Social housing strategies, financing mechanisms and outcomes: an international review and update of key post-2007 policy developments

Hal Pawson, Julie Lawson and Vivienne Milligan

City Futures Research Centre
University of New South Wales
Sydney, Australia

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Table of Contents

Author details

Hal Pawson – City Futures Research Centre, UNSW h.pawson@unsw.edu.au
Julie Lawson – Senior Associate, School of Global, Urban and Social Studies, RMIT University julie.lawson@rmit.edu.au
Vivienne Milligan – City Futures Research Centre, UNSW v.milligan@unsw.edu.au

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1. Introduction and background

1.1 Review remit and sources

This review provides a brief update of developments in social housing policies and national strategies in a cross-section of developed countries since 2007. The countries included in the review are: Austria, Denmark, England, France, Germany, Netherlands, Scotland, Sweden (described collectively as European countries) and the United States of America. The time-frame for this exercise is largely influenced by timing of the global economic downturn and credit crisis which has, in many countries, prompted fundamental policy shifts. With this in mind, the next part of this introductory chapter highlights some of the key features of the post-2007 economic context for housing policy.

In selecting countries for inclusion in the review we have aimed to encompass a diversity of national social housing systems in countries with broadly similar economic and social profiles to Australia. Jurisdictions included are those where one or more of the contributing authors have direct knowledge of the social housing system and have recently conducted research on aspects of housing policy.

The review has been commissioned by Housing NSW to provide background information for the ongoing development of The Housing Strategy for New South Wales. It builds on and extends research funded by the City Futures Research Centre (UNSW), the Australian Housing and Urban Research Institute (AHURI) and OTB TU Delft which is published in the following conference papers and reports: Lawson, Gilmour and Milligan (2010); Lawson (2009); Lawson and Milligan (2007); Milligan and Lawson (2008); Lawson and Nieboer (2009); Lawson, Berry, Yates and Milligan (2009); Milligan, Gurran, Lawson, Phibbs and Phillips (2009); and Hulse, Milligan and Easthope (2011). The report also draws on the *UK Housing Review* (Pawson & Wilcox, 2011 and forthcoming 2012) and on recently published material available online compiled by various research and sector organisations in a range of countries.

1.2. The economic backdrop to recent developments in housing policy

Social housing systems rest within complex political and economic environments and, unlike in the post World War 11 era, today they are rarely drivers of political discourse or economic and urban development strategies. Of greatest significance influencing post-2007 developments in housing policy have been the fundamental changes in capital markets affecting the provision of mortgage credit seen in this period. These changes have destabilised the financial services sector and undermined the capacity of Western governments to fund public expenditure. In Europe, the 2002 launch of the Euro had unleashed national mortgage markets across Europe, fuelling rising rates of home purchase, escalating house prices and expanding speculation. Since 2007, however, there has been a dramatic reversal stemming from the Global Financial Crisis (GFC).

While the crisis originated in the US, numerous European banks were overexposed to the US RMBS market and junk bonds. Troubled banks were given considerable government support in the form of guarantees and injections of capital and, in some cases, were subject to complete state takeover.[1] Consequently, European governments became encumbered with considerable debt, all in the context of weak economic growth and very low interest rates that combined to make reducing this debt a very difficult task. Further, there are emerging questions concerning the role of tighter banking regulations such as Basel III's liquidity requirements (BIS, 2010)[2] for the provision and cost of long term finance directed to investment in real estate such as residential construction, including social housing development. [3] Excessively constrained lending may well undermine the very recovery of depressed housing markets in countries, such as the Netherlands. According to RICS (2011:11) tightening regulation and the withdrawal of European Central Bank (ECB) support from the covered bond market may well lead to more restrictive mortgage lending in Europe from 2011.

The related and ongoing Sovereign Debt Crisis, affecting all European countries and illustrated by the weakness of Greek bonds, stems from uneven development across the region but has the potential to weaken banks and governments holding these bonds across Europe, and is rapidly spreading to government debt relating to other countries (Spain, Italy, Portugal). The first bank to collapse on the European continent in October 2011 was Dexia, which has been rescued by the Belgian, French and Luxembourg governments' takeover of Dexia's retail arm to protect depositors.

