Public Subsidy and Stock Renewal of the Existing Social Housing Stock in Select Countries

Background briefing report

Prepared for Canada Mortgage and Housing Corporation

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1. Background

CMHC has carried-out and commissioned work on a number of investigations to gain an understanding of how other countries support development to expand their supply of affordable and social housing. These investigations have encompassed the following countries: US, England, Australia, New Zealand, Germany, and Ireland. The current brief adds Finland.[1]

However, less is known about how these same countries handle the challenges of funding their stock of existing affordable and social housing dwellings and to keep it in good operating condition and adequate for the current needs of occupants.

Objective

The purpose of this report is to produce a paper that examines funding and portfolio management strategies of the same group of countries.

The objectives are twofold:

1. To build a "baseline" on the funding practices of social housing in the list countries that described in general terms how existing social housing is funded, including both initial capital funding and ongoing operations (e.g. any operating subsidy?)
2. To understanding how other countries handle the financial challenges of an aging stock of affordable and social housing units (to what extent is public funding vs. other mechanisms used to cover rehabilitation and capital replacement).

This work is stimulated by a renewed policy interest in Canada brought about by a change in government and renewed interest in housing issues, reinforced by a context in which long term operating subsidies from the federal government have begun to expire. While these funding agreements were known to be of a finite duration, the acceleration of expiring funding agreements have precipitated a need for careful examination of the impacts and implications.

In some cases, the social housing projects will be quite viable and sustainable without ongoing subsidy; in others some extension or renewal of subsidy may be required. And separate from operating viability, there is a need to invest in capital renewal and modernization.

Other countries have similarly seen some evolution in their funding and financing arrangements, as well as a need to manage renewal of an aging stock. Accordingly this paper

[1] For a review of recent initiatives in Australia, England, Ireland, Germany, New Zealand and the US, see Pomeroy and Phinney (2016) Adding to Rental Supply: Review of International Rental and Social Housing Policies and Programs. CMHC, Ottawa

[2] In Canada, the 2016 federal budget did allocate $574 million for social housing capital retrofit as a one time temporary measure, largely as an economic/employment stimulus).

examines how funding and financing practices have evolved and then draws out key insights for the current challenge in Canada.

2. *General overview*

Across most of the countries examined there has been a similar evolution in the way assisted housing has been funded and financed. Most of the associated public/social housing stock was developed (or acquired) over the post war period. And, in all countries there have been two broad phases of development and initially direct government role in building public housing and a later evolution into a variety of alternatives to state procurement and ownership.

A. Public housing

In the Anglo countries – Australia, Ireland, New Zealand, the US and the UK all began with direct publicly based systems. This initially involved loans from the national government together with various forms of debt repayment subsidy and operating subsidy. These approaches were universally adopted in all of these countries, and were the primary vehicle for the construction of low rent or assisted housing from the 1930's to the 1970's and 80's (depending on country).

Common across all countries with public housing systems, after three or more decades of activity the associated public expenditures were becoming significant. Inflating construction costs exacerbated the cost of each incremental unit constructed and the expenditure curve continued to steepen. In addition, in some countries, inflating operating subsidies further impacts expenditures.

The long term nature of these financing/funding commitments attracted the ire of treasury officials, who typically prefer to fund initiatives and programs over a shorter duration in order to have more flexibility in management of public spending. In many cases, original loans have been retired, but there remains a need to subsidize low rents and to address capital replacement as the properties age.

Treasuries increasingly imposed constraints on the public housing programs and agencies and as a consequence these agencies have sought to find new and different ways to address persisting need for affordable lower rent housing.

B. Mixed models with both community based non-profits or private low rent developers

The second phase, which generally commenced in the late 1970's or early 1980's consequently saw a range of different approaches including incentives to private developers, community based housing and public-private partnerships.

This included efforts in the US to attract private sector developers into the low rent arena (primarily via below market rate financing) and later some tax incentives and State managed tax based financing mechanisms. The UK (including Scotland and England) and Canada went down a different path and each to differing degrees nurtured a community based non-profit sector to build and operate assisted housing. Australia and Ireland have also ventured down this path, but at a later date than was the case in Canada and the UK.

Finland has for a long time had a dual system including public (in form of municipal companies) and non-profit providers and they continue on this path. Finland did not as substantially refocus development as was the case in other countries to the community or private sector.

Germany is very different as it never had a public housing system and has sustained a subsidized loan approach across both periods that engages a broad range of providers.

Another feature of the mixed model era was the increasing use of housing allowances to separate the issue of low income and thus inability to afford even modest rents from the issue of expanding a stock of housing.

Since the 1980's there has been a widespread shift in favour of these demand side subsidies in favour of supply programs. Today across all profiled countries there is a much greater emphasis on and use of housing allowances (person based subsidy) over supply side project linked assistance. Canada is however a laggard in this trend.

3. Some key insights

As in Canada the traditional funding regimes for operating subsidy are unsustainable

The patterns in each country are described in appended country profiles. Drawing from this there are a number of insights that may be relevant to the Canadian context.

No other countries have historically had the explicit expiry of agreement and subsidy phenomenon that is now accelerating in Canada. Other countries did not tie public subsidy to a finite period linked to debt repayment. Germany did however link low rent to below market rate loans, and the requirement to hold rents low have similarly been expiring.

