Adding to Rental Supply: Review of International Rental and Social Housing Policies and Programs

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Executive Summary

The objective of this research is to identify and assess existing policies, initiatives, tools, approaches and financing models adopted by other countries to encourage rental housing supply. This includes both market and social rental approaches and covers six countries: Australia, Ireland, Germany, New Zealand, the UK (England) and the US. It examines existing policies, or policies that have been used within the past five years, largely since the global financial crisis.

The research commenced with a brief literature review, covering both broad comparative international research, as well country specific articles and reports. Based on insights from the literature identified programs and policies were explored and documented, drawing mainly from official government websites and related literature to extract key details of programs. For each program/policy that was relevant, detailed profiles were developed.

The types of policies and programs found and documented can be sorted into a typology of five types of approach:

A. Direct measures
- Initiative to encourage or facilitate market rent supply
- Initiative to encourage or facilitate affordable supply
- Mechanisms to support asset rationalization and leverage

B. Indirect measures
- Tax, regulatory (or loan) mechanisms
- Demand based revenue subsidy (to support leverage of private finance)

Key findings

One of the key findings in this review is that there has been a very minimal supply response to persisting affordability issues. Governments have not reacted or responded in any significant way to fund, incent or facilitate new market or affordable supply. Where new supply programs continue, they typically create units that rent only slightly below average market levels, and arguable are not affordable to traditional clients of social housing programs.

The related finding is that there has been a trend toward person/household subsidies, in various forms of housing allowance. These bridge the gap to make moderately affordable rental more affordable to lower income households (e.g. Housing Benefit (England), rent allowances (NZ Ireland and Australia) and Sec 8 Vouchers (U.S.)).

Effectively, the trend is to separation of supply and demand mechanisms with an evolution of assistance into two distinct sets of programming, one focused on supply, at rent levels that better support financing and development feasibility and long term sustainability; and the other on improving individual capacity to pay a modest rent to more directly address affordability, is likely a healthy trend. It creates opportunities to address affordability through multiple approaches

Where the size of the rental sector has grown, it is more as a result of different types of investment that have effectively converted existing (and sometimes newly built) ownership property into rented units. Small individual investors are an important part of the market in other countries, and appear to be emerging in Canada. As long as there are investors willing to buy, developers will create supply.

This suggests that policy consideration should embrace the role and potential to influence investment, distinct from the supply objective. If the policy objective is to generate more rental options, converting existing owner units into rental can be a way to augment new construction.

This begs a key policy question: should Canada seek to resurrect a corporate development sector, or accept that this model has limitations (only build at high rents) and explore the new avenue of small investors?

In the area of affordable/social supply, there is an expanding practice of asset renewal and redevelopment. In some cases this is driven by poor quality aging assets (e.g. US HOPE VI); and in others by recognition that existing assets are a valuable resource that can help stretch limited public funding to support new development, such as intensification or can be used to secure financing for new construction (e.g. England).

Relating to the early noted shift to housing allowances to directly respond to household affordability, other countries are also reforming rent setting approaches to ensure that existing properties have sound cash flow and leverage potential. This suggests the need in Canada to examine and reform traditional rent-gear-to-income (RGI) models, which tend to undermine capacity for asset renewal and leverage.

Introduction and research objectives

The objective of this research is to identify and assess existing policies, initiatives, tools, approaches and financing models adopted by other countries to encourage rental housing supply. This includes both market and social rental approaches and covers six countries: Australia, Ireland, Germany, New Zealand, the UK (England) and the US.

CMHC is interested in the international experience in facilitating a complete housing continuum and especially policies and programs that work to fill out the middle part of the continuum – that part which serves largely the lower middle class and encompasses social rental, affordable rental, market rental and entry level ownership (this latter approach is not covered here). The middle part of the housing continuum is often referred to in the international literature as the "intermediate market"

This research complements an earlier review, *Literature Review of International Rental Housing Policies* (Pomeroy and Marquis-Bassinette, 2015), which examined recent trends in rental housing. That review identified a general trend of contracting rental sectors, both in absolute and relative size across many countries. A handful of countries were found to have stabilized or expanded the size of their rental stock and these countries were examined in more detail to understand the factors underlying the apparent growth in their respective rental sectors (this was the basis for the six countries selected in the current research).

The earlier report found that while there has been some growth in the relative size of the rental sectors, this was related more to a shift in tenure of existing properties, rather than as a result of new rental construction. That is, rental supply was not necessarily growing, through new supply but more due to investment, which is shifting existing homes from ownership into rental, as investor owners became small-scale landlords.

The current research is examining the same six countries and covers existing policies, or policies that have been used within the past five years, largely since the global financial crisis, to support or encourage:

1. New market rental housing with a focus on purpose-built rental housing, and

2. New development or expansion through redevelopment of existing social/affordable (government supported) housing.

While the focus is primarily at a national level, it also includes sub-national level (mainly in federated countries) when significant and unique programs have been implemented.

It is noted that the time frame for this review covers a period of global recession and economic slowdown during which some countries introduced short-term stimulus initiatives. These included increased funding for housing supply and rehabilitation, although the primary objective was employment and economic stimulus. So either new programming was introduced (often on a temporary basis) or existing affordable housing programs were infused with larger budgets for 2-3 years (as was the case in Canada).

Methodology and approach

The research commenced with a brief literature review, covering both broad comparative international research, as well country specific articles and reports. Since the earlier work (Pomeroy and Marquis-Bissonette, 2015) focused on private renting, this review covered primarily the social rental sector, although this overlaps with studies covering other aspects of the national housing system.

This generated an annotated bibliography and was used to identify specific policy and program approaches implemented in the recent study period (since 2009).

It was found that while there were general references to programs and initiatives in the academic literature, much of the material did not necessarily identify specific program details (volume of output, budget and evaluations).

Programs and policies that addressed construction of rental housing, both market and social, or expansion and redevelopment of existing affordable housing to add additional supply, were examined in the second phase of work. This involved exploration and investigation, drawing mainly from official government websites and related literature to extract key details of programs. For each program/policy that was relevant, detailed profiles were developed covering:

- Timeframe and current status
- General Description
- Goals and objectives
- Budget/cost to government/others
- Geographic target
- Target populations
- Outcome: is the program/initiatives meeting its objectives?

The descriptions of each program/initiative are presented in Appendix A.

Overview of Findings

Prior to reviewing specific policies and mechanism reviewed, a few general observations are in order.

Phraseology in international comparisons

The terms of reference propose that one part of the work focus on “purpose build rental housing”. This is a decidedly Canadian term and now something of an anachronism. It reflects an era (pre 1970) when multi-residential apartments were rental and built with the intent that they would remain as rental assets. It also reflected an era when developers built rental structures as long-term operators. In enumerating housing starts, CMHC accordingly developed the category “purpose built rental”. Today while some properties are constructed by investors creating a rental asset, these are almost always strata titled from the outset and may not remain rental. Equally, most multi-unit structures are built as condominiums, but individual investors purchase units, which they then rent out. So the industry has evolved to building “tenure neutral” properties in which purchasers determine the tenure (as investor or owner occupant); and overtime the occupant tenure may change.

The approach of building multi-unit apartments for rent is also not as common internationally, outside of North America. In many countries, including most of those in this comparison, small investors purchase a residential property (often single detached, or attached) and rent or “let” the property to tenants. In many countries these are the primary form of landlord and the main source of rental “supply”. Properties become rental, not because they were constructed as such, but as a result of the motivations of investors (often small scale amateur investors).

In most of the comparison countries in this review, there are no, or few, large-scale developers or institutional investors that build own and operate rental portfolios. So the concept of *purpose built rental supply*, is not one that translates very well into the comparative international literature.

Blurring of social and market distinction

An initial finding in this review is that the lines between social and market housing are increasingly blurring. Historically there was a clear distinction between public-social housing, and market rental.

The former, public/social housing was characterized by subsidy support and targeting to a specified, usually low-income eligible sub-population. And it was typically delivered though non-market not-for-profit entities with rents set administratively at sub-market levels.

Meanwhile the private market is not restricted to a defined eligible group and rent is set by the market. And often these properties are unsubsidized (although may have benefited from some initial development inventive or ongoing favourable tax treatment, as discussed later). The European literature tends to use the term private rented sector (PRS) to distinguish from the subsidized social rented sector (operated by public, including municipal, or community not-for-profit entities).

In framing housing system typologies across states, in the context of comparative state welfare systems Kemeny (1995) introduced the classification of dualist/unitary housing markets. In a dualist market, there are two quite distinct parts of the rental sector – social, public or non-profit provision as one category and a separate market component. Canada would have been classified as a dualist market. In a unitary system, such as Germany, there is no similar distinction, largely because housing subsidies are delivered as a demand side housing allowance, separate from the provision of bricks and mortar.

As funding and support for supply programs have ebbed and increasingly been displaced by a preference for housing allowances, more countries have evolved from dualist to unitary systems. In the US, for example, the Low Income Housing Tax Credit (LIHTC), despite its name, is more generally seen as a vehicle to enable development of moderate rate rental housing and is often promoted as a source of work-force housing targeting essential workers such as nurses, paramedics, teachers and police officers. It is also predominantly delivered through private sector developers and investors.

In Australia the National Rental Affordable Housing Scheme (NRAS) includes a mix of sub-market and market rents, as do some developments under the provincial variants of the Affordable Housing Program in Canada.

Further adding to this blurring, there is a parallel trend toward traditional social and non-profit (housing associations in Ireland and the UK; community housing associations in Australia) moving into market rent products, driven by the imperative of viability. As supply side subsidies have become more constrained, assistance per unit has typically declined, such that in order to develop viable projects – and in order to secure commercial mortgage financing, a mix of low-moderate and market rents are needed to generate sufficient rental income. As such, many community non-profit and even some public or municipal entities produce market rate rental supply and draw on these revenues to cross subsidize their otherwise non-viable targeted units.

The policy discourse literature has started to discuss and characterize these as hybrid forms of provisions (Blessing 2013) and speak of non-profits as becoming more commercially focused and entrepreneurial (Pomeroy, Stoney and Falvo, 2015).

In Canada the affordable housing programs under the Federal-Provincial funding framework have similarly lost the earlier label of being "non-profit programs", although many proponents are still non-profit. And in comparison to earlier programming they are not deeply targeted and no longer have ongoing subsidy. They are instead facilitated by up front capital grants which effectively “buy down” the rents by reducing the level of debt carried by the project and thus lowering “break-even rents” to average market levels or slightly below.

Similar capital subsidies have been used in Australia (NRAS), New Zealand (former Capital Grant Funding) and UK (Affordable Housing Program). In Ireland, the Rental Accommodation Scheme has engaged private landlords as key providers of “virtual social housing” by leasing private units, at a slightly discounted market rent as a source of supply in which they then provide subsidized housing to social housing eligible qualified households.

Another aspect discussed in the program reviews is to use of demand side programs, notable various forms of housing allowance or portable rental assistance, which is often stacked to complement supply programs. The additional allowance allows providers to charge a market or close to market rent, which aids viability and financial leverage, while also enabling the provider to assist lower income residents paying a lower assisted rent (made possible by the allowance. In some cases these are employed with for profit as well as non-profit owner operators.

For these reasons, in the review of programs it was often not possible to explicitly categorize programs and initiatives as specifically social or market. In some respects the European term “intermediate market” may better describe the segment being examined here.

Overview of policy and programs in place

In examining the array of programs and mechanisms that have been used in recent years, a number of features emerge:

There are very few new policy approaches directed to stimulating market supply. The review did not uncover any recently implemented or new mechanisms directed to stimulating new rental supply other than the Build to Rent Fund in England, which provides loan financing to encourage developers of market rent supply. These loans are intended to help erstwhile developers address lender reluctance to provide financing, and while direct from government are set at commercial rates (no subsidy).

There are policy frameworks, combining regulatory, tax and some loan subsidy provisions, notably in Germany, and tax incentives in Australia that predate the review period and continue to be in place, however these relate more generally to investment in rental, and do not necessarily lead to new construction (except in some German states, or Lander which have modest construction loan subsidies).

Most initiatives link government support to affordable outcomes. Where incentives and subsidy programs have been implemented, these have been modest in scale and conditional on producing a product that meets some prescribed affordability criteria (rents at or below 80% of market, as in the NRAS in Australia or affordable to and allocated only to households below prescribed income thresholds, LIHTC in US).

Long-term trend away from capital subsidies. This has been well documented and described in the international literature. [1] It has persisted, despite evidence of constrained affordable stock and supply and persisting need. Rather than return to capital supply subsidy, the trend is toward demand side subsidies. These directly address issues of affordability but also create a rent revenue level sufficient to leverage financing for construction or acquisition/rehabilitation. This is reflected across a number of the programs reviewed (Ireland, England, NZ and to a lesser extent in US).

Initiatives are more modest in scope. There are more efforts to stretch public capital subsidy further by building at near market "quasi-affordable" rents (e.g. 80% of market) rather than subsidizing down to deep levels of low income (RGI rents). No capital programs targeting very low-income households were found, other than those utilizing separate stacked rental allowances to achieve affordability.

Separating supply and affordability To address the move away from targeting to very low-income households through subsidized supply, programs are trending toward separate demand side subsidies or rental assistance. This addresses affordability for lower income residents for whom rents at 80% of the average market are unaffordable. In some cases, such demand side subsidies are used to assist households renting in the private market. However they are also used in combination with supply programs. This is seen in the Australian Commonwealth Rent Assistance, New Zealand Income Related Rent Subsidy, various Irish rental assistance programs, the Section 8 Housing Choice Vouchers in the US, the housing allowances (Wohngeld) in Germany and Housing Benefit in the UK (England).

Such approaches have also enabled traditional social housing providers to undertake asset management with an appropriate level of revenue funding. Higher rent revenues available via stacked housing allowances create opportunities to lever the related surplus cash flows to fund either capital renewal or investment in new units elsewhere. This is quite different from traditional programs, as in Canada, and in US Public Housing where deeply subsidized rents leave insufficient revenue to perform sound asset management and leave no potential to lever assets, as cash flows are marginal.

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[1] See for example Social Housing in Europe (2014) edited by Kathleen Scanlon, Christine Whitehead, Melissa Fernández Arrigoitia. Wiley and sons, London.

There are increasing efforts to leverage assets of the public/social housing sector. All of the countries examined have existing stock of assisted housing, sometimes in locations where land values are high. This stock provides an asset base that the sector can now use as a way to raise capital for refurbishment and redevelopment, often involving intensification and creation of new supply (mixed market and affordable).