While these issues seem far from the realm of social housing, they hold profound implications on two fronts. Firstly, systems reliant on government subsidies will find them much harder to secure as fiscal policy takes an austere turn cutting back long term obligations and assistance to individuals. Secondly, countries where social housing development is reliant on private debt will face challenges due to much tighter and shorter term lending strategies. Cutbacks to state-subsidised rental assistance may also affect social landlords' debt servicing capacity. Thirdly, systems where social housing production is closely tied to private housing development through inclusionary zoning-type mechanisms are facing problems because of depressing effect of the economic

[1] Descriptions of public action can be found in the following government websites: http://www.ntma.ie/IrishEconomy/bankGuaranteeScheme.php; http://www.dnb.nl/binaries/The%20Financial%20Crisis%20in%20the%20Netherlands_tcm46-224708.pdf; http://www.hm-treasury.gov.uk/fin_stability_intervention.htm

[2] Announced 26 July 2010 http://www.bis.org/press/p100912.pdf

[3] Price Waterhouse Coopers and the Urban Land Institute raise concerns about the impact of Basel III on the volume and cost of lending for real estate in 2011 http://www.pwc.lu/en/real-estate/docs/pwc-publ-et-re-2011.pdf

downturn on private housebuilding. The result, so far, has been much reduced social housing production in countries such as the Netherlands[4] and the UK since 2010[5].

On a broader front, despite initial debate concerning the role of incentives and regulatory structures in steering investment in the built environment, very little progress has been made towards a comprehensive re-regulation of the key relationships in planning, development control and investment in property. As an immediate reaction to the onset of recession some European countries (e.g. France and the UK) emulated Australia by boosting social housing investment as a contra-cyclical economic stimulus. Beyond such short term responses, however, the medium-term priority to cut public spending deficits and give confidence to investors has submerged any longer run commitment to re-regulating market-government-civic responsibilities in this critical field.

1.3 Report structure

The remainder of this report is structured as follows. In the next section, Chapter 2, it provides a conceptual framework for classifying and comparing social housing systems and compares key indicators of the national systems included in this research. This is followed by Chapter 3, the main body of the report, where we review recent social housing policy developments in the chosen countries under a set of thematic headings. After an overview section we focus on developments around the financing of social housing in the case study countries and, in particular, the policy consequences of the GFC for social and affordable housing investment. Next we look at recent developments on rent regimes and the rules governing access to social housing. Finally, in this section, we consider what has been a recently growing role in social and affordable housing production played by landuse planning. The report concludes with a short chapter containing some critical reflections on social housing policy developments in the countries covered in our report.

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[4] http://enhr2010.com/fileadmin/templates/ENHR2010_papers_web/papers_web/WS03/WS03_232_Sanders.pdf

[5] On housing assistance http://www.insidehousing.co.uk/6513408.article; On social housing cuts http://www.bbc.co.uk/news/uk-politics-11570923

2. Social housing systems in the selected jurisdictions

2.1 What is a social housing system?

Social housing is defined broadly to include that part of a national housing system that is provided using public subsidies directed to lowering rents and which is allocated via non-market mechanisms. Countries may adopt different specific definitions of social housing with variations in policy and practice being found in financing, procurement, delivery mechanisms, rent setting and operating rules.

The core components of a social housing system include:

- a development promotion regime – having a privileged, competitive or subordinate position in the land market;
- a rent-setting regime – approaches include cost rent, nominal rent, market rent;
- an eligibility and allocation regime – whether universal, segmented or targeted/ restricted;
- an operating cost and profit regime (non-profit, limited profit, for profit); and
- the market position of different providers (private, third sector, public).

These elements are shaped by key policy settings, including:

- Land use policy, planning provisions and market opportunities for developing social housing;
- Conditionality in funding arrangements and processes of financial intermediation;
- Organisational forms and governance and management models, including limitations on ownership, realm of activities, generation of profits and accountability to members and stakeholders.

Each social housing system incorporates a financial support framework, in which governments may use public funding to:

- Subsidise supply to ensure production levels, set quality standards and other conditions, lever in private funding and drive cost efficiencies (Austria, France, United States)
- Subsidise demand to ensure affordability and targeting of assistance to specific groups (the Netherlands, Sweden)
- Employ both of the above strategies, to varying degrees (Denmark, Germany, England, Scotland).

2.2 How do national social housing systems differ?

While this review does not attempt to describe in detail the characteristics and history of each social housing system represented, key indicators are provided below to help distinguish the different systems – see Tables 1-5. Chosen indicators cover each country's population, their proportion of social housing, the means of promoting social housing development, key financing arrangements, rent and eligibility regimes and the main forms of organisations and their prevailing business models.

