecbwp1071.pdf](http://www.ecb.int/pub/pdf/scpwps/ecbwp1071.pdf)

The introduced system for the multi-family housing sector moved away from the bank deposit model and favoured a more market-linked model: Investors into specific (convertible) covered bonds extended by “Wohnbaubanken” (“Housing Bank”; special institutions) are granted a tax exemption from capital gains tax up to an interest rate of 4% (interest above that level is taxed at the normal rate of 25%). The bonds usually have a maturity of 10–15 years, which has a positive effect on the maturity-mismatch of mortgages and re-financing. The mortgages derived from these sources have, on average, interest rates below the “normal” level to an extent of 100 basis points (1 percentage point).

During the recent turbulence of the financial markets, that system also proved some sensitivity against market development. There was a remarkable peak in supply and demand for these bonds in the year 2007, while in the following months the provision declined as well. As stated above, the introduction of the subsidised bonds functions only as a support to the system. It is still the extension of public loans that leads to a reduction in housing costs, as these public loans have a low (initial) interest rate as well as long maturity. Concerning the future prospects of the housing finance systems there are some question marks—concerning the public system as well as the banking sector.

Figure 2 Housing finance in Austria: Status quo and (future) problems



Source: GBV

### 3. Housing Providers

Also the limited-profit housing providers turned out to function as a stabilizing element in housing. Due to their nature they restrained speculative investments. Their creditworthiness, thanks to a sufficient amount/rate of their own funds, leads at present to a sufficient provision of mortgages and allows housing production to continue other than in the for-profit sector.

However, the biggest concern for the future is the financial situation of the providers in case of severe problems in public financing. There is too little money available in their own funds to compensate for a decline in the provision of “cheap” money. One of the positive effects of the economic crisis at least is a different judgement of own funds of limited-profit providers, which sometimes had been regarded as disproportional.



## Tools and systems today to finance social housing: the case of France

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### Introduction

In my article I will focus on financial instruments in the field of social housing in France, distinguishing between those which are changing, those that aren't and some new ones that are emerging.

### Basic principles of the social rental housing financing model for France

I will start by briefly stating the 'basic principles' of the social rental housing financing model in France. I will then go into a bit more detail on some points, thus completing Julie Lawson's article.

A first principle of the system is that the rent is based on the net construction costs. Secondly, bricks and mortar subsidies lower the rents for the majority of the tenants. Thirdly, housing benefits cover a large part of the rent for the poorest households (one household out of two receives them in the rental social sector). Fourthly, there is a 'surcharge' to households whose revenue exceeds the revenue ceiling (less than 10% of social tenants are concerned). As an example, Table 1 shows a typical financing scheme. The CDC (Caisse des Dépôts et Consignations) loan, the loan of the 'Livret A' represents 75% of the financing of an operation.

Table 1: Typical financing scheme in 2009 for a 70 m<sup>2</sup> flat rented €400 per month

Item	Cost	%
Cost (average per dwelling, all taxes included)	€130 000	
Loans from "households saving bankbook"—Livret A	€99 400	76,5%
State subsidies	€4 000	3,0%
Employers' grants or discounted loans (from 1% housing tax on salary)	€3 200	2,5%
Local authorities subsidies	€10 400	8,0%
Equity capital	€13 000	10,0%

+ VAT discount, 5,5% instead of 19,6%

+ local tax exemptions for 25 years ( a €9,700 cumulative gain)

+ guarantee price for free from local authorities or HLM guarantee found

## **1. Some financing instruments do not change**

In terms of 'stable' financial instruments, we can refer to the issue of guarantees and their cost. For the main products, the guarantees are offered by local authorities, or the HLM guarantee fund (CGLLS). Overall, we can point out that guarantee schemes have strong informal incentives. The main advantage of the local authorities' guarantees is that it demonstrates their commitment to succeed in developing neighbourhoods, hence housing projects will benefit from this (i.e. local public services in these areas are unlikely to be neglected).

The HLM guarantee fund (CGLLS) works well and at a low cost, and it is also engaged in restructuring the weakest HLM companies.

Last but not least, the strongest stabilizing element is the system of housing benefits, which ensures that the poorest are able to pay their rent, all the more because allowances are directly paid to the landlord. Interestingly, housing benefits constitute approximately 50% (€14 billions) of the national public contribution to housing in France.

## **2. Some financing instruments are changing**

Amongst the relatively stable financial instruments, which change little, we can mention the 'Livret A'<sup>3</sup> and the CDC (Caisse des Dépôts et Consignations) loans. The Caisse des Dépôts et Consignations channels households' savings (on the Livret A, available in every bank) in the form of loans to the HLM companies. So it transforms very liquid saving into very long term loans (up to 60 years).

It is worth noting that this saving system has been open to the market since 1<sup>st</sup> January 2009 in order to comply with EU competition rules. (i.e. three banks have lost their oligopolistic position, as collectors on "livret A"). The key issue with this mechanism is finding the appropriate rate to raise the necessary level of savings while not paying too much interest, and thus provide cheap funding to HLM companies. For the last two centuries, the balance has never been broken<sup>4</sup>. Typically, even if the rate is low, it is higher than inflation, the collectors cannot charge any fees and there is a fiscal exemption on interest for savers. Moreover, the Livret A deposits are guaranteed by the State.

It is worth noting that this system has been remarkably strong during the credit crunch, even attracting a historically high amount of deposits (€19 billions were collected in 2008, compared to the former annual collection of €7 billion in 1995). In fact, it was offering temporarily a higher yield than usual (reflecting the high short term rates), and a State guarantee at the same time. So it was considered the best saving plan at the climax of the crisis of 'confidence' in the banking system.

Secondly, there are interest rates swaps. There were unexpected high costs on sophisticated interest rates swaps during the climax of the financial market crisis. However, on average this is a system that can allow saving money in interests. Nowadays, operators are focusing on simpler/more predictable products.

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3/ See Lawson's article in this volume for a detailed explanation of this instrument.

4/ The financial authorities (the *Banque de France*) and the government are in charge of fixing the rate for the Livret A. They usually use this formula: Rate =  $\frac{1}{4}$  Eonia +  $\frac{1}{4}$  Euribor +  $\frac{1}{2}$  inflation rate. The typical loan (PLUS) is priced at: PLUS rate = "Livret A rate" + 0,6%. These 0,6% are used to pay the collecting banks.

Thirdly, there is a potential scarcity on upper equities funding. Like in many other countries, a problem we are facing is the decrease of direct public subsidies both from local and central governments. Moreover, at national level, there is a general trend towards subsidizing housing policies through tax exemptions, rather than directly.

Moreover, in France there is a system of employers' subsidies, like in some other countries. More and more, employer subsidising funds are being centralised, and may be used for some other priorities of housing policies.

Last but not least, another source of funding is reserves from previous exploitations, or margin rises while former mortgages are ending. However, as the new projects under development, renewal and energy savings are numerous; these funds are likely to decrease.

### ***3. Some instruments are developing***

Amongst the elements under development are fiscal instruments, such as the social rental usufruct (Usufruit locatif social), whose volumes remain marginal (maximum 1000 dwellings per 100,000 HLM dwellings funded yearly). Under this system, a private investor buys the dwelling, selling it for a 15 year usufruct to the HLM company, which it manages as part as its social rental operations for that period.

In this system, while a dwelling needs fewer subsidies (or fiscal support) at the beginning of the operation, on average it costs more public money a year (in terms of tax exemptions) than a classical HLM dwelling.

In addition, there is also a tax deduction mechanism for the subsidised private rental sector, with or without income ceilings (60,000 dwellings in 2008, 80,000 to 100,000 in 2009). In terms of outcomes, the return in terms of public investment is weaker than the one of the HLM sector. Nevertheless, we see that politicians are currently very attracted by this system.

### **Lobbying strategies to secure funding**

A first strategy of the Union Sociale pour l'Habitat is to ensure the stability of the Livret A system in order to be able to fund further development plans. As we have seen earlier, this requires an adaptation of this system to comply with EU regulations, which is currently taking place.

Furthermore, there is a strategy to include the social rental sector in stimulus plans / green plans to ensure the allocation of public money

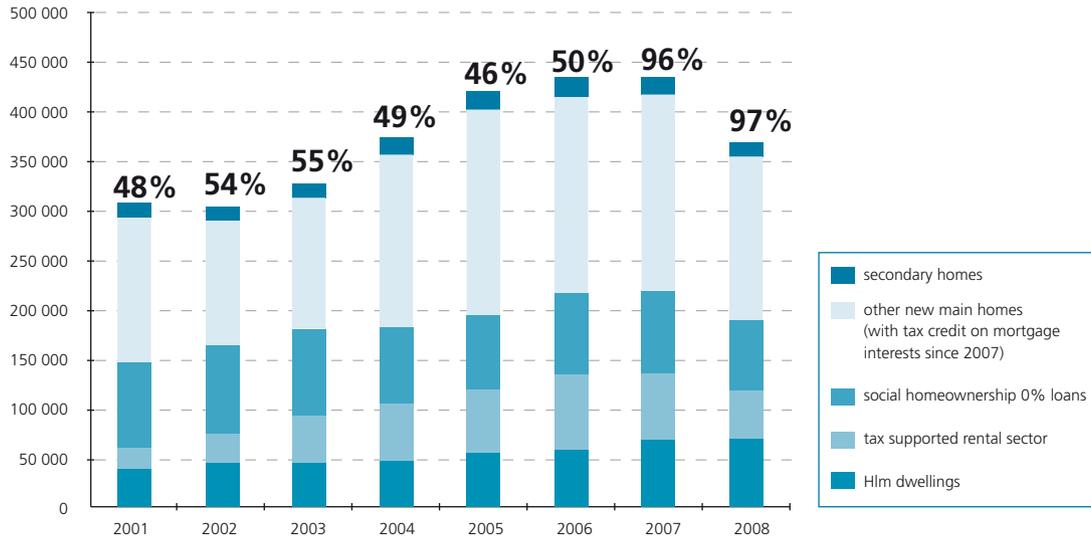
Last but not least, there is a longer-term strategy based on showing that with less or the same money the HLM sector performs better than other operators receiving state subsidies or fiscal support. This creates some sort of « Beauty contest » for subsidies schemes among supported rental sectors. A key issue is to highlight the relative efficiency of the schemes (i.e. showing the social benefit brought about by the HLM activities), as well as highlighting the low cost in terms of public money on a yearly average in comparison with other fiscal schemes.

### **Conclusion: is pure private initiative strong enough for constructing new dwellings?**

In summary, I would like to bring your attention to Chart 1, where we see that in France for the last 10 years 50% of the new dwellings have received public subsidies—either through grants to HLM, tax exemptions on revenues for private

rental sector, or loans at 0% interest rates for social home-ownership—and even more than 95% since the creation of a tax credit on mortgage interests for promoting home-ownership and consumption. Hence, this shows us that it is necessary to compare performance or outcomes amongst different sectors receiving State subsidies.