In part these revitalization initiatives have been a consequence of strong revenues and surpluses generated from demand side assistance benefits (e.g. Housing Benefit in England), which then created capacity for social landlords to reinvest and expand. In other cases, the realization that traditional operating subsidy programs with constrained subsidy (US Public Housing) were undermining the assets (making them liabilities) stimulated new approaches that improve rental revenues and thereby facilitate access to finance for rehabilitation and redevelopment (as in the US Rental Assistance Demonstration program).

Comprehensive strategic initiatives integrating different mechanisms. Three countries, Australia (at sub-national level), Ireland and New Zealand have recently developed comprehensive housing approaches. In the case of Ireland and New Zealand, the strategies are aimed at improving outcomes of their housing systems. These approaches include examining and levering existing (social/public housing) assets, and strategically using demand side assistance to complement supply side efforts, mainly by drawing more extensively on capital financing. Western Australia has successfully implemented a set of ambitious output targets to expand the continuum of options from affordable housing through the private market and in doing so has created a more entrepreneurial business model with a government agency taking a pro-active developer role, building market housing and reinvesting surpluses back to add social housing supply.

Typology of existing programs

The types of policies and programs found and documented in appendix A can be sorted into a typology of five types of approach:

A. Direct measures

- Initiative to encourage or facilitate market rent supply
- Initiative to encourage or facilitate affordable supply
- Mechanisms to support asset rationalization and leverage

B. Indirect measures

- Tax, regulatory (or loan) mechanisms
- Demand based revenue subsidy (to support leverage of private finance)

The reviewed programs are categorized accordingly to this typology in Figure 1. In some instances they fit more than one category. The Western Australia - Affordable Housing Strategy, for example encompasses both unassisted market housing (ownership and market) and social rental (including some supportive housing. The affordable housing program in England encourages rent restructuring in existing stock as a way to increase financing capacity and thus contribute to new development activity. And in the US both the HOPE VI/Choice Neighborhoods redevelopment and more recent RAD initiative draw on use of tenant based subsidy to facilitate financing for asset renewal.

Figure 1: Typology of policies and programs

	A. Direct measures			B. Indirect measures	
Country/Program	**Initiative for market supply**	**Initiative for affordable supply**	**Asset leverage**	**Tax or regulatory mechanisms**	**Demand based revenue subsidy (leverage)**
Au: National Rental Affordability Scheme (NRAS)		✓			
Au: Social Housing Initiative (SHI)		✓			
Au: Western Australia - Affordable Housing Strategy	✓	✓			
Au: Tax policy to encourage rental investment	✓			✓	
Au: Commonwealth Rent Assistance (CRA)					✓
Eng: Build to Rent Fund	✓				
Eng: Affordable Homes Programme (AHP)		✓	✓		
Eng: Redevelopment Schemes. Estate Regeneration Programme			✓		
Ger: Tax incentives for rental investment	✓			✓	
Ger: Accommodation Allowance (Wohngeld)					✓
Ire: Capital Subsidy Programs		✓			
Ire: Social Housing Strategy 2020		✓			✓
Ire: Rental Assistance					✓
NZ: Social Housing Reform		✓	✓		
NZ: Income Related Rent Subsidy (IRRS)					✓
US: Low Income Housing Tax Credit (LIHTC)		✓			
US: Rental Assistance Demonstration (RAD)			✓		✓
S: HopeVI/Choice Neighborhoods Program			✓		✓
US: Sec 8 Vouchers					✓

Brief review of approaches

Appendix A details each of the profiled programs and initiatives. Here each is briefly described, following this typology.

A. Initiatives to encourage or facilitate market rent supply (no conditions on rents or tenant eligibility)

A1. Western Australia Affordable Housing Strategy:

Comprehensive strategy and entrepreneurial business model where state housing authority took on property development role and reinvested profits from mixed social-market ventures to create affordable/social housing alongside creating market supply. Having set a 10-year (2020) target of 20,000 homes this goal was surpassed by 2015, and has now been extended to 30,000 homes.

A2. England: Build to Rent Fund

A public loan mechanism to improve access to financing for rental developers to build new rental housing at market rents. This provides short term financing (4-5 years) at commercial rates, and is intended as bridge financing until full rent up, wherein loan is refinanced in the commercial market. It is a modest program aiming to create 10,000 new rental homes, at market rate.

See also the Australian and German Tax mechanisms, described in section D below, which support investment, but not necessarily new supply of rental.

B. Initiatives to encourage or facilitate affordable rental supply (explicit affordable targeting conditions)

B1. Australia: National Rental Affordability Scheme (NRAS)

A capital grant (or equivalent tax deduction) to stimulate rental supply at affordable rents. Grant/tax deduction allocated over 10-year period and can help to leverage financing or supplement cash flow to raise yield for private investor. Initially designed with objective of encouraging institutional investment in rental sector, but had limited success; has however supported the expansion of the community (non-profit) housing sector.

B2, Australia Social Housing Initiative (SHI)

Capital grant allocated via states (primarily implemented as a temporary employment generator) used to support new construction as well as rehabilitation of existing social housing. This was analogous to the Economic Action Plan stimulus in Canada. It was similarly directed via states and typically used in development of affordable housing with similar targeting criteria to NRAS.

B3. England: Affordable Homes Programme (AHP)

A grant program that works in conjunction with separate housing allowance program (Housing Benefit) to support development of new affordable housing. The grant provides minimum equity that, together with private finance, backstopped by rental assistance to tenants, enables providers to finance the project cost but also to charge a below market rent (80% of market). Significant program with goal of 80,000 homes in 4 years.

B4. Ireland: Capital Subsidy Program

A deferred loan that acts like a grant in reducing the level of private finance needed to cover development costs as a way to enable social housing providers to develop new affordable housing. Implemented in 2015, output has been limited, constrained by lack of commercial finance to carry bulk of cost.

B5. Ireland: Social Housing Strategy 2020

This is a comprehensive strategy aimed at broadly reforming current approach and programs with the goal of full housing the current wait list for social housing through a combination of new supply and tenant-based assistance, engaging with private landlords. It has an ambitious goal of eliminating the social housing waiting list by 2021 (90,000 families) combining new supply (which will rely on aforementioned and other capital programs) and rental allowances

B6. New Zealand: Social Housing Reform

A broad set of reforms including realignment of roles (housing corporation vs. Ministry of Social Development) to separate out and create a more focused asset management approach, with separate administration of rental assistance through Ministry of Social Development. Effectively transforms housing the agency into an asset manager rather than social assistance agency and enables strategic asset disposal and acquisition, as well as some redevelopment (much of stock are detached/attached homes, not multi-unit sites).

B7. US Low Income Housing Tax Credit (LIHTC)

A supply mechanism generated though the tax system to capture private equity investment. While a sophisticated and complex approach, at the projects scale it has the same effect as a grant. It covers up to 70% of the development costs of new or rehabilitated affordable housing in order to stimulate investment and construction/rehabilitation of affordable housing. Significant oversight and compliance monitoring as an IRS tax code program. In many cases separate Sec 8 Vouchers are added to enhance affordability to lower income tenants.

C. Mechanisms to support asset rationalization and leverage

C1. England: Redevelopment Schemes/Estate Regeneration Programme

A lending program directed to private sector partners to stimulate rehabilitation and redevelopment of older social housing properties. Like the English AHP this reflects constraints on capacity of government to fund with grant and seeks to engage private sector as partners, while levering debt free social housing assets. Ownership of social housing would remain with social provider, but redevelopment could entail some private ownership and might generate some new supply.

C.2 United States: Rental Assistance Demonstration (RAD)

A reform in the type and structure of subsidy provided to public housing authorities intended to create new capacity to lever their rental revenue in order to finance the cost to rehabilitate or redevelop existing public housing. Program is intended to be revenue neutral to HUD and as such has only modest levels of new rental assistance and thus leverage.

C.3 United States: HopeVI/Choice Neighborhoods Program

A large-scale capital grant program to fund major revitalization and redevelopment of older distressed public housing sites, including funding to deliver new community development programming alongside physical redevelopment. HOPEVI has been active for 20 years and has been effective in transforming severely distressed public housing into mixed income-mixed tenure new communities. Often this includes LIHTC funding to help add new units.

D. Indirect measures - Tax, regulatory (or loan) mechanisms

D1. Australian tax policy to encourage rental investment

A long-standing provision of the Australian income tax code that provides relatively favourable treatment of rental income and permits negative gearing (using rental losses to shelter non-rental income) to encourage small-scale rental investment. This has been an important factor in encouraging individuals to invest in rental property (as small amateur landlords, and they are the majority of landlords in Australia. While supporting investment, this does not necessarily generate new supply.

D2 Germany: Rental system incentives

An integrated set of regulation, tax policy and in some cases concessionary loans intended to encourage investment in rental properties. This focuses more on investment, not on new construction (supply) but does result in some new construction. It is somewhat similar to approach in Australia, but completed by cultural acceptance of renting and a more tenure neutral policy framework (absence of strong incentives to buy).

Historically Germany also had concessionary loans (with low rates linked to requirement to provide social rents) but since 2005 these are no longer funded. Some states (Lander), have small-subsidized loan initiatives.

E. Indirect measures - Demand based revenue subsidy (to support leverage of private finance)

E1. Germany: Rental Accommodation Allowance (Wohngeld)

A rental allowance available to lower income working poor, designed to ensure shelter costs are not an excessive burden for lower income households (includes renters and owners, but excludes those on social income assistance). Historically was important part of system that worked in combination with subsidized loans but these no longer exist (as above).

E2. Ireland: Rental Assistance

Ireland has three existing rental assistance programs that ensure that low-income tenants have the financial capacity to pay rent. This includes rent to private landlords as well as to social landlords charging a market rent. These are not supply-focused programs, however they are a form of revenue subsidy that complements supply programs by creating a capacity to finance part of development cost.

E3. New Zealand Income Related Rent Subsidy (IRRS)

A housing allowance designed to reduce net out of pocket rent costs for tenants of public and social housing while enabling the landlord (Housing New Zealand) to collect a fair market rent and thereby operate the asset portfolio effectively.

E4. Australia: Commonwealth Rent Assistance (CRA)

This is a housing allowance delivered through the national income assistance program specifically to address high affordability costs. It is directed to renters in the private market, and more recently also to those in community housing paying quasi-market rents (tenants in RGI public housing are however not eligible). CRA complements NRAS and other supply programs, allowing the base rents to be set at moderate market based rents, thus supporting sound asset management, while separately addressing affordability.

E5. US: Section 8 Housing Choice Vouchers

This is a housing allowance used both independently with rental landlords, as well as being integrated with the main supply (LIHTC) and regeneration (HOPE VI/Choice Neighborhoods and RAD) programs to directly address and improve affordability in programs where rent is set at or near market levels. The allowance is sometimes project based and more often a portable allowance.

Insights and Potential Implications for Canada

Drawing from this review, we can identify a number of observations as potential opportunities in Canada.

Very limited supply response

One of the key findings in this review is that governments have not reacted or responded in any significant way to fund, incent or facilitate new market or affordable supply. This is set against long term trends of contracting private (market) rental sectors as well as contracting social rental sectors, both in relative (as ownership has grown more) and in some cases absolute terms; and with evidence of persisting housing need,

As documented in this review there have been some modest attempts and some initiatives that have produced some new supply (e.g. NRAS in Australia, the AHP in England LIHTC in US). But this is out of proportion with the documented level of need (which in Europe is now further expanding in the face of large scale refugee migration).

In part this may reflect: (a) that new supply is relatively expensive and requires large levels of subsidy simply to create one unit and help one household (although over its life the unit might assist many more); and (b) the primary issue is one of affordability, so there is greater reliance of demand side personal subsidies and rental or housing allowance models.

Where new supply programs continue, they typically create units that rent only slightly below average market levels, and arguable are not affordable to traditional clients of social housing programs. But this affordability “gap” is then offset by providing separate additional subsidy to individual households to reduce their rent burden (e.g. Housing Benefit (England), rent allowances (NZ Ireland and Australia) and Sec 8 Vouchers (U.S.)).

Separation of supply and demand mechanisms

The evolution of assistance into two distinct sets of programming, one focused on supply, at rent levels that better support financing and development feasibility and long term sustainability; and the other on improving individual capacity to pay a modest rent to more directly address affordability, is likely a healthy trend. It creates opportunities to address affordability through multiple approaches.

For example, the approach in Ireland of leasing access to market units as a source of housing for social housing waitlists and separately subsidizing tenants, while concurrently building at a small scale. Or the Western Australia approach of a public agency performing a typical private sector role, but with a social purpose to create a range of affordable housing including deeply subsidized RGI housing through modest rent, entry level ownership and full market options, with the latter creating profits to cross-subsidize the former.

The shift to using separate housing allowances to directly address affordability also enables providers of affordable housing to operate on a sound business model. When offering properties at very low (truly affordable rents), providers rob themselves of the revenues necessary to manage real estate assets effectively. They have insufficient revenues to maintain units in good condition or to support debt and they lack the capital funds and reserves to undertake necessary major repair. They remain dependent on the largesse of public funding programs – which have become increasingly constrained.

This is not to say that a shift from project based supply subsidy to household based (and sometimes portable) housing allowances is significantly cheaper. Such approaches can be revenue neutral (e.g. US RAD) or in some cases add to government expenditure (UK Housing Benefit). However the form of assistance does impact administrative cost and acts to change practice and behaviour of the owner/operator (stronger focus on asset management and optimizing asset leverage)

Approaches such as the RAD in the US and the efforts under the AHP in England to shift the subsidy model in existing assets as a way to increase leverage capacity are examples of approaches that seek to transform from a social assistance subsidy dependency model to a more self sustaining self financing asset leverage model (albeit still backstopped by some subsidy to tenants).

These approaches are also seeking to create value in existing public and social properties (which is a function of net income and thus rent revenue) and as such transform them from liabilities to assets. Assets that can then be used to leverage financing and help to stretch limited capital subsidy further.

And along side such policy and funding changes, the role and responsibilities of housing agencies versus social/income assistance agencies may require some realignment, as is being pursued in NZ. In Canada, minimum rents that are embedded in provincial income assistance programs are an example of this type of ineffective overlap of income assistance and income based rent-setting policy.

Stimulating market production

The review did not examine the underlying economic viability of rental development. However one of the factors that influence the behaviour of potential rental investors, alongside tax treatment of income and regulatory concerns, is the risk-weighted rate of return. In many markets, some costs are fixed (construction costs, land values) and the rental sector cannot compete with condominium development (drives land costs), without some assistance to enhance the potential investors rate of return.