Other countries, notably the US, Australia, England, Ireland and NZ have however all experienced funding reductions and constrains in their public housing systems. Constrained funding has resulted in under-maintained properties, deferral of capital renewal and in some cases leaving units vacant (Ireland).

One anomaly is Ireland, which has recently implemented a practice similar to Canada's long term operating agreements in the form of a Payment and Availability Agreement. While conceptually similar in making a long term commitment, a key difference in this new Irish model is that the rents set in the P&A are almost at market (95%) which provides sufficient rental income to be sustainable (with a separate rent subsidy for low income tenants).

There is also a general longer-term trend to residualization in tenant profile (less so in Finland and Germany). Most public housing systems began with primarily a general supply objective linked to post war reconstruction and expansion and serving both returning veterans and their families as well as lower wage working poor. Most have over time evolved to become more targeted to increasingly lower income and multiply disadvantaged. This has meant a decline in rent revenue (most have income based rents, similar to RGI – Finland and Germany are the exceptions) as well as increasing expenditures for ancillary tenant support services.

Unique trend in Germany with some expiring projects

Germany is notably distinct from the other countries and does not have a public housing system per se. The approach in Germany links subsidized loans to below market rents, which remain regulated for 20 years (earlier versions 40 years). Providers include a full range including municipal companies, non-profit and private investors. Rents are set at below market levels and property owners must self-fund maintenance and capital renewal from rent revenues.

As in other countries, a housing allowance separately supports those with low income to pay the full rent. At the end of the 20 years regulated period, properties leave the "subsidized rental sector" and rents can (and do) move to market.

So over time there is some erosion of the subsidized sector. However, for low-income tenants this is largely offset by their housing allowance, but state expenditures on those allowances increase.

No countries have explicit capital renewal/retrofit budgets

With the exception of short-term stimulus measures in 2009-11 (across most countries), and a very small budget implemented in 2014 in Ireland, no other country has had specific funding or budgets to manage the increasing capital replacement needs of an aging stock. [2]

Like Canada there was a modest amount of modernization and improvement funding embedded in general subsidy, but this was typically well below minimal levels required to sustain stock in good condition. While in England the government introduced a decent homes standard in 2004 and dictated that all providers had to retrofit their properties to meet that standard by 2010 there was no specific funding available to facilitate this process – social landlords had to find the repairs and upgrades from rent generated surpluses. This had the effect of reinforcing the practice of stock transfer from local authorities to housing associations, as for councils this was the only way to access necessary funding for capital renewal.

Establishing more sustaining revenue streams

Rather than increase or establish new operating or capital grant mechanisms, all countries have pursued reform in rent systems and migrated toward demand side support.

[2] In Canada, the 2016 federal budget did allocate $574 million for social housing capital retrofit as a one time temporary measure, largely as an economic/employment stimulus).

These establish new rent structures at or close to market rents as a way to increase the capacity of providers to undertake necessary asset management and renewal subsidy. These higher rent revenues then enable providers to either set aside capital reserves or to have capacity to lever debt financing as a way to fund retrofit requirements.

Meanwhile affordability for lower income tenants is managed through separate household based housing allowances. In some cases (such as Australia, England, Finland, Germany and NZ) these are portable not project based. In other cases they are tied to the project and more like a rent supplement contract (historically in US and in Ireland).

Effectively this expands and transforms providers from social service agencies to asset managers and provides a level of revenue that facilitates and sustains this role.

In NZ this has been formalized through parallel institutional reform, wherein the national housing agency, HousingNZ's role is exclusively on asset management (including portfolio rationalization disposition and acquisitions), with income support and rent allowance administered via a Ministry of Social Development.

Innovations in the US

Approaches in the US tend to be distinctly different from most other countries and seem premised on a more entrepreneurial culture. Proponents of affordable housing in the US are often heard discussing how they "structured the deal;" rather than "developed affordable housing". A key part of this has been the historic practice of adopting private finance models and adapting these into affordable housing as well as extensive use of the tax system to create tax based financing and funding mechanisms.

A recent innovation is the Redevelopment Assistance Demonstration (RAD). This essentially exchanges the form of subsidy, removing low and constrained public housing operating subsidy and replacing it with slightly more generous Sec 8 voucher assistance. The increased rent revenues that result have created capacity to refinance to get funding for capital renewal.

The RAD is augmented by a variation of the low income housing tax credit, which adds additional funding in the form of tax credit equity investment. With these two mechanisms in place owners of existing public housing are able to undertake retrofit and in some cases redevelopment of aging assets. Earlier experimental versions that were the basis for RAD had a more generous level of funding and thus were more effective. As more PHAs adopted the practice, HUD (or more correctly, Congress) constrained the value of the replacement Sec 8 funding in order to manage overall subsidy expenditure.

The key feature of RAD however is the restructured rents to levels that sustain leverage and enables more effective asset renewal and management.

Context is important

An important aspect of comparative research is that the contexts are different in each country. What works in some may not translate well to another. A good example of this is the tax credit approach that has been very successful in the US. Both the UK and Australia have tried to implement tax-based mechanisms and have sought to attract institutional investment (most recently the Australian National Rental Affordable Scheme (NRAS). Australia has also sought to copy the stock transfer model used extensively in the UK. Neither have gained much traction and have either been cancelled or of limited use.

