Study on FINANCING OF SOCIAL HOUSING in 6 European countries

CECODHAS
EUROPEAN SOCIAL HOUSING OBSERVATORY

FINAL REPORT

July 2013

http://www.housingeurope.eu/about/observatory

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in 6 European countries

Draft report – for internal use only

CECODHAS Housing Europe Observatory, May 2013

Introduction

This report presents the results of a study carried out by CECODHAS Housing Europe Observatory between the end of 2012 and spring 2013. The idea of this study came from a proposal by the French federation USH together with the public bank Caisse de Depots et Consignations.

It aims at answering relatively simple questions: how much does it cost to build social housing, and why? How do social housing providers manage to balance costs and revenues linked with a new operation? What kind of financing models are used to support this kind of activity? The answers are nevertheless necessarily complex, as huge differences exist across countries (or even across projects within the same country) in the solutions adopted to finance social housing.

To better understand this complex issue, we looked in details at the general, 'systemic' characteristics of social housing in 6 countries, namely Austria, England, Finland, France, Germany, and the Netherlands. For each country, with the help of national experts selected among our members, we then identified and described a concrete operation –presented in this report anonymous form- which could be considered as exemplificatory of an 'average' new social housing project.

Below we report the results of this enquiry for each of the 6 analysed countries, and then conclude this exercise by attempting a cross-country analysis, which necessarily presents significant limitations at this stage.

The information included in the report is nevertheless already very interesting, as to our knowledge no cross-country study specifically on financing of social housing was ever carried out with such level of details. We hope this can be the basis for further research and that it will be a useful tool for our member organisations willing to compare their financing system to those in other countries and to find ideas/inspiration on economically viable solutions.

1) AUSTRIA

Social rental housing as percentage of total housing stock in the country: 22%
Social rental housing as percentage of total rental housing: 56%

1.1 Basic features of the System

There are different elements of (social) housing in Austria which are not directly inter-linked.

1. **Public housing** (rental housing) provided public authorities, mainly municipalities.
2. **Limited-profit housing** provided by non-profit providers (cooperatives and societies) working under the Limited-Profit-Housing Act. They have limited income, restricted business activities, assets are bound to the common interest, they have to reinvest their income in new housing/refurbishment and apply specific rent regulation (cost rent with statutory rent limits).
3. **Housing promotion schemes**: the Federal provinces provide public financial compensation for new housing (rental housing, owner occupied housing, home ownership) to different types of providers (public, limited profit, for profit, individuals).

The share of public and limited-profit rental housing is high, amounting altogether to about 22% of the total housing stock. Besides, there is also non-profit housing provision for owner occupation. One should also bear in mind that funding schemes in most provinces in Austria are also open for for-profit providers and that the Limited-Profit-Housing system and Promotion Scheme are different institutional concepts (see the introduction above).

1.1.a Providers

Different types of actors engage in the provision of social housing:

1. **Municipalities** manage 33% of social housing stock but they have withdrawn from new construction
2. **Limited-profit housing organizations** manage 56% of social housing. Unlike for profit providers, limited-profit housing companies cannot carry out activities other than provision and management of rental and owner-occupied housing at limited rents/prices[1].
3. **For-profit providers**[2] manage 11% of social housing

Therefore, in investigating provision of affordable housing in Austria one has to distinguish between elements linked to the promotion schemes and elements linked to limited-profit housing or public housing. In the example chosen for Austria (see below, Part 2) we will refer to a 'typical' project carried out by a limited-profit housing company, but it is nevertheless useful to remind the reader of the different existing elements.

1.1.b Financing

Since 1989, it is up to the provinces to define the financial framework for housing subsidy (while before housing promotion used to be a responsibility of the central state according to the constitution). Nevertheless until 2008 the federal state granted earmarked means for

[1] They can provide housing without public subsidies but rent/price limitations apply also in this case.

[2] Some provinces do not restrain subsidies to only non-profit organisations. So for-profit providers, since the 1990s, can also have access to public loans and grants in exchange of restrictions in rents and tenant allocation. Their share is comparatively low as their involvement in social housing provision is relatively recent.

housing promotion to the provinces. From 2009 the system was changed and the provinces also have the complete financial responsibility. It is worth mentioning that a contribution from employers and employees (0.5% of wages each) is collected at state level and then passed onto federal provinces so they can add it to their budget dedicated to supporting social housing provision. Furthermore, in some provinces annuity grants are paid to social housing providers in order to lower rents.

Financing of social housing is based on different sources. In addition to bank loans, developers' equity and tenants' contribution, public loans are available through the promotion schemes of the federal provinces. An "average" financing model is described below:

1. **Long-term public loans** (regulated by provinces): they are mortgage loans covering on average 35% of the total costs (including land and construction). These loans have a maturity of approx. 35 years; interest rate and annuity are increasing about every five years. Level of interest rate: between 0 and 2 %. The net grant value is about 40% of the grant's nominal value.
2. **Bank loans**: covering on average 43% of a project cost. Besides from 'normal' bank loans, commercial loans raised via Housing Construction Convertible (HCC) bonds are available. Special purpose convertible bonds exempted from capital gains tax ("*Wohnbauanleihen*", introduced about 15 years ago) are sold on the market by specific banks that turn them into loans. They can be considered as 'pre-subsidised' loans, similar to the Livret A system. They have a 50 basic points lower rate interest rate than a normal bank loan.
   Current interest rate is variable and it's currently between 2 and 3% for housing associations (you can only get fixed rates on 10-year loans, with an interest rate of about 3-4%). Most of these loans have a maturity of 25 years, but there are also models with an open maturity. Regulations require non-profit housing companies not to use loans that are above a defined basis point above the Euribor.
3. **Developer equity**: on average 14% of the cost
4. **Tenant equity**: 9% of the cost. This basically works as a quasi-loan that the housing company owes to the tenant and it's given back indirectly via lowering the rent. If the tenant moves out, he/she gets back the initial sum depreciated by 1% per year. Households who have problems paying the tenant equity (because of low income) can get a public loan at 0% interest rate extended by the province. When the tenancy is terminated the remaining amount is paid back and the new tenant pays the total (unless the provider chooses another source of financing). If these contribution are higher than € 60/m2, the tenant has the option to buy the dwelling after 10 years. Currently about 25-30% of tenants buy their dwelling in the end[3].

As we will see in the case study below, financing planning is dealt with on a project basis (not at company level), and the cost has to be calculated for each single operation, determining the rent. It's interesting to notice that over the past 10 years the cost of construction works in Austria increased by about 20% overall, but by 30% in the limited-profit sector. This is due to the fact that companies receiving subsidies must comply with very high quality and energy-efficiency requirements.

1.1.c Fiscal framework

As for housing taxation, Austria enjoys an exemption from EU VAT Directive consisting in the fact that 10% VAT is charged on rents, therefore **landlords can deduct VAT** on the cost of construction. This is true for all kind of housing, and not only social housing.

[3] This is a controversial issue because having mixed tenures in a single building it often proves problematic from the point of view of management of the estate.

Housing associations pay a **yearly tax on the land** they own. There is no VAT imposed on land, but there's a land tax at 6% which in case a home is sold the buyer has to pay to the state.
Subject to regulation which varies across Federal provinces, **property tax exemption** is applicable for social housing and also for private bodies receiving public compensation. There is a low level of indirect fiscal advantages for affordable housing: there are tax allowances for individual housing costs on a limited level, and tax exemptions (tax on interest) for *Bausparen* (saving deposits for home owners' financing) and for *Wohnbauanleihen* (covered bonds for financing multi-family housing).

1.1.d Existence of individual housing allowances/benefits

A further characteristic of the Austrian system compared to other European countries is the **moderate level of public expenses for individual allowances**. Less than 7% of households receive individual grants. In the case of individual housing allowances only a limited size (varying according to the size of the household) is accepted/calculated in the allowance.
Besides individual housing allowances for tenants, subsidies are available in Austria also for those who want to buy a single-family home.

1.1.e Obligations with regards to rents and tenancy contracts

According to the Non-profit Housing Act, limited-profit housing companies have to apply **cost rents**, notwithstanding whether the dwelling is subsidised or not. After the maturity of loans (and the subsidisation period) there is still a **statutory rent limit**, which is currently set at € 3.29/m2 net throughout the country, according to the Non-profit Housing Act (which implies for many dwellings that rents are lowered after maturity of loans). Nevertheless it is possible to sell the dwelling at a limited price.
Besides, there are models where the **provincial promotion scheme requires rent limits** for the subsidisation period. In this case, if a limited-profit company[4] gets financing from a promotion scheme, rents must be adapted according to the requirements of both Non-Profit Housing Act (cost level) and the Promotion Scheme (required rent level).
On average, in new completions of subsidised housing the net rent is € 3.75 – € 4.20 / m2 (€ 7 - 8 / m2 gross, including a provision for future repairs, charges) plus the depreciation of tenants' financial contribution (see above, point 1.1.b). During the financing period the rent is increased regularly (by 1.5 – 3% per year on average) due to increasing instalments. Also the provision for (future) repairs may be increased in the 11th and 21th year after completion.
The cost calculation for limited profit housing providers is by law bound to the individual housing project. On the other hand, income from rents (after maturity of loans) or from the sale of dwellings is dedicated to the company/co-operative and not to the single estate. Profits must be re-invested in housing activities. In the case of for profit providers, during the subsidisation period there are similar restrictions as in non-profit housing and if there are margins they are free to use them, while after the subsidisation period there are no limitations at all.
Most tenancies (more than 95%) in the limited profit housing sector are unlimited, but legislation does allow limited contracts.

1.1.f Obligations with regards to size/cost of dwellings

[4] Also private companies acting on a for-profit basis can access promotion schemes but they have to respect rent limits only during the period leading to the maturity of public loans. After that market rents are allowed – meaning that the rent might increase to up to 3 – 4 times the level which a non-profit body is allowed to charge.

There is a general absolute limit for the size of the dwellings according to the promotion schemes (they vary between provinces also depending whether it is for single family homes or multi-apartment-blocks). And according to the non-profit housing act the upper limit is 150m2.

1.1.g Obligations with regards to allocation of social housing / beneficiaries

Income limits exist to determine who can have access to subsidised housing. They are defined by the federal Provinces, and are only applicable for new leases during the subsidisation period. Income limits (corresponding to the household's net yearly income after social security contribution and income tax) depend on the number of members in the household, plus a "bonus" for young families, handicapped children and in some cases also for single parents. The table below for instance refers to income ceilings in Vienna.

Income ceilings to access social housing in Vienna	
Number of persons per household	**Maximum yearly income (€)**
1 Person	42 250
2 Persons	62 960
3 Persons	71 250
4 Persons	79 530
Each additional person	+ 4 630

Income ceilings virtually allow about 80% of households to access social housing. The logic behind this comparatively high level of income ceilings is that the proportion of subsidised housing is also comparatively high (60 – 80% of total new construction).
Non-profit housing companies must also adopt social criteria that define allocation priorities, and federal Provinces or public owners of housing companies can directly nominate tenants for part of the stock.
Furthermore, social mix is an important goal of Austrian housing policies: a problem with regards to this is posed by the fact that new built homes are comparatively expensive compared to the existing stock, making social mix sometimes difficult from the point of view of financial equilibrium[5].

1.2 – Case study from Austria

The example provided below refers to an **average/model housing project provided, with public subsidization, by a limited profit provider in Vienna**. The project benefitted from the Viennese Provincial Funding Scheme which also defines the constraints and obligations (regarding income ceilings of residents, quality features of housing, maximum costs for construction and land, rules for rent setting, etc). It is loosely based on a concrete project started in 2010 and completed in 2012.

1.2.a Project description

Size: 220 dwellings of 77m2 habitable each (average), for a total of 16 940 m2. Dwellings vary from 1 to 5 rooms each. The project consists of 100% social dwellings
Location: Vienna, central brownfield area (former railway area), characterized by a high price for land

[5] Housing association must balance costs with revenues form rents, therefore it might be difficult for low-income families to access newly built dwellings and they would more easily find accommodation in the existing public stock or old limited profit stock.

Quality/technical features of the operation: There are 100 garage and 800 inside spaces for bicycles; 8 elevators; Energy consumption = 43.1 kwh/m2a

1.2.b Costs

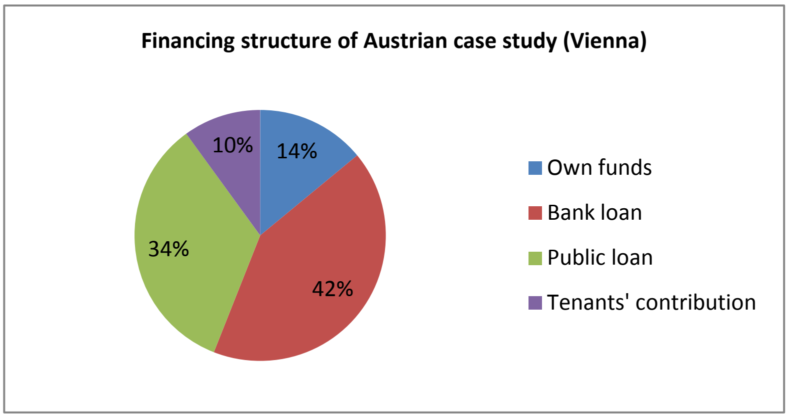
Site cost: € 280 /m2 habitable = € 21 560 /dwelling[6]

Construction work and fees: € 1 710/m2 habitable = € 131 670/dwelling.