The average proportion of social housing across the selected countries is around 20 per cent, but this figure masks significant differences. The Netherlands - where access has been broad and housing associations fulfil the role of mainstream landlord - retains a large social housing sector amounting to 32 per cent of total housing stock. The lowest levels of social housing among the selected countries are found in Germany (5 per cent), where stock is declining as investor subsidies expire and municipal housing companies are being rapidly privatised[6], and in the US (also 5 per cent) where the contraction of public housing since the 1980s has been only partly offset by the construction of affordable homes under the Low Income Housing Tax Credits framework (Schwartz, 2011) and where such supply is constrained by the limited availability of demand-side subsidies and finite supply-side subsidies.

European and American social/affordable housing developers hold very different positions in the land market compared to those in Australia, with local authorities or their development agencies typically playing an active role reserving and or acquiring land for social housing development and in supporting planning approvals. Financing arrangements differ considerably from systems which rely completely on capital markets to fund needs, as in the Netherlands, to those where the state continues to play a key role (France and Austria) or where mixed public/private funding has been supplemented by effective subsidies levered in through inclusionary zoning-type landuse planning powers.

Unlike in Australia, most governments have established special purpose financial intermediaries to channel private investment towards the social housing system at the lowest possible cost, in addition to providing conditional public loans or grants and tax advantages. While most social housing systems set income limits on tenant applicants, they tend not to monitor changes in tenant incomes post-occupancy. However, there is a changing trend in this regard, with social housing becoming more targeted and closely monitored, despite concerns of ghetto formation and social exclusion.

The limited profit business model has been maintained across many systems but has been coupled with very different rent regimes based on income, costs or nominated /

[6] Importantly in Germany, however, a large regulated private rental sector continues to offer similar tenancy conditions to social housing (for more details see Hulse et al., 2011 and Westerheide, 2011).

negotiated rents. Finally, the commercialisation of social housing management has brought major changes to the organisation of provision in Germany (privatisation of municipal housing companies), the Netherlands (large scale mergers) and Sweden (abolition of all public loans).

Table 1: Population and social housing as a percentage of total dwellings, selected countries 2000s

Population and Tenure Characteristics	*Austria*	*Denmark*	*England*	*France*	*Germany*	*Netherlands*	*Sweden*	*Scotland*	*United States*
Population (million)	8.3	5.5	51.5	64.4	82.0	16.5	9.3	5.2	311.0
Social Housing as % of total stock	23	19	17	17	5	32	17	24	5*

*Includes public housing (1%), housing with project based subsidies (2%) and housing financed with low income housing tax credits (2%).

Sources: National Statistical Institutes in Housing Statistics in the European Union (2010); Schwartz (2010) Pawson & Wilcox (forthcoming, 2012). Data is for 2008 except for US (2011), England (2010) and Scotland (2010).

Table 2: Development promotion and social housing provision in selected countries 2000s

Austria	*Denmark*	*England*	*France*	*Germany*	*Netherlands*	*Scotland*	*Sweden*	*United States*
Allocation of land by local authorities. In some cities, special purpose land agencies dominate market and provide low cost sites for social housing. Conditional subsidies set limits on component land, financing and construction costs.	Allocation of land by local authorities. Land can only legally be sold at a market price, yet since 2000s purchase price for social housing be below 14%-20% of project costs, constraining opportunities in high land value locations. Experiments with importing lower cost prefabricated units from Eastern Europe.[7][8]	Allocation of land by local authorities in conformance with housebuilding targets set by regional planning bodies. Affordable housing development also facilitated by developer contributions secured through the landuse planning system.	Allocation of land by local authorities facilitated by regional and local planning and enforced by regionally set local targets. There is resistance to this in some wealthier areas.	Allocation of land by local authorities with land reserves. Legally required to sell at a reduced price for social housing. In some cities planning contributions obtain land or dwellings from private developers.	Formerly allocation of below market priced land by local authorities to housing associations. Municipal land companies now compete less favourably with project developers. Large HAs also manage own land banks. Recent efforts to use planning to require housing diversity, including social housing.	Allocation of housing land by local authorities; belated promotion of affordable housing development through developer contributions secured through the landuse planning system.	Formerly all land was allocated by municipal land bankers for defined housing development, favouring social rental builders. Now these companies must to compete openly on the market and no longer play a key role in social housing promotion.	Allocation of land by local authorities varies considerably by jurisdiction. Positive planning measures that encourage inclusion of affordable housing are widespread (see Gurran et al. 2008). Also policy emphasis on reducing regulatory barriers to supply of more affordable housing.

[7] Groetelaars et al. (2010).