Chart 1 Subsidies for new construction in France



Provisory data, AEREL, USH



## Financing of Dutch Social Housing

### *Sébastien Garnier*

*Policy Officer at Aedes—Dutch Federation of Social Housing Organizations (the Netherlands)*

#### **Introduction**

The basis for public housing provision is included in the Dutch Constitution, stating that the “*promotion of sufficient residential accommodation is a subject of concern to the government*”. This task is mandated, through more detailed Decrees, to the ‘registered’ social housing organizations.

To guarantee the continuity of their activities a specific financial structure has been created and has evolved for the social housing sector. This is now a key component of the Dutch system of social housing. In the following section I will explain the specific character and functioning of this financial scheme.

#### **Box 1: Basic facts about the Dutch social housing**

- The Netherlands have 16 Mill inhabitants
- 6.6 Mill housing stock, of which 47% is rented and 53% is owned.
- There are 455 ‘registered’ social housing organizations
- Those social housing organizations own 2.4 Mill dwellings. This represents one third of the total housing stock and three quarters of the total rented stock.
- The value of their fixed assets is around €90–100 bn. (=one sixth of GDP)
- In 2007, the social housing sector built 32.000 new dwellings (40% of new dwellings built that year)

#### **Financial independence and regulation**

##### ***Balancing out operation***

Since the so-called “*Balancing out*” operation in 1995 between the state and the social housing sector the organizations have become financially independent. During that process all outstanding loans were settled against future subsidies to make the social housing sector financially independent from direct subsidies.

From that moment on they became responsible for their social and commercial activities. This required more entrepreneurial and professional skills, such as treasury and funding which are not accounted any more by the State.

Today social housing organizations operate in a market driven environment where there are no more special individual subsidies and no special tax exemptions.

## ***Revolving Fund***

The Revolving-fund concept is one of the features of the Dutch sector. It is a sustainable concept where the capital inside the social housing system needs to remain intact and is constantly used for housing and related social purposes.

## ***Regulation***

Although social housing organizations are private organizations, the market they operate in is still heavily controlled. This is expressed through, for example, a national price-regulation (yearly rent adjustment limited to inflation level), and output and performance agreements with local and provincial governments.

On a legal basis the property and capital is privately owned, but as a registered 'authorized institution' in the national housing legal system, the assets must be assigned to specified duties. The capital cannot leave the sector and has to be used for the housing sector (in a wide sense).

## **“Earn where you can, to invest where you must”**

Housing associations have been financially independent since the 1995 'Balancing Out' operation. But how do they manage that when the current value of income from social rent is lower than the building costs? The social housing organizations have to deal with a 'money-losing' sum averaging around €25.000–€40.000 per dwelling. On top of that they are bound to production agreements with local authorities, and need to invest in neighbourhoods, and take care of special attention groups. Furthermore, corporate taxes have been levied on all commercial and social activities since 2008.

The independence also forced the social housing corporations towards more professionalism and efficiency, which means huge efforts to improve such things as financial management, risk management, fiscal management, governance and benchmarking.

To stay commercially sustainable and viable, new ways need to be found to become more efficient and make profits in other activities or areas. The activities in commercial housing (owner-sale and rental) can work as a cross-subsidy to finance loss-making social housing activities.

However recent economic and political developments have led to lower liquidity levels and a fall in profits / or a rise in losses. The consequence is that they need to sell more houses from the stock to be able to finance new projects.

## **Funding needs**

So what are the financial needs of the Dutch social housing sector? And how do we finance them? Let's take the financial situation in 2007. In recent years the housing corporations have been focusing more and more on their cash flows since they determine their funding levels. This is an aspect of the backing system which will be explained later on. Looking at the following figures we notice the positive operating cash flows and we see the annual rents cover the maintenance costs and interest payments. The positive cash flow plus the sales of assets accounts for two thirds of the investments. Finally, the remaining €3 billion of the investments and €4 billion of repayments need to be financed externally.

## Sources of finance

All registered social housing organizations have access to a 3-level security structure which serves as a guarantee fund that backs the outstanding loans. This system revolves around the WSW (Guarantee fund for social housing). The WSW has a triple A rating. These guarantees enable housing associations to borrow on more favourable terms, including at attractive rates of interest.

The use of the WSW is restricted to the financing of social activities. Commercial investments cannot use the WSW backing because this would result in unfair competition.

WSW provides guarantees to lenders granting loans to housing associations for social housing projects and other properties with a social or public function. These guarantees enable housing associations to borrow on favourable terms, including at attractive rates of interest.

In 2008 new guaranteed loans by the WSW totalled a record €11 billion. The WSW guarantees €800 million / month with a total volume of €74 Billion (+/- €86 bn. in 2012). 80% of the financing uses the WSW guarantee.

## The 3-level security structure

### Organization's own assets

First of all the organizations are liable with their own assets. Furthermore, there is a high level of solidarity between social housing organizations. If one organization has difficulties in attracting enough funding it can use this solidarity to **match tasks and resources** amongst social housing organizations.

### 1) First security: Central Fund for Social Housing (CFV)

The CFV is a special independent public body. If financial difficulties arise within an organization, the CFV can reorganize it or give project support for an individual association so its activities are continued. The CFV as the supervisor has a major role in this system. It supervises the financial position of the housing associations. This is done by evaluating on a yearly basis the financial continuity and solvency of registered social housing organizations. A yearly report divides the organizations into three categories A, B and C. In the A-category are the organizations which are performing according to their capital level. Organizations with a B are expected to reach critical levels of solvency or liquidity (B1 or B2) according to their planned activities (5 years ahead). C-category organizations are expected to perform beneath their financial capabilities. They will be expected (by the Minister) to be more active and plan more ambitiously.

### Box 2 Operating cash flow (2007)

€11 bn.	income from rents
€1 bn.	other revenues
-/- €7 bn.	expenses (maintenance, etc)
-/- €3 bn.	interests payments
<hr/>	
<b>= €2 bn.</b>	<b>net operating cash flow</b>
+/- €4 bn.	asset sales (internal financing)
-/- €9 bn.	all investments
-/- €4 bn.	repayments (refinanced)
<hr/>	
<b>= €7 bn.</b>	<b>external financing needs</b>

(Source: WSW)

Besides its supervising role the CFV also supports housing associations by granting financial support in case their financial situation has reached a point where they cannot meet their obligations. This forms the first backing instrument.

Furthermore the CFV redistributes funds among associations to facilitate investments in the 40 neighbourhoods identified by the government. The CFV receives all its resources from the charges levied on all housing associations and it reports to the Ministry of Housing.

## ***2) Secondary security: Fund for Social Housing (WSW)***

The WSW is a private organization that was set up by housing associations themselves. The registered housing associations can get a guarantee from WSW to take out a (private) loan from financial institutions.

The WSW has a 'security reserve' (around €440 Mill in 2007) that can be used when repayments or interest obligations cannot be met by corporation and the first security has run out of capacity. This reserve has been accumulated by the guarantee fees (0,0069%) associations contribute when given the backing of the WSW.

In case this 'security capital' was to reach a certain safety limit, the WSW would have the right to use the contingent liability. Associations have the obligation, based on the solidarity-principle to reserve 3,85% of their outstanding guaranteed debt for that use. This amounted to roughly €70 billion in 2007.

This facility used to be project-based, but in recent years the WSW has adopted the allocation method. The maximum amount an association can get from the WSW for backing is now based on the required financing volume so-called "facilitating volume" for the next 3 years. For that use the WSW performs thorough annual checks of participants' credit-worthiness, focusing on future cash flows. These analyses are based on the same forecasts and figures that associations report to the CFV.

It is worth mentioning the WSW calculates a 2% repayment fiction to establish the facilitating volume.

## ***3) Tertiary security: Dutch State and municipalities***

The Dutch State and municipalities act as the last part of the 'chain of guarantee'. They are the guarantor of last resort, just in case the sector can no longer overcome its financial problems and the WSW's guarantee capital is almost exhausted. In that case the State and local governments (50%/50%) would jump in with interest-free loans.

Although the accumulation of fiscal and regulatory obligations affects their investment possibilities, the housing associations have remained in a strong financial position. The second and third security levels have never been called for.

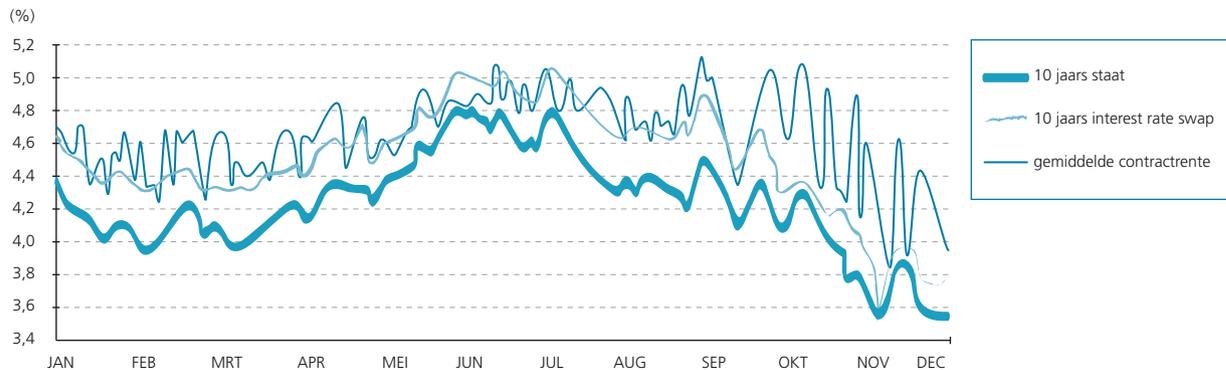
This guarantee is seen as State Aid by the European Commission. Its use is restricted to activities which are labelled as 'services of general economic interest'. Currently the scope of these services and the use of this aid is a matter of discussion between the Dutch government and the European Commission. Probably this will mean the use of this guarantee will be restricted to certain income-groups. The (long term) consequence of this policy is that social housing will lose its universal approach in the Netherlands. Awaiting the formal agreement between the Netherlands and the Commission and the adoption in national law we expect the following activities will be able to use the security system:

Associations who let at least 90% of their new and vacated social dwellings (i.e. with a max. monthly rent of €648 in 2009) to households with an annual income of €33.000 can use the security for: construction and rental of social rented housing (max. €648 /month, 2009); local neighbourhood projects with social housing component; and social real estate (schools, shelters, city centres, etc).

### Benefits of the security structure

The 3-level security system has obvious benefits. It is a solid system which guarantees the solidarity and financial health of the sector. The assistance and supervision of the CFV and the WSW play a major role. Due to the large cumulated assets the associations are able to spread the risks of bankruptcy and can get access to more beneficial interest rates.