Other: none

Total cost: € 1 990 /m2 habitable =€ 153 230/dwelling. This amount is excluding VAT. That is not due to a tax exemption but due to the VAT regulation in Austria which establishes that VAT is charged on rents, so VAT on costs of construction is deductible.

1.2.c Financing plan



Financing of costs of construction and land			
Financing source	**Euros per square meter**	**Euros per dwelling**	**As % of total cost**
Own funds of housing provider (cost of land)	280	21 560	14%
Bank loan	835	64 280	41.9%
Public loan	670	51 590	33.6%
Financial contribution of tenant (quasi-loan)	205	15 800	10.3%
Total	**1 990**	**153 230**	**100%**

It should be noted that in Vienna the share of the public loan is lower than in other provinces. The public loans extended by the provincial fund schemes have a typical rate of interest between 0 and 2% (often increasing) and a maturity of 35 years (see the introduction above).

In the case of Vienna financing follows a specific pattern: The bank loan does not have even instalments (interest + repayment) but dynamic ones with an open maturity. During the duration (maturity) of the bank loan only interest is paid for the public loan, repayments start only after the bank loan is repaid. The initial level of repayments is defined by the

[6] The price indicated is not the purchase price of land, but the purchase price calculated per habitable m2/dwelling. The level indicated is the upper limit accepted by the funding scheme; this regulation means that in case of high price land the provider has to realise a high building density to comply with the scheme regulation.

promotion scheme with an annual increase with the consumer price index. The level of the rent defines the level of repayments after deduction of the interest component. Thus the duration of both loans is open – depending on the rate of interest for the bank loan and the consumer price index. With a rate of interest between 2,5 – 3% for the bank loan and a consumer price index increase of 2%, the maturity of the bank loan is 20 – 21 years, and the repayment period for the public loan another 9 - 10 years. For further details see the table below:

Viennese Model of Housing Finance 2011 - loans repayment over time							
	Bank loan			**Public loan**			
Year	**Loan**	**Interest**	**Repay**	**Loan**	**Interest**	**Repayment**	**Rent annual increase (consumer price index)**
	835	**0.03**		**670**	0.01		1.02
1	815	25	20	670	6.7	0	4.28
2	794	24	21	670	6.7	0	4.37
3	771	24	23	670	6.7	0	4.45
4	747	23	25	670	6.7	0	4.54
5	720	22	26	670	6.7	0	4.63
6	692	22	28	670	6.7	0	4.73
7	661	21	30	670	6.7	0	4.82
8	629	20	32	670	6.7	0	4.92
9	594	19	35	670	6.7	0	5.01
10	557	18	37	670	6.7	0	5.11
11	518	17	39	670	6.7	0	5.22
12	477	16	42	670	6.7	0	5.32
13	432	14	44	670	6.7	0	5.43
14	386	13	47	670	6.7	0	5.54
15	336	12	49	670	6.7	0	5.65
16	284	10	52	670	6.7	0	5.76
17	229	9	55	670	6.7	0	5.88
18	170	7	58	670	6.7	0	5.99
19	109	5	62	670	6.7	0	6.11
20	44	3	65	670	6.7	0	6.24
21	0	1	44	645	6.7	25	6.36
22	0	0	0	574	6.5	71	6.49
23	0	0	0	500	5.7	74	6.62
24	0	0	0	424	5.0	76	6.75
25	0	0	0	346	4.2	78	6.88
26	0	0	0	265	3.5	81	7.02
27	0	0	0	182	2.7	83	7.16
28	0	0	0	96	1.8	86	7.31
29	0	0	0	8	1.0	88	7.45
30	0	0	0	0	0.1	8	7.60
31	0	0	0	0	0.0	0	6.08*
32	0	0	0	0	0.0	0	6.20
33	0	0	0	0	0.0	0	6.32

*At this point the rent decreases to 3.29 per index

The total net grant value of the public loan is about € 16.820 per dwelling (€ 218/m2) and that of the indirect interest subsidy incorporated in the bank loan about € 3.280 per dwelling (€ 43/m2); in total that is € 20.100 per dwelling (€ 260/m2) which is about 13% of the total costs including land and 15% of costs of construction.

1.2.d Rents

With regards to rents charged for the case study project, one should bear in mind that according to the limited-profit housing act different "segments" which compose the total rent[7] have to be distinguished, each of them responding to its own financing logic and regulated separately. They are reported in the table below:

Rent structure in the Viennese project			
	Euros per square meter per month	**Euros per dwelling per month**	**Details**
Cost rent (cost of construction, land)	5.13	394.9	According to Limited Profit Act: rent based on cost – with annual increase depending on financing. After maturity of loans: statutory limit € 3.29 per square meter
Provision for maintenance/repairs	0.30	23.1	According to Limited Profit Act: statutory maximum levels which increase over time: Year 1-10: € 0.41 Year 11 – 20: € 1.08 Year 21+: € 1.62
Provision for vacancies	0.11	8.4	2% of cost rent + provision for maintenance/repairs
Cost of management	0.22	17.3	Statutory upper limit
Utilities	1.50	115.5	According to actual costs
VAT	0.73	55.9	10% on rent (including cost rent+ provision for maintenance, provision for vacancies, cost of management, utilities)
Total	**7.99**	**615**	

In general in Austria there are no statutory rent ceilings during the amortisation period, just cost rent calculation applies. On the contrary, in Vienna an upper limit is applied. For the limited-profit provider that implies the cost rent required by the limited profit housing act has to be brought into balance with that upper limit. Despite this, the rent in Vienna in new housing is comparatively high compared to other provinces with lower costs of land and more intense assistance systems (the total rent per square meter charged in this estate is € 7.99/m2, against an average for Austria of approximately € 6.70/m2). Nevertheless, the rent in the case study project is still quite low if compared to the local residential market, i.e. about 50% - 60% of market rents in the same area.
To actually compare that rent level with those of other countries though, one should add the financial contribution of the tenant. If we calculate the 1% depreciation of the € 205 initially paid by the tenant, we have an additional monthly rent of € 0.17/m2.

***

2) ENGLAND

Social rental housing as percentage of total housing stock in the country: 17%
Social rental housing as percentage of total rental housing: 49%

2.1 Basic features of the system

In England 3 981 000 social housing dwellings represent about 17.3% of the total housing stock and about 54% of the total rented stock. Historically, local authorities would have delivered social housing but now the majority (56.6%) of social housing is provided by

[7] The rent is calculated per m2 habitable area.

housing associations. This is also a reflection of significant stock transfers from local authorities to private housing associations since the Housing Act 1988.

2.1.a Providers

Social housing providers in the UK comprise **local authorities**, **independent public bodies** (e.g. Homes and Communities Agency), co-operatives and private[8] not-for-profit organisations or '**housing associations**' (HAs). Private for-profit developers may also apply for funding to provide social housing within certain funding schemes.

Dwelling stock by tenure, 2011[9]		
Total residential housing stock in England	22 976 000	100%
Owner-occupied	14 827 000	64.5%
Rented privately or with a job or business (e.g. as part of employment contract)	4 105 000	17.9%
Rented from Housing Associations*	2 255 000	9.8%
Rented from Local Authorities*	1 726 000	7.5%

* These units are considered as social housing, e.g. 18% (4,9m) of total UK residential housing stock (52% of rental market).

Housing associations provide the majority of social homes in England and will build the vast majority of the new social and affordable homes financed under the Affordable Homes Programme 2011-15 (see point 2.1.b below). Housing associations vary significantly in size, as illustrated in the table below, which refers to HAs members of NHF according to the size of the organisation:

Housing associations members of NHF		
Units managed	**No. of members**	**Total stock**
10,000+	70	1 407 945
5,000-9,999	106	747 349
2,500-4,999	93	353 612
500-2,499	153	189 620
1-499	615	59 672
Total*	**1 037**	**2 758 198**

* figures do not exactly match those in the previous table. This is explained by the fact that not all English housing associations are members of the NHF, and some units managed by housing associations are not classified as social housing (but could be affordable or intermediate housing)

2.1.b Financing

In the case of social housing owned by housing associations, the provision of new housing and associated land costs are mainly financed through three funding sources: **housing association's reserves**, **government grants**, and **private finance consisting of bank loans or funding rose on the capital markets**. Furthermore, the government also supports social housing provision through the **planning system**. In this case when granting buildings planning permission, local authorities can ask private developers to enter into a voluntary legal agreement (known as Section 106 Agreement) that obliges them to allocate a fixed proportion of homes as affordable homes. In most cases, these homes will be sold to a housing association. They are often sold at a discounted price to reflect their reduced

[8] Housing associations are generally private entities but are considered bodies governed by public law for the purpose of procurement.
[9] DCLG, live tables on dwelling stock, table 104

market value. It is estimated around 50% of new affordable homes are delivered through Section 106 Agreements.
The use of Government grant and other funding sources has varied considerably over time. In the years leading up to 2007, social rented homes were funded through a combination of government grant (35-45%), traditional debt finance and cross-subsidies from the sale of shared ownership homes. Following the global financial crisis, opportunities to cross-subsidise were limited. In response, grant rates temporarily rose to between 45-60% with remainder being financed through their own resources including borrowing. These proportion varied according to the location of each development. The remainder of the cost of provision was financed by housing associations themselves, predominately through receiving private borrowing facilities. Following the global financial crisis, opportunities to cross subsidise new development from low cost home ownership properties diminished and consequently grant rates rose to between 45% and 60% again in 2009-10 (dependent on location)[10].

Most recently, reforms were adopted which change significantly the financing model for social housing as well as other aspects such as level of rents. Public subsidies are now available through government grants for affordable housing (defined as below market price) through the 2011-2015 Affordable Homes Programme. The programme is expected to deliver overall 80 000 new homes by 2015, with a total public participation of £1.8 billion through government grants, out of an overall approximate cost of £12 billion. Housing associations and others are investing £10 billion from their own resources.
As shown by the table below, under this scheme housing providers must finance 86% of the new construction cost, with the ability to charge higher rents – up to 80% of market rates. 14% of the cost is covered by government grant. Furthermore, local authorities are encouraged to provide additional funding if possible, mainly in the form of land at discounted price.

Affordable Homes Programme in England		
Total scheme costs/unit*	£141,000	100%
Government grant	£20,000	14%
Borrowing supported from new rents	£75,000	53%
Other funding**	£46,000	33%
Rent annual average/year	£6,552	

* Total scheme costs include the construction and land costs associated with the development of a home.
** Housing providers are expected to raise this finance through borrowing against assets, operating surplus and any other income.

As for private borrowing, it used to be mainly from banks, but now the majority is coming from the bonds market, with bonds typically over a 25 year period. In 2012, housing associations raised £4bn with bonds on the capital markets. The biggest housing associations are going to the market alone, while smaller ones turn to the Housing Finance Corporation, which acts as an aggregator. Conditions of the loans can vary significantly. According to a recent analysis of the 160 largest housing associations carried out by the magazine '*Social Housing*', the cost of funds is on average 4.6% in England[11]. The housing association in the case study (see point 2.2 below) has a cost of funds in line with this average. The table below presents data on recent bond issues and private placements of housing associations in England.

Recent bond issues by housing associations in England

[10] CECODHAS (2010) SSGI Study

[11] Social Housing Magazine, August 2012-January 2013, Monthly Issues. For further information please see their website - http://www.socialhousing.co.uk/

Date of Issue	Amount (£)	Margin[12]	Cost of funds	Rating	Length
January 2013	£200m (£50m retained)	145 bps	4.57%	Aa3 (Moody's)	30 years
November 2013	£200m (£50m retained)	170 bps	4.81%	Aa3 (Moody's); Aa- (Fitch)	30 years
November 2013	£250m	125 bps	4.315%	Aa3 (Moody's); Aa- (Fitch)	30 years
October 2012	£127m (£5m retained)	188 bps	4.999%	A+ (S&P)	31 years
October 2012	£100m (£50m retained)	Not disclosed	5.034%	Aa2, negative outlook (Moody's)	30 years
October 2012	£150m (£50m retained)	196 bps	5.087%	Aa2 (Moody's)	32 years
September 2012	£250m	250 bps	5.486%	Aa3, negative outlook (Moody's)	30 years
August 2012	£250m	242 bps	5.248%	Aa3, negative (Moody's)	26 years
Recent private placements					
January 2013	£60m	nav	5.13%	None required	32 years
January 2013	£15m	nav	5.13%	None required	20 years
January 2013	£100m	nav	4.31%	Aa3 (Moody's)	15 & 20 years
September 2012	£61m	nav	4.93%	None required	30 years
August 2012	£48m	205 & 200 bps	4.61%	None required	15 & 30 years

Housing associations also use private reserves to finance new projects. Furthermore some of them recur to 'land banks', but this is not used frequently. HAs carry out a range of different activities, including investment in community projects and social care. They can also provide market housing but in this case the housing association creates a subsidiary company to carry out commercial activities. They can use revenues from commercial activities to subsidise charitable activities, but not vice-versa.