A small subsidy such as that created under the NRAS alongside more favourable tax treatment of rental income (negative gearing, as we had under MURBs between 1974-80) may help to improve the rate of return and encourage development. So too would access to low rate concessionary financing, as was extensively used in Germany prior to 2006. The CALF model in Ireland can also be an effective way to improve investor returns – the deferred loan inserts capital and lowers the level of investor equity required, thereby improving the return on his smaller equity contribution (this approach was used as one variant under the Assisted Rental Program in Canada in mid 1970's).

However imposing affordability requirements as a quid-pro quo on receiving such assistance may be counter-productive, as it reduces rent revenue and return on equity. So it is important to distinguish policy goals – is the intent to stimulate supply of rental (at any rent) or to create affordable supply? Where policy objective is to stimulate supply, some caution is necessary in establishing affordability limits (as constrained rents undermine return and investor interest).

When the objective is affordability, mechanisms can be designed to target moderate rent (e.g. average market rent) these may work better with non-profit community providers, who are less concerned with a return on equity, but still need to operate as viable businesses and sound asset managers. Under non-profit ownership, over time there is less risk of rising rent and accordingly it is easier to managing inflating expenditure in any stacked housing allowance.

Examine the role of small investors

While Canada's rental market was created and expanded in large part by the role of corporate and some smaller developers building "purpose built rental structures", times have changed. The volume of purpose built construction has declined substantially since the 1980's. This is the consequence of many overlapping factors – tax treatment of rental, rent regulation, competition from the condo sector for multi-unit land and rising development costs, with which potential rent revenue has not kept up (in part due to regulation). While renters still account for over 30% of all households and consequently 30% of housing demand, new construction of purpose built rental over the past 20 years has comprised only 10-15% of all starts.

This seemingly low level of purpose built rental has however been augmented by a new form of rental supply. Canada is gradually becoming more like Germany, England, Australia and New Zealand, where the dominant rental landlords are not large corporations building large structures and portfolios of rental housing; they are individual small scale investors owning only one or a few properties. In 2006, 74 per cent of private tenants in England rented their home from a private individual or couple; only 16 per cent rented from a company. In Germany private individuals account for 84 per cent of the privately rented housing stock (Kemp & Kofner 2010).

Recent data from CMHC's rental survey now includes a survey of investor rented condominiums in eleven larger cities (when condominium starts are highest) reveals that between 20 to 30 per cent of condominiums are rented – and most of these are individual investor owners (CMHC Rental Survey 2015).

Again, based on CMHC rental-condo survey data, there is evidence in Canada of significant small-scale investment in homes and condominiums and such individual investors are now becoming the single largest source of new rental supply. This suggests the need to explore what type of policy mechanisms or incentives could be used to nurture and grow this type of investment further. For example, in Germany investors in properties for the purpose of renting are exempt from capital gains tax, if help for 10 years or longer. In addition to improving returns, this can also lessen risk of speculative flipping and strengthen security of tenure for tenants.

As long as there are investors willing to buy, developers will create supply. Should Canada seek to resurrect a corporate development sector, or accept that this model no longer works and explore the new avenue of small investors?

Enabling Asset redevelopment

The experience in the US (HOPEVI/ RAD) and to a lesser extent in England (various estate regeneration initiatives) suggests that governments can play an important enabling role in asset renewal and redevelopment. Over the decades all countries have built up a modest stock of public and social housing and much of this is now aging (over 30 years old and in need of capital renewal. In some cases as cities have grown and intensified these sites are located in valuable locations and have redevelopment and intensification potential. In some cases (Australia, England, and especially US) policies that overtime allocated assisted housing to increasingly disadvantaged populations have generated an array of social and community issues, exacerbating poverty and disadvantage.

Asset renewal and redevelopment, alongside community development initiatives aimed at breaking the cycle and spiral of poverty have had a significant impact in reversing these trends, creating mixed income, mixed tenure, well-functioning communities and in many cases adding new supply.

There are opportunities in Canada to similarly assist social housing asset owners to redevelop their sites. Grants to assist in planning and community mobilization and to retain professional expertise needed to undertake renewal could be effective in stimulating this activity. Funding via grant or financing would further encourage and enable asset owners to explore and initiate opportunities. This could be an effective way to refocus and repurpose CMHC PDF and seed funding.

And, as discussed earlier, alongside redevelopment, designing and implementing more sustainable funding regimes, such as separating rental assistance to enable assets to carry costs of financing and maintenance costs while also helping lower income residents afford their home can help to enhance ongoing financial sustainability.

The Australia policy of linking Commonwealth capital funding (under SHI) to conditions that required states to nurture and build a community housing sector (to complement existing state public housing) suggests that in Canada, some conditions to encourage provinces and territories to reform rent setting practice, could be linked to asset renewal funding programs such that once redeveloped assets are more self-sustaining (with households directly subsidized via a rental allowance).

Appendix A: Consolidated Program Descriptions

List of programs

Australia: National Rental Affordability Scheme (NRAS)

Type of assistance:

A capital grant (or equivalent tax deduction to stimulate rental supply at affordable rents. Grant/tax deduction allocated over 10myears period and can help to leverage financing.

Timeframe and current status:

NRAS was introduced in 2008, and new commitments terminated at the end of 2014 (new properties must be complete and occupied by December 2016)

General Description:

The NRAS represented an attempt to attract a new large-scale form of investment into affordable rental housing. Australia's rental sector is characterized and dominated by small- scale individual investors owning one or a few rental properties. NRAS was designed to both stimulate supply and to fundamentally reform the rental sector by attracting larger scale corporate or institutional investors, more similar to the north American rental sector.

It was designed as a tax credit program loosely modeled after the US LIHTC in its form of subsidy – a tax credit allocated out over a 10-year period, as described further below; augmented by state level assistance.

It is open to both for profit and not-for profit owner/developers on a competitive tender basis with the condition that over the 10-year tax subsidy period rents are set at a rate at least 20% below market and units are rented to eligible low and moderate income households. After 10 years there are no further constraints on rent or eligibility, except as implemented by project operator.

It is noted that in Australia a separate subsidy is available to low income renters, the Commonwealth Rental Assistance, which provides additional financial assistance to eligible low income renters on public assistance incomes and can help to further lower rent for tenants in NRAS projects.

Goals and objectives:

The program was introduced with three aims, to:

- Increase the supply of new affordable rental housing
- Reduce rental costs for low and moderate income households
- Encourage large-scale investment and innovative delivery of affordable housing.

It was introduced with an initial target to create 50,000 new dwellings over a four-year period (later extended). Subsequently in 2009, political commitments were made that, if effective, the overall target could be expanded by a further 50,000 (this did not happen)

How is the initiative designed or structured?

The NRAS incentive is provided annually over 10 years and is comprised of two elements, one from the national (commonwealth) government and the other from state government:

- An Australian government incentive per dwelling per year as a tax offset or a cash payment for non-profit charitable institutions that pay no tax and thus cannot claim the tax credit (this was later amended so that charities could convert the cash payment to a tax credit and on sell it to a private investor.);
- State and territory governments were required to offer approved participants a contribution per dwelling as direct payment or payment in-kind.

The face value of the commonwealth tax credit was A$6,000 and the state contribution A$2,000 each per unit per year (per dwelling) indexed each year in line with the Rents component of the Consumer Price Index (CPI). In 2015 as a result of indexation these were $8,187 and $2,729 respectively. So over 10 years, cumulative contributions per unit will total close to $100,000, representing roughly one-third to one half of development costs.

NRAS dwellings may be 'bundled' with other non-NRAS dwellings, that is, private properties subject to an NRAS incentive may form part of a new multi-unit development, with the other non-NRAS dwellings sold to standard property investors or owner-occupiers.

What is the cost to government/others?

At implementation, budget was set at A$622M over 4 years commencing 08/09, with plans to adjust as delivery scaled up, after 2012 (which did not materialize due to lower than expected take-up. As at September 2015, just over 37,000 dwellings had been funded (29,000 occupied and another 8,000 under construction) [2]

As above costs are spread out over 10 years, initially $8,000 per year combined and through indexation rising through to year 10 by which time the total government cost subsidy cost (or foregone tax revenue) will approach $100,000 per unit. With the

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[2] Australian Government (2011) National Rental Affordability Scheme Monthly Performance Report, September 2015, Department of Sustainability, Environment, Water, Population and Communities, Canberra

program now terminated and some 38,000 incented units occupied or under construction, this will represent a cumulative cost of $3.5B over the full 10 years

Geographic scope and delivery

NRAS is an Australian Government initiative, delivered in partnership with the states and territories (who as described below also contribute funding).

Targeting:

It is a general rental supply incentive program and is inclusive of a range of eligible low and moderate-income household including non-elderly singles, seniors and families. The national department issues annual income limits for incoming tenants. All states and territories had priority areas of affordable housing need, and applications were assessed according to whether they were consistent with the priorities of the relevant state or territory. Properties are then administered under prevailing state residential tenancy regulation.

What are the outcomes to date?

The Australian government publishes a quarterly performance report, identifying total incentives (dwellings) committed and occupied, as well as the characteristics of the dwellings, location and proponents. The quarterly reports also list the distribution by State, by quarter. In the report at the end of Q3 2015 a total 37,300 incentives for dwellings had been reserved with 29,304 built and occupied (the first incentive payment is not made until after occupation). As a result of cancellation in 2014, 37,00 reflects the maximum output.

This is substantially less than the original target of 50,000 over four years. Some authors have suggested that the 37,000 affordable homes generated by NRAS is a significant and helpful contribution to meet affordable need (Antoniades, 2014). While a worthwhile contribution, against the program goals and relative to the overall housing production in Australia, 37,000 is a relatively small outcome over 6 years. There is also a concern that units are required to maintain affordable rents for only 10 years. A total of 141 proponents had participated, with the majority (86 being non profit, most of these charities).

Is the program/initiative meeting objectives?

The low participation of for profit and in particular institutional investors is a significant failure of the program. In fact no institutional investors received any allocation (although some were rumoured to have been involved in bids in later rounds).

In the initial years of the program, the not for profit community associations were almost the exclusive participant. However, there was significant and growing investment by small (mums and dads) investors, facilitated by intermediaries, which sprang up to market NRAS and consequently later bid rounds were over-subscribed.

Milligan (2015) suggests that the 'lack of success' is complex and contestable:

- Implementation factors – see Milligan and Tiernan 2012 – including extensive conditions and priorities of commonwealth and states;
- Overambitious targets – out of line with key recommendations of advisory group
- Market not given sufficient time to develop
- Failure of govt. to work with institutional sector to get a product suited to their investment needs – (Milligan et al 2015)
- Construction financing shortages post GFC

Reasons for termination remain unclear, although occurred in the context of a change of govt. and an austerity budget. The form of assistance and program take up were ramping up at time that a new government was trying to manage down spending. And the program had failed in its primary objective of attracting institutional investment.

Sources:

Australian Government (2011) National Rental Affordability Scheme Monthly Performance Report, September 2015, Department of Sustainability, Environment, Water, Population and Communities, Canberra

KPMG 2012 Housing Ministers' Advisory Committee Social Housing Initiative Review Advisory September 2012

Milligan, Vivienne and Anne Tiernan (2012) No Home for Housing: The Situation of the Commonwealth's Housing Policy Advisory Function Australian Journal of Public Administration Vol 70:4, 2012

Milligan, Vivienne Hal Pawson, Peter Williams and Judith Yates (2015), Next moves? Expanding affordable rental housing in Australia through institutional investment. City Futures Research Centre, University of New South Wales

Australia Social Housing Initiative (SHI)

Type of assistance:

Capital grant allocated via states (primarily implemented as a temporary an employment generator) used to support new construction as well as rehabilitation of existing social housing

Timeframe and current status:

The Social Housing Initiative (SHI) was introduced in 2009 as a temporary stimulus measure, in response to the Global Financial Crisis (GFC). It has since ended.

General Description:

Social Housing Initiative introduced in 2009 to increase the supply of affordable housing. The Social Housing Initiative, in particular, was partly driven by the broader economic context of the time, designed to boost construction following the Global Financial Crisis. Together with NRAS, these programmes were also driven by a desire to look at new ways of providing affordable housing, drawing on private sector investment and the potential of the community-housing sector.

Commonwealth funds were allocated to states and territories that used them to fund new initiatives providing grant funds. Delivery arrangements varied across States and helped states to evolve new models and partnerships, including joint ventures and increasing capacity of the community-housing sector. Some used SHI funds to undertake proposals originated under NRAS and simply allocated up front grant rather than seeking proponents to secure financing against the NRAS 10 year tax credits.

Goals and objectives:

The 2009 Social Housing Initiative (SHI) was part of the Commonwealth's Nation Building and Jobs Plan. The Social Housing Initiative's objective was to stimulate economic activity by increasing the quantity and quality of social housing. The Social Housing Initiative aimed to:

- Increase the supply of social housing via construction of new social housing and the repair and maintenance of existing dwellings
- Provide increased opportunities for people who are homeless or at risk of homelessness to gain secure long term accommodation
- Stimulate the building and construction industry.

The SHI supported the construction of new houses ($5.2 billion) and repair of existing stock ($400 million) across all States and Territories. It resulted in the construction of around 19,700 new social housing dwellings, many of which were transferred to the community-housing sector for management.

Operating alongside the SHI, the National Partnership Agreement on Social Housing provided $400 million over 2008-09 and 2009-10 to deliver additional social housing dwellings and support growth in the community-housing sector. This agreement helped to deliver a further over 1,950 social housing dwellings.

The Federal and state and territory governments have committed to a number of social housing reforms under the National Affordable Housing Agreement and the Nation Building and Jobs Plan Social Housing Initiative. These reforms include supporting the capacity and growth of the community-housing sector supported by a nationally consistent regulatory system. To support growth of the community sector as an alternative to public housing, Housing Ministers agreed to transfer up to 75 per cent of new social housing dwellings to be built under the Nation Building and Jobs Plan to the community-housing sector.

Budget/cost to government/others?

The combined cost of the housing related stimulus was $5.6 B with most of this directed to new construction and a small (400M) component for repairs to existing stock

Geographic scope and delivery

This was a national initiative with funding allocated to all states.

Targeting

As a broad stimulus program, the SHI did not identify specific target groups. However units constructed were allocated to include people experiencing homelessness or at risk of homelessness, people with disabilities, seniors, people escaping family violence, and Aboriginal people (KPMG 2012)

Is the program/initiatives meeting objectives?

While success was somewhat mixed, the Social Housing Initiative delivered around 19,700 new social housing dwellings in 2009-12. The repairs and maintenance element enabled approximately 80,000 existing social housing dwellings to benefit from an upgrade. This included major renovations to over 12,000 social housing dwellings that were vacant or would have become uninhabitable without this work.