[8] Scanlon & Verstergaard (2007)

Table 3: Financing arrangements underpinning social housing provision in selected countries 2000s

Austria	*Denmark*	*England*	*France*	*Germany*	*Netherlands*	*Scotland*	*Sweden*	*United States*
Layers of conditional public loans, targeted lower cost private loans, tenant equity (including right to buy) and lower cost land, combine to underpin the limited profit housing system.	Central government distributes grants for construction of new social housing to local authorities in accordance with a formula that takes into account demographic and social variables (Scanlon and Whitehead, 2010).	Govt grants typically accounting for c.50% of social housing capital costs (pre-2010). Remaining costs met through private finance and effective subsidy from developer contributions – normally in form of free land. Social landlords' revenue income stream supplemented through Housing Benefit.	Tax free household savings scheme (CDC) finances off market loans to HLM providers along side state and local subsidies, tax incentives and other loans.	Federal supply programs ceased, remaining state and local programs subsidising supply fragmented, indirect support through housing benefits. Privatisation of municipal housing stock due to operating deficits.	Bank finance in a public bank-dominated market backed by triple guarantee and solidarity fund. Self-financing by financially robust housing associations, cashed up by government in 1990s yet currently more vulnerable to changing fiscal and financial environment.	Govt grants typically accounting for c.60% of social housing capital costs (pre-2010). Remaining costs met through private finance and effective subsidy from developer contributions – normally in form of free land. Social landlords' revenue income stream supplemented through Housing Benefit.	Formerly investment grants and interest subsidies. Now abolished and complete reliance on individual allowances for elderly poor and children.	Affordable housing predominantly financed by 10-year low income housing tax credits (LIHTC) that attract private equity investors. Complex packaging of public finance (soft loans, land etc) and market rate mortgages supplements tax credit financing.

Table 4: Rent and eligibility regime of social housing provision in selected countries 2000s

Austria	*Denmark*	*England*	*France*	*Germany*	*Netherlands*	*Scotland*	*Sweden*	*United States*
Cost rent based on financing costs below a maximum and pegged to market developments, based on a fully cost capped model. Broad eligibility, narrower for municipal dwellings. Limited demand assistance social and private tenants and owner occupiers.	Cost rents based on historic costs and not linked to market developments, with land and construction costs capped. Universal access. Assistance available to low income tenants with children and pensioners. Also to owners who are pensioners.	Cost rents based on historic costs and not linked with market values. Affordability preserved through tenant entitlement to Housing Benefit. Largely needs-based prioritisation of housing applicants. No formal means test. Recent immigrants ineligible. V.limited provision of 'intermediate rent' housing for key workers and other moderate income households.	Rents set by central government, varying by regions and related to project or owner costs. Income limits exist for social housing but a relatively high. Assistance available to tenants and owners dependent on income.	Rents based on income, but vary by region. Subsidised housing allocated to lower income households. As subsidy is repaid, requirement lapses. Assistance available across tenures related to income and rent paid, tenants reliant on social security receive up to 100% rent assistance.	Nominated rent based on point system, indexed to CPI. Traditionally broad access but increasingly targeted allocation of affordable stock. Assistance available to tenants below a certain income and residing in dwellings below a set rent level.	Cost rents based on historic costs and not linked with market values. Affordability preserved through tenant entitlement to Housing Benefit. Largely needs-based prioritisation of housing applicants. No formal means test. V.limited provision of 'intermediate rent' housing for key workers and other moderate income households.	Rents set by annual negotiation between tenants and landlords. Traditionally universal access. Assistance available across tenures based on income and rent paid up to 100%, available to families, pensioners and some youth.	Public housing rents set at 30% income (includes utility costs). Rents for subsidised projects are set at 30% of either 50% or 60% of area median income. Affordability restrictions for LIHTC projects extend for 30 years or longer depending on jurisdiction. LIHTC projects targeted to lower incomes and poor neighbourhoods. Very low income and vulnerable households concentrated in public housing.

Table 5: Business model of social housing provision in selected countries 2000s

Austria	*Denmark*	*England*	*France*	*Germany*	*Netherlands*	*Scotland*	*Sweden*	*United States*
Limited profit housing associations and co-operatives and Municipal Housing Companies for the Common Good	Self managed, democratic housing associations, regulated business model, backed by large building funds.	Equal split between municipal providers and debt-financed not-for-profit housing associations. Management of substantial body of municipal stock outsourced to arms length management organisations governed by 'stakeholder-style' boards.	Limited profit private and semi public local housing companies with public interest principles of management. Provision model varies considerably by funding conditions.	Increasingly private organisations but formerly also municipal housing companies, co-operatives as well as private landlords. Major changes due to decline of supply subsidies and privatisation of MHC.	Limited profit Housing associations, large and rapidly merging. Reliant on capital market for funding, but this is provided via two public sector banks.	60-40 split between municipal providers and debt-financed not-for-profit housing associations.	Municipal housing companies, now without supply subsidies and subject to right to buy.	City based public housing authorities receive formula based operating subsidies. Non-profit community development corporations (CDCs) and affordable housing developers receive LIHTC allocations (to on sell to investors) and public funds on a competitive basis. A low proportion of their tenants receive housing vouchers. Some transfers of public housing land to non-profits through HOPEVI (urban renewal) program.