Distinguish and specify policy objectives

The general theme across the countries examined here is that it can be useful and more effective to distinguish specific policy objectives such as stimulating new construction, addressing affordability and encouraging and enabling capital renewal and retrofit.

Creating sustainable revenue streams is critical to enabling developers and owners of housing assets to secure the necessary capital financing to build or renew assets.

The evidence across this range of countries is that seeking to address low-income affordability problems by setting rents low has proven to be counterproductive. It has left asset owners with insufficient revenue to undertake sound and strategic asset management. Under maintenance and disrepair prevail and create unattractive living conditions and dissatisfied tenants.

All countries, except Canada, have replaced these deep subsidy social assistance models with separate rental assistance mechanisms. In many cases this has also created increased mobility and choice for residents.

Various forms of rental allowance and rental subsidies directed to households (demand side subsidies) have proven to be effective both in addressing the core problem of affordability and as a way to support development and renewal of assets.

Appendix A: Country Profiles

- Australia
- England and Wales
- Finland
- Germany
- Ireland
- New Zealand
- United States of America

The evolving Australian experience

Australia's population and housing stock is roughly two-thirds that of Canada and has a similar tenure mix. Of the total stock (9.1 million homes) a total of 5% are "social housing, with the majority being State owned and operated public housing (360,000 homes) and 1% (just under 100,000) in the community housing non-profit sector.

It is noted that overtime, a larger volume of public housing has been constructed but an ongoing process of selling homes to sitting tenants (especially in earlier years to returning veterans, with the sales model in place though to the late 1970's) has reduced the residual state managed stock. More recently there has been a practice of transferring assets as a way to build a strong community non-profit sector (the scale of transfers, varies across states), as well as a sale of assets to raise funds for capital renewal in remaining stock.

Public housing development and renewal

While Australia is a federal system, similar to Canada, the fiscal relationships are very different. States do not raise revenues through income tax and as a result larger programs tend to be conditionally block funded by the national government (Commonwealth) while delivered by the States. This was the traditional approach in public housing with funding flowing under ongoing four year renewable Commonwealth-State Housing Agreement (CSHA), the first signed in 1945, more recently replaced by the National Affordable Housing Agreement (NAHA). States do however generate income via sales taxes and a notable large stamp duty on property sales, and use this source to fund their increasing responsibility for public housing subsidy.

It is also notable that Australia has never had a national housing department – like Canada they had Ministers with larger portfolios having an ancillary responsibility for housing (usually under social or family services). However all states and territories had departments and Ministers concerned mainly with the provision of public housing (and more recently the regulation of a nascent community sector).

Similar to the other countries profiled here, the initial and traditional form of provision of assisted housing was under public housing programs. This commenced in the immediate post war period and continued until the mid 1990s. Construction was financed by loans from the Commonwealth government. Rents were charged at market rents, but for lower income residents these were rebated (subsidized) down to 25% of income.

Initially public housing was primarily a supply program directed to returning veterans and post war expansion. However it has become increasingly targeted to those on lowest incomes unable to secure private accommodation. By 2000, the majority of public housing tenants (90%) were those on statutory social security incomes (pensions and benefits). This has mean that rent revenues have steadily declined, and subsidy demand has increased.

There has been no separate funding for capital renewal – any such expenditures are funded on an as you go basis from annual CHSA/NAHA transfers or States own funds. This is one of the largest pressures on the state run public housing system, and has prompted some asset dispossession as a way to eliminate costs and generate cash receipts for replacement in remaining portfolio.

To date, Australia has not implemented any state supported leverage or financing mechanism to address renewal, other than some small-scale transfers to community housing providers.

Notably while Australia has established a national rental assistance program (Commonwealth Rental Assistance), which is paid as a supplement to basic social security benefits, residents of public housing are not eligible to receive CRA. This eliminates a potential source of funding from Public Housing.

Access to CRA rental revenues is one of the motivators for transferring stock to the community-housing sector. Residents of community non-profit housing are eligible for this subsidy and CRA covers 75% of the difference between 25% of income and a maximum rent. So the sponsoring community-housing provider generates full market rent.

Since its introduction in the mid 1980's annual expenditures on CRA have grow, surpassing the annual funding under (then) CSHA in 1992 and continuing on an upward trend, while spending on public housing under CHSA stagnated and has declined.

Emerging community housing sector

In part a response to fiscal pressures in the public sector, as well as grass roots local activism, the community-housing sector has emerged in Australia (much later than was the case in Canada). It remains very small and localized, but over the past decade has been boosted by first the creation of a new funding program, the National Rental Assistance Scheme (NRAS) as well as related extra investment under the economic stimulus package following the Global Financial crisis, the Social Housing Initiative (SHI).

Intended as a way to attract private institutional funds into the social housing sector, NRAS offered a tax credit, allocated over a 10 year period to investors in affordable housing where rents are set at least 20% below market levels An annual credit of A$6,000 is provided for 10 years; this is supplemented by State credits of A$2,000. In return, investors provided equity to proponents of affordable developments.