In the following chart based on the year 2008 the interest rates contracted by associations (blue line) can be observed and compared to the 10 year (Dutch) state bond (orange line) and the 10 year interest rate swap (green line). On average in 2007 associations contracted interest rates which were only 0,4 basic points above interbank swap rates. Now this is around 30-50 basic points.



### Current challenges

In recent years, housing associations have seen a rise in their deficits due to lower operational cash flows. This is the consequence of more fiscal and financial pressure from the government. For instance the yearly maximum rent adjustments are limited to the inflation level (around 1% in 2009) and the associations were faced with a corporate tax which does not take into account social activities. On top of that, the economic crisis led to reductions in house sales, which normally would be used to overcome financial needs. The restricted choice in financial sources can be seen as a risk as well. Currently the largest part of all financing comes from two banks only. Access to the open capital market through a European Medium Term Notes programme is a possibility, but this needs the approval of the Minister.



## **II. MAKING THE CASE FOR SOCIAL HOUSING: POOLING RISKS AND OPPORTUNITIES**



## The economic crisis and housing finance: Possible scenarios

*Phil Jenkins*

*Director of Trade Risks (United Kingdom)*

### **Introduction: The UK context**

I would like to start by pointing out that, although my contribution deals with the UK case, I believe there are a number of messages that can be applied across different countries.

I would describe the UK context as a PPP success story. This is despite the fact that in terms of PPP the UK housing sector is not often recognized as one of Europe's most successful examples of the public sector and the private sector working together for the financing of essential services.

The provision of social (affordable) housing in the UK is subsidized up-front in terms of capital grant, called Social Housing Grant and also through rental revenues. Around 2/3 of the entire rental revenues of housing associations in the UK are paid for through Housing Benefit (a form of social security paid by the government). One measure of the success of the sector in PPP terms is the fact that in England around £50 billion of private finance from the banking and capital markets has been committed to housing associations over the last 20 years—and that is against the around £32 billion of public sector grants which sits on housing associations' balance sheets. The credit ratings for the larger housing associations tend to be AA in the UK, which is largely driven by the secure asset base that housing associations have, by stable cash flows underpinned by government and very importantly by the level of implicit public sector support. There is no explicit guarantee for housing associations in the UK but there is a very strong level of government implicit government support which I will come on to a little bit later. In addition, there is a history of non-default for any secured lender in the housing association sector—although that has been tested over the last year or two.

### **Funding**

#### ***The pre-crisis funding market for housing association***

In order to set some context I'm going to discuss the funding market for the housing association sector over the last 5 to 10 years. While not as concentrated in terms of lenders as the Dutch model, there was a small pool of very active lenders in the UK. There were probably about six banks, the usual big UK banking names and one or two of the building societies as well, who operated a small pool of extremely competitive lenders as banks' capital requirements came down under Basel II regulations. The banks were very hungry for assets, there was a lot of liquidity washing around in the market, and that was reflected in lending margins which were typically around 25 basis points over swaps or over Libor—whichever benchmark you would choose to use. By and large, the capacity of the banking sector was able to cater for just about any funding need that a large housing association would come up with. So, for example, a company like Affinity Sutton Group would have a loan book of over a billion pounds which would be largely catered for by this group of banks.

What is quite striking is the strong imbalance between the banking and capital markets for housing associations in the UK—of the £50 billion as mentioned earlier, around £42 billion has come from the banking markets and about £8 billion through the capital markets which is the reverse of the usual situation you would expect to see for either infrastructure, private finance initiatives (PFI) or a comparable sector like utilities, i.e. water companies or electricity companies, where the reverse situation is true; around 75% of their borrowing would come through the bond market.

### ***The post crisis UK banking market***

Again, in terms of the more macro view, we need to look at what has happened to the UK banking market, which is not dissimilar to the situation in a number of other countries. We have had banks reverting to state ownership, having to be bailed-out by the public sector; we have had consolidation, particularly prevalent in the UK with the rescue by Lloyds banking group of Halifax Bank of Scotland (HBOS), which eventually sank Lloyds itself into State ownership. Lloyd's banking group now has lending exposures to the affordable housing sector in the UK of about 14 billion pounds—so there have been some very large commitments. Obviously, with the public sector bail-outs come all the expected changes: the tighter regulation, the furore in the press about bankers' pay, about oversight, and also, importantly, mixed policy messages where you have this rather bizarre scenario of politicians trying to force banks in state ownership (or even outside the state ownership) to increase their lending activity while at the same time telling them to reduce the size of their balance sheets—the two don't exactly fit well together. Overall what we have seen is reduced lending, but importantly, what is known as the 'shadow banking system', which is the system of off-balance sheet activity, securitization of loans, etc. This type of activity was hugely important in increasing the amount of leverage within the Western economies over the last ten years, and virtually overnight, that shadow banking system has disappeared. So we are back into a situation of more 'traditional' direct lending from banks and capital markets, and the upshot of all of that is that the availability of finance is sharply lower on the cost of finance is sharply higher.

Just a couple of graphs to illustrate this: in chart 1 we see lending to UK households, and in chart 2, lending to UK private non-financial corporations. As you can see earlier this year, lending just fell off a cliff. Although this has recovered to some degree in the corporate sector, I think now we will settle down at low levels. In the household sector there has been little recovery as yet and there is not an expectation of a sharp rebound in those types of figures. But clearly this has a huge impact in terms of economic activity, in terms of availability of finance. Finance has been rationed between different borrowers and therefore the cost and availability has changed enormously.

Chart 1: Lending to UK households & corporations

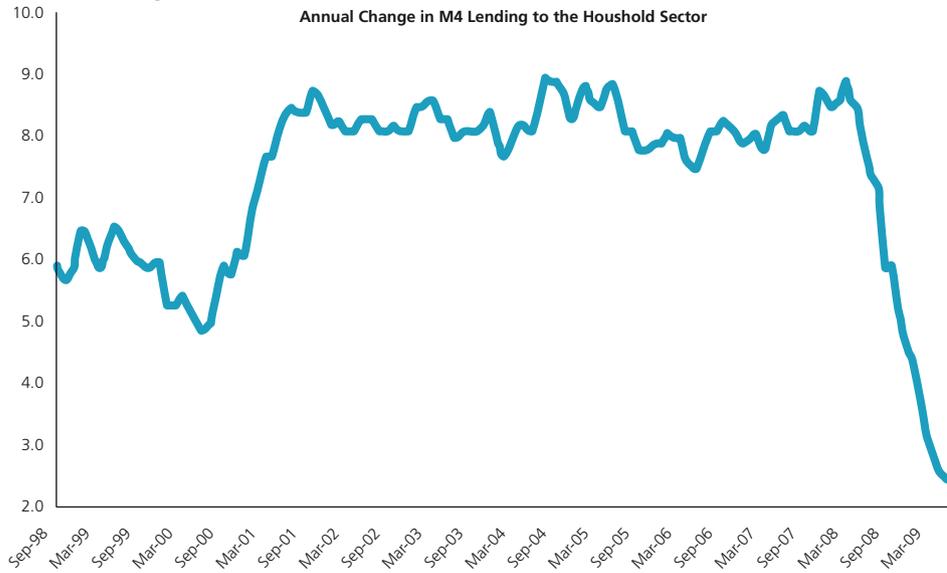
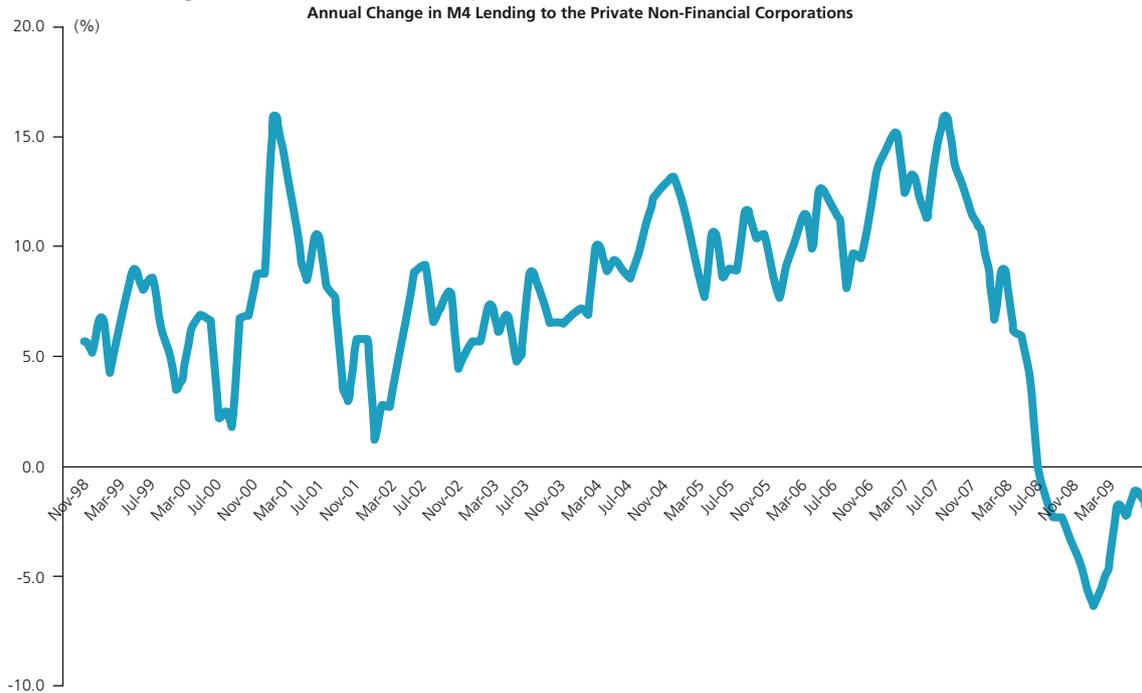


Chart 2: Lending to UK households & corporations



## ***The post crisis housing funding market***

What have these developments done for the housing association sector post the crisis? We have seen a reduction in an already small pool of lenders to the sector, and importantly the loans that banks have typically put in place to housing associations are very much at the opposite end of the Finnish experience (i.e. very short term lending maturities) we heard of previously in this seminar, in terms of the existing finance, where the typical term or maturity for these loans is 25 to 30 years, possibly up to 40 years in some cases. Now what this means is that many housing associations—in fact most housing associations—secured very large loans from banks on a 30-year basis priced at around 25 basis points over Libor, which is great business for the housing associations but not such good business for the banks. Banks have entered into those loans on an assumption that these loans re-finance and churn every 5 years or so. However, clearly when the cost of new finance is more like a 150 or 200 over Libor there is not much refinancing of existing loans going on in the sector at the moment.

Therefore, banks have got their fingers burned, they have learned their lessons and both reduced their lending appetite but also pulled it back to much shorter maturities. There are now banks that are willing to lend 3 to 5 years. One or two will lend 30 year money but they are few and far between. So basically banks are returning to a more cautious and traditional lending approach because banks tend not to lend at this type of maturity normally.