Its primary focus was to sustain employment as part of a response to the GFC, and it achieved that objective. Financial data from the second half of 2009 revealed that while Australia's economy slowed somewhat as a result of the global financial crisis, it avoided a recession. The stimulus funding and government funded infrastructure projects had the desired effect of retaining jobs and incomes and maintaining the residential construction industry Shelter WA 2013)

A KMPG report concluded that the Social Housing Initiative met its primary objective of stimulating the building and construction industry and had a multiplier effect of $1.30 for every $1 spent. KPMG concluded that the Social Housing Initiative had a positive impact on the social housing sector by increasing the social housing stock and providing opportunities for community housing providers to leverage against new assets.

Sources:

Australian Institute of Health and Welfare 2013. Housing Assistance in Australia 2013. Cat. no. HOU 271. Canberra: AIHW

KPMG 2012 Housing Ministers' Advisory Committee Social Housing Initiative Review Advisory September2012

Shelter WA 2013 Shelter WA Policy Platform 2013 http://shelterwa.org.au/wpcontent/uploads/2013/03/ShelterWA_Policy_Platform_2013-2015_002.pdf

Australia: Western Australia Affordable Housing Strategy

Type of assistance: Comprehensive strategy and entrepreneurial business model where state housing authority took on property development role and reinvested profits from mixed social-market ventures to create affordable/social housing alongside creating market supply.

Timeframe and current status:

The strategy was framed for the decade 2010-2020 and is ongoing Timeframe and current status:

General Description:

This is a comprehensive housing strategy formulated against a backdrop of unprecedented population growth and housing demand. This was causing sharply rising house prices and rents, and as a result, many people on lower incomes struggled to find affordable housing.

While utilizing available national funding mechanisms, where available (e.g. NRAS, the stimulus Social Housing Initiative), the significant component of the strategy, underpinning its achievement is the way the housing authority is structured and their approach. The housing authority plays a pro-active role as the largest residential land and dwelling developer in WA. As a government agency they act as the lead developer on many self managed developments, as well as partnering with private sector partners. The approach also embraces a full continuum of responses, with half directed to affordable ownership for key workers, a product that requires little or no subsidy.

All affordable land and housing development is undertaken on a commercial basis. The Authority also builds social housing but because it is not sold, no profit is realized. In some cases some social housing units are obtained through their equity return on a partnership development. The Housing Authority takes a combination of profit and some stock (land lots for development or housing units) for various programs (social, affordable rental or shared equity). Profits are returned back into the overall income pot (which includes rental income, property sales, bank dividends, grants and funding) from which operations are funded (with some profit used to purchase new land for development.).

Goals and objectives:

The strategy set an ambitious target of 20,000 homes over ten years; it achieved this target in half of that time (by 2015) so the target has been increased to 30,000 by 2020

The strategy embraced a range and continuum of housing options from low rent social housing (at RGI rents) through modest affordable rent (80% of market) and entry level assisted ownership. The achievement of the target involved the following mix:

Element	Units created	% of all	Income target
Social rental (30% RGI)	5,400	27%	Under 43,000
Affordable rental (80% Mtk Ave)	2,700	14%	43,00-69,000
Shared ownership (priced below median)	1,900	10%	69,000-104,000
Low deposit (priced below median)	10,000	50%	

Budget/cost to government/others?

As noted above, the strategy draws on a wide range if different funding sources as well as self generated revenues though its commercial a development activities. There is no single formal budget for the overall strategy.

Geographic target

This is a sub-national, state-wide strategy for the state of Western Australia. AS a point of reference and to place the achievement of 20,000 units over 5 years in context, the population of WA is 2.6 million, of which the metropolitan region of Perth makes up three –quarters (1.8 Million).

Targeting

As noted in the strategy mix, the strategy targets a full continuum from low-income singles through working households and includes singles, special needs, families and seniors.

Is the program/initiatives meeting objectives?

The strategy has exceeded its targets and has reset these to a high level.

Source:

Government of Western Australia Affordable Housing strategy
http://www.housing.wa.gov.au/aboutus/affordablehousingstrategy/Pages/default.aspx

Australia Tax policy to encourage rental investment

Type of assistance:

Long standing provisions of the Australian income tax code that provides relatively favourable treatment of rental income and permits negative gearing (using rental losses to shelter non-rental income) and thereby encourages small-scale rental investment.

Timeframe and current status:

The current tax policies have been in place for many years (pre WWII) and are an entrenched part of the Australian system. As part of election platforms the idea of abolishing this provision has been debated, and various government reviews have explored reform but consensus appears to be that reform appears unlikely.

General Description:

This is an income tax provision that allows investors in rental properties to deduct any losses against income from other sources (similar to the situation in Canada pre 1972, and as permitted under the MURB program from 1974-81)

While rental income from residential investment properties is taxed, associated costs (such as depreciation and interest on borrowings) can be deducted against rental income. Housing-related deductions in excess of rental income, like all other expenses incurred in gaining income, can also be offset against other sources of income— known in Australia as negative gearing.

Unlike owner-occupied housing, capital gains tax (CGT) is charged on the sale of a rental property, although a CGT discount may apply to properties held for more than 12 months.

Investors are also able to use money held in self-managed superannuation funds (like RRSP accounts) to purchase investment properties.

Goals and objectives:

This tax provision has resulted in many small "mom and dad" investors purchasing homes to rent, largely driven as a retirement investment. Unlike Canada, Australia does not have a large industry of rental developers constructing purpose built apartments, and densities even in larger metropolitan cities tend to be low, so much of the rental stock is in the form of individual homes.

While some people have constructed new homes (e.g. infill in their back yards, accessed via lanes) this is not primarily a supply mechanism. Media article in 2014cited a statistic that only 8% of negatively geared properties are new build.

Budget/cost to government/others?

The Australian Bureau of Statistics' 2005–06 Survey of Income and Housing showed $1.2 billion was given in indirect assistance to investors through negative gearing AHURI (2013). This compares for example to funding under the then Commonwealth State Housing Agreement (CSHA) that provided $1.3 billion for government and community housing programs. (Now replaced by the 5 year National Affordable Housing Agreement with funding 2009-15 of $5.2 Bn (roughly 1Bn /yr).

Geographic target

Nation-wide

Targeting

As a tax policy it addresses financial transactions (deductibility of losses – there is no requirement that rental properties meet certain affordability standards. Nor are units targeted to any particular population or market segment.

Is the program/initiatives meeting objectives?

This is not a program per se and thus has no explicit objectives. However it has on the one hand stimulated the participation of small-scale investors and thereby contributed to the rental sector. At the same time, because rental homes are synonymous with owner occupied (i.e. investors and owner buyers compete for same stock, some have argued that negative gearing has been a contributing factor in the large increase in home prices and the issues of ownership affordability.

Source:

News.com.au (2015) Is abolishing negative gearing the answer to housing affordability? http://www.news.com.au/finance/economy/is-abolishing-negative-gearing-the-answer-to-housing-affordability/news-story/0e8ec3bcec535ad510c60e0c59013705

AHURI (Matthew Lovering 2013) Evidence Review Why tax policy is housing policy (Part 1 of 2)
http://www.ahuri.edu.au/housing_information/review/evrev031#sthash.aVmxhNfR.dpuf

AHURI 2013) Research Bulletin on Modelling the impacts of the Henry Review tax recommendations on housing supply and affordability

Australia – Commonwealth Rental Assistance (CRA)

Type of assistance:

This is a housing allowance that separately addresses affordability issues. It complements NRAS and other supply programs, allowing the base rents to be set at moderate market based rents, thus supporting sound asset management, while separately addressing affordability. It is seen as a valuable mechanism to sustain realistic rents, while improving affordability.

Timeframe and current status:

CRA (or a variant of it) has been in place since 1958 . The Commonwealth began to place greater emphasis on CRA from the mid-to-late 1980s. Eligibility was gradually expanded until, by 1990, it covered almost everyone in receipt of an income support payment (including singles, those on income assistance and pensioners). By the mid-1990s, CRA was increased automatically in line with the Consumer Price Index, and overtook other block funding for public housing as the major form of housing assistance.

General Description:

This is an income tested housing allowance payable to tenants living in private rental housing. While public housing tenants are not eligible, because they already receive an income based housing subsidy, those in community non-profit housing are eligible. Recently as public housing has been transferred from state agencies to housing associations, and new development has focused on the community sector, more tenants are eligible – and this is partly a cause of rising CRA budgets. It also shifts expenditure from state housing budgets to national welfare departments.

The allowance is modest, capped by a maximum eligible rent. The CRA covers 75% of the difference between 30% of gross income and rent, up to a maximum**.** The minimum rent threshold and maximum rate of rent assistance varies according to the family situation of the recipient and the number of dependent children. However the allowance rates are not adjusted to reflect different local market rents – a universal set of maximums are applied across the country, so this makes it less effective in higher rent markets.

Goals and objectives:

Effectively an income supplement to ease the burden of renters paying over 30 per cent of income for rent.

Budget/cost to government/others?

As noted above, expenditures on CRA has been steadily increasing from roughly $400 million in 1980 to over $3Billion by 2010 and now far outstrips funding under the

Commonwealth State Housing Agreement (now National Affordable Housing Agreement) block transfer. The In 2012-13 the Commonwealth spent $3.6 billion to recipients in 2012. The total cost of CRA to the Commonwealth is increasing at a rapid rate and was expected to total approximately $4.35 billion in 2014-15. Since 2008-09, expenditure on CRA has increased by around 33 per cent in real terms, from $2.97 billion in 2008-09 to $3.95 billion in 2013-14, while the number of CRA recipients has increased by 27 per cent, from 1.04 million in 2008-09 to 1.32 million.

Geographic scope and delivery

This is a national program, funded by the commonwealth (national) government department of Human Services. It is administered as part of the national social security income assistance program.

Targeting

It is targeted to low-income households, usually also in receipt of income assistance. It also assists pensioners and those on long-term disability benefits.

Is the program/initiatives meeting objectives?

CRA is seen to be effective in reducing the proportion of income that recipients are spending on rent. However, in 2006, 23 per cent of CRA recipients may still be classified as being in housing stress (that is, paying more than 30 per cent of their income on housing) and a further 8 per cent remain in housing crisis (paying more than 50 per cent of their income on housing) even after receipt of the benefit.

The CRA alongside all other social and public housing programs and funding have been the subject of various government commissions and reviews, including the Hendry review in 2014 and the ongoing state of the federation review, which is examining the respective roles of national and state jurisdictions and seeking to simplify and separate these to eliminate duplication. This has included recommendations to move to market-based rents for public housing tenants, supported by a commensurate broadening of eligibility for CRA, an increase in the maximum rate, and the provision of additional subsidies for high needs clients who cannot readily access and sustain a tenancy.

Sources:

Department of Human Services website: https://federation.dpmc.gov.au/sites/default/files/issues-paper/Housing_and_Homelessness_Issues_Paper.pdf

Australia's Future Tax System Review (Henry Review) final report, Treasury Canberra, 2010

England: Build to Rent Fund

Type of assistance:

A public loan mechanism to improve access to financing for rental developers to build new rental housing at market rents.

Timeframe and current status:

Initiated in 2013, ongoing

General Description:

In part due to the collapse of the housing market and high rate of owner defaults, the private rented sector in England has expanded with existing homes being "let" (rented out). In order to stimulate new rental supply, the government has created a new loan fund to support and encourage new build, targeted to providing rental housing. This is directed to market rate rentals, with no restriction of affordability.

This seeks to move to scale and to stimulate new rentals to expand on existing initiatives wherein private lenders have developed mortgage products to enable investors to purchase homes to let (so called " buy to let" models).

Goals and objectives:

The Build to Rent Fund has three stated objectives:

- Create a new market for institutional investment in large-scale PRS.
- Deliver up to 10,000 new homes.
- Stimulate the economy and the construction industry

The Fund is a fully recoverable, commercial investment (at commercial rates) where Government will share risk or bridge finance to allow schemes to be built, managed and let. The investment could be used to cover development costs such as land, construction or management costs. HCA funding not to exceed 50% of total scheme costs (with consequent requirement for substantial equity investment and potentially other private finance). Once the scheme is fully let the developer will sell on its interest or re-finance and repay the government loan

Budget/cost to government/others?

The fund was initially capitalized with £200 million. After an overwhelming response from the sector (£1.4BN in bids were submitted) to the Fund, the Chancellor increased the funding available to £1bn in the Budget 2013. This is a loan fund, so it is fully recoverable by government (usually within 3-5 years after scheme is constructed and full occupied/rented).

Geographic/ and delivery?

Fund is available across England

Targeting

There is no targeting by household type or affordability level, this is a broad supply stimulus, aimed at increasing construction activity (employment impacts) while the ownership market remains fragile, and with intent of expanding the scale of the private rented sector to respond to demand from households unable or not interested in entering the ownership sector.

Is the program/initiatives meeting objectives?

Based on the high volume of bids, the initiative appears to be successful. It has now completed two funding rounds. Bidders include both private sector developers as well as non-profit housing associations seeking to expand their business into the private rental market as a way to generate new revenues and thereby cross subsidize their social portfolio. It is a common practice in England for housing associations to establish for profit subsidiaries.

In the second round of selections (published in June 2015) loan funding totalled 359 to create 2422 new rental homes with five developers across 10 sites.

Sources:

Gov.uk Guidance Build To Rent: CME Initial Due Diligence

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/434487/Initial_Due_Diligence_guidance_note_.pdf

GCLG & HCA (2015) Policy Paper 2010-to-2015 Government Policy: Rented Housing Sector

https://www.gov.uk/government/publications/2010-to-2015-government-policy-rented-housing-sector/2010-to-2015-government-policy-rented-housing-sector

England: Affordable Homes Programme (AHP)

Type of assistance:

A grant program that works in conjunction with separate housing allowance program (Housing Benefit) to support development of new affordable housing. The grant provides minimum equity that with private finance, backstopped by rental assistance to tenants enables providers to finance cost and charge a below market rent (80% of market).

Timeframe and current status:

The Affordable Homes Program was introduced in 2011. Similar to the IAH program in Canada, it is funded for a predetermined period and then renewed. It built on but reformed a previous National Affordable Homes Program (2008-11). The initial round was 2011-15. The program in now in a new phase 2015-18

A new round has now commenced for the 2015-18 period and aims to increase the supply of new affordable homes in England by contributing to the delivery of 165,000 new homes by March 2018. This involves a total investment of £1.7 billion in affordable housing capital grants.

General Description:

The AHP replaced the mixed funding programme for housing associations with new supply premised on shallower grants, higher rents, fixed-term tenancies and revenue subsidy from charging higher rents on vacant relets of existing property. In part it is premised on the exploitation of the positive housing association balance sheet effects of rising property values on financial capacity prior to the global financial crisis (Mclennan, Gibb and Stephens, 2013).