The program implemented in 2008 did not achieve its goal of 50,000 new homes (37,000 had been committed by the time the program was terminated in 2014). There is no ongoing subsidy, other than CRA, which low-income tenants may qualify to receive. As such the proponents are entirely responsible to cover operating costs as well as any funding of capital replacement as properties age (this is not yet a consideration as all quite new).

Without some form of grant (or use of tax credits to attract private equity investment) it has proven impossible to produce new housing at affordable rents.

Fiscal challenges in England and Wales

As is the case across the range of profiled countries, the pattern in the UK was one with two primary eras and models, with the earlier one giving way to and replaced by the latter.[3] From the pre war era through to the late 1970's in the UK generally, this involved direct public procurement, ownership and management of a public "council housing" stock. This evolved into social housing in which independent non-profit and/or charitable housing associations became the predominant conduit for delivery of assisted housing.

At its peak, in 1979, council housing accounted for 32% of all homes in England and Wales. While charitable societies and trusts had been involved the housing association sector was only beginning to emerge in the early 1970s; by 2010 it exceeded over 2 million homes and was larger than the remaining council sector, part of which was sold to tenants under right to buy and part transferred to housing Association ownership.

The shift to HA management was both ideologically and financial driven, and reflects a fundamental shift in funding and financing practice in the UK (applicable both to new build and to stock renewal). The total social housing sector (residual local authority stock plus HA portfolios) now accounts for only 22% of the total housing stock (this proportion is down from 1979 partly due to sale of homes to residents, but also due to low level of new construction, relative to market housing).

Public (Council) housing

The initial impetus for public housing was a gross under supply of housing following the 1914-19 wartime period and local councils were encouraged and provided subsidy to actively build homes for returning veterans and their families. The early versions of council housing were not targeted to low income; it was a broad general supply program. This expanded to slum clearance and some targeting in the inter-war years, but large scale bombing created a new impetus for post war reconstruction after 1945.

The large-scale building program involved loans and subsidy from the national treasury to assist local councils in large scale building programs. When the housing was available across the lower middle class rent revenues were substantial and rent receipts sustained local authority building programs. However as homes became increasingly targeted and required rent rebates (rental income forgone) to reduce rents to lower levels affordable to lower income tenants, rent revenues declined, increasing subsidy need (from national government).[4] By the late 1970's the

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[3] In the immediate post WW1 period, public housing was the predominant form of assisted housing and extended in a similar set of programs across the UK. Since the devolution to national parliaments in the late 1990's, there have been some variations across the UK, most notably in Scotland.

[4] As reported in Malpass and Victory (2010), in 1962 only 11% of tenants had no earned income; by 2003 the proportion in this situation was 65%. The purpose of social housing as well as its funding sustainability had fundamentally transformed.

volume of new construction was ebbing with Councils increasingly directing their declining revenues toward rehabilitation and repair and their aging stock.

Treasury support to local authority (council) housing was constrained as the scale and financial commitment across this sector had grown substantially. Alongside ongoing need for additional building, the aging stock required reinvestment and added fiscal pressure on the treasury. The somewhat unique accounting regime in the UK also stimulated a different approach. As a unitary state the debts of local authorities (councils) are consolidated with the national government and contribute to the overall public sector borrowing requirement, which was under strain. The treasury accordingly sought to curtail expenditure on public housing.

It was expedient to shift the new development program to non-government housing associations as their debt was outside of the PSBR and they were able to lever private finance, a practice that government sought to encourage and enable.

Driven by a ideological belief in homeownership and asset building, perpetrated under the Thatcher administration many councils were directed to enable sitting tenants to purchase their homes (at a deep discount over value). This helped to reduce the public expenditure on repairs and renewal (effectively privatizing this obligation to the individual owners) as well as ongoing subsidy requirements.

The social (Housing Association) sector

As noted, in the 1980's non profit (and charitable) housing associations became government's favourite mechanism to deliver housing assistance, both new development and stock renewal.

Through legislative changes in the late 1980's a new funding mechanism was implemented (replacing the old public housing system). This provide capital grant funding (for roughly 50% of cost), with rental income required to support financing the remaining costs, as well as to cover ongoing operating. Under that new regime, there was no ongoing subsidy, other than person-based allowances paid to tenants. Low-income residents are eligible to receive a housing allowance in the form of Housing Benefit a national housing subsidy entitlement program that complemented the social security system.

The capacity of housing associations to lever financing was created by their ability to charge a market rent. Low-income tenants were then abled to pay these rents as a result of receiving Housing Benefit. (There are some regulatory arrangements that seek to cap excess subsidy and a complicated regulatory system that controls market rent).

More recent reforms have reduced the level of capital grant (down to 20%) and increased the need to lever financing off of net income augmented by provider equity from existing portfolios (where newer market based rents generate surpluses).

The availability of market based rent revenues for the HAs and tenant capacity to pay facilitated via HB has also created a way to manage the need for large-scale capital infusion to renew and repair the aging stock.

By encouraging the transfer of the asset from Local Authorities (councils) to housing associations, the new owners could side step the PSBR and could then use private finance to fund stock renewal. Tenants were required to vote for a change in ownership from Local Authority to an HA but were often incented by the offer of refurbished and updated homes.