In addition, we see significantly higher margins. I would say we have gone up from around 25 basis points over Libor to about 150, we went as high as 250 but pricing has come back in a bit now and obviously where banks have got the opportunity they are doing the best they can to re-price existing loans to housing associations which are unprofitable for them. So anytime a housing association asks for a waiver on a covenant, i.e. an exception made for a covenant or asks for new money then the banks will try to re-price the loans. The other way of trying to claw back some of these losses is through banks' imposing hedging requirements via derivatives for housing associations and, extracting returns above the market levels for these instruments.

The other impact we have seen is in terms of volatility, where derivatives have been widely used in the social housing sector. We had one large housing association at the end of last year when there was a sharp drop in long-term interest rates faced a margin-call, on its derivatives of £90 million pounds virtually overnight, which clearly put them in a position of significant difficulty.

## ***Capital markets: a new source of liquidity***

One of the key themes again is the return to the capital markets activity by housing associations. It has been over a billion pounds of new bond market issued by housing associations over the last 12 months or so, which was after an almost complete absence from the bond market of about 4-5 years. And this I think is an important fact—and not just in the UK—but elsewhere where public finance is utilised as well—is that pension funds and insurance companies have very long term liabilities in terms of the products they put in place. Hence long-term assets from what they see as stable providers with stable cash flows, regulated activities, fit almost perfectly with the types of requirements that these types of investors have. Therefore, there is a very strong match between the needs of pension funds and insurance companies and, certainly in the UK, for the borrowers who want to borrow 30 year money. The only sectors that borrow very long-dated money in the UK market are utility companies and housing associations, and not much else really.

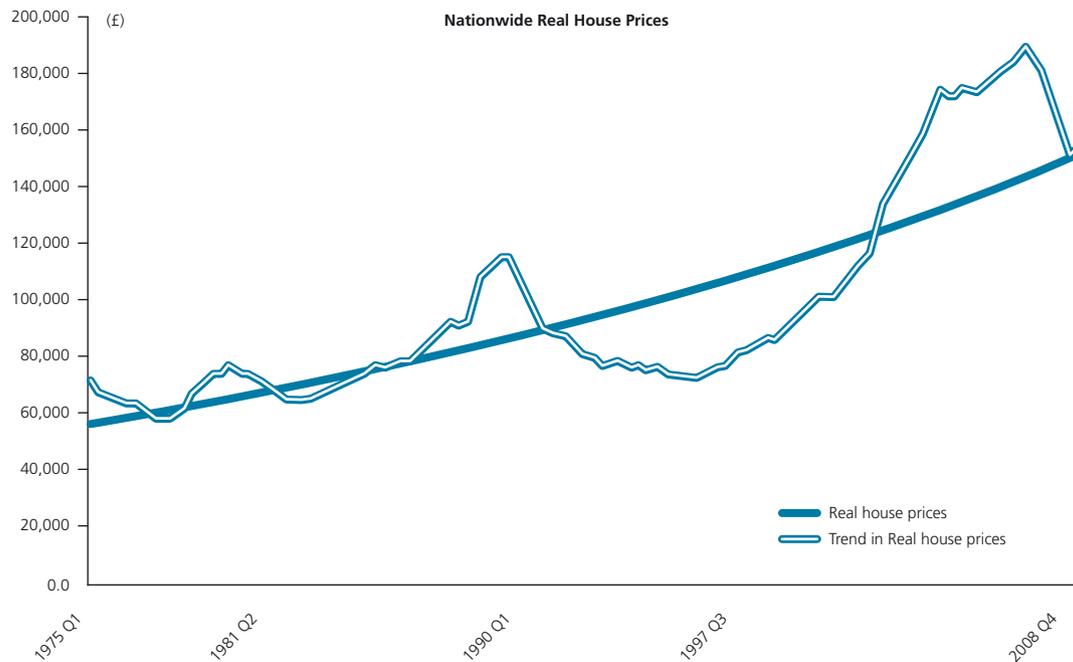
So, this is going to be a key source of volume funding at higher margins that housing associations have been obtaining traditionally from the banking sector. And this will be both for individual housing associations accessing the market in their own right as well as for group vehicles that enable a number of different smaller housing associations to group together in order to get the critical mass to approach the markets.

## The UK economy

### *Housing sector facing wider problems*

Going back to a macro view in terms of the housing sector in the UK, we are currently around 15% off the high point of the housing market. In the UK, the housing market continues to run by boom and bust. We have seen a bit of a bounce in the housing markets through the summer, which a number of commentators have seized upon saying that the bottom of the market has been reached. However, I would be more circumspect about that; if one looks at chart 3, the red line is the long-term trend in real terms of house prices, and typically in these corrections of the UK housing market one will overshoot the trend and fall through the trend line before any type of recovery takes place. With further drags to the economy, employment, restrictions on lending and lack of affordability for first-time buyers, my own view is that the market may have further to fall going into 2010.

Chart 3: Nationwide Real House Prices



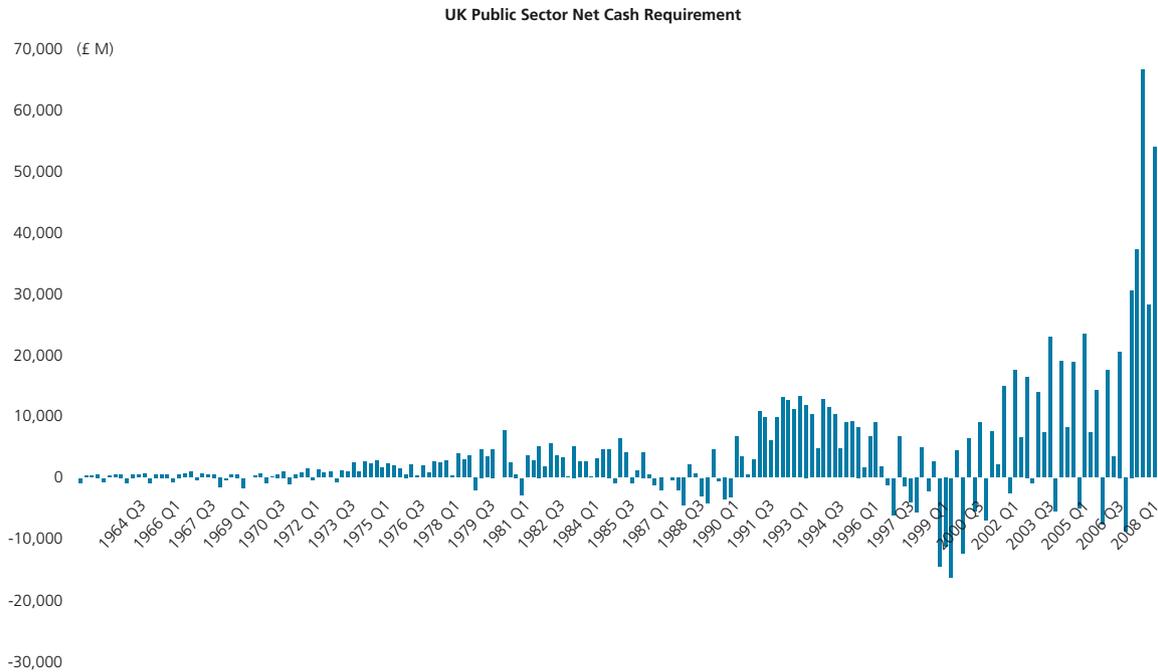
Looking at the overall economy again in terms of GDP growth (chart 4), clearly we have gone into negative territory and I think that most people's expectations are that any return to growth would be very weak and at risk. This is of particular interest to housing associations in the sense that rents in the UK are linked to inflation (RPI), and this year, for the first time, housing associations potentially face a drop in their rental income because of negative RPI. As a company, we have identified that the biggest single risk for most housing associations is a long period of Japanese-style deflation where rents fall over the long-term. Most housing associations will have predicated their business plans on rental growth of 2,5% per annum—clearly, it is very damaging for their business plan if that does not materialize.

**Chart 4: Economy weak, public finances under pressure**



Chart 5 is a rather frightening graph for anyone who faces paying for this through increased taxes over the next few years: this is the public sector net cash requirement. It shows the amount of the deficit that the government in the UK faces over the next few years. One can see that going forward from here, the deficit financing requirement is enormous. It is doubtful whether government can get away with funding this deficit out of thin air through pressing a computer button (Quantitative Easing), and so the need to reduce the deficit will pull significant spending power out of the economy. Where I think this will really impact housing associations is in terms of a squeeze in the public finances and the question as to whether public sector grant will be available in the same volumes as it has been over recent years. I think the answer is almost certainly no.

Chart 5: Economy weak, public finances under pressure



## Impact on UK Social housing

### *Public finance squeeze*

What are the alternatives? The utmost obvious alternative is a shift away from capital subsidy through to revenue subsidy. While these subsidies already exist in terms of rents, there may be some increase to that level of subsidy or a relaxation of the rent levels to allow them to increase and try and bridge some of the gap with market rent levels. At the moment they are some 50% or so, below the open market rent levels so there is some room for manoeuvre there. But in the end, the public sector pays, even though the burden is shifted forward.

I sat in a meeting the other day and started to tear my hair out when I heard for the 100<sup>th</sup> time someone asking the question: "can we develop social housing without subsidy"? The answer is clearly no, not if your rents are so far below market levels. A lot of people have looked at different models of this, and there are mechanisms, which I will come on to, in terms of mixed-use development and cross-subsidy from housing for sale, but in terms of funding social housing in its own right, if you are going to fund 'cheap' housing, you have to subsidize it, full stop.

The continued and pressing need for affordable housing suggests that public sector funding solutions will be found over the next few years. Politically, the development of affordable housing is quite a hot topic in the UK. and whichever government is in power after the next election, it will seek to support it in some way.

## ***Back to basics***

So, what is the situation of housing associations now? One of the issues I've talked about is the history of no default in the housing association sector. At the back of last year we came very close to seeing some major defaults for housing associations. The main cases were largely around problems with derivatives or with housing associations that had pushed themselves too far in terms of development and had too great an exposure to the open market through shared ownership or housing for out-right sale to the private market. This is what is meant by "mix-use" development, where you develop housing for sale, or shared ownership, you make a profit on that, and so you subsidize the affordable element of the same scheme. Fingers have been burned in the sector and that's why I'd say we are in back to basics mode, where people are going back to the business, doing what housing associations have traditionally done, which is providing affordable housing. I think we'll see housing associations staying away from the private sale market for some time.

Part of the solution to the back end last year was what I call a "back-door" bail-out through public sector grants. Grant was applied retrospectively to schemes that were no longer viable because of the changes in the open market. There were several hundred millions pounds of grants that were simply applied to old schemes in order to reduce potential impairment for housing associations and prevent them from breaching lending covenants.