2.1.c Fiscal framework

As for taxation, housing associations have to **pay stamp duty** of about 2-3% when they buy new land or property, unless the property is less than 125 000 pounds. Furthermore, **there's no VAT on new build**, but there's 20% VAT on repairs. Finally, social housing is **exempted from the 'community infrastructure levy'**, a new tax which as of today has been implemented by 20-30% of local authorities across England.

2.1.d Existence of individual housing allowances/benefits

Housing benefits are an important feature of the social housing system in England. Actually while up until 1989 public financing used to finance construction, up to 100% of project cost,

[12] Over 30-year government gilts (or equivalent if length is shorter)

since then there has been a constant shift towards paying personal benefits to tenants instead.

A person can secure housing benefit if he/she is a tenant and is out of work, on a low income or has savings of less than £16 000. The amount a person receives will depend on their income and their specific personal circumstances. In some cases, housing benefit cover only part of the rent while in others the entire amount.

In 2012, around 5 million households claimed housing benefit: 3.4 million households were in the social rented sector (out of which 1.9 million were housing association tenants and around 1.5 million local authority tenants), and a further 1.6m households were in the private rented sector.

In 2011, the annual housing benefit bill stood at around £21 billion altogether. The 2012 figure is estimated to be in excess of £22 billion and, according to the Government's own estimates, will probably remain above this amount[13].

2.1.e Obligations with regards to rents and tenancy contracts

Most of existing low cost rental housing is let at **social rents** (both by HAs and LAs). These are very low rents (currently around 40 to 60% of market rents, but this proportion is even less in highly pressured markets such as London). The existing approach to social rent setting has been in place since 2002: using a rent formula, a 'target' rent is calculated for each home, with the aim of keeping social rents below market rents. This formula takes account of the relative value of the individual home compared to the national average property value (30% weighting) and local manual income levels relative to the national average (70% weighting). This is then amended by bedroom weightings and rent caps to set an absolute maximum rent. Rents can be increased by the retail price index + 0.5%[14]. Subsequent to the UK Budget 2013, the Government announced in its Spending Round 2013 this formula will change for the 10-year period between 2015/16 to 2024/25, when social rents will increase annually by the consumer price index + 1%[15].

Since about two year there is another form of low-cost rental housing, namely **affordable rents**. In this case the rent is up to 80% of market rent, and increased yearly by the rate of inflation. The rents actually charged as affordable rent are currently about 78% of market rents on average (with the exception of London where the price is more regulated, otherwise it would get too high. Here affordable rents are usually around 65% of market rent). Depending on their specific contract with the HCA, housing associations can decide to convert a proportion of their existing social rent stock into affordable rent. In some cases, this can be as high as 20% of their existing stock. Housing associations will be able to convert vacant social rent properties to Affordable Rent at re-let, where they have reached an investment agreement with the Home and Communities Agency about how additional rental income will be reinvested in the supply of new affordable housing.

[13] Chartered Institute for Housing, National Housing Federation & Shelter, 'The Housing Report' (November 2012); Shelter, 'Bricks Or Benefits', (2012)

[14] For further details on the social rent formula and its evolution see Wilson, Wendy (2013) Rent setting for social housing tenancies. Standard Note SN/SP/1090, Social Policy Section, House of Commons Library.

[15] Spending Round 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf

Up until recently, tenancies in the social housing sector used to be life-long, but today under the affordable rent programme it is possible to have lease contracts limited in time. Tenancies for Affordable Rent properties must be for a minimum period of two years. Landlords and tenants may wish to consider a range of 'end of tenancy' options depending on the needs of the household concerned. This could include selling the property to the tenant (there is 'right to acquire' in England on homes built by housing associations) on shared ownership.

2.1.f Obligations with regards to size/cost of dwellings

Not applicable

2.1.g Obligations with regards to allocation of social housing / beneficiaries

General criteria for access to social housing are established by law at national level but local authorities have significant discretion to formulate their own criteria to determine who may qualify for social housing in their areas, since the Localism Act of 2011. Social housing target groups range from lowest income households to intermediate middle class households. **Most of the population is virtually eligible** for social housing[16]. Nevertheless allocations are predominantly **needs-based with priority given to homeless and others based on urgency of needs** (e.g. temporary accommodation, cramped conditions, medical conditions etc.). As a matter of facts, homes tend to be let to people who are dependent on benefits or have a low income. The average household income in English social housing is less than £10 000 per year.
Housing associations set their own policies on the type of housing services they provide and what criteria they apply to selecting tenants. However, it can be estimated that local authorities decide about 75% of tenants, and the remaining 25% are picked by housing associations (including households who are already tenants but want to move). A particular feature is the choice-based lettings system: available housing associations properties are advertised (website, local papers, council newsletter) and prospective tenants can bid for the property. As a result, HAs usually benefit from greater stability in the tenancy since tenants identified the property they want to live in according to their needs and personal preferences.

2.2 Case study from England

The case study is a **mixed development that includes 29 social rented flats required by the planning consent** to be developed for social housing, rather than for sale on the open market. This allowed the housing association to acquire the flats at a price lower than market from the developer. The scheme was completed in May 2010, and it is **located in central London**, where the prices of land (without subsidization) are extremely high. The property is owned and managed by one of the largest housing associations in England that manage over 10 000 homes.

2.2.a Project description

Size: 29 social rented flats, totalling 2240 of habitable m2 (on average, dwellings of 77.2 m2 habitable each), within a mixed development. More specifically, the project includes: 4 two bedroom/three person flats; 17 two bedroom/four person flats; 6 three bedroom/five person flats; 1 four bedroom/six person flat; 1 five bedroom/seven person flat.

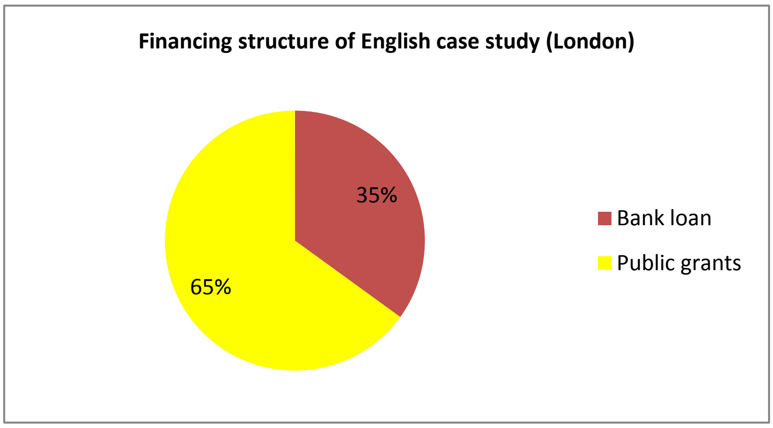
[16] The only exceptions being applicants from abroad without settled immigration status in the UK and applicants that have been responsible for serious anti-social behaviour or that owe money to another council/housing association

Location: central London, close to Tottenham Court Road tube station
Quality/technical features of the operation:
Homes are in line with the Homes and Communities Agency's Design and Quality Standards, which means they meet Code Level 3 of the Code for Sustainable Homes (this includes installing a range of measures to ensure the building was more efficient in terms of CO2 emissions, water, materials, surface water runoff, waste, pollution, health and wellbeing, management and ecology than a typical home).

2.2.b Costs

Cost in Euros[17]	Entire Development	Per dwelling	Per square meter
Acquisition	2 089 210.44	72 045.44	933
Construction work and fees	4 806 482.54	165 730.57	2146
Other Costs	457 514.58	15 776.53	204
Total	**7 350 517.67**	**253 466.58**	**3283**

2.2.c Financing plan



The Development was financed by the following mix of funding sources:

Financing Source	Entire development (Euros)	Per dwelling (Euros)	As % of total cost
Subsidy - State (NAHP 08-11)	4 773 971.61	164 619.25	65%
Loans	2 577 367.59	88 875.66	35%
Total	**7 350 517.67**	**253 466.58**	**100%**

As mentioned above, the development benefitted from the planning obligations imposed by the Local Authority on the developer under the Section 106 Agreement. To purchase property in a similar location which did not have this restriction, the acquisition value would have been € 8 880 008 higher (or € 306 226 per home), based on open market valuations of the 29 flats received at the time.
Furthermore, the public subsidy program which supported this project – National Affordable Housing Programme 2008-11 (NAHP) – provided grants for social rental housing as well as low-cost home ownership. HAs had to become a partner of the scheme, then they would bid by quarterly bid round to get their projects approved for funding. Under the NAHP, it was

[17] exchange at 16.01.2013: 1 British Pound = 1.20221 Euros

possible to combine discounted land obtained via Section 106 Agreements with capital grant obtained via the NAHP[18].

2.2.d Rents

The average rent for each of the flats in this development at the time of completion of this development in May 2010 was £102.94 plus a service charge of £16.82; giving a total weekly charge to the tenants of £119.90 (€ 144.155 Euros). This works out at £1.55 (€ 1.86) per week per habitable square metre, or about 7.44 € per month per habitable square meter. The market rent for the same mix of properties in the same location would have been £580 per week at completion; therefore, the average social rent charged is 21% of the expected market rent. The obligation to charge below market rents is unlimited and reflects the amount of subsidy received during the construction phase of the development. The rent charged to the tenant covers the costs of the loan repayments, annual repairs and maintenance costs, the management costs and void loss / bad debt.

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3) THE NETHERLANDS

Social rental housing as percentage of total housing stock in the country: 33%
Social rental housing as percentage of total rental housing: 75%

3.1 Basic features of the System

3.1.a Providers

In the Netherlands, about one third of the total housing market (33.2%, or 75.6% of the total rented stock) is owned by social housing organizations or **'housing corporations'**. According to the Social Housing Decree (BBSH) they are accountable for six types of activities: housing the target group, quality of dwellings, involve inhabitants, financial continuity, liveability, housing and care. They act independently but according to output and performance agreements with local and provincial governments.
As of today there are 389 such registered social housing organizations in the Netherlands. They are private rental associations but operate in a heavily controlled market. As registered organizations, their capital cannot be employed for any other purpose than housing. Social housing providers also carry on commercial activities (rent and sale). However, this represents only 2% of their activities on average. All profits must be reinvested in the housing sector (revolving system) but they have to keep separate accounts for social (services of general economic interest, SGEI) and other activities.

3.1.b Financing

A unique characteristic of Dutch social housing is that the sector is basically **financially independent from public funding** since 1993. Apart from the backup guarantee system explained below, there is hardly any public financial support to the sector. It should be mentioned though that some municipalities also offer land below market price to social

[18] This programme (NAHP) no longer exists. In the case of the current government financing scheme (the Affordable Homes programme mentioned above), HAs bid on a whole 4-year programme. Furthermore, in the case of dwellings supported by the programme, the planning system cannot be used in combination, and vice-versa. In the short term the programme is cheaper compared to its predecessor, but it is estimated that over 30 years it will actually cost more to the taxpayer.

housing organizations. Financing of new projects mainly consists of borrowing from banks. We could estimate that 20-30% of the cost of an average new project would be financed through **housing association's own equity**, and 70-80% through **bank loans**.
Social housing organisations have access to a **3-layer security scheme** to guarantee the loans they contract with banks to finance their social housing activities. The three levels of security include the following:

1. The **Central Fund for Social Housing (CFV)** is a special independent public body that ensures financial supervision of the organizations, notably through two yearly reports that classifies organizations depending on their solvency and liquidity. The CFV reports to the Ministry of Housing that expects social housing organizations to comply with the conclusions of the report. The CFV is financed through charges levied on all social housing organizations. In case of financial difficulties in an organization, the CFV can rescue and sanction it or give specific project support in order to enable it to get through its activities. This is a sort of first-stance help mechanism in case financial difficulties mean a social housing organisation is not able to repay its debt.
2. The **Guarantee for Social Housing (WSW)** is a private organization set up by the organizations themselves. Its "security reserve" (€481 million in 2012) was established through the guarantee fees organizations have to pay when contracting a loan with the WSW guarantee. These guarantees enable housing associations to borrow from banks on favorable terms. WSW has a solid security structure, and the guarantees it provides are very highly regarded. The world's leading rating agencies, Standard & Poor's and Moody's Investors Service, have awarded WSW their highest possible ratings of AAA and Aaa, respectively. At the end of 2011 WSW had guaranteed loans totaling around € 86.3 billion. Furthermore, it acts as second guarantee in case of financial difficulties of a social housing organization if the CFV runs out of capacity.
3. The **Dutch state and municipalities come as a last resort guarantor** (50%-50%) with interest-free loans in case the sector can no-longer overcome its financial problems and the WSW is nearly exhausted. This risk is actually theoretical and therefore public guarantees have more of a backup role.