Large-scale estate regeneration

Separate from the asset renewal being undertaken by housing associations, over the decades there have been a range of regeneration initiatives in the UK that much like the US HOPE VI regeneration have aimed to tackle issues of concentrated poverty and physical deterioration in (usually) larger public housing sites. In the UK as an artifact of history much of this has targeted what are called peripheral estates – large swaths of public housing build on the edge of cities and often disconnected from employment opportunities and amenities. Since the 1970's a variety of regeneration programs have been used, including some funded from the EU parliament.

The latest version of regeneration is the Estate Regeneration Program (ERP) implemented in 2014. Like previous approaches this has a limited budget and uses a competitive process to select funded initiatives. In the current ERP, there is a strong emphasis on intensification of lower density sites, using mixed market models to fund a commercially viable approach. Government funding for this latest initiative is in the form of public loans, distinct from the grant funding that has characterized earlier regeneration schemes.

It is however important to note that these initiatives have limited budgets and estates/councils apply under a competitive program for a limited funding budget. As such they do not cover the full scope of renewal and replacement of aging stock.

Finland: Unique cost-based rent system

Of the 2.6 dwellings in Finland roughly 26% are rented. This includes 10% in the private rented sector and 16% is social rental (data for 2014). A key feature of the Finnish housing system is that rents are costs based, rather than market based or income related. Finland has a housing support system that is both targeted and universal – there are programs in place both for rental and owner occupied units.

Within the social housing sector, which accounts for 16% of all housing (roughly 400,000 homes) municipal housing companies are the dominant provider (60%) housing associations operate 20% and the remaining 20% are operated by various charities and special needs organizations.

Historical Transitions in Finnish Housing Policy

Finland is no different than many other countries in terms of a need to create new supply after the WWII. Finland setup a funding mechanism known ARAVA loans that were initially directly funded from the Finnish government's budget.[5]

In the earliest models of housing finance, ARAVA was capitalized from state grants and effectively operated as a revolving loan fund and thus became off budget. Revenues were generated through income streams from already existing ARIVA loans by means of their interest and principle payments, direct budgeted funding from the Finnish state, and subsequently by issuing of bonds on the financial markets.[6] These finance mechanisms were directed mainly to support homeownership, but also benefitted the social housing sector.

Like many other countries Finland experience significant deficits and constraints in the nineties and as a result direct budget expenditures for housing finance from the government were challenged. The ARIVA Fund had however held a large volume of mortgage assets. These were leveraged via a securitization process in order to generate new capital for ongoing development.

During the 1990s the Fennica program came into existence which created mortgage backed securities out of existing ARAVA loans by means of a special purpose vehicle.[7] Funds generated from these mortgage backed were utilized for the purposes in developing social housing properties such as creating new units, renovation of existing units, and finally the purchasing of existing units to convert to social housing.[8] Typically these loans covered 90-95% of cost and were amortized over 35 years.

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[5] Securitizing Funds for Social Housing, 34
[6] Securitizing Funds for Social Housing, 34
[7] Securitizing Funds for Social Housing, 36
[8] Securitizing Funds for Social Housing, 36

Institutions and Current Programs in Finland

The Finnish support system for creating affordable rents for the Finnish people is dual tracked and operated from both the supply side and the demand side.

A housing agency called ARA under the Ministry of Environment is involved in the supply side and uses state loans or interest rate subsidies;[9] meanwhile the Finnish Social Insurance departments works from the demand side.[10]

As noted above, social housing development has been supported primarily with ARAVA loans to municipalities (and latterly other community based providers). This is the principle mechanism for the supply side of social housing in Finland and involves both direct loans at below market rates as well as interest rate subsidies for private lenders, loan guarantees, equity grants, and repair grants.[11]

Tenant selection is based on housing need and some priority is given to homeless applicants or applicants in urgent housing need. While income must be within the income limits set by the government the income criteria at entry are sufficiently flexible and there is minimal ongoing verification, so many properties have a mix of incomes. Deep targeting and concentration of low-income tenants are generally avoided. This creates both more integrated populations as well as greater viability.

Rent is cost-based rent, which includes a yield on capital invested by the owner. The maximum yield is defined by the legislature and is currently 8 per cent. This funding structure generates sufficient revenue at the project level to enable providers to maintain properties in sound condition.

On the demand side of the social housing policy spectrum there are housing allowances paid under a needs based assessment and targeting lower income households.[12] These housing allowances are designed on a percentage of gap basis, and cover around 80% of the rent after the beneficiaries own contribution.

The HITAS System

Something that stands out in terms of Finnish housing policy is what is known as the HITAS system, which applies mainly in Helsinki. The municipality of Helsinki has a near monopoly on land that is considered suitable for the development of housing projects. AS the land owners/vendor the municipality can dictate terms to developers. Properties built on these lands must be affordable to the average resident of Helsinki. Additionally, these developments are regulated in order to militate against the potential for property speculation. The HITAS system consequently gives Helsinki a bit of leverage in terms of developing social housing.

[9] Putting Finnish Housing Design into Context: The Helsinki Experience,24
[10] Putting Finnish Housing Design into Context: The Helsinki Experience,24
[11] Putting Finnish Housing Design into Context: The Helsinki Experience, 26
[12] Putting Finnish Housing Design into Context: The Helsinki Experience, 26

Different context in Germany

Germany appears to have a relatively small social housing sector (8% of all homes), but this is misleading. [13] These are homes owned and operated by state or municipal companies. Many more households receive housing assistance, but under a distinctly different model.