In addition, there are some new models being developed around flexible tenure, where the default position is a social or subsidized rental product with options for the tenant to increase his or her equity in the property over time; a sort of "rent-to-buy" model. And also an initiative on the part of the public sector to kick-start the private rented sector, which at the moment does not exist in any size in the UK. I'm tempted to say that it doesn't exist for many good reasons and no amount of competition or initiatives by the public sector will change that unless the yields available in the market as well as the tax legislation around this type of activity is changed.

## **Conclusions**

### ***What lessons to be learned?***

I have tried to make these as general as possible so that they are not too UK-centric. Firstly, Housing associations are not commercial house-builders. A number of the big house-builders in the UK virtually went bankrupt over the last year or so, they are now largely owned by the banks, who are not willing owners but were forced to restructure debt into equity. Housing associations which have tried to play an aggressive development game are the ones who have come under most risk over the last year or so. The safer ones have had much more conservative business models.

The public sector, given the squeeze in finances—and this is probably the same in most countries—may demand increased efficiencies from the sector. We do see what I think are fairly strange things in the housing association sector because it is non-profit distributing, for example mergers, where you don't achieve any cost-savings, you simply bolt organisations together because chief executives want to tell people how many units they have under management. It remains somewhat unclear whether mergers and consolidation have driven the sort of efficiency gains that one might have expected.

In addition, we have seen that funding is more expensive, more difficult to come by. I think people have learned that relationship banking can involve bad relationships as well as good relationships. However, I think that certain truths remain in terms of lending to this type of entity. Funding is predicated and forthcoming because these sectors are considered

low risk. They are regulated and often non-profit distributing, so they have characteristics that investors like—long term, stable, predictable cash flows, with implicit or explicit guarantees depending on what country you are operating in. So I think there will be strong appetite in terms of a rebalanced funding market, if you put together the needs of the borrowers with those of long-term investors who are happy with the cash flows that can be derived. So the funding model remains intact in the UK, albeit with a potential shift away from the banking market and towards longer term investors, but there are political and financing uncertainties ahead of us as the public sector position deteriorates.

### ***Possible scenarios***

To sum up: we have this new level of risk aversion on the part of investors. In some ways that benefits this type of activity. As you move away from subprime mortgages, where do you go? Stable cash flows, regulated activities, strong credit ratings; the social housing sector ticks all the boxes. There is again an increased savings ratio, so in the UK after years of households running zero or negative household budgets we are now into a position where people are rebuilding their personal balance sheets so they can increase savings and again trying to tie that type of products into this type of need, benefit for affordable housing.

There is potential for “crowding-out”. Government guarantees become less and less worthwhile as they guarantee the banks and automobile industry and seemingly everything else. And there is potential to crowd-out entities which don’t fall under that umbrella as we go forward.

However, the financial crisis, certainly in the UK and I might suspect elsewhere, places more pressure on the need for provision of affordable housing. I was out road-showing a deal last week with a housing association based in the South and South-West of England. Waiting lists for their houses have increased by 200% over the last year as people have their homes repossessed or as they become unemployed—where do they go? To the housing association sector. So I think the funding of this activity is high up on the political agenda.

Also, certainly in the UK, affordable housing is playing a more prominent role in terms of wider housing supply and in terms of economic stimulus. This is seen as a worthy area for government to get involved in. If they are going to put money into the economy through stimulus activities then they want to see results, they have a political objective as well. So that’s going to be an important theme for government.

Furthermore, things have turned on their heads in the major private sector house builders, which, at one time used to see affordable housing as the ‘painful bit’ of any development scheme—the bit that they left until last, when the profitable elements i.e. the housing for sale, were completed. Then they would put the affordable housing in the corner next to the railway line, or under the electricity pylon. Anecdotally at least, that situation has been reversed. A number of housing associations are saying to us that housing developers are approaching them saying: ‘can we do the affordable element first because we don’t want to take the risk of the market sale aspects’. So housing associations are enjoying a more prominent role in terms of their partnerships with developers at the moment.

Last but not least, a lesson to be learned in this scenario is that models like the UK’s, which are closely linked in many ways to wider markets, either the wider housing market or the funding markets, come with associated risks. These obviously need to feed into policy decisions around financing models across the board as these are approached. We have heard of some models in other European countries that have barely been touched by the wider market, which is certainly not the experience in the UK.



**CASE-STUDIES FROM CECODHAS'  
MEMBERSHIP**



## The National Italian housing plan: the network of national and local funds

*Luciano Caffini*

*CEO, L'Associazione Nazionale delle Cooperative di Abitazione—ANCAB (Italy)*

The housing system in Italy is in a phase of change. A National Housing Plan has recently been approved. Article 11, D.L. 112/2008 converted into Law on 6 August 2008, n. 133 which introduces the core contents of a new plan to address the housing problem in a direct and holistic way.

Among the main aspects of the plan are the assumption that social housing provides an opportunity to overcome traditional forms of public housing, and the definition of social housing and urban regeneration as strategic for the country.

Furthermore, one of the six main lines of action envisaged by the Housing Plan is a system of integrated real estate funds, consisting of a national fund and a network of local funds primarily devoted to social housing.

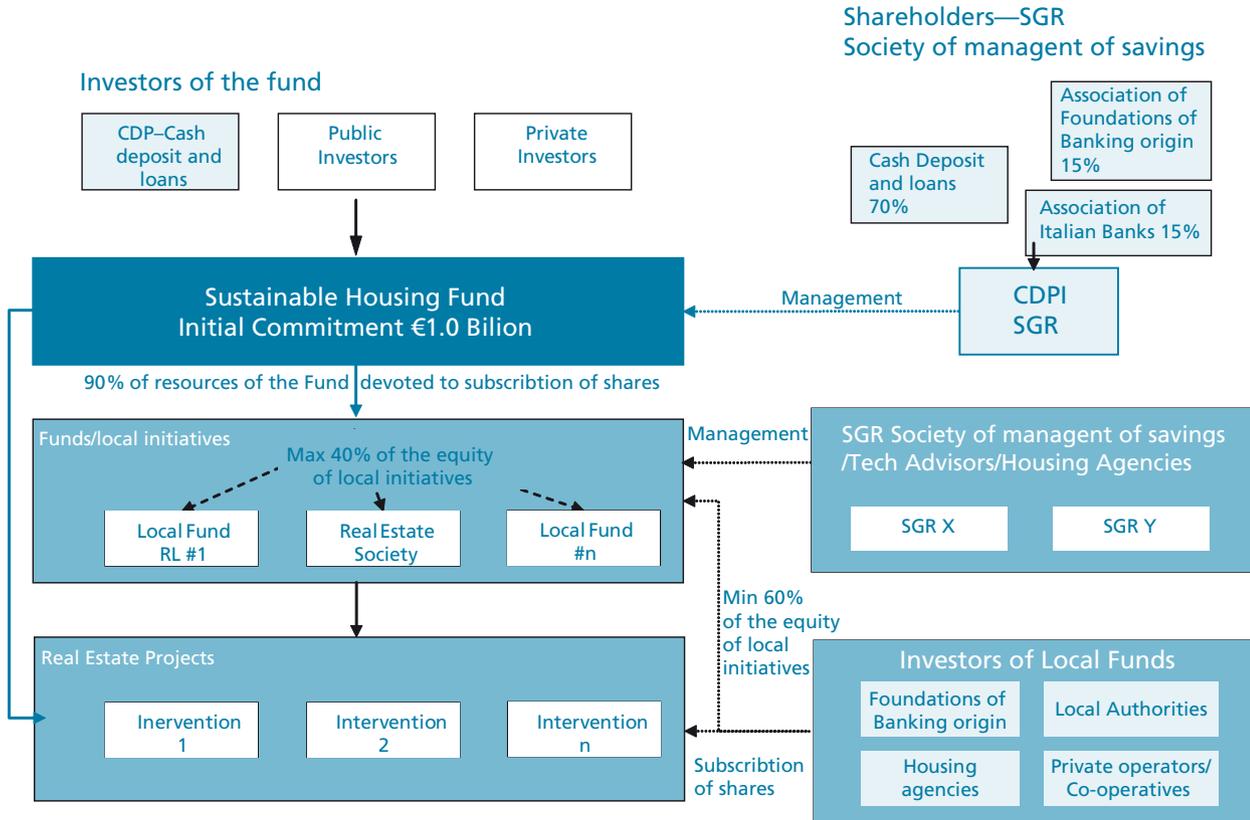
There are many points of contact between the integrated system of funds and the increasing number of experiences and social housing projects initiated by Foundations originated from the banking sector, public Institutions and cooperatives.

The Plan states that real estate investment funds should be dedicated to the development of a network of funds or of other financial instruments that help to increase the supply of social housing as defined by the Decree of the Minister of Infrastructure on 22 April 2008.

Amongst the main features of this 'Fund of funds' are a minimum amount of €1 billion to €3 billion, lasting at least 25 years, earning objectives in line with comparable market financial instruments, adequate territorial diversification of investments, ensuring adequate representation to investors by the composition of the Fund's organs, defined criteria for participation in local investment, and acquiring minority shares up to maximum 40% by the Cash Deposit and Loans (Cassa Depositi e Prestiti, the Italian public bank based on the management of the postal savings).

The objectives of the Fund are to increase the rental stock managed by the funds at an average rent of approximately 50% of the market rental price and to increase the supply of low cost home ownership. The anticipated target group are people or families not having the requirements to obtain social housing, but unable to meet the market price.

Figure 1 Network of real estate funds: how the system works



Interestingly, even before the approval of the National Plan, Legacoop Abitanti had defined a totally innovative approach that led to create the Cooperhousing Foundation, involving different sectors. This approach implies an idea of ‘normalization of the market’, which means housing production for different segments of the market and not only for high profit level, with a mix of supply, i.e. for ownership, rent, and ‘deferred’ sale.

In order to make the system possible and to achieve the goal of an average rent corresponding to approximately 50% of the market rent, it is necessary to organize different ways of compensations. These compensations can be:

**Urban:** cost of the land, near zero, related to urban legislation promoting a stock of land owned by councils, with the possibility to assign them to co-operatives or other providers; volume premiums related to private urban plans in the Private Public Partnership (PPP); and discounts in urbanization costs;

**Financial:** equities with expectations of non-speculative (ethical) return (2-5%); reduction in debt costs and agreement with financial institutions;

**Fiscal:** ICI (Local Property Tax), similar to local Funds to undivided housing co-operatives and public housing.

**Public Contributions:** even as a subscription of shares, bonuses to people or families in order to reduce further the rental price.

There are many aspects of the Local Funds that can be considered as success factors of this new approach.

First of all, the *local partnership in PPP* that implies the capacity to organize, the inclusion of social objectives, the creation of the conditions for urban feasibility; different *operators* (co-operatives in particular) become co-investors and can promote the Funds in agreement with local authorities and private foundations, encouraging also the agreement with the 'society for management of savings' (SGR) in order to obtain the commitment for facilities, property, and community building.

*Banking foundations* can also play an important role by participating in the definition of the impacts on the community, as well as subscribing to the shares of the local fund.