Most of the loans that are conceded to social housing organizations through this guarantee scheme come from semi-public sector banks. However, in theory the market is open to all kinds of banks. Furthermore, social housing associations are not obliged to take their loans through the WSW. If they have enough capital, they can also handle internal financing. In addition, they can also take on loans from the capital market, which are guaranteed by local authorities (municipality guarantee) or the municipality can lend the money itself, but over the last years the municipality's involvement is very much diminishing.
The great advantage of borrowing money through the WSW is that on average it allows housing organisations to access loans at an interested rate which is about 0.5% lower than without WSW intervention.
If we look at the whole housing corporations sector, in 2011 the average duration of fixed interest rates loans is 24 years, with an average 3.86% interest. This is however an average of very different financing conditions.

3.1.c Fiscal framework

There were fiscal exemptions in the past but today social housing organisations enjoy **no special tax advantage on VAT or corporate tax**. On the contrary, currently a proposal is under discussion to have housing corporations paying a levy to the government as

contributions, which would amount to 1.7 billion € per year and risks having a huge negative impact on housing corporations 'capacity to invest in the forthcoming years[19].
As for VAT, it can only be deducted if the housing association sells new dwellings, not for rent activities for which tenants are exempt from VAT.

3.1.d Existence of individual housing allowances/benefits

Individual **housing benefits are available** for tenants (including in the private rental sector and not only social housing organisations) to help them pay the rent. No housing benefit is given for a rent above € 681 euros in 2013. The amount depends on the income, the age, and other characteristics of the household (such as for instance whether the person is a student, amongst others). To give an example, in 2013, for a single-person household aged below 65, the income limit to receive housing benefit is €28 000. The rent is divided into several parts, the 1st part being eligible for full repayment (up to 374 euro/month), the 2nd to a lesser proportion (€ 535 euro/month), etc. The overall amount paid in housing benefits across the Netherlands is about 2.2 billion per year, against 11 billion euros of mortgage interest deduction for home-owners.

3.1.e Obligations with regards to rents and tenancy contracts

Lease contracts in social housing are open-ended. The **rent level is based on the quality of the home**, which is expressed in a **point system**. To establish the quality of the home, a specific housing evaluation system (WWS) is used which gives points for floor space, facilities and living environment. On average, actual rents in the social housing stock are around 420 Euros per month, which corresponds to 70% of reference rent (i.e. the maximum rent of reference based on the number of points). In practice, social housing organizations have to reach a balance between the necessary minimum rent for financial sustainability and the maximum rent that tenants can pay. Nevertheless, social housing cannot be rented above 681€/month (plus service costs).
Yearly rent adjustments used to be limited to inflation level[20]. Recent changes in rent regulation led housing associations to increase rents for higher incomes. Rent adjustments are now calculated as follows: inflation + 1.5% for households with a yearly income below € 34 000; inflation +2% for households with income between € 34 000 and € 43 000; inflation + 4% for income higher than € 43 000.
If a housing association wants to improve the home and then ask a higher rent, it must first get permission to do so from the tenant. Parallel to this, tenants have the legal possibility of requesting the rent to be lowered if the home shows serious maintenance problems.
The price a tenant pays for his home consists of the basic rent and the service costs. The rules surrounding rent price determination and rent increase apply only to the basic rent. In addition, the landlord can request a contribution for services such as the hiring of a caretaker, the supply of energy and water (usually in flats with collective installations) and providing floor coverings or furnishings. There are no rules governing the amount of service costs because the package of services can vary greatly from one landlord to another. There are, however, stipulations that the landlord may only charge the actual costs and that these costs may not be more than what is reasonable or usual. If there are disagreements over the service costs a special rent commission may intervene to settle them.

[19] In parallel, discussion is on-going on possible changes to the rent setting system so that instead of points rents would be calculated on the basis of market value.

[20] The rent can also be increased during the year if there is a change of tenant

Overall we can estimate that about 30% of what housing corporations spend on the construction of new dwellings is not recovered through rents. But housing associations have the possibility of selling existing dwellings to raise money. In 2012 they sold on overall 17 000 dwellings.

3.1.f Obligations with regards to size/cost of dwellings

There are no limits on the size of dwellings. Limits on costs have been removed after the state decided to fix a rent limit for dwellings with state aid (€ 681.02 in 2013). With this rent limit, social housing organizations have to restrain the costs of housing production**.**

3.1.g Obligations with regards to allocation of social housing / beneficiaries

With regards to beneficiaries having access to social housing, the Dutch system has been going through recent radical changes. While up to recently social housing in the Netherlands was open to lower and middle income groups, after the so-called 'Dutch case' an **income ceiling** was set in 2009 to define eligibility criteria. Irrespective of household composition or location, the income ceiling is set at approximately € 35 000 per year in 2013. Theoretically though, for social mix purposes, urgency and restructuring social housing organizations are still allowed to allocate 10% of their social housing stock to tenants with higher income[21].
In 2011, 1.554 million households (72%) out of the total 2.163 million households living in dwellings managed by housing organisations had an income below € 33 614.[22] In 2011 social housing organisations allocated 93,5% of new lettings to this newly defined target group, at a monthly rent of € 652.52 maximum.

In addition, priority criteria in the selection of tenants are defined hand in hand with municipalities in accordance with social needs. Housing associations are also responsible for housing older people, people with a disability and those needing assisted housing.

3.2 Case study from the Netherlands

The fact that financing of social housing in the Netherlands is planned at company level and not at project level poses some problems in terms of data comparability across countries. Indeed housing corporations take loans from banks on the basis of the whole planned activities of the company on a yearly basis and they manage their loan portfolio as well as resources from their own equity to complete the planned projects/activities. Loans are therefore not linked to the financing of a single development, and this makes it particularly difficult to describe the financing plan behind one single project.

3.2.a Project description

Instead of providing information on a concrete case study, we found it more relavant to refer to average figures (on costs, financing modalities, rents) at the national level. Data

[21] However, when a family goes back to their dwelling after its refurbishment or renovation, this is also regarded as allocation of new housing. Since these families often have higher income than when they first arrived, most of the time they end up being counted in the 10% that social housing providers can use for social mix. In the end, the structure of social tenants will surely change and it is likely that the social stock will house a higher concentration of low-income households.
[22] CBS, 3 July 2012

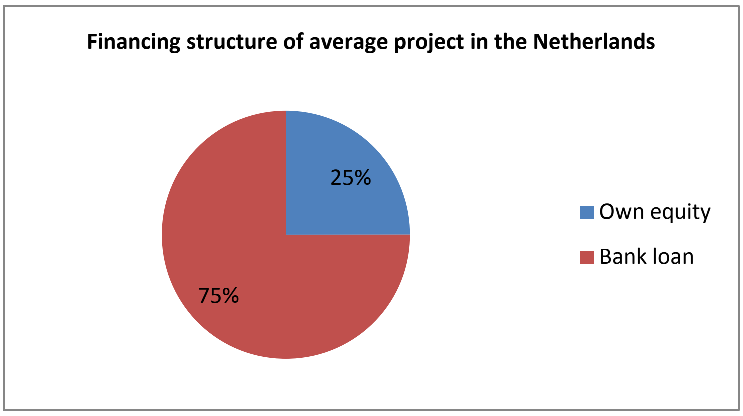
refer to 2011: that year the overall social housing production in the Netherlands was 26 917 new dwellings.

3.2.b Costs

The table below reports information on average costs of new social housing construction in 2011.

Costs	Euros per dwelling	Euros per square meter	As % of total cost
Land cost	23 051	307.3	12.6%
Construction	149 461	1992.8	82.2%
Other costs	9 150	122	5%
Total cost	**181 662**	**2422**	**100%**

3.2.c Financing plan



As explained in the introduction to the case study, financial planning occurs at the company level and not at project level.

On average, if we look at the whole sector's activities, 20-30% of the cost of new projects is financed through housing associations' own equity, and 70-80% through loans.

As for the conditions of those loans, to simplify we can use the following data: the average duration of new fixed interest rates loans taken in 2011 and guaranteed by WSW (for activities defined as services of general interest) was 24 years, with an average 3.86% interest rate[23] (compared to an interest rate higher by 0.5% for loans without WSW guarantee).

In reality, each social housing organisation takes a number of different loans at different conditions (in terms of fixed or variable interest rate, interest rate level, duration, being covered or not by WMW…) and mix them to finance their yearly activities.

3.2.d Rents

The table below reports information on the average social housing rents (excluding service costs) in 2011. For further information on how rents are calculated see point 2.2.d above.

Rents	Euros per dwelling	Euros per square meter
Average monthly rent in Euros	433	5.77

[23] For more detailed information, see the WMW yearly report at http://www.english.wsw.nl/uploads/_media/_416_WS1110511_DEF_UK_210812.pdf

For further information on rents in Dutch social housing, see point 3.1.e above.

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4) GERMANY

Social rental housing as percentage of total housing stock in the country: 3.4%
Social rental housing as percentage of total rental housing: 7.5%

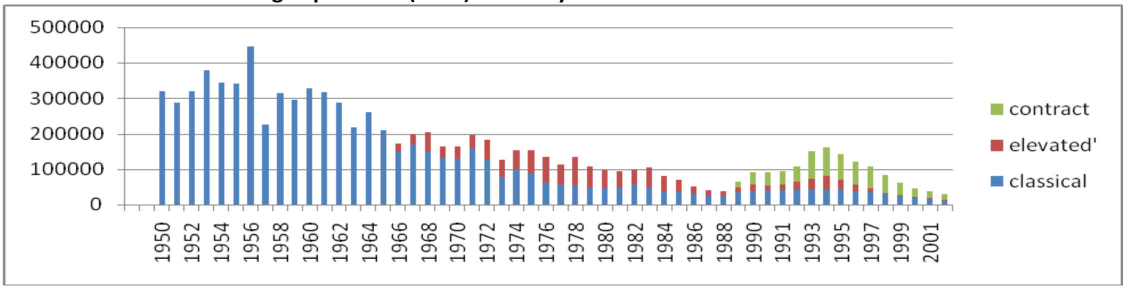
4.1 Basic features of the system

Social housing in Germany is mainly represented by dwellings that are provided at a social rent for a limited period of time, after which they can be rent or sold on the market. This is part of a more complex system of 'social housing promotion' ("*Wohnraumförderung*") which includes also (and increasingly so) demand-side support. More in details, social housing promotion includes the following:

1. rental flats for households with difficulties having access to housing market, such as households with low income
2. access to property for own use especially for families with children (private homes)
3. loans with reduced interest rates and subsidies connected with controlled rents and occupancy restrictions (this means the right for occupancy by the municipality i.e. for 15 or 20 years)

Today about 3.4%[24] of the housing stock in Germany (or 7.5% of the total rental stock) is social housing, about 1.6 million units, and it's decreasing over time. A major problem is the intrinsic loss of social housing after the lock-in period. Statistics show that there is no replacement of social dwellings and the availability is decreasing. About 100,000 social homes are leaving the system annually, while only an estimated 30 to 40,000 new social homes have entered it annually for the last decade, implying a continuing reduction of social homes.

Production of social housing in post-war (west) Germany



"Classical": Classical social housing; "Elevated": so-called second strand of elevated social housing; "Contract": contracted social housing, often incorporated in market housing. Source: Federal Ministry for Labour and Social Affairs (2010)

Social housing promotion in Germany, 2002-2010									
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Number of subsidised housing units	91 532	64 516	55 147	60 204	52 954	56 312	72 203	73 286	57 643
1) Out of which (according to whether it's new construction or renovation):									
new construction	38 911	30 191	28 119	25 521	22 378	19 828	21 042	23 558	22 176
Improvements to existing	52 621	34 325	27 028	34 683	30 576	36 484	51 161	49 728	35 467

[24] According to GdW annual statistics 2011 and Germany 2011 Census.

stock									
2) Out of which (according to whether it's in rented or owner-occupied housing):									
Apartments for rent	59 533	35 270	33 484	37 807	32 432	35 664	42 508	41 688	30 845
Support to home ownership	31 999	29 246	21 663	22 397	20 522	20 648	29 695	31 598	26 798

Source: GdW

4.1.a Providers

As mentioned above, in principle the term "social housing" over the last decades described a structure of funding in a **public-private partnership**. **All housing companies are legally market actors. Whether they are private individuals, institutions like banks or insurance companies, or whether their shareholders are municipalities**, the management is not directly bound to investors' demand, but must fall within the limits of commercial law.
However, amongst the owners of social-access and rent-regulated housing, the municipal housing companies act mostly as "quasi-non-governmental" organisations that have to adhere to local political requirements, e.g. by providing for special needs and economically vulnerable groups. **Privatisation of German public housing** started after 1995, and since then six percent of German municipalities have sold more than half of their assets, while only eight per cent of them clearly decided not to sell their social housing stock.