3. Recent trends in social housing strategies, financing mechanisms and outcomes

3.1 Overview

In a continuation of previous trends, for many countries the 2000s have seen an ongoing shift towards social renting being associated with the "new poor" and social exclusion. Despite this, innovation in the social sector has continued with significant effort directed towards tenant responsive management, resident involvement in housing governance, high quality energy efficient design and stock upgrading.[9]

While there has also been a continuation of the 1990s trend away from direct publicly funded supply-side support for social housing and towards reliance on private debt and demand assistance, there has by no means been a universal approach. Important differences can be found in the degree of capital market exposure faced by financial intermediaries when channelling investment towards social housing (Lawson et al., 2010). France, for example, has a closed circuit for savings and loans dedicated to public infrastructure including social housing (more detail on this is provided below). The strength of conditional co-financing arrangements in Austria (Amann et al., 2009; WIFO, 2007) remains critical to economic and housing market stability in that country. Further, some governments actively sought to increase social housing supply in order to revive flagging construction sectors in 2007 (Milligan and Lawson, 2008) and this strategy was bolstered by several governments (such as France and Austria) during the GFC (CECODHAS, 2009).

Indeed by 2007 in pre-GFC times many governments were ramping up social housing investment – as regards both upgrading existing estates (e.g. France, Netherlands, UK) and generating new supply (e.g. UK). At that time assessments by CECODHAS (2007), Whitehead and Scanlon (2007) and Lawson and Milligan (2007) revealed extensive policy activity in this area. Some countries – notably England and Germany, and to a lesser extent the Netherlands – had either sold or demolished large amounts of less attractive or unlettable social housing often in low demand areas. The Netherlands and Austria in particular were experimenting with mixed tenure inner city renewal and brown field development programs and more energy efficient building techniques and designs.

Austria was making significant gains reducing CO2 emissions by revising building codes, improving thermal techniques and using sustainable materials, and national stock upgrading programmes in both England and Scotland also incorporated improved energy efficiency standards albeit according to relatively modest benchmarks. A working group on this issue was set up by the European Federation of Public, Co-operative and

[9] http://www.europarl.europa.eu/workingpapers/soci/w14/summary_en.htm

Social Housing providers (CECODHAS) and a major European funded project continues to focus on retrofitting social housing (Powerhouse, 2011).

Several other countries in our selection continue to exercise direct influence on new supply guiding financial intermediation in this sector via:

- Protected savings and loans circuits (France);
- Guaranteeing housing association loans (the Netherlands);
- Providing tax incentives to investors of special purpose bonds (Austria),
- Low income housing tax credits (US); and
- Facilitated access to bond market funding for medium-sized and smaller social landlords in England and Scotland via The (government-sponsored) Housing Finance Corporation (THFC)

Overall, rather than relying on direct public loans and grants, social housing organisations can be considered to have become more self-sufficient (Whitehead, 2008). Exemplifying this trend has been the reform of UK council housing finance which has seen the negotiation of a one-off debt settlement under which stock-retaining local authorities will become largely self-financing as regards their landlord activities (Pawson & Wilcox, forthcoming 2012).

Of course in the 2010s, the continuing global financial crisis implies that social housing systems have also become far more exposed to the instability of financial markets and, with governments heavily indebted following the GFC, vulnerable to severe cutbacks in public support, as seen in England. Further, following a decade of loose credit provision and weak demand in the residential sector, housing markets in Spain and Ireland are currently in a state of severe stagnation. Alternatively, some governments, such as France, are clawing back fiscal support for rental investment, while the social housing sector remains a vehicle for economic stimulus. In Sweden supply side support has been abolished and there has been a program of tenant right-to-buy. German Municipal Housing Companies are threatened with extinction as they are hastily selling out to private investors (Kofner, 2007).[10] Further, while social housing typically provides more affordable longer term tenure for lower income households, measures are being taken in the Netherlands to encourage middle income tenants to move out of affordable dwellings via significant rent increases (see also section on changes in the ‘rent regime’.)