Moreover, the *institutional partnership* (Region and local authorities) can give a contribution in different ways: indicating and sharing the objectives, stating fees and sales prices; developing synergies in order to ensure procedural simplifications for the feasibility of interventions; and identifying compensatory measures and forms of security in order to increase the social efficiency of the Local Fund.

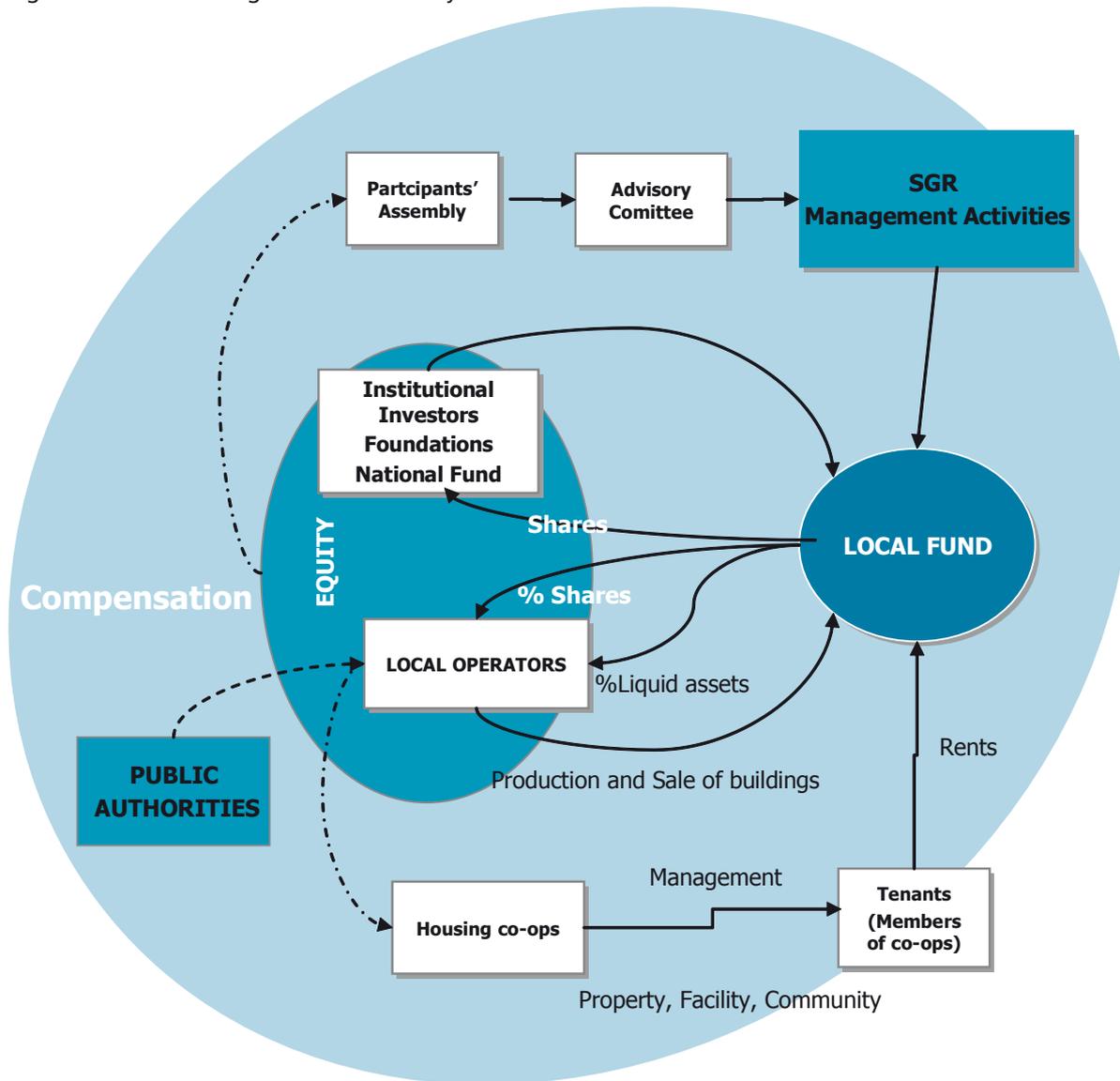
A peculiar feature of this kind of Funds is the expected profitability, which is limited but reliable because it implies the revaluation of real estate over time, the certainty of collection of fees and the realization of the scheduled plans for sale.

The central management of the Fund allows the promotion of a culture of participative and responsible neighbourhood (community building) and ensures the durability and efficiency of rented property. This can be done by recovering the management tradition of housing undivided co-operatives, which means that default tends toward zero, that dwellings are efficiently and well-maintained over time, as well as a sense of belonging of the members-tenants.

### **Why the housing co-ops for the Fund System?**

In a changing international economic context, this system offers an optimization of the production of social housing and a good investment. It is a way to take advantage of the opportunity of the National Housing Plan, facing the novelties brought by Basel 2 (credit crunch). In addition, this approach creates new tools and methods of financial sustainability thanks to better fiscal measures guaranteed by the fund approach. Demographic changes and immigration are creating important social transformations such as new types of social mix and new social tensions: community building implies new governance for social housing co-operatives with a large base.

Figure 2 Schematic diagram of the fund system



### Box 1: Scheme of the Fund: the steps of the model

#### **Promotion and development (local authorities and operators)**

Location > Project > Building

#### **Identification and agreements with the “society of management of saving” (SGR) and other potential shareholders**

- Fund regulations
- Authorization (Bank of Italy)
- Business plan
- Evaluation of assets by independent experts

**Agreement with the National Fund:** Validation of the project; agreement on timing and way of participation

**Fund creation: subscription of shares:** supply of housing (operators of Social Housing);

Payments (Institutional investors: National Fund, Local authorities, Regions, Pension Funds, Foundations, co-ops.)

#### **Management (Facility, Property, Community building):**

Done by co-ops on behalf of the ‘Society of management of savings’ (SGR). The maximum duration of the fund is 25 years; the liquidation of the Fund can be made by the assignment of dwellings to tenants or to undivided property housing co-ops

**The potential production of social housing** anticipated by the National Plan is 100,000 dwellings; with a sustainable production of 10,000 dwellings per year of social housing: medium and long term lease (15-20 years); fixed-term lease (8-10 years); supply of housing of low-cost ownership. Today, it is possible to begin projects with high feasibility, on which Local Authorities and Regions have already expressed their evaluation. Legacoop’s goal in this context is of 3,000 dwellings per year.

### Box 2: Network of real estate funds system: initiatives under way/1

<b>Abitare Sociale 1</b>	Promoted by Cariplo Foundation before the Housing Plan. Cariplo Foundation, City of Milan, Cash Deposits and Loans, Generali Insurance, Intesa Bank, Popular Bank of Milan, Cash Geometri, R.E. Pirelli, Telecom S.G.R. (Society of management of savings): Polaris Italy Funding: 85 million
<b>Fund Veneto House</b>	Veneto Region, CARIPARO Foundation. S.G.R. (Society of Management of savings): Beni Stabili. Funding: about €14 million (€50 million goal)
<b>Co-operative Housing Fund Rome</b>	Promoted by Cariplo foundation before the Housing Plan. Seven Legacoop co-operatives in Rome. S.G.R. (Society of Management of Savings): Polaris Italy. Contribution to the fund: €71 million contribution to gross value (GAV)

### Box 3: Network of real estate funds system Initiatives under way/2: the ethical housing fund by Cooperhousing Foundation

<b>Florence</b>	Promoted by residents’ co-operatives, private company, Consortium Etruria. S.G.R. (Society of management of savings): Polaris Italy Funding
<b>Parma</b>	Promoted by residents’ co-operatives, private company, working co-ops.
<b>Milan</b>	Promoted by residents’ co-operatives, private company, working co-ops.
<b>Pesaro</b>	Promoted by residents’ co-operatives, private company, working co-ops.
<b>Torino</b>	Promoted by residents’ co-operatives, lands underway of evaluation.



## How to be rated Aa2 by Moodys?

*Mark Washer*

*Group Finance Director, Affinity Sutton Group (United Kingdom)*

### Introduction

The question on how to be rated AA2 by Moodys is essentially about dealing with the issue of how to balance social objectives with financial strength—as pointed out by other contributors to this seminar—in the third market, in an organisation that is not designed to distribute profits—and that therefore does not have that as a bottom line—but that absolutely needs to make profits, otherwise it goes under. This is quite a difficult line to tread and a focus on that over the last eight years or so has meant that we have created a strong business.

I would like to start by briefly giving a little bit of background about Affinity Sutton. We are on any measure amongst the top 10 housing associations in the UK. We have 53,500 homes across England. The bulk of that is focused in London and the South-East, and now—because most of the demand is in London and the South East—that’s where most of our new investment is taking place as well. In 2009 we developed around 1,300 new homes predominantly in these areas. In terms of turnover and income, I did a calculation to compare GBP and Euros, but unfortunately it’s gone even worse now so there is probably no point in doing the calculation because it’s more or less the same, but our turnover is about 240 Mill GBP. We have made a profit of around 20 Mill GBP on that. And that is quite unusual for the UK housing sector. We have now housing assets of about 2.1 Billion GBP and those are financed in part by about 1.3 Billion GBP in private loan facilities and about 400 Million of that is as yet undrawn and available for funding.

### Box 1: Affinity Sutton Group Metrics

- 53,500 homes in ownership and management
- Nationwide across England
- New investment largely in London and the South East of England (c1,200 new homes pa)
- Turnover: £238 million (€274 million)
- Surplus: £19.6 million (€22.6 million)
- Housing Assets: £2.1 billion (€2.4 billion)
- Loans and facilities: £1.32 billion (€1.52 billion)

In relation to the UK housing sector, as a whole, our last year’s surplus was unusually large. But even that is not huge in terms of the risks faced by a business that operates in many respects in the commercial area. In March 2008 the sector’s profit was about 0.3% of its turnover. And for a sector that was increasingly operating in risky areas (e.g. developing homes for sale and doing a range of things, such as operating with developers, essentially having to do risky things in order to make surpluses to fund social housing) our contention as a business is that this is simply not enough. There is a regulatory review underway in the UK and we think that one of the essential tasks for the regulator, the TSA, is to create an environment where associations look to increase the level of surpluses they make.

## ***Affinity Sutton's Approach to Public Ratings***

Public credit ratings of the likes of Moodys, Standard & Poors, and Fitch remain relatively rare in the UK for housing associations. However, about 10 years ago, when Broomleigh housing association—which is one of our subsidiaries—was involved in a club capital markets issue where a group of housing associations issued a bond, that was the first time that the business started thinking about it and was persuaded—and it was the first housing association in the UK to do so—to take a public rating, at the time from Standard & Poors, it was given BBB+. For an organisation that was for the first time taking this rating it was a pretty decent investment rating. For a number of years it remained the only housing association with a rating and I think that was because the sector could not really see the advantages. Firstly, you had to put yourself through the mill, you had to subject yourself to a level of investigation of your finances that was probably tougher than the one the regulator undertook. Furthermore, you have to be prepared if you go public with that credit rating, you have to be prepared to go down as well as up over time and I think at the time there were relatively few clear advantages for most housing associations.