4.1.b Financing

Since 2006, the responsibility for social housing – including financing - has been fully transferred to the federal states (Länder), while the federal government has withdrawn to provide a framework-legislation only. With this change, the funds dedicated to social housing were transferred from the federal budget to the Länder. However, the Länder were obliged to use these funds for social housing only for a limited period.
Currently **social housing funding arrangements vary significantly across the different Länder**. While some of them have so far continued spending on new social housing, although with an often reduced quantitative effect, others have changed to acquiring individual dwellings in market developments as contracted social housing. Others, including Berlin since 2001, have altogether abandoned traditional social housing under the impact of a severe budgetary crisis on the municipal level.
Where still applicable, social housing follows more complex modes than before. North-Rhine Westphalia, Hamburg and Bavaria do still have active policies for building social housing which are based on different instruments. North-Rhine Westphalia and Hamburg employ direct subsidies and Hamburg also practices a specific allocation strategy aimed at increasing social mix.
Bavaria has a special land management programme (*Sozial gerechte Bodennutzung*), which aims at reducing housing shortage for low income residents and targeting home-ownership and the building of rental and cooperative housing. The key element is that building permits (or the extension of existing permissions) are conditional on the use of up to two-thirds of the increase in land value for provision of infrastructure and enhancing sustainability.
The city of Munich has implemented the four-pillar Munich Model (*München Modell*), which aims to achieve a mix of subsidised and privately-financed house building for middle- and low-income groups in all locations of the city and even within single development projects.
When available, public support for the provision of social housing (through new construction, refurbishment of existing buildings, and purchase of occupancy rights of existing living space) can take the following forms:

1. **Loans with attractive conditions** (e.g. the reduction of interest rates or reduction of repayment rates) and benefits,

2. **Take-over of liabilities** to secure demand of third parties
3. Provision of **building land at low cost**.

It is therefore impossible to describe a ‘German social housing financing model’. Nevertheless, one can conclude that overall a **shift has taken place in Germany from the previous bricks and mortar policy towards individual benefits**, paralleled by other forms of support. The latter include for instance the policy of the Socially Integrated City programme (*Soziale Stadt*) for neighbourhoods in distress[25]. Furthermore, within the federal framework-policy on housing, the budget provides funds for various housing-related expenditures within its social and environmental policy. Amongst these are funds for CO_2 reduction that are available for all housing and thus also used in new social housing and to upgrade existing access-regulated homes from previous periods.

4.1.c Existence of individual housing allowances/benefits

Beside the social housing promotion of the federal states, there are different demand-side subsidies that support households to provide themselves with adequate housing space.
Of particular significance in this context are **taking over the cost of accommodation** (KdU "*Kosten der Unterkunft*" in German) of the recipients of state minimum coverage services according to the Code of Social Law II and XII, the **residential rent assistance payments** ("*Wohngeld*" in German), as well as **different municipal support systems**.
In 2010, the Federal Government and the municipalities covered the housing costs - completely or partially - for 12% of the private households in Germany (4,7 Million households), approximately one fifth of households living in rented housing. This cost about 34 billion Euros in 2010[26].

4.1.d Obligations with regards to rents and tenancy contracts

In subsidized housing typical rent prices for new buildings are € 5 to 9 per square meter, depending on the region. Rents in subsidized housing are relatively independent from market valuation as they **depend largely on the production cost and the funding modalities**. This leads to considerable differences in rents applied in the social housing stock.
The difference in rents between social and market rental sector vary significantly, depending on the year of construction, location, and the size of the municipality. In 2009 the gap between social and market rents was about 10% on average. Nevertheless, especially in the growing markets of Bavaria and Baden-Württemberg the gap reaches 22% on average, with rental benefits in social housing proving to be particularly effective in strained markets[27]. Furthermore, the real benefits in social housing will be even higher thanks the relatively good location and quality of the apartment's equipment. While the state reduces its payments to landlords over the years, the rents will rise towards the so-called cost rent.
With some variations over time and depending on the Länder concerned, the contracts with municipal housing companies, state companies or private investors have been covering a depreciation period of between 20 and 40 years for new buildings and between 12 and 20 years for buildings renewed with public subsidies. Thus, **at the end of the depreciation period and reaching the set market level, dwellings are freed from ‘social’ obligations and**

[25] Source: Droste, Siedow
[26] Source: The Federal Institute for Research on Building, Urban Affairs and Spatial Development(2011): Social coverage of housing
http://www.bbsr.bund.de/cln_032/nn_1198060/BBSR/EN/Publications/IzR/2011/Abstracts/9__OettgenMetzmacher.html

[27] Reference: Wohngeld- und Mietenbericht der Bundesregierung, 2010

become market rental housing. From that period onwards, the former social housing can also be sold as private home ownership housing[28].

4.1.e Obligations with regards to size/cost of dwellings

There are limits on building cost. Furthermore, the dwelling size is based on the act of calculation of living space (German "*Wohnflächenverordnung* – WoFlV").

4.1.f Obligations with regards to allocation of social housing

Since 2009, the target groups are defined by the legislation as follows: "*Target of the promotion of social housing are* ***households who cannot accommodate themselves with an adequate dwelling and need support****. The promotion supports in particular low-income households as well as families and other households with children, single parents, pregnant women, elderly, homeless and other needy persons*[29]".

Access to social housing requires a **certificate** of eligibility to public housing (*Wohnungsberechtigungsschein* or WBS), issued by municipal authorities. **Income ceilings** are applied which determine the possibility to access personal rent allowances, financial aids for owners, reduced-interest financing of investments, and/or public loans for modernization and maintenance to improve energy efficiency.

The law also includes an ownership-related old age savings scheme (*Alters-Vermögensgesetz*) and other measures such as subsidies for owner occupied social housing.

4.2 Case study from Germany

The case study below refers to a **new project in Bremerhaven, Bremen**. It represents a very different case from those presented so far in that it is **not located in an area where the housing market is under pressure**, quite the opposite. Over the past 15 years, there has effectively been no public funding of social housing in the state of Bremen, basically because there was no necessity. In the mid-1990s, there were signs that vacant housing was on the increase, and this trend continued in the years that followed. At the beginning of the new millennium, the amount of surplus housing had reached such a level that demolition of properties had to be carried out on a large scale. Nevertheless, over the past five years the market has stabilised. Supply has become scarcer for certain target groups, which explains why resumption of public subsidies for the construction of social housing is currently being discussed.
Below we provide details of a new housing construction project in the city of Bremerhaven that is currently being supported with public funds (through indirect assistance, see below), the first new building project in the municipal district of Lehe since more than 20 years. The rented apartments are being built as part of the urban renewal strategy for the inner city, which is managed and implemented by a Housing Round Table. The apartments are targeted, among others, at elderly people returning to the city, who want to enjoy the amenities of urban life in their retirement.

4.2.a Project description

[28] Unless it is owned by a company whose shareholders – mainly municipalities – have decided to continue using this housing as "quasi social housing" for the provision of local residents with lower incomes.
[29] § 1 paragraph 2 *Wohnraumförderungsgesetz* – WoFG. Previous regulation identified a 'wide realm of society' as beneficiaries

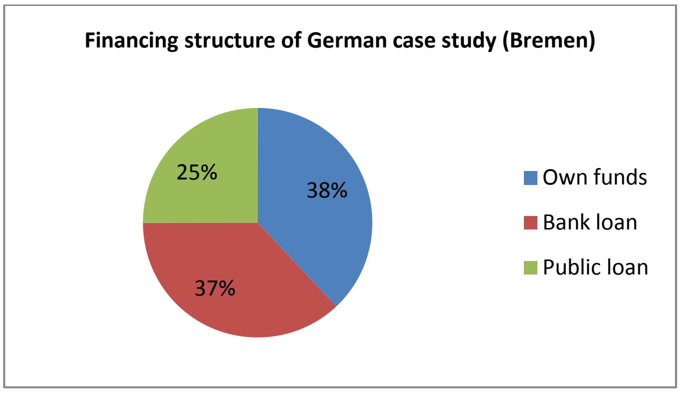
Size: The project in a modern residential building containing 23 apartments and is divided into two wings, one with five storeys and one with four. The separate wings are at right angles to each other, thus creating an inner courtyard and garden area. The total habitable area is 1 358 m², so the average area per dwelling is 59 m². The complex contains 19 two-room apartments and four three-room apartments (plus kitchen, bathroom, etc.). The preferred target groups for these apartments are: families with children, young people and job starters, older and disabled people, low-income households and people seeking alternative, communal forms of living. The household income may be up to 60% above the income limits. In the case of a single household, this would be up to € 44,800 gross income (100% = € 28,000); for a two-person household, the maximum gross income would be € 67,200 (100% = € 42,000).
Location: Lehe district, Bremerhaven
Quality/technical features of the operation: The building offers a high standard of comfort and conforms to a high standards of energy efficiency (KfW 70). Every floor is "barrier-free" and can be reached by lift.

4.2.b Costs

The total cost is € 3.13 million, or € 2 306.5 per habitable m2

Type of cost	Euros in total	Euros per dwelling	Euros per square meter
Land acquisition costs	32 000	1 391	23.5
Site development costs	208 000	9 043	153.2
Construction costs, incl. outdoor facilities	2 612 000	113 565	1924.8
Secondary costs	251 000	10 913	184.9
Financing costs	27 000	1174	19.8
Total	**3 130 000**	**136 086**	**2 306.5**

4.2.c Financing plan



Financing for 22 of the 23 apartments is supported with a public loan, the remaining apartment being ineligible for support on account of its size. The costs are covered by:

Financing source	Contribution in Euros	As % of total costs
Public loan	770 000	24.6%
Bank loans	1 150 000	36.7%
Own funds	1 210 000	38.6%
Total	**3 130 000**	**100%**

The public sector grants a low-interest loan of € 35 000 per eligible dwelling, covering 24.6% of the total project cost. The loan is interest-free for the first ten years (only management fees of 0.375% per year have to be paid). From the eleventh year onwards a yearly interest of 2.00% is charged on the loan, and from the sixteenth year onwards the loan becomes subject to customary market rates (no less than 6.00%). By then, however, the loan should have been repaid in full. In addition to the public loan, there are no other subsidies and/or forms of assistance. However, the site was made ready for construction by local government and provided at a very attractive price.

The bank loan, covering 36.7% of the total project cost, is taken out at normal market terms and conditions.

4.2.d Rents

The rent charged is mainly meant to cover current expenses, namely interest and repayments, maintenance expenses, management costs, depreciation, operating expenses for the building (gas, water, power, insurance, …), and risk of rental income loss.

The average rent per square metre and month is € 7.50 per habitable m2 (excluding prepayments for operating and heating costs). This amount is at the upper end of the scale for Bremerhaven but just about covers costs[30] due to the very high quality features of the dwellings. Normal monthly rent levels are € 4.25 per m^2 of habitable area in Bremerhaven and € 4.55 per m^2 in the district of Lehe. The monthly rent for a select residential building in the same district is € 5.63 per m^2.

This new construction project receives indirect financial support. This means that support that is paid to the company on its existing stock can be transferred to this project. The transfer is subject to the following condition: these already existing dwellings (replacement housing) must be fully modernised (KfW-100 energy efficiency standard) and the rent must be fixed at €5.60 per m2/month over a 15-year commitment period.

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5) FINLAND

Social rental housing as percentage of total housing stock in the country: 16%
Social rental housing as percentage of total rental housing: 53%

5.1 Basic features of the System

Finland has had a special housing financing institution starting from the early post-war years, the **Housing Finance and Development Centre of Finland (ARA).** Social housing in Finland consists of dwellings subsidised by ARA and rented at cost-based rents, to tenants selected on the basis of social and financial needs. The stock of social housing in the country corresponds to about 16% of the total housing stock.