The AHP provides capital grant funding to cover part of the development cost (typically less than 20%), which is augmented by private financing, backed by so called “affordable rents” which are pegged at 80% of market.

While the primary output of the program is affordable rental units, it also permits affordable shared ownership (developed by social housing providers for sale), supported housing and some social rent options.

A new component introduced as part of the 2011-15 program was the encouragement to convert existing properties on lower social rents to the affordable rent regime. This generated higher revenues and was expected to enable social housing providers to use higher rent revenues to leverage financing, and thereby increase their output.

Critics have noted that the affordable rents are not serving the same lower income tenancies as the earlier program, which targeted social rents. While the higher affordable rents may be offset the eligibility for Housing Benefit, which provides assistance to lower income tenants. Concurrent welfare reform is capping the level of HB. Wilcox at al observe question whether "with continued pressure on rent levels, ever rising demand from low-income households, severe constraints on supply and cuts in the welfare benefits which support higher rents, are the conditions brewing for a 'perfect storm' in the least affordable housing markets such as London's?"[3]

Goals and objectives:

The program seeks to:

- Build homes that address some demographic issues facing social housing, such as the need for more one and two bedroom homes
- Increase the supply for new affordable housing in two tenures: Affordable Rent (up to 80% of market rents) and Shared Ownership
- Maximize the number of new homes for the level of grant available, mostly by incentivizing bidders for grant funding to use their own borrowing powers in the private market.
- To create good value for money through a more competitive process by encouraging other providers to develop

Budget/cost to government/others?

The HCA website suggests a total budget of £4,5 Bn, however this rolled in some carry over from the 2008-11 program. The line item specific to the AHP for 2011-15 for Affordable Rent and Affordable Home Ownership identifies a budget of £1.8B and a target of 56,000 homes. The June 2014 data suggest this target may have been met, however there is some ambiguity in and between different data sources. This is related to separate reporting for outputs in the Greater London authority vs. the rest of England, administer by the HCA

Quarterly reporting to June 2014 identified a total expenditure of £1,16B which supported the development of 57,330 rental homes plus a further 11,350 shared ownership homes (total 68,678). With nine months remaining it appears that the AHP would approach its target of 80,000 homes

The total cost of all rental and ownership schemes was identified as £8.89B, indicating that on average the grant funding covered only 13% of cost; the remaining cost was

[3] Wilcox, S, John Perry and Peter Williams UK Housing Review 2015 Briefing Paper, CIH

covered by financing levered via rental revenue (and some contributions such as land from Sec 106 inclusionary requirements).

Geographic/ and delivery?

Government capital subsidy from this initiative is made available to "registered providers" of affordable housing such as Housing Associations. Separate allocations and deliver is undertaken in the devolved jurisdictions (Scotland, Wales and Northern Ireland). Data here refer only to delivery in England.

Targeting:

The Affordable Homes Programme currently funds intermediate market homes, except in London where the aim is to allocate 30% of spending to a lower rent product, closer to social rent.

Is the program/initiatives meeting objectives?

Based on the reported construction levels, the 2011-15 programme appears to have met its output targets. While there is some critique and concern about the shift to "affordable rents" rather than social rents, this was a policy objective and on those terms the program has achieved its objectives.

In the new phase (2015-18) these have been increased with an aspiration to increase the supply of new affordable homes in England by contributing to the delivery of 165,000 new homes by March 2018, with an investment of £1.7 billion in affordable housing. This is a higher output with less funding (£1.8 in 2011-15). In part this higher output is premised on converting existing social rents to affordable rents with Registered Social Landlords then using the increases equity (rental income) to leverage debt with little or no use of AHP grant.

Sources:

GCLG & HCA (undated) 2011-15 Affordable Homes Programme Framework https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/371817/affordable-homes-framework.pdf

Gov.uk Capital Funding Guide (chapter 8, Affordable Rent) (https://www.gov.uk/guidance/capital-funding-guide/8-affordable-rent

Maclennan D, K Gibb and M Stephens, (2013) Innovative fInancIng of affordable housing international and UK perspectives. Rowtree Foundation

Wilcox, S, John Perry and Peter Williams UK Housing Review 2015 Briefing Paper, CIH

England: Redevelopment Schemes. Estate Regeneration Programme

Type of assistance:

A lending program directed to private sector partners to stimulate rehabilitation and redevelopment of older social housing properties

Timeframe and current status:

This is a new program beginning in 2015, with funding extending up until 2019. [4]

General Description:

The Estates Regeneration Programme is designed to kick-start and accelerates the regeneration of large estates through fully recoverable loans. It is intended to both to improve the quality of life for residents in some of the most run down estates in London and nationwide and help to boost housing supply. While these are social housing estates, owned by local authorities and housing associations, the program requires that approved developers of a scheme must be private sector entities and have the capacity to provide necessary loan security.

Funding is being made available over 4 years from tax year 2015 to 2019 and will be run as an open competition. The prospectus seeks bids from private sector builders/developers taking forward schemes, which deliver a net increase in the supply of housing, with mixed tenures, over the entire programme

In 2014 The HCA ran an open competition for the fund and have shortlisted three projects with a combined value of up to £153m. The final contracted amount is expected to be in line with the £150m budget.

A 2015/16 prospectus has invited funding bids for schemes where the are needed, locally supported, clear on funding requirements and commercially viable projects that will create a full recovery of the funding.

Goals and objectives:

In a prospectus report from the Department for Communities and Local Government (DCLG), the main goals for this scheme are as follows:

- Increase the density of estates through intensification and redevelopment
- Increase the quality of housing on these estates to meet the demand for housing that continues to grow.

[4] Department for Communities and Local Government, “Estate Regeneration Programme: Prospectus for 2015/16”

- By using an innovative approach, it will create values in land in a way that may not be possible with an incremental building by building regeneration which was the approach favored in the past
- Regeneration projects to specifically meet local needs, provide well-designed and highly quality new homes in order to reflect a sense of community identity.
- Successful estate regeneration will enable government to recover early investment, with a return, and will avoid expensive grant funding.

The UK Government announced that they will work with 100 housing estates in Britain. The programme first wants bidders to scan options for mostly the upgrade and refurbishment of existing homes before their demolition and replacement. Demolition is a last resort option. Therefore, the goal is to maximize the potential of existing estates in a time when there is an acute demand for housing.

How is the program structured?

In order to be eligible for Estate Regeneration funding, schemes must deliver regeneration through the redevelopment of existing social housing estates.

The scheme's goals are to deliver a net increase in the supply of housing, with mixed tenures.

The criteria for the assessment of bids is as follows:

- the net addition to social and affordable housing supply
- the value return for the money offered
- the Government's predictions for recovering its investments
- the degree of local support and need

The prospectus seeks bids from private sector builders that will increase the supply of housing, with mixed tenures. The scheme is open to private sector bidders who demonstrate financial and local authority support for their projects as well as support from their local community. Moreover, schemes with prospects for early delivery and those delivering large increases in housing density are likely to be favoured.

The prospectus sets a limit on the total public funding (in the form of repayable loans) of successful projects of below 50%. Additionally, loans must be repaid in full with interest at rates between 1.48% and 10.88% depending on the credit worthiness of the bidder.

What is the cost to government/others?

In the 2015 Budget speech the Chancellor set aside £150million that could be invested to regenerate and increase the number of homes on large, deprived housing estates. It is expected that additional funding will be secured via leverage of the assets enhanced by a mixed income mixed tenure product.

Geographic/ and delivery?

The fund will be available in England only and will be managed by the Homes and Communities Agency. The Greater London Authority will lead on the assessment of expressions of interest as they relate to London sites. The GLA's Housing Investment Group will review London bids and make recommendations on project investment decisions to the HCA for the overall fund.

Targeting

The target is on the redevelopment previous social housing estates to create mixed affordable housing. The target is low to medium income households.

What are the outcomes to date?

Many estates have yet to be identified because the program is still at implementation stage, however three shortlisted projects in London's regeneration estate programme were selected in an initial pilot round in 2014

Is the program/initiatives meeting objectives?

Due to the fact that the program is still in the bidding stage, results are yet not known to comment on. Moreover, there has not been much reported by the Government on the process of this initiative thus far.

However, some criticisms that have came out of this proposed scheme is that there is simply not enough funding to make significant changes. For instance, the last Labour government spent £181 million on estate regeneration in Tower Hamlets alone, compared to a total of £150M for this large initiative It is also argued that because the government is relying too heavily on private investment, it risks pushing low-income residents out of these estates, and not meeting the objective of achieving mixed-income housing in order to recover costs.

Sources:

GCLG & HCA (2015) Estate Regeneration Programme Prospectus for 2015/16
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/320196/140613_Estate_Regeneration_Prospectus.pdf

Gov.uk Housing – guidance Estate Regeneration Programme
https://www.gov.uk/government/publications/estate-regeneration-programme

Estate Regeneration Programme - further information
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/351175/140904_ERP_further_information.pdf

Germany: Rental system incentives

Note that there is not a specific program to stimulate rental construction in Germany; rather it is the combination of regulatory, tax and subsidized lending practices that together support investment. In addition consumer attitudes and behaviour are very different than in North America. Housing is predominantly seen as a consumer good, rather than as a commodity or asset class; the population is much more stable – those that do buy tend to buy a home for life, rather than progress up an ownership ladder; and similarly tenants move far less frequently. Finally the market share of private rental housing is large. It encompasses 60% of the entire housing market. Most investors are small "amateur investors (37% of total housing stock) that purchase homes, typically detached, as a safe long term investment and source of retirement income.

Timeframe and current status

The system features have been in place over much of the post war period, although there have been some reforms and revisions such as the 2002 Federal Housing Act where the federal government withdrew its aim to provide state subsidized housing for large parts of the population, transferring it to the Lander (provinces) instead (Fitzsimons 2014: 61).

General Description:

After the 2nd World War, Germany faced significant housing shortages. Instead of rebuilding everything with government funds, the West German government developed supply side subsidies and a tax system that is quite favourable in relation to investment in rental housing - this system has evolved and changed over time shifting from very favourable to less attractive, re rates of depreciation etc. The system has been designed to fit in the Social Market Economy that characterizes Germany. Accelerated depreciation (Degressive Depreciation Deduction) is no longer permitted as the focus of the housing policy in Germany shifted from new construction to energy efficiency in order to prevent over supply and since 2005 such depreciation allowances can only be written down linearly, at 2 per cent depreciation per year (2.5 per cent for older buildings). In short this means that German landlords can depreciate the value of their building with 2% each year, and deduct this amount from their general income tax.

Furthermore, capital gains from the sale of a residential building held privately for more than ten years (including properties used as rental) are tax-free unless the seller is a 'commercial real estate dealer' (i.e. a regular trader). If a building is sold in less than 10 years after acquisition or construction, Germany does have a capital gains tax of 25% but this will be waived if these gains are re-invested in rental real estate (Fitzsimons 2014: 73) Two out of three private individual landlords offset losses from letting against their other income for tax purposes (Kemp 2010). Small investors are able to deduct interest expenses, tax on rental income and rehabilitation expenses and can deduct losses against non-rental income (negative gearing).

Historically Germany also had subsidized lending that encouraged construction of housing with restrictions on rent levels. Loans and grants were associated with providing units on a below market rent basis for a prescribed term. Loans were available to non-profit and for profit developers – provided they met the low rent requirements for prescribed term. Thereafter rent constraints mature and the units become part of the open market – which many have, but tenants may continue to receive assistance via housing allowances “Wohngeld”. This was de-facto social housing (i.e. subsidized rentals), but not necessary held by public or community based agencies.

Since 2006 responsibility for construction subsidies have been decentralized to the States (Lander) and most of the 16 states have some form of modest program. The main reason for transferring the responsibilities to the states was that the German government realized there was a housing surplus of 500,000 units (Haffner et al. 2009) (Elsinga et al. 2007). However, these surpluses were not evenly distributed over the country. By transferring the responsibility for these programs to the Lander they can tailor their program to their specific needs populations more effectively. These programs typically involve subsidized loans targeted to specific populations, such as paroled convicts, homeless persons (Westerheide, 2011)). Rents on subsidized dwellings are usually capped at a level below the market rent for a period of 12- 20 years. During this period landlords are obliged to allocate these dwellings only to those target groups. The volume of development is now at historically low levels. However, it is expected that when a housing shortage does present itself again, the German government will re-adjust its policy leavers in order to boost investments into new units (Fitzsimons 2014).

Finally, Germany has a well balanced and well understood regulatory system which both protects tenant security of tenure, limits the amount of rent increases and provides opportunity to move rents to market, when vacant. The main regulation here is on price and is organized through the Mietspiegel (rent mirror). The Mietspiegel provides a reference rent for a region and is based on the average rent that is being charged. It is not a tool that keeps rent low. It is in fact a mechanism that prevents excesses and maintains a healthy market by preventing market failure (Fitzsimons 2014).

Besides these supply side subsidies and rent controls, an extensive housing allowance program addresses the separate issue of affordability (see Accommodation Allowance, Wohngeld, below)

Goals and objectives:

Germany has long had a tenure neutral housing policy, and compared to many other countries, it has avoided promoting home ownership in the early stages of the housing career. A tenure neutral and balanced housing system is the main focus of German housing policy. This is done by creating stability for both landlords and tenants through long term government programs and tenant protection, as well as by avoiding incentives to buy and favourable treatment of ownership, relative to rental.

How is the initiative designed or structured?

As above (General Description), this is not an explicit program with goals and objectives as much as an outcome of a balanced housing system. The German federal government does this by responding to market failures in order to maintain a healthy housing market. For example, after the 2nd World War, as well as right after reunification, there were large housing shortages. The government responded by adjusting tax breaks and subsidies to stimulate new production (e.g. Degressive Depreciation Deduction).

Since the end of the 1990's there has been a housing surplus (Hafner et all 2009). As a response, the focus in policy has shifted to renovation and energy efficiency of existing stock (e.g since 2002, loans, and tax incentives have been made available to make housing energy efficient).

The structure of these initiatives fit very well into a social market economy where the government takes a liberal market approach but fixes market failures (Fitzsimmons 2014) (Hafner, Hoekstra, Oxley, van der Heijden 2009) (Elsinga et al. 2007)

What is the cost to government/others?

n/a (due to wide array of tax and regulatory measures and decentralize authority for construction loans)

Geographic extent/and delivery (e.g national, regional/local)?

The tax incentives are nation-wide. However, construction subsidies vary on the state level as explained above. This allows Lander where there is great scarcity such as in the city of Berlin to create supply side subsidies in targeted areas. For example, to maintain the inner city's mixed income population, the state of Berlin will allocate 320 million euros for new housing construction through loans and subsidies. This is supposed to add 3920 new low income rental units to the inner city stock. As of 2014 47 applications for funding had already been submitted encompassing 1732 units (IBB 2014).