Compared to other countries being examined, there is no analogous form of public housing in Germany and no permanent stock of social housing. Instead, social housing is a temporary phenomenon involving a wide range of providers, including co-operatives, municipal and state-owned housing companies, larger institutional and small-scale private landlords. "Social housing" in Germany is sometimes defined as "subsidized rental housing" regardless of ownership.

A significant feature of its housing model is that housing subsidies have long been available to all types of landlords, as noted above, and rents are regulated for a period of time (typically 20 years) as a condition of the subsidy (which is in the form of a concessionary below market interest rate). At the end of the regulated period, landlords are free to set market rents although non-profit landlords may continue to set rents below the market level. So there is ongoing erosion of subsidized housing as these regulated 20-year periods end.

In addition to below market rents, all low income employed citizens (both owners and renters) are eligible to receive a housing allowance "Wohngeld" to reduce their net housing cost to no more than 30% of earned income (recipients of income support are not eligible – they are separately funded under the income assistance programs). So this sustains rental income to property owner/landlords.

Below market rents are sustainable due to loan subsidy and projects can fully cover costs to maintain property and undertake capital investment. Much of major capital renewal comes in after 20 year compliance period has ended, by which point rents can be increased to full market so there are increased rent revenues to further enable refinancing. Accordingly there has been no need for additional funding to address capital replacement and renewal in the German system.

[13] Here Germany policies are those of the former Federal Republic of Germany (West Germany), and ignore any historical differences in the GDR (East Germany).

Ireland experimenting with lease stock

While independent from the UK, the approach to social housing in the Republic of Ireland is not dissimilar to that in the UK. The origins of a social housing sector began with local authority housing and have similarly evolved to a greater reliance on community-based housing associations (although in aggregate the HA stock remains smaller than that of local authorities. The overall social housing sector is proportionately smaller in Ireland than in the UK: some 8% of all households live in local authority housing while a further 6% live in either housing association or privately owned homes with support through a rental allowance. This 14% that live in state supported housing total approximately 226,000 households.

Another important feature in Ireland, also similar to England, that has contributed to a relatively smaller social stock has been the sale of public housing to sitting tenants on a deeply discounted basis.

A notable trend now in Ireland is an increasing utilization of privately owned dwellings by licensing (small scale) private landlords to rent their premises for social purposes and providing demand-side subsidies to the residents. In 2011, one third of private sector tenants received a rent supplement to assist in paying rent. In part this followed the collapse of Irish economy and housing market. With many surplus properties in the market it was a more practical and cost effective option to new build. As economic recover gains traction there are more recent concerns about low supply and attention in the recent national housing strategy (2014) is including new construction of social housing.

Local Authority Housing

This is the largest segment of the social housing system (107,000 homes, plus a further 30,000 contracted under leased or rent supplement arrangements, in total representing about 10% of all housing).

Traditionally funded by central government (with grant and forgivable loans), high levels of overall government debt precipitated a reduction in funding in the late 1980's and thus new housing development. In lieu of new construction, local authorities became more reliant on leasing private rented housing to meet social need. In some cases, especially special needs it has been noted that the contracted private homes may not be as appropriate as those specifically constructed for special needs populations.

Rents are based on a graduated scale (called differential rents) depending on income and family composition and these differential rent scales vary across local authorities.

Notably, the differential rents collected from local authority tenants are general revenue to the local authority and is not reserved exclusively for housing purposes.

This has been an issue in stock transfer to housing associations as the Local Authority losses the rental revenue (which it uses for non housing activities). Thus the extent of stock transfer to HAs is much lower than in the UK.

There is no equivalent of housing benefit in Ireland (although the Rental Assistance Scheme is implementing a form of allowance, in form it is more of a rent supplement contract, funding full market rent).

As social housing has become more targeted to more disadvantaged populations the revenues from these differential rents have also declined. Local authorities have been found to have quite low maintenance and refurbishment budgets especially given tenant turnover. With constrained funding, there has been a practice in some local authorities of leaving units vacant. In 2014 the government allocated a modest new budget to assist local authorities in refurbishing some of their stock.

The average differential rent per unit is also too low to support new development, without capital funding – a recent new capital funding initiative is helping to facilitate new supply

Since 2000 a key mechanism to support new development was the inclusionary provision of the Planning Act, which requires up to 20% of the land in any new residential development to be made available to the local authority at existing use value (i.e. pre any rezoning and planning permission, which creates a higher market value) for use as social or affordable housing. This was effective during the pre 2008 boom, but as property values have declined is now less effective. This approach also imposes a cost on the local authority, which have to borrow to finance the purchase of the units (even though values are below market cost).

Housing associations and approved housing bodies (AHB)

Given the fiscal and operating constraints on local authorities, prevailing since the 2009 downturn, Irish housing policy has like other countries turned increasingly to housing associations as the main conduit for social housing provision. It also relies heavily of the used of leased private properties and rent supplements.