5.1.a Providers

Currently, about 60% of all ARA-subsidised rental dwellings are **owned by municipalities and managed through municipal companies or, to a lesser extent, directly by the local authority**. Local authorities have the responsibility to facilitate access to housing at the local level and also provide housing for certain vulnerable groups. **Limited profit housing companies** play a complementary role. Insurance companies and industrial enterprises used

[30] The return on investment for the total amount of financing is 1.02%

to develop rental housing in the past (especially in the 1970s and 1980s) but they have meanwhile sold most of their housing stock.
In Helsinki for instance (where the case study is located, see 5.2 below) regular ARA-financed rental apartments are mainly developed by the city, to the ownership of the city's own company. The interest of limited profit companies in building social rental flats is decreasing due to changes in their ownership structure and the restrictions concerning housing stock and tenant selection. They have shifted their focus to privately financed production of rental apartments and ownership. Nevertheless there are also several companies involved in construction of apartments for special groups in Helsinki.

5.1.b Financing

The ARA grants all State subsidies for social housing production, and monitors the production of subsidized housing in order to preserve its quality and lower the costs. In the past, the Housing Fund financed favourable loans for construction, purchases and renovation of rented housing (from 1949 up until 2004). These loans were paid from the State Budget. Today this type of loans are no longer granted, but the Housing Fund still gets its income from the repayment of previous public loans and payments made in exchange of public guarantee services. Therefore, the role of the Fund has changed over time, from provision of preferential loans to securitisation of subsidised loans. Today the ARA grants **public guarantees on loans** provided by the private sector for social housing construction (totalling € 960 million in 2011) and also **interest subsidies** for those loans for 10-20 years. Approval of interest subsidies follows a public call for tendering of financial services in order to guarantee efficient public spending.

The Fund also provides **grants for social housing projects targeting special groups**, such as for instance flats for students, disabled, elderly or homeless people. In this case these apartments may receive special investment subsidies covering 10 to 50 percent of the building costs, depending on the user group and the characteristics of the premises (for instance 10 percent subsidy can be granted for building student and youth housing, while the subsidy for building apartments for people with mental disabilities can be as high as 50 percent). ARA grants altogether amounted to € 240 million in 2011.

5.1.c Fiscal framework

Some sectors have been left **outside the scope of VAT taxation** in Finland, including sale of real estate property and apartments in housing companies, healthcare services, and social services. If a business company only sells these goods or services, it will not be deemed liable to pay VAT. Not-for-profit organizations are subject to VAT only for activities which are considered as taxable income of the business activity, if the operation's turnover exceeds € 8 500 per season.

All real estate property Finland is **subject to real estate tax**, whose revenue goes to the local town, city or rural district where the property is located. This tax depends on the property value and it is paid by those who own real estate at the beginning of each calendar year. The overall tax rates vary in different districts between 0.6% and 1.35%, while rates applied to properties used as primary residence are between 0.32% and 0.75%.

5.1.d Existence of individual housing allowances/benefits

Housing allowances are also available helping beneficiaries to pay for rent, maintenance, heating and water supply. **Housing allowances are paid by the Social Security institution**, KELA. In 2012, the total of this kind of allowances amounted to 8.5% of the total of social transfers for the year. It benefitted 160,000 households (half of which were living in social housing).

5.1.e Obligations with regards to rents and tenancy contracts

Rental housing subsidised by ARA is let at **cost rents. Dwellings are released from regulation after a period which varies between 10 and 45 years.**

5.1.f Obligations with regards to size/cost of dwellings

To be able to receive funding from ARA, providers must comply with price caps on land, which are determined by ARA every year. For instance the 2013 price cap in the Helsinki area is between € 220 and 425 per habitable square meter (but much lower elsewhere in Finland). If the land is rented, the maximum rent is 4% per year on the price of land set by ARA. There are no limits on the size of the homes other than maximum size in owner-occupied houses, which depends on household's size.

5.1.g Obligations with regards to allocation of social housing / beneficiaries

Tenants are selected on the basis of **social criteria such as the need for accommodation** (for instance households in poor living conditions or those who are at risk of eviction) and **financial need** (households on low income, who do not own other properties).
In the 1990's, there was policy experimentation of so-called mixed houses in Finland, where different types of occupation are mixed in the same property. Mixed houses have no longer been built in the last few years. Today social mix is implemented by blocks and areas, where the different types of occupation and financing are mixed alternately.
Furthermore, while a typical housing project consists solely of state-subsidised 'standard' rental apartments, during the last few years it has become increasingly common to build also apartments for **special groups** within the projects, such as for instance flats for students, disabled, elderly or homeless people.

5.2 Case study

The example below describes **a typical housing project carried out by the city of Helsinki as a holding company**. The owner of the apartments is the city of Helsinki's housing company, which owns about 44 000 government subsidised rental apartments. The company has been split into different companies active on different areas, and in turn these are split into four "expensiveness zones". The property is built on a city-owned rented plot, and the Helsinki Housing Production Department functions as the contractor.

5.2.a Project description

Size: the project includes 90 dwellings (15 one-room dwellings (kitchen not included), 36 two-room dwellings, 23 three-room dwellings, 16 more than 4 rooms) for a total 5 655 habitable square meters. The plot size is 7 300 square meters (including parking, etc.)

5.2.b Costs

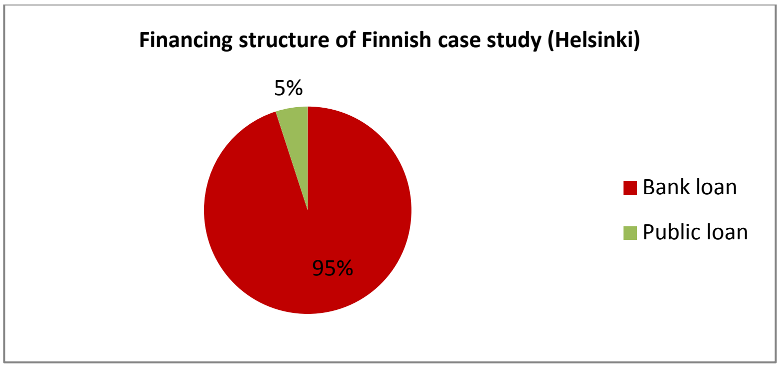
The total cost for rental dwellings built by the Helsinki Housing Production Department with funding from ARA last year were about € 3 500 EUR per square meter, excluding the costs linked to land, which is rented. The cost structure in the project is as follows:

Type of cost	Euros per square meter	As % of total cost
Cost of building contracts, incl. subcontracts such as electricity and HPAC	3 185	88%

planning costs	91	2.6%
construction contracting and financing costs during construction	196	5.6%
parkings	70	2%
municipal connection fees (water and similar connections)	38	1.1%
Total	**3 500**	**100%**

As for the cost of land, the project was built on land owned by the municipality, and therefore the housing company pays a rent on the land plot to the municipality. This is not considered as an investment cost, but it is a part of yearly maintenance costs. This yearly 'ground rent' is determined at 4% of the value of the plot (where an ARA priced plot like in this case is 60 % of the market price in the area). In this case we can consider a price cap on land of 310 € per habitable square meter, so the rent paid by the housing company on land is 12,4 €/m2/year (4% of the price cap), or 1,03 €/m2/month.
The Housing Company of the city of Helsinki owns 43.000 dwellings, all built on land plots rented from the municipality. The case study company pays a total of 25 million euros per year to the city as rents on land plots, which means on average 0,93 € per square meter per month. Access to land at low cost is very important for the financial sustainability of this project. Significantly, in case of non-subsidised stock (i.e. without the cap set by ARA on land price), the rent level would be 42 million euros.

5.2.c Financing plan



Financing source	As % of the total cost	Interest rate applied
Government-subsidised loan	95%	1.7%*
Loan from the municipality	5%	4.5%

A loan with interest rates subsidized by ARA usually has a 3.4% maximum interest rate. If the interest grows bigger than this, the company gets a state subsidy for paying the difference in interest rate. This subsidies declines over the years as indicated in the table below. The government has recently lowered the maximum interest rate to 1.7% in order to encourage the production of rental dwellings. This rate applies to normal social rental housing[31], which receive loans in 2011-2014. This interest rate level is temporary and will be valid until the end of 2014. The government has decided in March 2013, that interest-subsidised loans for new normal rental housing will be 1% in 2013-2015.

[31] By 'normal' rental housing we refer to dwellings where tenants are selected on the basis of social criteria and financial need. Rental housing for certain special groups within the population, as mentioned above, receive subsidized loans at an interest rate of 3,4 percent. These apartments may receive special investment subsidies covering 10 to 50 percent of the building costs.

Amortisation plan for government interest-subsidised loans in Finland, 2011 - 2014	
Years	Amortisation of the original loan capital (%)
1-5	1.7
6-10	3.3
11-15	5.3
16-20	7.5
21-25	9.9
26-30	15.0
31-35	23.3
36-40	34.0

Interest subsidy loans granted to finance the provision of rented housing are automatically subjected to a supplementary guarantee provided by the State. This supplementary guarantee makes it easier for borrowers to obtain long-term loans at reasonable interest rates. Interest-rate subsidies are paid by ARA for 10 to 20 years, but the guarantee on loans is given for 40 years (the maturity of the loan). The obligations with regards to rents and tenancy contracts also run for 40 years.

5.2.d Rents

The rent consists of a capital rent and a service rent (the latter includes maintenance, heating and running costs). The average capital rent in the company's apartments is 5.23 euros/month/m², and the average capital plus service rent (overall rent paid by tenants) is 10.55 euros/month/m².
The capital rent includes the entire company's loan interests and amortisations, corrections compensated on group level as well as adjustments. Corrections above one million euros belong to the costs compensated on group level. The level of the capital rent varies across 'expensiveness zones'. Most part of the capital rent is used for amortising the old loan stock and for interests. New-production does not have a significant effect upon the economy of a company this big.

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6) FRANCE

Social rental housing as percentage of total housing stock in the country: 17%
Social rental housing as percentage of total rental housing: 44%

6.1 Basic features of the System

The social housing sector in France accounts for about 17% of the stock. It is a specific sector of the housing market, which is governed by legislative and regulatory provisions, separate from common law and regulated by the Construction and Housing Code (Code de la Construction et de l'Habitation, CCH). The provision of social housing includes construction, development, allocation, and management of rented social housing as well as of dwellings for social home ownership.

6.1.a Providers

Social housing provision in France is housing provided by **'HLM' organisations**, which are specific actors entrusted by the state to fulfil a mission of general interest (where HLM stands for Habitation à Loyer Modéré –organisations providing housing at moderated rents). They include both publicly and privately owned companies acting on a non-profit basis and under the control of the Ministry of Housing and Finance. To a lesser extent **also semi-public enterprises** (*Sociétés d'économie mixte*, SEM) and **some non-profit associations** are involved in social housing provision.

6.1.b Financing

Most of the funding for new construction comes from finance **loans, where the main lender is the Caisse des Dépôts et Consignations (CDC) which provides funds from the '*Livret A*' accounts**. This is a savings fund with regulated interest rate and not subject to income tax. Every French household has the right to open a tax free Livret A savings account at their local bank. 65% of these 'regulated savings' are pooled by the CDC, which pays a fee to the banks for collecting the funds and a defined interest rate.

Various financing schemes are available for HLM organisations: each of them is characterized by certain conditions regarding the income level of tenants as well as rent levels to be applied, and they provide different levels of public subsidies (see the table below). The main programmes currently existing are the "PLUS" (loan for rented accommodation), the "PLAI" (subsidised rental accommodation loan for integration accommodation) which can be described as 'very social' housing because of low income ceilings and low rents, and the "PLS" for households with incomes above the "PLUS".

Different financing schemes for social housing in France					
	Income ceilings compared to PLUS (%)	**Maximum rent compared to PLUS (%)**	**Maximum state subsidy**	**VAT at reduced rate and exoneration from land tax**	**Interest rate* and duration of the loan**
PLAI	60%	89%	20%	Yes	2.55% on 40 years
PLUS	100%	100%	5%	Yes	3.35% on 40 years
PLS	130%	150%- 195 % (in Paris area)	0	Yes	3.85% on 30 years

* With an average interest rate for *Livret A* of 2,75 %

Furthermore, social housing also benefits from other forms of public support, such as:

1. **Land purchase subsidies** are available for social housing operations. These are mainly available from local authorities, but are not systematic and are not quantified here.
2. **Loan guarantees.** The loan is generally guaranteed by a local authority free of charge. If not the organization may seek a guarantee from the Caisse de Garantie du Logement Locatif Social (CGLLS - Rented social housing guarantee bank), the cost of which is 2% of the amount of the guaranteed capital. The other guarantees (mortgage holder, mutual insurance company) are not accepted for loans on the CDC savings funds. The exoneration from payment for the guarantee in this case represents a financial benefit of €105 000 * 2% = €2 100 in our example.
3. **Operating account subsidies.** Subsidies on the operating account (management and maintenance) are not covered under the general system of finance. Even so, local authorities do sometimes subsidise organizations for housing maintenance work. These subsidies are therefore very marginal.