Targeting (client population)

Because the German rental sector houses people in every quintile of the income distribution, the tax stimulation programs and Mietspiegel affect the entire population. Housing subsidies used to be designed for everyone as well, but due to the housing surpluses created in the 1990's these programs are now organized on the regional level and are usually geared towards low income households, ex convicts or people with disabilities.

What are the outcomes to date?

Germany is widely cited for its unique tenure mix and strong rental market. It appears that the right combination of tax regulation and subsidy policy have created a well functioning system, and as such have negated the need for a specific program. A key part of this is the relative absence of favourable policy encouraging and facilitating ownership especially in the early stages of the housing career. Kemp (2010) observes: The German private rented sector is not focused on particular niche markets, but serves a broad range of market segments in terms of quality and size. It is thus not a residual sector, but instead a cornerstone of housing provision for all parts of the population.

This arrangement might contribute to the stability of the German primary credit and real estate markets.

Sources:

Kemp, P and Stefan Kofner 2010, Contrasting Varieties of Private Renting: England and Germany in International Journal of Housing Policy Vol. 10, No. 4, 379–398, December 2010

Westerheide, Peter (2011) The private rented sector in Germany in Towards a sustainable private rented sector: The lessons from other countries (ed K Scanlon and B Kochan, LSE

Scanlon, Kate and B Kochan (2011), Towards a sustainable private rented sector: The lessons from other countries. London School of Economics.

Voigtlander Michael (2014) The stability of the German housing market. Journal of Housing and the Built Environ (2014) 29:583–594

Haffner, Hoekstra, Oxley and van Der Heijden (2009) Bridging the gap between social and market rented housing in six European countries.

Fitzsimons, Jonathan (2014) The German Private Rental Sector - A Holistic Approach

Elsinga, Hafner, Hoekstra, van den Broucke, Buyst, Winters (2007) Beleid voor de private huur: Een vergelijking van zes landen

IBB (2014) 2014 IBB housing market report *Link:* http://www.ibb.de/portaldata/1/resources/content/download/ibb_service/publikationen/IBB_Housing_Market_Report_2014_Summary.pdf

Germany: Rental Accommodation Allowance (Wohngeld)

Timeframe and current status:

General Description:
Demand based measure provides strong support for renting and may create some indirect stimulation for new construction (i.e. indirectly via supporting demand). Housing allowances (Wohngeld) in Germany are available irrespective of tenure and the same rules apply for social and privately rented dwellings.

Goals and objectives:
The objective of the Wohngeld subsidy is primarily to make sure that people who work can participate in the housing market so they do not pay more than 30% of their income to housing. The program is available both for tenants and homeowners. (Fitzsimons 2014)

How is the initiative designed or structured?
The amount of Wohngeld a household is entitled to receive is determined by the number of family members in the household, the total annual family income, and the amount of rent or mortgage payment that qualifies for support. Income ceilings and rent ceilings are applicable, which depend on household size and local rent level (Kemp 2010). Wohngeld is a complementary social security benefit provided to low wage working people. People on social assistance are not eligible – they receive a different form of housing assistance as part of their income support benefit (much like Canadian income assistance shelter component). Housing costs are fully covered, but only for an 'adequate' home. Adequacy is subject to size and rent ceilings differentiated at the regional level (Kofner, 2007). Claimants whose flat is more expensive than the price ceilings, need to try to trim down their housing costs, e.g. by moving into a cheaper flat or renting out a partof it. The administration will compensate for an excessive rent, but usually for no more than six months

Budget - What is the cost to government/others?
In 2008, 569,000 households (1.4 per cent of the 40.1 million households in Germany) were in receipt of Wohngeld at a total cost of €750 million. In 2009 the allowance was amended. The average monthly rent allowance was to rise from €90 to €150 and heating costs were included as well (Hafner et al. 2009). That, in combination with the financial crisis caused a sharp increase in Wohngeld spending with a peak in 2010 of €1.75 billion. This is much more than the planned €1.25 billion. Currently this number is trending downwards again as the economy recovers (Fitzsimons 2014). A further 3.7 million househols were subsidized under the income assistance allowance (Arbeitslosengeld II.)

Geographic extent/and delivery (e.g national, regional/local)?
The program is national but tailored to the regional needs of the applicant. How much Wohngeld one can receive depends mostly on their income and on the Mietspiegel (rent

mirror) in their area. Wohngeld can be obtained for all kind of rental dwellings. Not just those that have been build with a supply subsidy.

Targeting (client population)
The target population of the Wohngeld program are those households that are working but are still in the lowest quintile of the income distribution as well as those who are temporarily out of work and not able to afford market rent just by themselves.

What are the outcomes to date?
See budget section abovet

Is the program/initiative meeting objectives?
Yes and no. The program can be considered successful because it effectively allows people who would otherwise not be able to participate in the housing market to find suitable housing. As such it protects neighbourhood diversity and acts as a balance agains gentrification where people are priced out of their own neighbourhood.

However, it has not been successful in a sense that 40% to 50% of the eligible population does not claim the housing allowance they are entitled to (Haffner et al. 2009).

Sources:

Kemp, P and Stefan Kofner 2010, Contrasting Varieties of Private Renting: England and Germany in International Journal of Housing Policy Vol. 10, No. 4, 379–398, December 2010

Kofner, S. 2014. "The German housing system: fundamentally resilient?" *Journal of Housing and the Built Environment* 29: p. 255 – 275)

Scanlon, Kate and B Kochan (2011), Towards a sustainable private rented sector: The lessons from other countries. London School of Economics.

Voigtlander Michael (2014) The stability of the German housing market. Journal of Housing and the Built Environ (2014) 29:583–594

Westerheide, Peter (2011) The private rented sector in Germany in Towards a sustainable private rented sector: The lessons from other countries (ed K Scanlon and B Kochan, LSE

Ireland: Capital Subsidy Programs

Type of assistance:

A deferred loan that acts like a grant in reducing the level of private finance needed to cover development costs as a way to enable social housing providers to develop new affordable housing.

Timeframe and current status:

The Capital Loan and Subsidy Scheme (CLSS) terminated in 2010. Capital Assistance Scheme was established in 2002 and is ongoing. Capital Advance Leasing Facility (CALF) was launched in 2011 and is still an active program.

General Description:

Historically social and affordable housing in Ireland has been funded through grant or forgivable loan programs. This was the case for the Capital Loan and Subsidy Scheme (CLSS) and Capital Assistance Scheme. These had large fiscal impacts on the treasury and have consequently been substantially reduced. Both were funded via local authorities with funding from national government and provided funding to help non-profit Approved Housing Bodies (AHBs) acquire or develop homes for low-moderate income households.

In 2011, the Capital Advance Leasing Facility (CALF) was introduced to replace the (CLSS) and to augment CAS (which is directed to creating special needs housing).

CALF was introduced as a new model of funding for social housing, and is deferred "soft loan" with the aim of providing and ensuring a greater supply of housing. It is a deferred repayable loan with preferential terms. Under this initiative, an approved housing body may purchase or construct properties, and uses CALF to cover up to a maximum of 30% of the cost with the remaining balance being raised using other private or HFA finance. Capacity to borrow is however reinforced by access to a separate rental assistance program ensuring rent revenues (slightly discounted below market) while concurrently assisting low-income tenants (who pay a RGI type rent).

Goals and Objectives:

One main objective that was stated in a final report published by the Department of Public Expenditure and Reform is that the introduction of CALF was a move by the Government and the Irish social housing sector to transitioning from a predominately public sector and grant funded model (as in CAS and CLSS) towards private sector financing. There was also a policy objective to place Approved Housing Bodies (AHBs) at the focal point of social housing delivery (a shift from local authorities as providers to housing associations).

Due to the fact that public capital budgets have decreased, very significantly (60%) since the economic downturn (2008), CALF was initiated as a way to provide incentives to financial institutions to enter into the social housing market. The goal is to have more financial institutions lending to the sector, and dispersing loans to AHBs.

How is this initiative designed or structured?

The CALF facility is a deferred bullet loan, which means it repayable only at maturity and is set at a 25-year period with a fixed interest 2% per annum (accrued on a simple basis). The loan is made from local authorities to AHBs and covers 30% of the funding that is required for building or renovating, and purchasing social housing stock. Local authorities may use CALF funds for any type of social housing expenditure, such as acquiring new stock, or refurbishing stock. Additional financing required to cover remainder of cost is secured from a private lender.

The AHB separately enters into a long term Payment and Availability Agreement, essentially dedicating the units for social housing for 30 years, with a rent negotiated at 92-95%. They separately charge the residents a RGI rent – so can generate more than 100% of market. This enables AHBs to build reserves and equity to be more sustainable over the long term.

Geographic /and delivery

CALF is an initiative implemented by the Department of the Environment Communities and Local Government (DECLG) in collaboration with the national Housing Finance Agency (which funds the loan) and is delivered to local authorities and AHBs.

Targeting:

CALF is used for the construction or acquisition of housing units for general needs housing as well as special needs housing.

Budget/Funding

At implementation, budget was set at EUR15 million over that year commencing in 2011 with plans to adjust as delivery scaled up. In 2015, EUR10million was given to CALF. In a 2016 pre-budget submission from the Department of Finance and the Department of Public Expenditure, EUR 30million of capital and revenue funding will be given to CALF.

Note: This is only one component of the broader SHS 2020 which will substantially expand social housing assistance (see next description).

What are the outcomes to date?

Since 2011, a total of 96 CALF projects (1,707 units) have been assessed and recommended by the Housing Agency. The majority of these projects have been acquisition areas (Irish Council for Social Housing Finance Conference, 2014). However, few have actually been built or acquired because, only a few commercial lenders have taken interest such as the Bank of Ireland, Allied Irish Bank and Ulster Bank, in lending to the sector. Moreover, they have only played a very small role in financing the social housing sector in Ireland.

Is the program/initiative meeting objectives?

The low participation of institutional investors is one of the main failures of this program– since its primary objective was to stimulate and build confidence among such investors within the social housing sector. Another constraint is a lack of a significant level of sites being made available to housing associations and others have questioned the capacity and credit worthiness of existing AHBs

The 2014 announced Social Housing Strategy 2020 is seeking to expand lending and private partnerships as well as increase direct government funding. SHS2020 will increase funding levels and is also exploring some redesign for the capital programs and associated rental assistance programs, with a goal of generating 35,000 new homes by 2020 and assisting a further 75,000 through rental assistance to fully meet the current waiting list of 90,000 households.

Sources:

Irish Council for Social Housing (ICSH) Social Housing Newsletter Housing,Spring 2015

Ireland: Social Housing Strategy 2020

Type of assistance:

This is a comprehensive strategy aimed at broadly reforming current approach and programs with the goal of full addressing the current wait list for social housing through a combination of new supply and tenant-based assistance, engaging with private landlords.

Timeframe and current status: announced in late 2014, this strategy is now being implemented, and was allocated funding in budget 2015

General Description:

The Strategy significantly expands the level of investment in social and affordable housing with the objective of fully accommodating 90,000 households, the entire Housing Waiting List, by 2020. The development of this Strategy has taken place against a background of successive years of retrenchment in the social housing budget, which has seen funding fall from over €1.7bn in 2008 to some €597m in 2014/

The SHS2020 is seen as a contributing part of a separate 2020 Strategy for a Renewed Construction Sector. The construction strategy seeks to stimulate recover from a substantial slump in new home construction following the 2008 economic downturn – it is focused on both adding supply and creating employment. [5]

Goals and Objectives:

It will pursue this overall goal under 3 pillars**:**

- **Provision of New Social Housing Supply.** Provide 35,000 new social housing units, over a 6 year period, to meet the additional social housing supply requirements as determined by the Housing Agency,
- **Providing Housing Supports Through the Private Rental Sector.** Support up to 75,000 households through an enhanced private rental sector, using housing allowances; and
- **Reform** social housing supports to create a more flexible and responsive system.

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[5] The construction strategy is described here: http://www.environ.ie/housing/construction-2020-strategy/progress-under-construction-2020-will-drive-job-creation

How is this initiative designed or structured?

The strategy emphasizes the State's lead role in building partnerships between Local Authorities and other public, voluntary and private providers of housing in the development of innovative funding mechanisms that do not increase the General Government Debt.

This includes under Pillar 1, an enhanced role for Approved Housing Bodies (AHBs). This Strategy includes a number of changes and actions that will help to promote the optimal configuration of what is a very diverse sector; and encourage the formation of the large-scale providers. The changes include the introduction of a multi-annual housing expenditure program; prioritizing funding to incentivise scale; a more streamlined funding process; promotion of collaboration at local and regional level between local authorities and AHBs; and enhanced regulation.

Pillar 2 relies on the active participation of private sector landlords, drawing on the HAP rental allowance program described below. And Pillar 3 includes a range of actions to ensure that social housing supports are responsive to people's current needs, as well as to improvements in their circumstances. These actions are particularly directed to the role of local authorities as key agencies in improved service delivery

Geographic /and delivery

Country wide

Budget/Funding

The new SHS 2020 plans increase in funding, totalling an additional €2.2 billion in funding announced in Budget 2015 to assist in delivering an injection of newly built units started in 2015, 2016 and 2017. The cost to the exchequer of building, acquiring or leasing the overall target of 35,000 units is estimated over the period to 2020 to be €3.8bn

What are the outcomes to date

Strategy has just commenced

Is the program/initiative meeting objectives?

Strategy has just commenced

Sources:

Ireland, Dept of Environment, Communities and Local Government (2014). Social Housing Strategy 2010: Support, Supply, Reform.

The construction strategy is described here:
http://www.environ.ie/housing/construction-2020-strategy/progress-under-construction-2020-will-drive-job-creation

Ireland: Rental Assistance

Type of assistance:

Ireland has three existing rental assistance programs that ensure that low-income tenants have the financial capacity to pay rent. This includes rent to private landlords as well as to social landlords charging a market rent. These are not supply focused programs, however they are a form of revenue subsidy that complements supply programs by creating a capacity to finance part of development cost. And for that reason are included here.

These programs include:

Rent Supplements: intended as a short-term assistance with housing costs for households out of work, and dependent on social assistance. RS has existed for over 20 years, but is intended as a short-term measure for households out of work. It is funded by the Department of Social Protection.

The Rental Accommodation Scheme (RAS): established in 2004, and is still active. This was intended as a more permanent form of rental assistance to which RS recipients would transition if there are deemed to have a long term housing need, have been on the social housing wait list, but have not been able to secure social housing. The RAS enables them to receive rental assistance while living in the private sector and is also intended to address the shortfall in social housing.