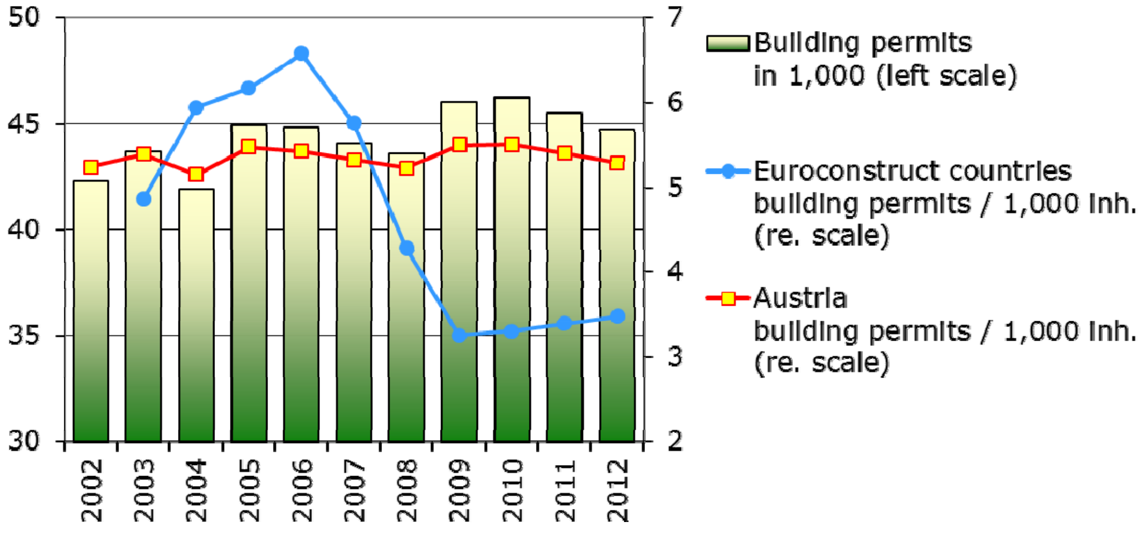
Drawing on reports from 11 European and Anglophone countries, Fitzpatrick and Stephens (2007) concluded that the social rental sector no longer performs the role of addressing housing shortages and is in slow relative decline compared to rising levels of

[10] Major declines in social housing have also occurred in many Central and Eastern European countries where privatisation resulted in an aggressive sell off rental assets during the 1990s. Many of these countries are now reinvesting in social housing programmes, effectively having to rebuild their social housing sector from scratch (personal communication Petr Sunega APNHR Conference, Hong Kong December 2011). For more information on social housing in CEE countries, see Tsenkova (2009).

home ownership. Thus, while Whitehead (2008) argues that overall the social sector housing is becoming more self-sufficient, it can also be argued that it has become more vulnerable to changes in financial markets and these have been dramatic in the 2010s. The implications of this situation are most transparent in the Netherlands where the housing associations have received no direct supply side subsidies for almost twenty years. In 2010 that country recorded its lowest production of dwellings since 1952 and the Dutch Government has been unable to force this major segment of the housing market to perform in a manner that would stimulate both the housing market and the broader economy. Similar declines can be found across Europe, with the interesting exception of Austria, as illustrated by Figure 1, and France.

While the European Union lacks an official mandate to intervene in national housing policy, it has imposed influential and often conflicting demands constraining the independence of member states to direct their own national policy in this field. These demands include the requirement to reduce government deficits (Stability and Growth Pact, Maastricht Treaty) placing pressure on direct grants and public loans for affordable housing production; the requirement for competitive allocation of supply subsidies and increasingly narrow targeting of housing. The approaches adopted have prioritised more flexible forms of targeted demand assistance over longer term supply side obligations. Competition policy has exposed the sector to more aggressive commercial players, such as project developers and land speculators.

Figure 1: Building permits ('000) issued and per inhabitants ('000) in selected European Countries 2002-2012 and Austria



Source: Amann and Kratschmann, 2011 Euroconstruct countries are the 17 EU countries plus Norway and Switzerland.