There are some 300 AHBs in Ireland (2012), which together manage 27,000 homes. This is just under one-fifth of all social housing in Ireland. Until 2011 AHBs were funded with a capital funding program covering 100% of cost. Rents were similar to the LA differential rents and tenants were referred from the LA waiting list. AHBs also received a management and maintenance allowance (still paid to previously funded AHBs). The Capital Loan and Subsidy Scheme (CLSS) produced almost 7,000 homes between 2002 and 2012.

A parallel capital funding program, the Capital Assistance Scheme was also available to build or acquire homes for people with special needs. This remains available today and since 2002 has produced 8,200 homes.

Ireland

A new funding mechanism the Capital Advance Leasing Facility (CALF) was implemented in 2011 with a mix of capital funding (in form of a deferred loan) and debt financing. A long term operating agreement Payment and Availability Agreement then regulates operations and provides the AHB with a revenue (subsidy) guarantee, which enables them to secure financing. The P&A agreement pays 92% of market rent plus a management fee. This is analogous to Canada's operating agreement regime, but set at a more viable level. AHBs are also able to undertake mixed developments with some market units (P&A funding is allocated only to units that meet program criteria). This arrangement enables AHBs to develop or acquire homes.

The near market rents are however not affordable to low income tenants, so they are separately assisted, under the Rental Assistance Scheme. The RAS works in conjunction with the separate capital and debt program. Tenants pay rent on the differential rent scale to the LA, not to the landlord (who is paid directly under the P&A from the local authority). As such RAS is similar to a project based rent supplement contract. Effectively this approach has separated supply assistance to the AHB provider from affordability assistance provided to the tenant directly by the LA in form of low rent payments.

There is no explicit funding for capital replacement as properties age. However with near market rents it is expected that the provider has the capacity to lever financing when that requirement arises.

New Zealand predominantly state owned public housing

The early pattern in NZ is similar to that in Australia, with the state directly involved in building rental homes for the working poor as early as 1937. Policies sought to enable a community non-profit sector in the 1990's and since, but this remains very small.

NZ has also had a long-standing rental allowance program, the Accommodation Supplement (AS).

Public Housing

State built public housing expanded under post war reconstruction and was significant, adding 10,000 homes annually. While initially built as rental in the early 1950s, the National government let state tenants buy their homes, offered state loans, and subsidized the building industry to bring house prices down. New housing was built in higher densities, with mass state housing areas emerging in south Auckland and Wellington.

By 1991 the publicly owned stock totaled almost 70,000 units accounting for 7.1% of all housing and 23% of the country's rental stock. Additional households living in private rental housing were assisted with a housing allowance (accommodation supplement, AS).

The perceived inequality in treatment between state tenants and private renters receiving AS lead to a process of reform in the early 1990's. Introduced under the auspices of a broad privatization program in the early 1990's,the broad goals of the reform process were to improve the cost effectiveness and equity of government support within the housing system. This included institutional reform and reallocation of responsibilities between a ministry and an operating corporation. Much of these reforms were however subsequently reversed, in part because it caused political upheaval and the new subsidy system was less generous to state tenants compared to AS.

The regulatory and policy support functions were removed from the Housing Corporation of NZ and established in a government Ministry of Housing. A new state owned enterprise - Housing New Zealand - (akin to a crown corporation in Canada) was created essentially as a property management company, wholly owned by the government. Responsibility for payment of housing assistance was shifted to the Department of Social Welfare (more closely integrating income assistance and the accommodations benefit – renamed to the Accommodations Supplement)

Public housing rents were established at market rates, with affordability addressed though the separate accommodations supplement. With rents established at market levels there were no subsidies. Profits are retained and used to fund capital replacement as well as acquisition and construction of new properties.

For political reasons these reforms were reversed following election of a new government and rent structure in state public housing resorted back to income related rents.

Ireland

In 2014 the funding and subsidy model was again reformed and expanded - previously IRRS was used only for social housing tenants; in 2014 eligibility was extended from Housing New Zealand only to new (not existing) tenants of registered social housing providers. Community housing providers currently receive the IRRS for fewer than 300 tenancies – a tiny amount compared with the total of 62,000 IRRS remaining tenancies. AS remains available to private rental tenants.

Additional reforms in 2014 cover a wide range of initiatives including reallocation of responsibilities between agencies (and with responsibility for assessing and delivering housing subsidy shifted to the Ministry of Social Development or order to integrate housing subsidy with other supports. This leaves Housing NZ as a landlord and asset manager, no longer involved in administering household level subsidy.

This new asset management strategy (for HNZ) will allow for strategic asset dispossession and acquisition, large scale redevelopment of existing assets with a mix of new social and market units and continuation of ongoing programmed of maintenance and modernization in the state owned stock. Separately a small community housing (non-profit) development program will focus funds for new development on this sector.

Most critically, the revised Income Related Rent Subsidy covers the difference between tenant contributions at 25% of income and full market based rents. This generates a sufficient revenue stream to enable HNZ to operate as an asset manager, and to maintain assets in sound condition, including capital replacement.

US Approaches – engaging private investment

Compared to European countries the scale of the assisted stock in the US is quite small. Including units funded under LIHTC, it totals fewer than 5 million homes representing fewer than 5% of total housing in the US. As such in relative terms the assisted sector in the US is similar to that in Canada and Australia, albeit with a larger degree of private participation.