6.1.c Fiscal framework

Social housing providers benefit from the following fiscal incentives:

1. **Exoneration from land tax** for a period of 25 years (instead of two years for non-subsidised housing). The tax on built property ("*TFPB*") is estimated to an average of € 550 per dwelling. If we assume that this increases by 2% a year, this exoneration will represent an average of € 10 300 at a discount of 4%.
2. **Exoneration from profit tax**. Social housing organizations are exonerated from payment of corporation tax due to their public service role. This includes the construction and management of rented social housing, and operations at maximum sale price and conditions of income for access to social housing. Corporation tax is due on the other activities such as medium-rent housing (at 33.3%).
3. **Reduced rate of VAT.** The social rental housing sector in France can benefit of a reduced VAT of 7%[32].

6.1.d Existence of individual housing allowances/benefits

Housing benefits are available for tenants both in the social and private rental sector. In 2009 16 billion were spent on rent allowances, helping nearly 6.3 million households. Nearly half of the tenants in the social housing sector receive housing allowances. In the social rented sector, the average monthly amount of aid paid is € 215 euros (out of a total rent of € 335 euros, or € 500 including charges and energy bills)[33].

6.1.e Obligations with regards to rents and tenancy contracts

The rent applied also has to respect the **limits imposed by the relevant regulation of each financing scheme.** For instance, in major urban areas the maximum PLUS rent (5 to 7 € per square meter per month) represents on average 50% of the private sector rent. This difference is greater in Paris and its suburbs: there the PLUS rent accounts for 30% to 35% of the market rent, which usually reaches 20 to 25 €.

Rents are then calculated on the basis of the net construction cost, which is lowered by subsidies (from the State and local authorities) and tax incentives. The provider establishes the rent required to balance the operation income and expenditure account during the life of the building or at least throughout the main loan, that is to say for a period of 40 years.

If the balanced rent is above the maximum rent stipulated by the regulation, the operation may nevertheless be authorized, taking into account the capacities of the provider to balance the operation: the deficit of the operation will be offset by surpluses released on other components of its estate.

Obligations defining the maximum rent based on the income of the tenant household last for a period which is at least equal to the period of the main loan and is renewed thereafter by tacit agreement. It only ceases to take effect in the event of a sale to the tenant. If a household’s income increases to the point that it exceeds the income ceiling, rents rise accordingly.

6.1.f Obligations with regards to size/cost of dwellings

There are no specific a priori limits in size or cost of social dwellings (apart from general standards set for the whole residential sector).

6.1.g Obligations with regards to allocation of social housing / beneficiaries

Access to social housing is limited by **income ceilings**, which are set at the national level by specific regulation and vary according to the financing scheme, the area were the dwelling is located as well as the number of household’s components.

[32] Since 2011. The rate is expected to go back to previous level (5%) in 2014

[33] Union Sociale pour l’Habitat, FICHE-ARGUMENTAIRE N°19 : LES AIDES A LA PERSONNE

Income ceilings are set at a level which virtually includes a large proportion of the population to be accommodated in social housing allowing for a certain degree of socio-economic mix.

Income* ceilings applied by the PLUS scheme			
Composition of the household family	**Paris and immediate suburb**	**Paris Region (Ile-de-France)**	**Other regions**
Single person household	24 820 €	24 820 €	21 570 €
2 person household	37 090 €	37 090 €	28 810 €
3 person household	48 620 €	44 580 €	34 650 €
4 person household	58 050 €	53 400 €	41 830 €
5 person housheold	69 060 €	63 220 €	49 200 €
6 person household	77 710 €	71 140 €	55 450 €
+ for each additional person in the household	+ 8 660 €	+ 7 930 €	+ 6 190 €

* Before income taxes

For instance, 64 % of all households (17 million out of approximately 27 million households) are eligible for PLUS-financed social housing as their income does not exceed the limits presented in the table above. Nevertheless, de facto over the past three decades the sectors has seen a constant increase in the proportion of poor households, with currently 35% of all HLM households on incomes below the poverty line.
Furthermore, the Law on the Right to Housing (commonly referred to as DALO) introduced in 2007, establishes **priority access** for bona fide applicants in the following 6 categories: **homeless; people at risk of eviction who don't have the possibility of finding another accommodation; people with temporary accommodation; persons in unhealthy or unfit accommodation; households with children in overcrowded or indecent dwellings; disabled.** The law allows for people to seek for legal redress vis-a-vis the local authority in case their request for an accommodation is not answered.

6.2 – Case study from France

Rather than to a concrete example, in the case of France we refer to a **'typical' or average social housing project funded through the PLUS scheme**, based on national statistics for dwellings financed in 2010.

6.2.a Project description

Information is provided per dwelling. The average habitable area of a dwelling is 70 m². This habitable area corresponds to the private areas of the dwellings and excludes common areas and foot traffic areas inside apartment buildings. It does not include certain associated areas such as balconies, store rooms and cellars. The habitable area also excludes garages or parking spaces, which are let under separate leases.

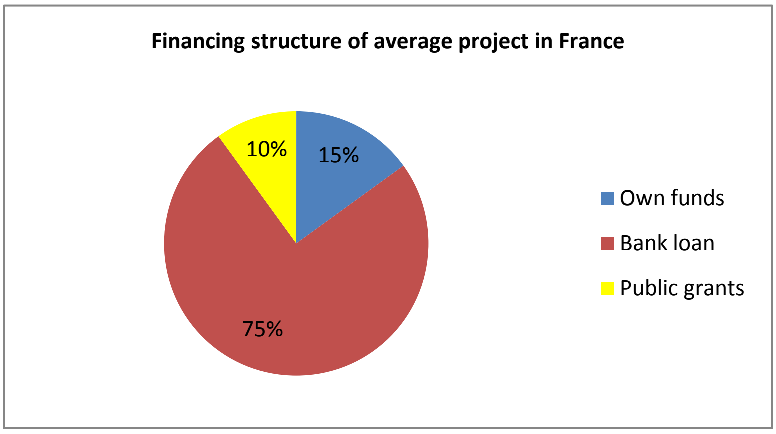
6.2.b Costs

The average cost per dwelling for an operation financed using the PLUS system is estimated to be € 140 800 in 2012. This price is at the VAT rate of 7%, which applies to a social operation, the normal rate for a private operation being 19,6 %. If we consider an average size of 70 square meters per dwelling, then the cost per habitable square meter is about € 2011.

Type of cost	**Euros per square meter**	**As % of total cost**
Land cost	402	70%
Construction cost	1407	20%

Other (architect, notary fees, etc...)	201	10%
Total	2 011	100%

6.2.c Financing plan



Financing source	Euros per dwelling	As % of total cost
Subsidies	14 200	10.1 %
Of which:		
State subsidies	2 000	1.4%
Local authority subsidies	9 400	6.7%
Contractors' subsidies	2 800	2.0%
Bank loans	105 300	74.8 %
Internal funding	21 300	15.1 %
Total cost price (at reduced VAT rate)	**140 800**	**100,0 %**

The State subsidy is systematically awarded to PLUS-financed social housing operations. The base rate is less than the one indicated here, which is an average and includes a subsidy for the cost of land purchases.

Local authority subsidies are not systematically forthcoming. The amount given here is an average figure. In return for its subsidies, local authorities are able to designate candidates for financed housing.

Contractors' subsidies are granted through specific networks which collect a percentage of employees' wage bills (0.45%). These subsidies are not systematic and the amount given here is an average (amount of available funds distributed to all financed dwellings).

The main bank loan is granted by the publicly-owned bank Caisse des Dépôts et Consignations (CDC), at interest rates and for periods fixed by the public authorities. The PLUS loan is granted for 40 years and can be extended to 50 years for the land and associated costs (acquisition and site works). This loan does not include a premium offered by the authorities and is available at cost price (i.e. the interest paid by the social housing provider equals the interest rate paid to savers, plus the cost of collection by CDC). Therefore, the average long term interest rate on a PLUS is 3.35%. This rate may be revised to reflect any change in the Livret A interest rate on savings, which is a combination of short term interest rate and inflation.

A typical social housing development benefits also from other forms of public incentives/subsidies. We can give an estimate which summarizes the different subsidies as follows:

Type of public incentives/subsidies	**Euros per dwelling**
Application of the reduced VAT rat	16 600
Subsidies	14 200
Exoneration from land tax (25 years)	10 300
Lower interest rate of the CDC loan	14 700
Free loan guarantee	2 100
Total amount of subsidies	**57 900**

6.2.d Rents

The following expenditures are covered by the rent:

- the financial costs of loan reimbursement, here 4 800 € per year;
- the annual expenditure on repair and maintenance, which is estimated at 0.6% of the initial cost of building (excluding the land costs), around 700 € per year;
- the average management and running maintenance costs noted by the management organization on its estate. This amount is €1 200 a year and per unit in the rented social housing sector;
- the tax on built property from the 26th year onwards, about 550 € per year ;
- the losses of income resulting from vacant premises and unpaid rents, which are estimated at a lump sum of 3% of the annual rents.

A balanced rent is one that offsets the cumulated operating account cash flow without ever becoming negative. In this example, the necessary rent is € 6.8 per square meter[34].

The rent calculated in this way is a balanced cost-based rent. It may be above or below the maximum rent stipulated by the regulations: if it is above the maximum rent, the operation may nevertheless be authorised taking if the provider is able to offset the deficit through surpluses released on other components of its estate.

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Summary of main findings

The information collected shows that in each of the countries analysed the social housing sector is supported by a very specific financing model, with such significant differences that it is actually very difficult to draw any significant comparison.
Below we will nevertheless attempt a short summary of the results of the study based on similarities and differences across countries. In particular we will look at the following perspectives:

[34] The rent charged to the tenant does not include heating, domestic water, taxes other than the land tax and the charges for small maintenance work. Garages and parking spaces are also covered by separate invoices and are not dealt with here.

- Forms of available public support
- How social housing providers organise to have access to private capital to finance new construction
- How and according to what logic rents are set and costs and revenues are accounted for/balanced

Forms of available public support

In all countries covered by the study except for the Netherlands, part of the cost incurred in new social housing construction is covered through public funding. Nevertheless the kind of public support varies across countries –with often a combination for instance of grants and loans- which makes the exercise of comparing the intensity of public aid from one country to another very difficult and not particularly significant.

Upfront, non-repayable grants are less and less used as a way to finance social housing, especially nowadays in the context of the global financial and economic crisis. **They remain a major source of financing for English housing associations** although much less than in previous years: while they covered on average 45%-60% of the total cost in 2009-10[35], under the new Affordable Homes Programme (since 2011) only 14% of the cost is covered by government grant.

Making sure loans are available at low interest rates through **loans extended directly by public authorities** (Austria) or through **subsidisation of the interest rate** (France, Finland and Germany) is the most common way for public authorities to support social housing provision. The level of discount as well as the duration of the subsidisation period can vary significantly within the same country, due to the process of decentralization of housing policies with a prominent role of the federal provinces and lander respectively. Indeed, among countries in the study, Germany is the only one which doesn't seem to have a social housing system at national level – some sort of 'extreme' example of regionalization of housing policies. Austria for instance has a decentralized system in which the federal provinces have most responsibility and freedom in choosing how much to support social housing provision, but one can nevertheless see a pattern throughout the country and draw significant comparison. On the contrary, Finland through the National Housing Fund ARA as well as France through the Livret A system have a more centralized approach to social housing funding, although local authorities still play a significant role.

Another increasingly used form of public support it the **provision of guarantees by the state or local authorities on loans taken on the private market**: this is the case in the Netherlands (although public intervention is basically only a backup 'safety net' in a system which involves other guarantee mechanisms financed by social housing providers themselves), in Finland through the ARA Housing Fund, and also in some German Lander. Given the fact that social housing providers increasingly have to recur to private borrowing to finance their activities, one can foresee that public guarantees will be increasingly used as a way to make sure providers can access better conditions on the market.

Another important way to support social housing is for public (local) authorities to provide **land at discounted rates**. As we have seen in some of the examples in this study (in London, Vienna, Helsinki), the availability of cheap land can make a huge difference in the total cost

[35] In the case study, about 64% of the total cost of the project –a very high percentage- was covered by government grants under a subsidies programme which no longer exists today.

of an operation. Besides direct provision of land to the social housing provider, local authorities can in some countries make use of the **planning system to involve private developers**. Among the countries included in this report only England uses this kind of tool, but it also common practice in other parts of Europe such as for instance Ireland and the Belgian region of Flanders. Basically this means that to get building permit private developers agree to sell part of the dwellings to social housing providers at discounted price upon completion of the project.

Other elements are also extremely important in guaranteeing the financial sustainability of social housing operations, such as for instance the **fiscal regime** in which providers operate. Many countries provide a variety of tax privileges to registered organisations, such as reduced VAT rate, reduction or exemption from property tax and income/corporate tax. Only in the case of the Netherlands the social housing sector does no longer have any kind of tax incentives.