Systems with a more universal tradition in tenant access have been directed by the European Commission to narrow their tenant base, so as not to compete with unsubsidised private rental sector (de Kam, 2007; Groetelaars et al., 2010)[11]. Further, EU competition law (private sector participation in privileged or protected markets) has forced some governments to review the charitable tax status and legal position of housing providers (Blessing, 2010), potentially leading to the removal or reduction of tax exemptions, financial guarantees and subsidies. Such moves have also raised fundamental questions concerning allocation systems (e.g. in Sweden and the Netherlands). New demands on social housing providers have also emerged such as: the need for home based care for the elderly; retrofitting for energy efficiency and the restructuring of problematic estates, and there have been several European funded projects to promote these goals.

During the 2000s there has been widespread interest in utilising landuse planning measures to facilitate development opportunities for affordable and social housing, especially in countries where local authorities have few land reserves or acquisition powers of their own. Inclusionary zoning has emerged in some form in France, the Netherlands and Germany, although some experts argue that is not as institutionalised as in England (Calavita, 2010; Scanlon and Whitehead, 2011). In some countries, the relationship between local area planning, land banking and social housing promotion continues to be strong, as in Austria and Germany, and it has strengthened in France, with the imposition of targets as well as penalties for non-compliance.

The following paragraphs shift the discussion from a general review to address more specific themes of social housing: financing arrangements; rent regulation, eligibility and assistance; and organisational and business model changes, and land policy and development promotion.

3.2 Financing social and affordable housing investment

In order to produce new dwellings or renovate existing homes, social housing organisations require a flow of capital that can be channelled via a range and mix of vehicles, including direct public expenditure as grants or loans, via government intermediaries and/or as loans via private financial institutions. Typically each vehicle comes with conditions that contribute towards an overall package steering investment into specific kinds of projects of varying quality, density and affordability.

Despite increasingly global financial and regional policy pressures, there remains a wide variety of funding strategies for social housing, which are rooted in national-urban institutions concerning land development and financial intermediation and in cultural

[11] Although a very recent decision of the European Parliament has softened this position – see later in this report.

traditions around housing consumption and tenure. Table 6 outlines financing models in the study countries.

Table 6: Social housing financing model, selected countries

Selected country	*Financial model*	*Brief outline*
Austria	'Structured finance model'	Long term low interest public loans and grants, combined with commercial loans raised via HCC Bonds and developer/tenant equity sustains tightly regulated form of cost rent limited profit housing. Promotion supported by municipal land policy and land banking.
Denmark	'Mortgage loan model'	Bulk of funding derived from private mortgage loan (84%) complemented by local government grant (14% of building expenses), guarantee and tenant contribution (2%). Recently National Building fund for Social Housing has partly financed new dwellings (Scanlon and Vestergaard, 2007).
England	'Mixed funding model'	Since 1989 the financing of housing association development has involved capital grants from government matched by loan (or bond) finance supported by rental income streams. Latterly, effective (or explicit) subsidies have also been provided by developer contributions secured through the planning system (see Section 3.5). However, this system was substantially modified in 2011 under the coalition government's new 'affordable rent' regime which reduces government grant per dwelling and entails newly built homes being let at quasi-market rents.
France	'Protected circuit model'	Tax free household savings scheme (CDC) finances off market loans to HLM providers along side state and local subsidies, tax incentives and other loans. Land provided by local authorities and development contributions.
Netherlands	'Capital market and revolving fund model'	Replaced direct loans and subsidies with guaranteed capital market loans and rent assistance. Dutch guarantee fund (WSW) and Central Fund (CFV) provide security and assist to reduce financing costs. Associations are free to determine own investment strategy, asset base and surpluses intended to be used

		as a revolving fund to achieve social task.
Germany	'Demand assistance model'	Federal government has withdrawn from direct supply support and shifted towards demand side subsidies. Municipalities develop own programs and housing companies are private entities, with a variety of shareholders. Private investment in social housing is promoted via tax concessions and economy of scale and privatisation has been very rapid. Rents and eligibility depends on level and duration of public subsidy. Production levels declined and foreign investors are selling better quality stock (Droste and Knorr-Siedow (2007).
Scotland	'Mixed funding model'	Since 1989 the financing of housing association development has involved capital grants from government matched by loan finance supported by rental income streams. In 2009 Government initiated the capital grant-funding of local authority housebuilding, supported by cross-subsidy drawn from the entire local authority rentbase. To stretch public subsidy further, housing associations have subsequently been required to adopt a similar financial model and to observe a target for public funding per dwelling at no more than £40,000 – drastically lower than the £75,000 being recorded under the traditional funding model. Public funding will also be stretched further by a shift towards a 'mid-market rent' (80% of market) product targeted towards low income working households and delivered by housing association non-charitable subsidiaries.
Sweden	'Capital market model'	Corporate tax exempt Municipal housing companies have always been financed by capital market loans which were sometimes backed by municipal guarantees, grants as well the MOH own resources. In the past interest rates subsidies were provided by the central government but these have ceased.
United States	'Private equity model'	The LIHTC has been the main mechanism for attracting private investors to affordable housing since 1986, underpinned by legal obligations for financial institutions to invest in 'poorly served' areas (the Community Reinvestment Act). For-profit and non-