The traditional Public Housing approach

Public housing commenced in the US in the 1930's and was the dominant form of assisted housing until the early 1970's. In total the public housing program created 1.4 million homes.

Local jurisdictions were required to establish public housing authorities (PHAs) to operate this program with fixed rate 40 year loans provided by the federal government and a parallel debt retirement subsidy (most public housing loans have now been retired).

By the mid 1960's, break-even rents were no longer affordable to targeted low income households so an operating subsidy was added in 1975, the Performance Funding System, which tied subsidy to size and characteristics as well as local cost structure (NAHRO 1989). The federal government through the Dept. of Housing and Urban Development also provides modernization assistance to update and renew aging assets, although this was very modest in scale.

Overtime the PFS and modernization subsidy has become increasingly insufficient to sustain public housing operations. Many projects have fallen into disrepair and are under maintained. The worst were targeted in a one-time regeneration program (HOPE VI), which has regenerated some larger PHA portfolios into mixed income mixed tenure development. Many however were left in underfunded situations.

PHAs separately administered sec 8 vouchers (housing allowances) to private landlords, in which the subsidy per household was more favourable (than ongoing PH subsidy.

Over the past decade the PHAs have actively lobbied HUD for PH funding reform. This involved swamping out PH subsidy for section 8 assistance, ultimately leading to a new capital renewal financing initiative, as discussed below.

Essentially these "Public Housing Dispositions" allowed housing authorities to dispose of some or all of their PH properties to another entity – usually, but not always, a non-profit that they created. They gave up their entitlement to PH subsidies, operating and modernization. They were then given commitments of replacement Section 8 subsidy and allowed to either issue Section 8 Housing Choice Vouchers to their tenants or project base Section 8 assistance. In the first case, the properties became essentially on the open market and the tenants were allowed to remain or leave and take their vouchers with them. In the project-based model, the subsidy remains tied to the property. Either way, on a per unit basis the Section 8 funding was a dramatic increase over the Public Housing subsidy.

These reforms increased HUDs subsidy expenditure especially as more PHAs took the option.

The model has now been embedded in a new approach, the Redevelopment Assistance Demonstration. The RAD program uses the Sec 8 swap, except the per unit subsidy is capped at the same level as the prior combined operating and capital funds allocations from HUD.

By creating a guaranteed revenue stream, HUD has enabled PHAs to refinance to raise funds for capital renewal. Their financing efforts are augmented by a new authority to use 4% tax credits (a variant of the main LIHTC program) to raise equity investment, which is also used to fund asset renewal.[14]

Private engagement through below market interest loans

Alongside the public housing programs loan and rental assistance programs emerged and continued to expand, although these have been targeted in various budget cuts

Beginning in 1974 there was a shift away from direct public development through PHA's (although a small volume continued) to funding private developers with below market rate loans for both families and the elderly. There have been a whole variety of programs, such as several Section 221 and 236 programs (which created 1.14 million homes, almost as large as public housing).

In this case there was no operating subsidy per se, but the rental assistance certificates were tied to projects and thus created a form of rent guarantee for private landlords. Section 8 funding assisted another 1.2 million households, most in the private rented sector, so also similar in scale to public housing.

The Low Income Housing Tax Credit (LIHTC)

While there were small-scale precedents for mixed models and public-private partnerships, these received a new status in 1986 when the low-income housing tax credit program was enacted. The LIHTC model has become the de facto new form of assisted housing in the US and has proven to be very resilient across five different administrations. In peak years over 100,000 units were produced although on average it have generated in the order of 70,000 new affordable units annually for a total over 30 years in excess of 2 million units.

The key feature of the LIHTC is that it uses a tax credit as a way to attract private equity investment into affordable projects, with residual cost covered by private mortgage financing. Projects are operated on a commercial basis and ongoing capital renewal is funded from operating surplus and in some cases financing against ongoing cash flows.

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[14] The main LIHTC program establishes the annual tax credit value based on 9% of the eligible cost for 10 years; in present value terms this equates to 70% of cost and these are allocated in a competitive process with an overall credit cap. The 4% credit is not a competitive process but generates a small level of investment, translating to 30% of replacement cost.

The resulting “affordable” housing however serves a high niche than traditional public housing. Without other subsidies (stacked Sec 8 and some local or state assistance) these deals only serve families with incomes between 40% and 60% of Area Median Income. By comparison, PH and Sec. 8 have served incomes more in the under 30% AMI range.

Therefore the LIHTC program, by itself, is not comparable to PH or Section 8. To make use of LIHTC housing for these very low-income families in recent years, project-based Section 8 has been added to the formula. As a result, these LIHTC properties often serve a much broader range of incomes and result in much more economically diverse populations. The LIHTC program was also widely used to support the HOPE VI program and resulted in some HOPE VI LIHTC properties that are entirely PH. Many cases also include a blend of PH, PB-Section 8 and other LIHTC units in LIHTC properties).

Funding capital renewal

Recently there has been the emergence of re-syndication where in a new round of tax credits have been issued to attract new private equity investment as a way to fund capital replacement and rehabilitation and assets become older (earliest projects now approaching 30 years old). (This is becoming a very common strategy to re-invest in LIHTC properties to provide for recapitalization.)