Housing Assistance Payment (HAP): HAP is a new variant of RAS being introduced on a phased basis that commencing in April 2014 with most local authorities expected to transition into this program by the end 2015. It is intended to address deficiencies in RAS (which has not been able to fully transition all Rent Supplement recipients with long term need). HAP is also designed to address the insufficient stock/supply of social housing, which results in households remaining on the waiting list for very long period. It does this by contracting with private landlords for rental units that are then made available to eligible beneficiaries (those otherwise eligible for social housing).

An additional program, the Social Housing Leasing Initiative, introduced in 2009 is another form of rental assistance. Under this program a local authority leases properties from private property owners for the purposes of providing accommodation to households on social housing waiting lists. This is effectively a form of head lease. The local authority pays a contracted rent to the landlord, houses tenants otherwise eligible for social housing and charges these tenants a rent geared to income as they would pay in social housing.

General Description:

Both RAS and HAP draw on private landlords to supply housing. Under RAS, landlords are sourced by the Local Authority; under HAP residents are required to locate an eligible unit themselves. Units must meet adequacy standards and have rents within prescribed thresholds, set by regulation and the Local Authority.

Both programs have devised a payment scheme under which the rent is contracted for a fixed period, and the full rent payment is then paid monthly by the Local Authority to the landlord. Typically these involve a 4-year contract and to reflect the reduced risk for landlords, rents are negotiated at 8%-12% below market. The tenant pays a contribution to the local authority, as a differential (RGI type) rent, similar to what would occur if they lived in social housing. Because the rent to the landlord is paid directly, this removes arrears risk for the landlord.

Goals and Objectives:

Both models seek to provide greater security of tenure at a more affordable rent, Another goal is to reduce dependency on the Supplementary Welfare Allowance (SWA) scheme, and transfer receipts of this scheme that are in long-term housing need to local authorities (who are responsible for social housing, albeit with funding from the national government). The introduction of the Housing Assistance Payment seeks to bring all social housing services provided by the State under the control of local authorities.

How is this initiative designed or structured?

Tenants qualify for RAS if they are on rent supplement for 18 months or longer; in case of HAP if they are on a social housing waitlist. Community welfare officers in the Health Service Executive areas review each case and subject to eligibility criteria will transfer a file to the relevant local housing authority for the purposes of establishing long-term housing need.

In each case the local authority (as agent of the household) will be responsible for making full payments directly to the accommodation provider. There is no direct payment from the recipient to the accommodation provider. Each participating household pays a rent contribution to the local authority. This effectively guarantees the rental payment for the landlord, and eliminates any arrears risk.

The tenancy is governed by a tenancy contract and comes under the Residential Tenancies Act 2004 except in relation to accommodation provided by an approved housing body (social landlord). Even though rent is paid by the local authority on behalf of the tenant, the landlord-tenant relations is a standard one between private landlord and tenant.

Geographic /and delivery

RAS is an Ireland Government Initiative delivered to local authorities that manage the delivery of housing accommodation with landlords across the republic.

Targeting:

It is a general rental supply incentive program and is inclusive of a range of eligible low and moderate-income household including non-elderly singles, seniors and families.

Budget/cost to government/others

It is estimated that the Government since 2009 has allocated €125 million annually towards the Rental Accommodation Scheme (Department of Public Expenditure and Reform, 2011). For the 2016 Budget, it was announced that €135 million for RAS would be set aside with a target of 1,000 new RAS transfers.

For HAP It was reported in 2014 that funding for the HAP scheme increased to €23.3 million in 2015. The 2016 budget reveals a €69 million budget on social housing spending, where €47.7 million will be directed towards the HAP scheme and paid to private landlords.

What are the outcomes to date?

By the end of 2012, approximately 49, 000 households were transferred from Rent Supplement directly to RAS. Moreover, in the period from 2007 to 2013, which saw the highest annual transfer rate, expenditure on RAS increased from €27 million in 2007 to €130 million in 2013 (Social Housing Strategy 2020).

For the newer HAP in total, 7, 536 additional housing units will be delivered from a range of measures, combined with a target of 8, 000 for transfers from Rent Supplement to the Housing Assistance Payment which will deliver a total of 15, 925 housing units in 2015.

Is the program/initiative meeting objectives?

While the RAS scheme itself has been very successful in terms of transferring households from Rent Supplement, it has not been able to keep up with increasing number of households in receipt of rent supplement.

In 2014, there were still 90,000 households on the waiting list for Social Housing. As part of a new (2014) “Social Housing Strategy 2020” there is a goal of fully housing this wait list through a combination of new development and acquisition (35,000 homes) while a further 75,000 are planned to be assisted via a HAP allowance in existing private sector housing

Due to the fact that HAP has not yet been in full effect for many local authorities, there has not been any concrete information released yet by the Government or other sources on whether objectives have been met.

Commenting specifically on RAS McLennan et al (2013) observed that in comparison with traditional social housing RAS may be more cost effective, since tenancies are not for life – although they also provide greater security than is the case in the private rented sector outside the scheme. The requirement to inspect units has also resulted in better quality and security attributes for RAS units compared to the rest of the private rented sector and this suggests good value for money.

Sources:

Environment, Communitioes and Local Government, (2014) Social Housing Strategy

Local Authorities Ireland, 2015 Housing Assistance Payment (HAP)

http://www.environ.ie/en/DevelopmentHousing/Housing/SocialHousingSupport/

http://www.housing.ie/Housing-Information/What-is-Social-Housing/Rental-Accommodation-Scheme-(RAS).aspx

Maclennan D, K Gibb and M Stephens, (2013) Innovative fInancIng of affordable housing international and UK perspectives. Rowtree Foundation

New Zealand: Social Housing Reform

Type of assistance:

A broad set of reforms including realignment of roles (housing corporation vs. Ministry of social development) to separate out and create a more focused asset management approach, with separate administration of rental assistance through Ministry of social development. Effectively transforms housing agency into an asset manager rather that social assistance agency.

Timeframe and current status:

The government announced a new reform framework in 2010 and is continuing to implement these reforms. This covers a wide range of initiatives including reallocation of responsibilities between agencies.

General Description:

This covers 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. Concurrently, government is seeking to expand the role of community housing providers (CHP), including transferring HNZ assets to CHPs as a way to broaden choice and providing funding to enable CHPs to create new stock.

The reforms will enable

- HNZ to buy and sell houses in different parts of the country, and redeveloping houses where appropriate, to better match people's needs (with more than 2,000 new houses now in Housing NZ's construction pipeline)
- Community housing organisations to build 890 new units with $139 million of capital subsidies from the Government from 2011/12 through 2014/15
- Large scale redevelopments which improve the quality of social housing and reduce housing pressure generally by increasing the number of affordable and market price houses
- Housing NZ's ongoing programme of maintenance and upgrades to its existing houses

In addition, the number of households assisted through a rental allowance (Income Related Rent Subsidy, IRRS) is being increased and these have been extended to tenants in CHP homes (effectively providing a revenue subsidy that allows CHPs to be sustainable, and creating opportunity to lever assets.

Parallel to these reforms, government is forgiving loans issued under an earlier (2003) Housing Innovation Fund (created as an initial effort to grow the CHP sector). Although new loans are no longer being issued through HIF, the Government introduced changes that provided existing recipients of HIF funding the opportunity to have their deferred loans or conditional grants forgiven, if this results in building new social housing. By writing off debt and creating room to borrow against existing assets this is expected to help the sector add supply.

Overall these reforms will have only a modest impact on increasing new construction supply, but is intended to rationalize both roles of respective government agencies and community providers and facilitate more strategic management of property assets (including divesting those in low demand locations)

Goals and objectives:

Initiatives in the reform programme already implemented or announced include:

- **Ensuring more people can get housing support** by spending $154 million over the next three years to house 3,000 more tenants with the Income Related Rent Subsidy, taking the total available from about 62,000 currently, to around 65,000 tenancies by 2017/18
- **$500,000 funding boost for emergency housing providers**, and a wider review to ensure the sector can develop a more integrated approach to working with some of our most vulnerable people
- **Providing short-term housing in Christchurch** for 30 families at a time by working with two Community Housing Providers
- **Ensuring that properties used for social housing fits demand** from tenants through a strategic review of Housing New Zealand and its asset management plans
- **Supporting moves to housing independence**, where appropriate by conducting an additional 3,000 tenancy reviews over the next two years and providing financial assistance to those able to move into private rental or homeownership
- **Increasing affordable housing supply, particularly in Auckland** by freeing up more land for affordable housing and rejuvenating neighbourhoods with a wider mix of housing.

Budget/cost to government/others

As above, budgets both for subsidies, ongoing operating and maintenance expenses and new capital investment are all being increased to support governments reform agenda. Budget 2015 supported the implementation of the reform programme with $35 million in new operating expenditure over four years, and around $30 million from reprioritisation of funds previously earmarked for capital grants through the Social Housing Fund.

Geographic target

While the reform is nation-wide there is a particular focus on Auckland where home prices and rents have increase most dramatically and are causing increasing affordability concerns.

Targeting

A wide range of groups will be targeted.

Is the program/initiatives meeting objectives?

The reforms have only recently begun to be implemented. There is no discussion on progress to date.

Sources:

Personal correspondence with the CEO HNZ

Overview of the Government's programme to improve social housing in New Zealand October 2015. http://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/improving-social-housing.pdf

New Zealand Income Related Rent Subsidy (IRRS)

Type of assistance:

A housing allowance designed to reduce net out of pocket rent costs for tenants of public and social housing while enabling the landlord (Housing New Zealand) to collect a fair market rent and thereby operate the asset portfolio effectively.

Timeframe and current status

Income-related rent was reintroduced in 2000, after it was briefly abandoned and the Accommodation Supplement applied to all Housing New Zealand tenants. In 2014 it was reformed and expanded - previously it 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 tenancies

General Description:

Income-related rent (IRR) is a rent based on some (not all) of income received. The subsidy (IRRS) is the difference between the assessed market rent for a property (reviewed annually) and the IRR (reviewed annually or when a tenant's circumstances change). The unit of entitlement is the same as that for other income support – adults in a relationship similar to marriage, and dependent children.

IRR is in place parallel to the Accommodation Supplement – which is used for tenancies other than social housing (including private sector). AS pays a proportion of housing costs over an income-based threshold of about 25 per cent of rent, up to a maximum amount based on location and family type. There are slightly different rules and amounts by tenure – a portion of board is considered as the housing cost and the payment to homeowners is slightly less generous than renters, as most mortgage payments include a principal amount that is effectively savings.

Goals and objectives:

The primary objective of both IRRS and AS is to assist tenants (and owners in case of AS) that experience a high shelter cost,. In the case of public (HNZ) and CHP social housing, this also provides a revenue subsidy to housing provider to ensue that they are viable and can both pay ongoing debt service, cover operating costs and maintain homes in sound condition. This form of revenue subsidy also creates capacity to finance purchase or construction costs

Budget/cost to government/others

The Government has budgeted to increase IRRS subsidies from 62,000 households currently to 65,000 by 2017/18. IRRS funding will rise from $718 million in 2014/15 to $880 million in 2017/18.

Geographic target

Nation wide

Targeting

Targetted only to tenants in public housing and new tenancies in community social housing; a separate Accommodations Supplement is paid to private sector tenants

Is the program/initiatives meeting objectives?

The reformed program is still very new. Creating a rental revenue subsidy, linked to market revenues creates an improved cash fow and enabled HNZ to aceive better asset management, including capacity to leverage financing for capital renewal.

Sources:

Personal correspondence with the CEO HNZ

Overview of the Government's programme to improve social housing in New Zealand October 2015. http://www.msd.govt.nz/documents/about-msd-and-our-work/work-programmes/social-housing/improving-social-housing.pdf

US Low Income Housing Tax Credit (LIHTC)

Type of assistance:

A supply mechanism, generated though the tax system to capture equity investment with the same effect as a grant covering up to 70% of the development costs of new or rehabilitated affordable housing in order to stimulate investment and construction/rehabilitation of affordable housing.

Timeframe and current status:

Initiated in 1986, the LIHTC is now the longest running and largest housing supply program in the US.

General Description:

This is a tax-based mechanism that involves allocation of tax credits (a ten year flow of credits that can be deducted from income tax payable each year for ten years). Credits are awarded to proponents of affordable housing on a competitive basis. The proponents then sell the tax credits to investors (mainly large financial corporations with large tax liabilities that they wish to shelter).

The receipt from sale of credits generates equity investment in the project. Conceptually from the project perspective this has the same effect as providing grant equity, it is just a different and indirect way of assembling the grant. Instead of the government collecting tax revenue and allocating budgets to a department/agency to fund a grant program, the mechanism collects the funding directly from erstwhile taxable corporations and the government foregoes this revenue.

Because of this indirect way to collect the funding and the nature of the equity investment, there is a more complex and multi-stakeholder array of stakeholders and partners, and expenses related to transaction costs and legal fees. But the end effect is the same as a grant, covering up to 70% of capital costs.

Providers that are awarded tax credits to sell then have to finance residual costs through other types of loans, carried by the rents generated by the project. Typically these are market-based rents intended to serve households earning at of below 60% of the area median family income.   Maximum rents are based on tenants at targeted 60% maximum income paying no more than 30% of their income for housing. Maximum rents for unit type are set by the expected occupancy, regardless of the number of people who actually live in the unit. In many cases, separate Ssec 8 housing Choice vouchers are allocated to provide a deeper rent subsidy to help very low income households.

Goals and objectives:

The objective of the LIHTC is to create a funding and financing nemechanism to sustain production of affordable rental housing (as a tax code provision, rather than a program it does not have an explicit published objective).

How is the initiative designed or structured?

Tax Credits must be used for new construction, rehabilitation, or acquisition and rehabilitation.

Not all units must be targeted, but the typical practice is to build with 100% units targeted at program prescribed affordable rents. When the LIHTC program began in 1987, properties receiving tax credits were required to stay eligible for a minimum 15 years. This eligibility time period has since been increased to 30 years. However these are minimum compliance period. When proponents submit bids for credits the evaluation process favours those that commit to longer period of affordability – often over 50 years, as well as those that include a higher percentage of affordable units.

The credits are allocated and performance monitored by State Housing Finance Agencies Failure to remain compliance can result in recapture of previously claimed tax credits by the IRS. So even though investors (who become limited partners holding 99.9% of the interest in the property extract their return via tax benefits in the first 10 years, they remain responsible for the project remaining compliant. In many cases, the limited partner equity investor seeks to exist the partnership after 10 years and sells their interest (usually for the outstanding mortgage value) to non-profit providers, motivated to provide affordable housing, and thus more likely to ensure the project continues to comply with predetermined affordability commitment.