Finally, an element which is very important to consider is the **availability of individual housing benefits/allowances** for tenants. Although in all countries analysed housing benefits are available to tenants both in the social and private/market rental housing sector, and therefore they cannot be considered as subsidies specific to the social housing sector, they nevertheless play an important role in guaranteeing the financial stability and sustainability of social housing. Among the countries under study, this is particularly true in the case of the UK, where housing allowances are paid directly to the landlord organisation and basically serve as a guarantee that housing associations will have a stable income and will therefore be able to repay loans taken on the market to finance new projects. Current proposals for reform of the benefits system are therefore particularly worrying for HAs across the UK. Overall, we can argue that the general trend over the past decades has been a shift from supply-side subsidies to demand-side subsidies. Although this is certainly the case for instance in the case of the UK and Germany, Austria on the other hand has a very low share of households receiving housing benefits.

Conditions for access to private capital

As access to private funding – either through borrowing from banks or directly from the capital markets - is gaining importance in the financing of social housing, it is interesting to look at the modalities and conditions for access to private capital. Particularly important in this regard is the issue of how the social housing sector is perceived by potential lenders and investors in terms of risk. This is why providers in England and the Netherlands are getting **rated from international rating agencies**. Furthermore, in different countries are implementing innovative **ways of pooling risks**.

One example of this is the Austrian special circuit of capital involving the sale of bonds via Housing Banks to channel investment into new affordable housing at favourable interest rates, introduced in 1993.

In England, typically it is the largest housing associations that are going to the market alone, while smaller ones turn to the Housing Finance Corporation (THFC) which acts as an aggregator. The THFC is the foremost organisation dedicated to raising private sector finance for the development of social housing. Rated A+/A-1, it acts as principal and borrows in its own name. It on-lends immediately and only to registered providers[36].

[36] See http://www.thfcorp.com/

Last but not least, the Dutch system 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[37].

Balancing costs and revenues

In Austria and France rents are basically cost-based, calculated taking into account loan interests and amortisations, maintenance, management costs, taxes, and provisions for vacancies. While in Austria the provider has to strike a balance between costs and rent strictly at the level of the single project, in France within certain reasonable limits an HLM organisation can use resources coming from other properties to offset a deficit deriving from applying low rents. In both cases **on top of this, rents also have to comply with limits set by the specific funding scheme** used to support a specific project, and obligations with regards to the level of rent are unlimited in time.

Finnish social housing is also characterised by cost-based rents, but the **obligations with regards to rent calculation only last for a given period.** Dwellings are released from regulation usually after 45 years, i.e. the period of repayment of the loan plus 20 years. After that the dwelling can be sold or let at market rates. In this the Finnish model is **similar to that of Germany**, where the landlord is also free to apply market rates after a period which typically varies from 20 to 40 years for new buildings, and 12 to 20 years for buildings renewed with public subsidies.

Rather than being based on the project cost, **social housing rents in England are set on the basis of a formula which looks at property value compared and manual local wages**. This is then amended by bedroom weightings and rent caps to set an absolute maximum rent. Furthermore, since 2011 the charging of 'affordable rents' is being encouraged, i.e. up to 80% of market rent. This is quite high compared to 'traditional' social rents – which typically range from 40 to 60% of market rents, hence the **importance of ensuring housing benefits are available to support tenants paying the rent**. Housing associations engage in a number of non-landlord activities ranging from community services provided on a not for profit basis to commercial activities. They are allowed to **cross-subsidise** social activities through revenues raised from commercial activities, but not vice-versa.

In the **Netherlands, rent levels are set on the basis of a point system which looks at the quality of the home**, including floor space, facilities and living environment. This system allows to define a maximum rent which can be applied based on the number of points. It is then up to the social housing organisation to reach a balance between the necessary minimum rent for financial sustainability and the maximum rent which tenants can pay. **As costs are often not entirely recovered through rents, they have the possibility of selling dwellings to raise money**.

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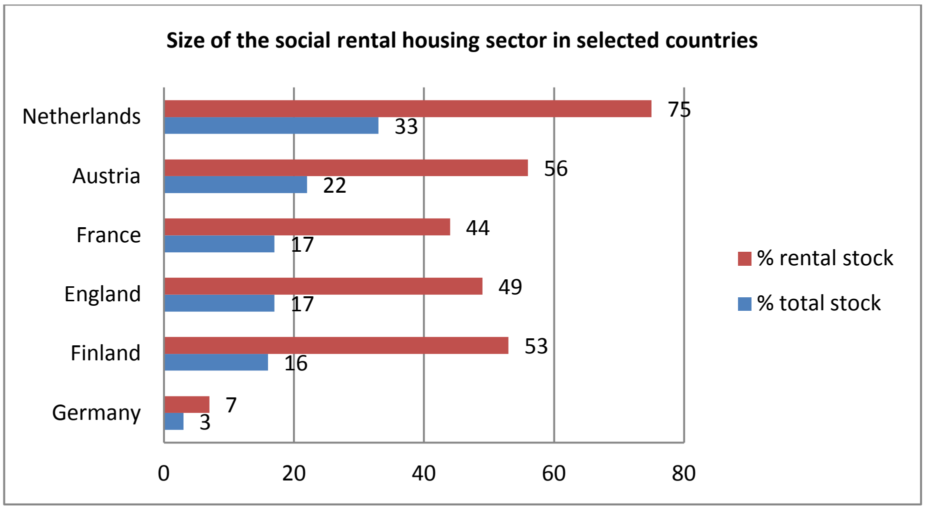
Appendix: Comparative tables and charts

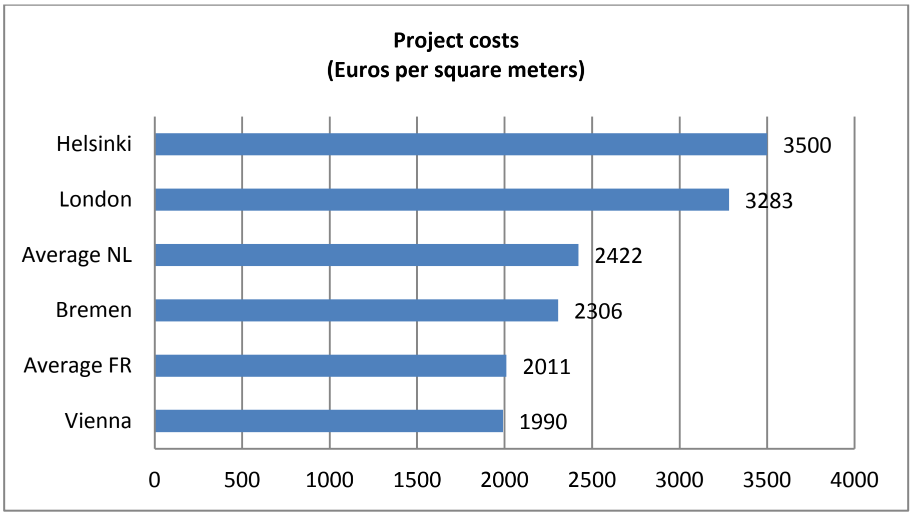
[37] CECODHAS Observatory (2009) Financing social housing after the economic crisis

Cross-country comparison of social rental housing as a percentage of the housing stock		
	As % of total housing stock	**As % of total rental housing**
Austria	22%	56%
England	17%	49%
Finland	16%	53%
France	17%	44%
Germany	3%	7%
Netherlands	33%	75%

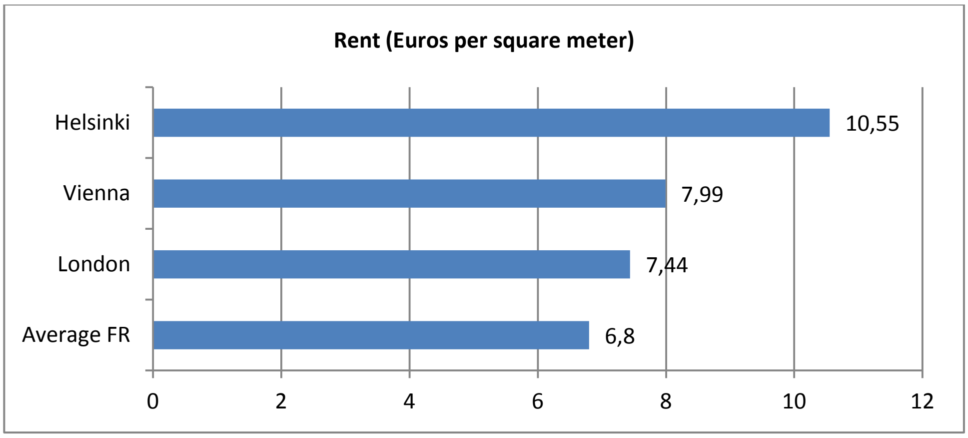


Comparison of costs of new social housing developments (Euros per square meter)						
Type of cost	**Vienna (AT)**	**London (UK)**	**Average NL**	**Bremen (DE)**	**Helsinki (FI)**	**Average FR**
Site/land acquisition and development	280	933	307	176	Not applicable[38]	402
Construction work and fees	1 710	2 146	1993	1924	3381	1407
Other		204	122	204	199	201
Total	**1 990**	**3 283**	**2 422**	**2 306**	**3 500**	**2 011**

[38] Rented, at 21.4 €/square meter per year, which corresponds to 4% of plot value (while in other countries land is purchased and not rented)



Cross-country comparison of rents (Euros per square meter per month)						
	Vienna (AT)	**London (UK)**	**Average NL**	**Bremen (DE)**	**Helsinki (FI)**	**Average FR**
Total rent	7.99	7.44	Nav[39]	7.50	10.55	6.8



Comparison of financing plans (financing sources as % of total cost)						
Financing source	**Vienna (AT)**	**London (UK)**	**Average NL**	**Bremen (DE)**	**Helsinki (FI)**	**Average FR**
Own funds of housing provider	14%		20 – 30%	38%		15.1%
Bank loans	42%	35%	70 - 80%	37%	95%	74.8%
With interest rate subsidy					Yes	Yes, indirectly
With guarantee			Yes, partly		Yes	
Public loans	34%			25%	5%	
Public grants		65%				10.1%
Other	10%[40]					

[39] On average 5.77 Euros per square meter per month <u>excluding</u> service costs (while for other countries the figure reported refers to the total rent paid by tenants).
[40] Financial contribution from tenants

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Acknowledgements

This study was realised thanks to the help and commitment of the following experts:

Austria: Eva Bauer, GBV. *The GBV is the Austrian federation for Non- Profit -housing providers. The latter are providers which are agreed the non-profit status according to the non-profit housing act, and which are amongst others under control of public authorities (federal provinces). Membership in the federation is compulsory. The GBV, as well as lobbying in the interest of its members, is also the legal entity charged with auditing its members' business performance and compliance with legislation.*

England: Adam Barnett and Arno Schmickler, NHF. *Out of a total of about 1200 housing associations in England, 1037 (including 55 Co-operatives) are members of the National Housing Federation (NHF), providing 2.7m homes (70% of total social housing in England).*

The Netherlands: Raymond van Dellen, AEDES. *AEDES represents practically all social housing organisations in the Netherlands. While it promotes the interests of social housing providers in the Netherlands and the EU, AEDES also works as a network and a platform for research on housing issues in the Netherlands. Last but not least, it represents social housing organizations as employers in trade unions bargaining.*

Germany: Christian Gebhardt, GdW and Manfred Sydow, GEWOBA (Bremen). *The GdW is the biggest federation of housing and real estate in Germany. Nearly 3.000 housing cooperatives and other legal forms of housing companies are organized in 15 regional federations, which are in turn members of GdW. The housing companies all together are managing nearly 6 million housing units, or 30 % of all rental housing units in Germany. The activities of housing companies represented by the GdW include not only social housing but also (mostly) commercial activities. It is estimated that out of a total 6 million dwellings managed in 2011, about 1 million are social housing, corresponding to about 62 % of the total stock of social housing in Germany.*

Finland: Kalervo Haverinen, Special Adviser on Housing to the Minister of Communications, former managing director of Kunta-asunnot Oy. *Kunta is a social housing company active throughout Finland, owned by the 39 municipalities which have transferred their rental apartments to the company. The company owns a total of 10 000 rental apartments in 31 municipalities.*

France: Michel Amzallag and Martin Debettignies, Direction des études économiques et financières, Union Sociale pour l'Habitat. *USH is a confederation dedicating its services to the lower income families. It represents about 850 social housing providers throughout France (Hlm companies) who manage altogether 5 million dwellings.*

The study was supported by the Caisse des Dépôts et Consignations

CECODHAS Housing Europe’s Observatory

The Observatory is the research branch of CECODHAS Housing Europe – the federation of public, cooperative and social housing. The main aim of the Observatory is to identify and analyse key trends and research needs in the field of housing and social housing at European level. The Observatory supports CECODHAS Housing Europe's policy work by providing strategic and evidence-based analysis in the field.

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