However, Broomleigh at the time thought—and we continue to think—that there were considerable advantages. Firstly, it creates a really useful financial discipline. If you are a finance director of a housing organisation, and you've got a number of your non-financial colleagues like development directors who want to go out and spend lots of money on new buildings; and housing directors who want to spend lots of money on tenants' services; and asset directors who want to spend lots of money improving the homes (all good stuff to do), what a credit rating gives you as a finance director is a very clear framework to say: look, our credit rating agency actually expects to see these figures improve, it expects these ratios to do better this year than they did last year, not worse. It expects our costs to go down over time, not up. So it is actually quite good leverage for a finance director. And that is, in a sense, a 'soft driver', but it gave me, if you like, the leverage that I needed to start to focus ASG on how it might create a proxy for profit generation.

It also provides an independent view of how strong we are to the corporate and local authority partners that we want to work with. So if we want to go and set up a joint venture with a commercial developer, they will quite reasonably question our financial strength. Then, what the credit rating does for us is to say, look, we are one of the few housing associations that has an independent review from a credit rating agency and their assessment is that we are a strong credit.

And although the lenders to the sector that Jenkins has referred to, the banks (Royal bank of Scotland, and Lloyds, etc.) and a number of other lenders clearly were not looking for credit rating from housing associations that they lent to, they certainly took some comfort from it. And when we did a financing 5 years ago, I was told by a few lenders that whilst they didn't make a lot of difference, the margins of 25 basis points could not make a lot of difference to pricing, it did make some difference. In some cases it made it cheaper, and certainly it made it easier to get through their credit committees. So it makes the lending more available and easier in terms of working with the people on the ground in these banks, it made it easier for them to persuade their credit committees that we were a reasonable credit risk. And I think this continues, and even if a housing association is not necessarily looking at the capital markets, having a rating should be something that housing associations start looking at more seriously against the backdrop of the financial crisis that we had.

Certainly at last year's capital market issues, whilst we could have done a capital markets issue a number of years ago, we didn't want to because funding from the banks was so easily available and cheap and on extremely benign terms in terms of covenants and so on.

I wasn't going to say too much about the bond issue that we did about a year ago—in fact it was almost exactly a year ago, and I know that because we priced it about three hours before Lehman's bank collapsed. We got into a very fortunate and small window where, had we decided to go the next day, we would probably had to have pull it; some call it luck, I call it good planning. So credit rating agencies adopt a two-tier approach: firstly, they do look at the underlying credit strength of an individual name, an individual housing association, but that is very clearly overlaid by the level of support that is provided from the UK government via the Tenants Services Authority (TSA), which is now our regulator. And as much as regulation, where the regulator undertakes at the moment an annual review of associations, it's the step-in rights that this regulator has to engage the associations if the association looks about to face any problems in a number of areas but including the area of viability. If it looks like the association is going to go under, there are rights which the TSA retains which means essentially that it can step in and appoint board members and essentially act as a shadow board.

### ***Agencies' Approach to UK Housing Associations***

The rating agencies that have been most active in the UK in this sector have been Moodys and Standard and Poors. But now Fitch, which has now indicated that they see the sector as one they would like to get more involved with. And while there are relatively few name ratings in the sector there have been a number of club bond issues, associations getting together to issue capital market issue jointly. So those issues, those special purpose vehicles have been rated by the credit rating agencies. In that way the credit rating agencies have built up very considerable knowledge of the UK housing sector now, I suppose, over twenty years.

What do they look at? Well, they look at a range of things. Clearly they look at the underlying financial strength, but they also look at the strength of management. In terms of financial strength, the sector does not generate a huge amount of cash but there is an expectation that there is positive cash generation if you are looking for the higher end of the ratings. And they are also concerned with things which might disrupt the good management for an organisation. For example, there has been a great deal of merger activity in the UK's housing association sector over the last few years and we have certainly seen that the rating agencies can twitch a bit, can get slightly nervous if they see big mergers taking place. They think that the association might have taken on too much. Although from our perspective we have come through this pretty positively.

So this two-tier approach means that Moodys' rating continues to benefit from a strong regulatory framework as well. So for Moodys that is a fundamental underlying strength of the sector, namely, the expectation that the government through the TSA will not allow a housing association to fail. Furthermore, we are happy to be regulated, certainly from a funding point of view, although it does not always feel like it. Were government policies to be less involved in the sector in terms of oversight, funding and use of reserved powers, the ratings could fall significantly. So there is a lot of store set by Moodys by the implied support of the UK government to our sector. And Fitch has recently started to consider this and has modified its view. Interestingly here—and housing associations sit not as commercial organisations which distribute profits but also certainly not as public sector organisations, having this sort of middle ground—Fitch will consider nevertheless individual housing associations as public sector entities and it too is of the opinion that the regulation is robust and something it can rely on. And again what this says at the bottom is that it will start with a review of the individual name, the individual credit, which is important. This is what takes me back to the approach that we have adopted, which is that we have to get our funding position strong and robust, we have to get it right.

## ***Moodys on ASG***

Just before I look at how we have done that, it is worth noting that just about a year ago, just before we issued our bond, Moodys was saying that we continue to perform strongly under unprecedented and volatile market conditions. Well, if that was in September 2008, just imagine how unprecedented and volatile it would be if Moodys would be writing this in September 2009.

However, we believe we have managed to weather the worst of that storm by adopting a prudent and structured approach to growth and to our activities. One thing I would like to stress is their reference very specifically to the limited reliance on asset sales which ASG has. What the UK housing sector has seen in recent years is that a number of housing associations were reliant upon selling housing stocks to meet interest payments. And that is a position we have always wanted to avoid. As a matter of policy, we said we would not get into a position where our operating surpluses are not sufficient to meet our interest costs without sales. It does not mean that we don't undertake sales, but they are very clearly ring-fenced. So that resulted in a Aa2 rating with stable outlook. It remains that this year's rating will be publicly confirmed relatively soon and we are hoping that we will retain at least that.

It is worth noting that out of 1.600 housing associations, a number of which are tiny organisations; just six have a Moodys credit rating. There are some Standard & Poor's credit ratings as well. Of those Moodys ratings, four are Aa2 and two are Aa3. So you can see that actually it tends to be the strongest organisations that have got them, probably because the others don't need them and if they think they would have a weaker rating they probably would not bother to go for one. So at the moment there isn't a huge spread in terms of the ratings that you see coming out.

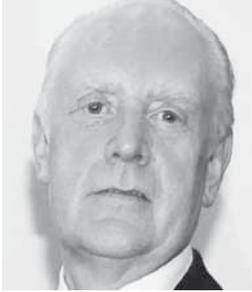
## ***Target Financial Parameters***

Lastly, I will refer briefly to the financial framework that ASG has put in place. I'm slightly evangelical about the approach that we have adopted. So there are a number of rules that we put in place and they are the tools that I use with my colleagues to ensure that we do have a strong financial basis. We won't, for example, borrow to invest in existing stock or major repairs. Those costs I insist must come out of rental income and that's because our rent structure and the rent regulation we have means we don't get additional money. If we do invest even quite heavily in existing stock we have minimum targets for interest-cover ratio that's 140%. I have said already that we won't rely on sales to meet interest payments. Coming back to the efficiency point made earlier we look to reduce operating costs on a per unit basis annually, and we look to increase our surpluses overall annually. And as well as that, we use those rules to make our investment decisions and to do our business planning. Table 1 shows ASG at the top, compared on a few ratios with some of the other larger housing associations in the UK. These are strong, financially robust housing associations. What you can see is that what our financial discipline has done is put us either in top position, which are the **bold** numbers, or in a second position which are the numbers *in italics* on all of those measures. Now, you might say, I picked the measures selectively—and I probably have—but I think these are important measures. If you look for example at the last two columns you have net margin; without the disposals, some of those would be negative. If you look at interest cover, some of them are under one. And that's a position that we strived hard for a number of years to ensure that we retain, and we intend to continue to do it.

Table 1 Comparison of 2008 Financial Performance with Other Large RSLs

	T/O £m	Disposal surplus £m	Gross Margin%	Op cost per unit excl. ma- jor works £	Net Margin %	Net mar- gin excl. disposal %	Interest Cover
ASG	203	<b>4</b>	<b>30.9</b>	2,130	12.4	<b>10.3</b>	1.48
A	222	6	28.9	2,222	3.7	0.9	0.97
B	304	6	24.9	3,009	8.8	6.8	1.55
C	255	16	11.4	3,790	1.2	(5.0)	0.94
D	170	30	21.0	2,773	8.8	(8.6)	0.75
E	102	7	5.9	6,840	1.3	(5.7)	<b>1.72</b>
F	218	18	10.3	3,812	7.3	(1.1)	0.57
G	205	16	10.9	7,390	2.6	(5.0)	0.64
H	166	17	18.4	3,298	10.3	(0.2)	1.06
I	204	24	30.1	2,476	<b>18.0</b>	8.2	1.21

Last but not least, Jenkins has referred to the challenges the UK housing association sector has been facing over the last year, some are local to us in the UK but some others are also faced by the social housing sector in other European countries. My main point here is that we have managed to weather the storm and we expect to continue to do so thanks to the financial framework that we have.



## Financing social housing: Alternatives from Ireland

*Gene Clayton*

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### **Background**

Ireland has been particularly badly hit by the world recession; it's almost like a country with the symptoms of bi-polar disease where it was manically up there a few years ago and its now deeply depressed.

There has been a complete collapse in government finances, and this is closely linked to the collapse in the property market. Consequently, there is a huge oversupply of residential property both for sale and for rent in the market in Ireland. Ireland is a small country; the latest estimation of the population is 4.5 million people. This figure needs to be borne in mind when looking at the other figures because when you have such a small population, the tax base is consequently quite small, so the ability to deal with problems is quite limited.

It is estimated that there is an overhang of c. 55,000 unsold private housing units in the market and ca.3,700 unsold local authority-owned affordable housing units for sale. The unsold affordable units now owned by local authorities were built by property developers under the Planning and Development Act and were bought by local authorities as part of planning gain at the height of the market. These units were supposed to be for sale through affordable housing schemes because access to the traditional housing market had become increasingly difficult for the average person in Ireland as property prices continued to climb upwards. The value of these properties has plummeted and local authorities are unable to sell them although they must continue to pay interest on the money that they borrowed to buy them.