Geographic /and delivery?

Nation wide

Targeting

This program targets low-moderate income households and within the income limits serves a wide variety of client types. In allocating credits, States have the opportunity to identify priority groups and assign higher evaluation points to proposals serving that target group. In 2014 65% of units targeted families; 30% were seniors and 5% went to supportive housing. (Fannie Mae 2015)

Budget/cost to government/others

As a tax expenditure program, there is no explicit budget. Tax credits are allocated to state finance agencies on a per capita basis. For 2014, the amount used to determine each state's LIHTC ceiling was the greater of $2.30 multiplied by the state population or a minimum of $2.68 million. At this rate with a population of 320M, the annual allocation of new credits approximates $850M (with one-tenth claimed annually; so after 10 years of allocation, the annual tax expenditure incurred by the treasury is $850 Million.

What are the outcomes to date?

The program generates between 80,000-100,000 new or rehabilitated affordable units annually. This varies based on how construction costs inflate and the indexation of the credit allocation base.

Over its history the program has been extensively analyzed and evaluated. While initially seen to be inefficient because only 0.40 cents on the dollar flowed to projects, over time strong competition for the credits has raised their value (now investors pay 80-90 cents and since the credits flow over 10 years, they have a discounted value approximating 0.84 cents. Investors are large financial corporations motivated by the Community Reinvestment Act under which LIHTC is a qualifying investment. The LIHTC program has helped to expand and sustain a specialized developer industry niche, as well as engaging corporate America in the program. Many large financial corporations invest additional support through their community development subsidiaries, and these investors have become an important group of advocates, which has helped to sustain the program through 5 different administrations.

Sources:

Fannie Mae (2015) Multifamily Market commentary–March2015 New Affordable Supply Remains Muted

United States: Rental Assistance Demonstration (RAD)

Type of assistance:

A reform in the type and structure of subsidy provided to public housing authorities intended to create new capacity to lever their rental revenue in order to rehabilitate or redevelop existing public housing.

Timeframe and current status:

RAD was established in 2011, and is ongoing.

General Description:

This is a funding initiative that enables Public Housing Authorities with aging assets to finance rehabilitation replacement and modernization of their existing aging assets. It is achieved by transforming their subsidy mechanism from traditional public housing operating grant into a rent based revenue subsidy.

The intent is to create a predictable long-term annual funding stream revenue stream that improves the leverage capacity of PHA and enables them to use this revenue to leverage external sources of capital (private and public) to finance much needed

As a demonstration program, it was initially capped at 60,000 units. Since December 2014 it has been amended to increasing the cap on public housing that are eligible to convert rental assistance under the "first component" from 60,000 units to 185,000 units

Goals and objectives:

Rental Assistance Demonstration goals are as follows:

- Long-term stability and affordability of HUD-assisted housing
- Allows PHAs to borrow money and creates access to safe, proven tools to leverage private capital (such as tax credit financing)
- Increased housing choice for residents
- Strong tenure rights
- Effective public ownership

Overall, the goal is to preserve public housing by providing PHAs with access to more stable funding to make needed improvements.

How is the initiative designed or structured?

RAD gives PHAs the opportunity to manage a property using one of two types of HUD funding contracts. Section 8 project-based vouchers (PBV) and Section 8 project-based rent assistance (PBRA). Both contracts are 15-20 years long. RAD ensures that the units can remain permanently affordable to low-income households. Additionally, through the RAD program, residents still continue paying 30% of their income towards their rent and their rights do not change.

This shift makes it easier for PHAs to access private financing and use the low income housing tax credits (LIHTCs).

What is the cost to government/others?

The program was designed to be cost neutral. Due to the fact that the goal of this project is simply to transfer housing stock from the public housing program into the Section 8 Program to get access to private capital, this program does not require any new funds from HUD and does not increase HUD's budget.

As a result of the FY2015 appropriations bill, HUD has the statutory authority to convert up to 185,000 units through RAD's first component, representing a significant increase from the program's initial 60,000 unit cap. The additional authority will widen program participation, enabling more PHAs and HUD assisted property owners to ensure access to quality, affordable housing for low-income families

In FY 2015, $10 million was dedicated to RAD funding that was mainly an additional administrative cost (subsidy expenditure reprofiles existing public housing budgets).

Geographic /and delivery?

All PHA's across the US are eligible to apply to convert via RAD

Targeting

The characteristics for most neighborhoods with a RAD project are generally low-income residents and poorer neighborhoods with predominantly a renter population. Majority of these neighborhoods have a median household income below the national average, and about 80 percent of these neighborhoods have a poverty rate higher than the national average.[6]

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[6] HUD (2014) Status of HUD's Rental Assistance Demonstration Evaluation and Results to Date.

All states have priority areas of affordable housing need, and applications are assessed according to whether they were consistent with the priorities of the relevant state.

What are the outcomes to date?

A significant number of PHAs have participated in RAD. HUD has approved RAD applications covering approximately 60, 000 public housing units. The RAD waiting list covers an additional 116,025 units.

HUD reached the RAD statutory cap of 60,000 units in October 2013 and then placed these additional RAD applications on a waiting list. HUD continues to accept RAD applications

As of September 2014, PHAs have requested RAD conversion authority for 180,737 public housing units. HUD has received applications for 1,080 specific public housing projects, representing 129,249 units: 114 applications were submitted during the initial round, and 966 applications were submitted during the rolling first-come, first-serve period. 144 PHAs have participated in the RAD program.

Sources:

HUD (2014) Status of HUD's Rental Assistance Demonstration Evaluation and Results

United States: HopeVI/Choice Neighborhoods Program

Type of assistance:

A large scale capital grant program to fund major revitalization and redevelopment of older distressed public housing sites, including funding to deliver new community development programming alongside physical redevelopment.

Timeframe and current status:

HOPE VI was initiated in 1992 and operated through to 2010 when it was replaced by Choice neighbourhoods (both rebranding and expanded scope).

General Description:

Both programs are regeneration/revitalization initiatives that has focused on addressing and transforming areas of severe disadvantage, usually segregated neighbourhoods. The genesis of HOPE VI was to redevelop the most severely distress public housing sites to dilute poverty concentrations through mixed income and mixed tenure redevelopment, together with the introduction of community facilities and services aimed at improving the opportunities and life chances of disadvantaged populations.

In many cases, this has also contributed to new housing supply, including affordable rental, market rental and affordable homeownership. Usually pre-existing public housing units were rehabilitated or replaced on a one-to-one basis, together with additional development and intensification. Many redevelopments combined grant funding with LIHTC investment and in doing so engaged private sector partners and investors in rebuilding the local economy and local businesses.

Choice neighbourhoods was built on HOPE VI by extending into neighbourhoods that were not exclusively HUD owned public housing sites as well as by broadening the array of initiatives to encompass employment access, educational quality, public safety, health and recreation. Both initiatives involved extensive community engagement and planning, and included a broad range of community stakeholders. Moreover, it is a program that allows for a more diverse set of applicants. In addition to public housing authorities, NGOs, local governments and private developers are able to apply to receive funding.

Goals and Objectives:

Both programs shared similar objectives, which emphasized outcomes over number of units created. HOPE VI sought to:

- lessen and reduce the concentration of low-income households through the building of mixed-income communities.
- rebuild and revitalize sites of severely distressed public housing.

- revitalize public housing projects to improve surrounding neighborhoods and build sustainable communities.

Reflecting and building on HOPE VI, Choice Neighbourhoods focused on three main objectives:

- To improve housing and replace distressed public housing with high quality mixed-income housing that is responsive to the surrounding community.
- A way of improving the quality of life for people by providing better educational services directed at youth
- Focus on neighborhood rebuilding by creating the conditions necessary for both public and private reinvestment in distressed neighborhoods by offering important assets such as safety, good-quality schools, and commercial activity

How is this program designed or structured?

Both programs combined a variety of resources. HOPE VI funds covered capital costs to reconstruct replacement units, and fund Section 8 vouchers to assist with relocation during redevelopment (and to support households that chose not to return post revitalized. Choice Neighborhoods has two types of grants:

- Planning Grants: These awards can amount up to US$500,000 and are directly more at investing in public schools and educational programs, and could be used for other projects like public transportation or green building projects.
- Implementation Grants: These grants can be up to US$30.5 million that provide targeted investments for housing development initiatives for neighborhoods.

Budget/cost to government/others

Over its tenure 1992-2010, HOPE VI awarded 254 grants, totaling 6.1B to 132 local Public Housing Authorities. [7] Under Choice Neighborhoods since 2010 it is reported that HUD has invested US$350 million in Implementation Grants, and has leveraged more the US$2.6 billion of additional resources.[8] Moreover, HUD has announced in an annual report of the program that for every $1 of federal money invested in the program, an additional $7.50 is leveraged.

Geographic /and delivery

HOPEVI was a U.S Government initiative under HUD, delivered in partnership to public housing authorities across various states. Choice Neighborhood is similarly national but

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[7] HUD, 2011
[8] HUD, 2015

extends funding to include cities, local government entities, public housing authorities, and community based organizations.

Targeting

It is public housing revitalization program that predominately has targeted is extremely low-income households in distressed public housing units in order to transition these units into mixed-income communities.

What are the outcomes to date?

HOPE VI revitalization projects have been extensively researched and evaluated. The Urban Institute findings claim that the program has been successful in many ways, as it has demolished some of the most distressed and destructive housing and replaced them with much higher-quality housing, and mixed-income communities. Moreover, many residents who relocated with vouchers are living in higher-quality housing in safer communities. At the same time there were some critiques, including one that required that a new housing unit be built for every unit that was demolished. This mean that many housing authorities that were cash-strapped it prohibited them from any demolition.[9]

HUD has found that HOPE VI has been effective in deconcentrating poverty and improving employment and educational outcomes, especially for former Public Housing tenants that moved to private and mixed income developments.

As of 2015, Choice Neighborhoods has awarded 13 Implementation Grants and 63 Planning Grants to replace and rehabilitate up to 10,500 public and HUD-assisted housing units with new, private rental units which will largely be mixed-income units combined with affordable and market-rate units.

Sources

The Urban Institute, “A Decade of Hope VI: Research Findings and Policy Challenges” 2003.

HUD (2011) Transforming Knowledge Into Housing and Community

Development Policy: Choice Neighborhoods: History and HOPE. Evidence Matters (Winter 2011)

US HUD, 2015, “Choice Neighborhoods 2015 Grantee Report

[9] HUD 2011

United States, Section 8/Housing Choice Vouchers

Type of assistance:

This is a housing allowance that separately addresses affordability issues. It is used both independently with rental landlords, as well as being integrated with the main supply (LIHTC) and regeneration (HOPE VI/Choice Neighborhoods and RAD) programs to directly address and improve affordability in programs where rent is set at or near market levels.

Timeframe and current status:

Housing allowance under varying designs and labels were introduced in the US in 1974. Unlike the case in many EU countries and the CRA in Australia, they have always been a rationed program, rather than a universal, entitlement program.

General Description:

This form of housing allowance, labelled a voucher (or previously certificate) and authorized under Sec 8 of the Housing and Urban Development Act was introduced at a time when the US was turning away from Public Housing and seeking to draw on moderate rate rental units available in the market. Sec 8 vouchers are administered by the same Public Housing agencies that operate public housing, and are a way to assist applicants for social housing in the absence of supply, as well as being used to complements supply under the LIHTC (described separately above).

Once allocated a housing voucher the family is responsible for finding a suitable housing unit of the family's choice where the owner agrees to rent under the program. This unit may include the family's present residence. Rental units must meet minimum standards of health and safety, as determined by the PHA. The housing subsidy is paid to the landlord directly by the PHA on behalf of the participating family. The family then pays the difference between the actual rent charged by the landlord up to a local determined maximum and 30% of the family adjusted income (to covers rent and utilities).

While not constrained in selecting a higher cost unit, the allowance covers the shortfall only up to a maximum eligible rent, based on the 40th percentile fair Market rent, as published annually for each locality by HUD.

Up to 20 percent of voucher funds can be used for subsidies — called “project-based” vouchers — that are tied to a particular property rather than a particular family and thus can help pay for the construction or rehabilitation of housing for low-income families.

Goals and objectives:

The primary objective of the voucher program is to reduce high shelter cost burdens for eligible families.

Budget/cost to government/others?

In 2016 as part of HUDs overall appropriations, the Voucher programs received funding totalling $21.1 Billion (to serve 2.1 million households.

Geographic scope and delivery

Available across all states, but HUD allocates a finite budget to each jurisdiction. Vouchers are however portable so costs can shift between jurisdictions (states and PHAs). The program is federally funded but run by a network of about 2,230 state and local housing agencies. More than 5 million people in 2.2 million low-income families use vouchers.

Each agency has a cap on the number of vouchers it is authorized to administer. An agency's number of "authorized vouchers" is essentially the sum of the vouchers the agency has been awarded since the start of the voucher program. Each year, Congress provides some new vouchers.

Targeting

The program is targeted primarily to families with children, but formerly homeless singles and seniors are also funded, under local preferences. In general, the family's income may not exceed 50% of the median income for the county or metropolitan area in which the family chooses to live. By law, a PHA must provide 75 percent of its voucher to applicants who are defined as very low income (incomes do not exceed 30 percent of the area median income). Median income levels are published by HUD and vary by location

Is the program/initiatives meeting objectives?

Accordingly to the vouchers are seen to be effective in addressing deep affordability and reducing homelessness and other hardships. They also give families an opportunity to move to safer, less poor neighborhoods. These effects, in turn, are closely linked to educational, developmental, and health benefits that can improve children's long-term prospects and reduce costs in other public programs.

In addition, most voucher households that can reasonably be expected to work, do work. In 2014, 66 percent of non-elderly, non-disabled households using vouchers were working or had worked recently, while an additional 7 percent were likely subject to a work requirement under the Temporary Assistance for Needy Families (TANF) program.

Moreover, vouchers enable more than 1 million elderly or disabled individuals to afford to live independently.

Sources:

Housing Choice Vouchers Fact Sheet – HUD
http://portal.hud.gov/hudportal/HUD?src=/topics/housing_choice_voucher_program_section_8

Center on Budget and Policy Priorities, **Policy Basics: The Housing Choice Voucher Program, updated September 2015** www.cbpp.org/.../policy-basics-the-housing-choice-voucher-program

HUD's 2016 Budget
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Appendix B: Bibliography and References

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Droste, C and Knorr-Siedor, T. 2014. 'Social Housing in Germany.' In: Whitehead, C and Scanlon, K (eds) *Social Housing in Europe.* London: Wiley-Blackwell. P. 184-202.

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