Because of the impact of the financial crisis in the Irish economy and on government revenues, there has been a suspension or withdrawal of government funding to housing associations for the provision of social housing for rent, except for some special needs schemes. These schemes would be for pensioners or for people with disabilities or some sort of special needs housing. However, this programme is three times over-subscribed at the moment so it is unlikely that it will meet the existing housing need and will not have the ability to take account of any new needs that may emerge. The previous model which provided housing associations with 100% government funding to procure social housing for family type housing has now been stopped. Consequently, as things stand at present there is no prospect for housing associations to develop new housing for families for some years to come.

### **Alternatives**

#### ***1. Lease and manage***

In terms of the alternatives that are emerging one could say that there is really only one: the 'big idea' from government in Ireland as a response to this difficulty is leasing. It is proposed to lease the unsold affordable units under availability agreements for between 5 and 20 years to housing associations in order to make use of the empty properties that are spread across the country. There are however difficulties with that. Many of the units are pepper-potted in apartment

buildings alongside units that were sold on the open market. An additional difficulty is that, as most of the units are in private apartment blocks, they incur service charges which are paid to for-profit management companies. Some of these service charges are up to 2,000 euro per year. Housing associations house people on low incomes, so in some cases the service charges are higher than the rents being charged. So far, this is the only proposal that the government has come up with to deal with the large numbers of unsold market units whose values have plummeted.

All Irish banks are carrying devalued assets on their balance sheets. To indicate the scale of the problem, it is estimated that in creating the property bubble, property developers had borrowed around €90 Billion from the banks. This is the sum that banks have on their balance sheets with little chance of it ever being repaid by the people who borrowed it. To try to deal with this, the Irish government has given approval to the formation of the National Asset Management Agency or NAMA. These toxic assets currently held by banks have been transferred to NAMA in the hope that an orderly way will be found to dispose of the assets and obtain a return. The government has agreed that NAMA should take on c.€80 billion of this debt at a 30% discount, so effectively the taxpayer is taking on c.€56 billion of bank debts in an effort to stabilise the Irish banking system.

For a country the size of Ireland, to have that sort of figure transferred to the national debt is a huge burden. Until NAMA comes up with a value to put on these toxic assets the housing market is stuck. The market finds it difficult to put a value on housing at the moment because everybody is waiting to see what NAMA is going to do.

Pictures 1–3 show a large residential development at Dublin's North City Fringe. They give an indication as to what was produced during the boom, of the mistakes that were made in the planning and development process.

Picture 1 was taken from a roof terrace on a block of apartments which houses tenants from a housing association. It looks out towards the sea, a wonderful view, but if you pan around, picture 2 shows the view to the right.

In the distance is the edge of the new town centre. This area has planning permission for a total of 8,000 residential units, shops, school, retail and transport. It was planned to be a new town. The town centre was completed but because the site was not designated a strategic development zone, the developer could build it in any phase he chose. He chose to build the town centre first, then to go to the edge of the site to build the social and affordable housing and to come



Picture 1



Picture 2

back later to develop the now derelict area as the prime location for the 4-5 bedroom houses. In the meantime, the market collapsed and the result is a half completed development. There are other examples of these around Ireland.

Picture 3 shows the view from the same block looking back towards the town centre and a train station being built there. This area in the foreground will remain undeveloped until the housing market returns. Hopefully lessons can be learned from the mistakes that were made.



Picture 3

### ***Lease and manage: payments***

The lease and management proposal that is emerging from government proposes that housing associations will lease empty, unsold apartments from developers and local authorities with the lease costs being paid by government at a c. 20% discount on market rent. The housing association will collect a differential rent from the tenants based on a fixed percentage of income, usually at a figure of between 10% and 15% of net household income. A worrying potential policy shift that is emerging from government at the moment is a push towards differential rents. It seems that there is a wish to implement this across the board, even on special needs schemes, such as sheltered housing for the elderly where there is a fix income group whose only source of income is the state pension. Currently in general needs housing there is the potential for cross-subsidization whereby higher earning tenants can cross-subsidize the rents being paid by lower income households. If this ability to cross subsidise is removed it makes the future viability of schemes quite tenuous. Housing associations can also negotiate a management fee with the local authority or the Department of the Environment but it is not a large amount of money, c.€450 per unit per year. The housing association is responsible for the repairs and maintenance under the lease but will not own the asset.

## **2. Build and lease**

Recently a variation of the leasing model was given approval by government where a scheme had previously been through their planning and funding process and, importantly, where the housing association owned the land. The proposal was to build and refurbish units at a cost 20% below current market rents. The housing association would agree to make these new units available to the local authority for a period of twenty or twenty five years to people in housing need who are nominated from the local authority housing waiting list. On this basis government agrees to meet the cost of construction of the units and the housing association can borrow the money from the bank to pay these costs. The capital and interest is paid back over a period of 20/25 years and the housing association continues to own the asset.

The attraction of this for government is that it does not count against the public sector borrowing requirement because it is effectively an availability agreement and not a lease. The benefit to the housing association is that a differential rent is paid by the tenant, they continue to own the asset, and the units remain within the public housing sector for use into the future to house other pensioners as vacancies occur.

## Conclusion

This is the emerging policy response from government to the crisis in Ireland at the moment. They are quite clear that the traditional 100% funding models for the provision of family type housing will be phased out. There will still be funding to build and procure special needs housing. The future direction of the social housing sector in Ireland is uncertain at the moment. The Department of the Environment commissioned a report by consultants which concurs with the Department's objective of introducing the leasing model into the social housing sector in Ireland. There is a need to devise another alternative mechanism. One example is an idea that emerged from a recent CECODHAS meeting for the establishment of a funding vehicle for social housing which has the ability to deal more effectively with the shifts in capital markets and can withstand the ups and downs a bit better, something that is of such a scale that it can issue bonds and can be attractive to investors. Associations around Europe who have the willingness and the capacity could access this without having to be at the behest of other bodies or other people. The meeting being arranged by our Finnish colleagues in February 2010 may be the first step in seeing whether such a thing is achievable.



**FINAL REMARKS**



## Social, public and co-operative housing in Europe: Dealing with financial risks on the housing market

*Rudy de Jong*

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### Introduction

In this seminar we have addressed two key issues: one has been sustainable funding; the sustainability of the housing markets and what, as social housing providers, our role is in these housing markets. If we understand this we can better define our role and position in Europe at a time when everybody is worrying about markets. Indeed, understanding the importance of housing in markets makes it easier for our sector to address the issue of sustainability of these markets. A second question we have discussed at this seminar is our contribution to the stability of markets, and what our role is in this.

### 1. Stability of housing markets and the role of social housing providers

If we talk about stability in residential markets, we are talking about a basic risk—and that is the work we do, that is housing for vulnerable households, low solvency people who depend heavily on economic development. When the economy goes down there is suddenly a big problem with these households. This means that the management of this risk is vital to the stability of the residential and financial markets and to the economy as a whole. We have seen that this risk management is taking place at 3 levels: firstly, at the level of financial markets; secondly, at the level of individual investors (i.e. households and small landlords); and last but not least, at the level of institutional and commercial investors. I will now refer in more detail to each of these levels.

#### ***Level 1: Risk management in the financial markets***

A number of contributions in the seminar addressed the issue of risk management in the financial markets; high risk mortgages (subprime loans) that can be bundled together with other loans and converted into asset-backed securities with standardized 'rating' and traded in the financial markets. In theory, this offers the market optimal transparency of the risks of these investments. Investors in the market will value the risk of these 'asset-backed securities' in the price of the product. However, the system to manage the risk of low solvency households in financial markets didn't work that well. Indeed, there are a number of issues that need to be addressed at this level of risk management: firstly, residential real estate risks are not clear; secondly, investors don't value long term risks, and thirdly, risk perception changes with economic cycles.

#### ***Level 2: Risk management of individual investors (home ownership and small landlords)***

This second level addresses instruments used to help individual investors manage their risks in the housing market. Examples are mortgage guarantees, taking part in saving systems to enforce private funding (e.g. Bausparkasse), public

subsidies for home-acquisition, private guaranty systems (e.g. parents' financial help), tax deduction; and/or taking part in risk pooling systems, such as cooperative and condominium housing. There are in many countries legal restrictions on private risks (i.e. loan-to-income). However, for more than 20% of the households this doesn't get to the bottom of their solvency (or dependency) problem.

### ***Level 3: Risk management by institutional arrangements***

Rental housing in itself is a risk management system because a big company can take away the risk from the people who live there. This includes rental housing, which transfers risks from households to investors; risk pooling e.g. through co-operative housing; and rent allocation systems, which increase and decrease with household income. Furthermore, social housing is an ultimate system to take over the risks of low solvency households. However, for the system to work, two conditions have to be met: firstly, sustainable funding for social housing (e.g. for investments, refurbishment, etc.) needs to be secured. Secondly, sustainable access to capital markets with public guaranty systems on market funding of social housing.

This is really an important message when communicating with governments as well as with market actors: if social housing is not there, one can see what happens in a totally free market. Our message, therefore, can be summarized in three points:

- *Social and cooperative housing offer a stabilizing factor in society.* Even when the economy goes down people can stay in their own neighbourhoods and communities. Their children can continue to go to their own schools, stay in their social networks, etc.
- *Social and cooperative housing offer a stabilizing factor in the economy.* People might lose their jobs, but they won't lose their homes. It gives them the opportunity to pick up economic activities when things get better.
- *Social and cooperative housing offer a stabilizing factor in housing markets.* They offer long term investments which moderates high volatility in commercial residential markets.

However, in order to deliver, we need government support and sustainable funding—which leads me to my concluding point: sustainable funding of social housing.

## **2. Sustainable funding of social housing**

I would like to finish my conclusion of this seminar by highlighting that throughout the contributions presented here we have seen that because of the financial crisis in many EU countries the continuity of financial support for social housing is under threat (the Irish example being a case in point). A second remark I would like to make is that the restrictions imposed by DG Competition are very strong, as we have also discussed in this seminar. It is in fact odd that so much money is going into saving banks but the same support is not there for housing.

We have discussed a variety of systems of financing social housing across Europe. Indeed, we need a diversity of systems adapted to local and national circumstances. What is important is not which one is the best system; it depends on the circumstances, history, economy, political developments, etc. But we also saw that national systems are often depending on one financial arrangement which make them sensitive to economic and political developments. Although in some countries access to funding is still guaranteed, we all have a need for a sustainable funding system for social and cooperative housing.

We have also seen a demand for long-term low risk investments. Social housing can be an interesting investment sector. We should try to use the single European market. When we spoke about the possibility to make better use of our economies of scale with instruments like European bonds or European medium term notes we came to the conclusion that it seems almost impossible to use them because our systems are so different. But maybe we can find instruments on a smaller scale. For example, making use of the EIB or creating a social housing brand (reliable, low risk) in the financial market.

Last but not least, a task for the future would be to come to a point where it is quite natural for the European Commission to accept state support (guarantee systems, etc.) for funding social housing, for the reason that it is essential to stabilize housing markets.



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AFTER THE ECONOMIC CRISIS  
Proceedings of the CECODHAS Seminar  
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