	profit developers compete for tax credits allocated by states on different terms and priorities within broad national rules. The equity finance raised by syndicated sales of credits is complemented by various other project subsidies – soft state loans, allocations from state block grants, planning contributions — and by mortgage finance. A tax exempt bond program complements the LIHTC. Targeting to the lowest income households is assisted where links to the Housing Choice Voucher Program operate — however vouchers are severely rationed (Schwartz, 2010; 2011).

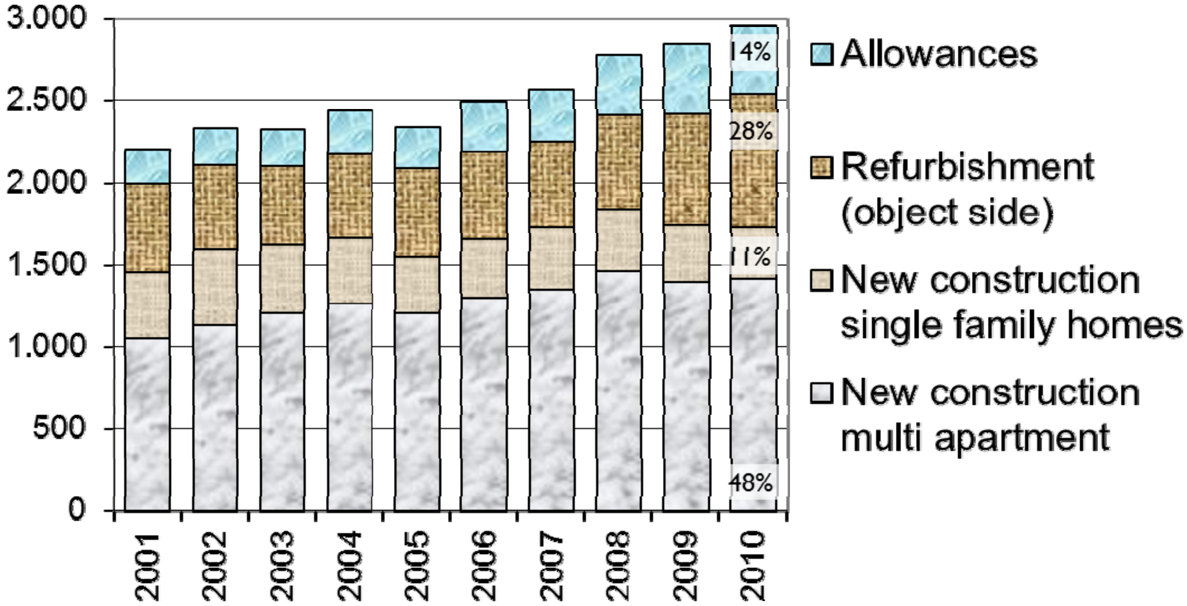
An overview of financing trends affecting social housing in selected European countries is provided below.

Austria has largely sustained its layered financing model (Amann et al., 2009) with broad generous supply side subsidies supporting production of around 15,000 dwellings per year (Figure 1). Production levels relate strongly to the certainty of public grant programs (WIFO, 2007). However, increasing quality demands, energy standards and, consequently, project costs coupled with a declining proportion of low cost public loans has had to be resolved via increased reliance on private finance and tenant contributions (Figure 2). For tenants, this has been compensated by their right to buy dwellings after a defined time period (Deutsch and Lawson, 2010).

Austrian housing associations produce a range of tenures (affordable rental, rent to buy, outright ownership). In recent years dwellings for immediate ownership have largely been replaced by dwellings for rent to buy (Figure 3). The overall proportion of affordable rental tenancies produced in new developments has also declined.[12] In another concerning trend, public loans, which have contributed around 22 per cent of housing funds in the past, have now become untied and potentially 'lost' to general revenue of provincial governments. This important shift implies that housing expenditure will become more sensitive to day to day problems in public finance and to varying levels of political support. Furthermore, the role of indirect subsidies via tax exemptions offered for Housing Construction Convertible Bonds (HCCB) are becoming a more scrutinised aspect of the housing subsidy system (Bauer, 2010).

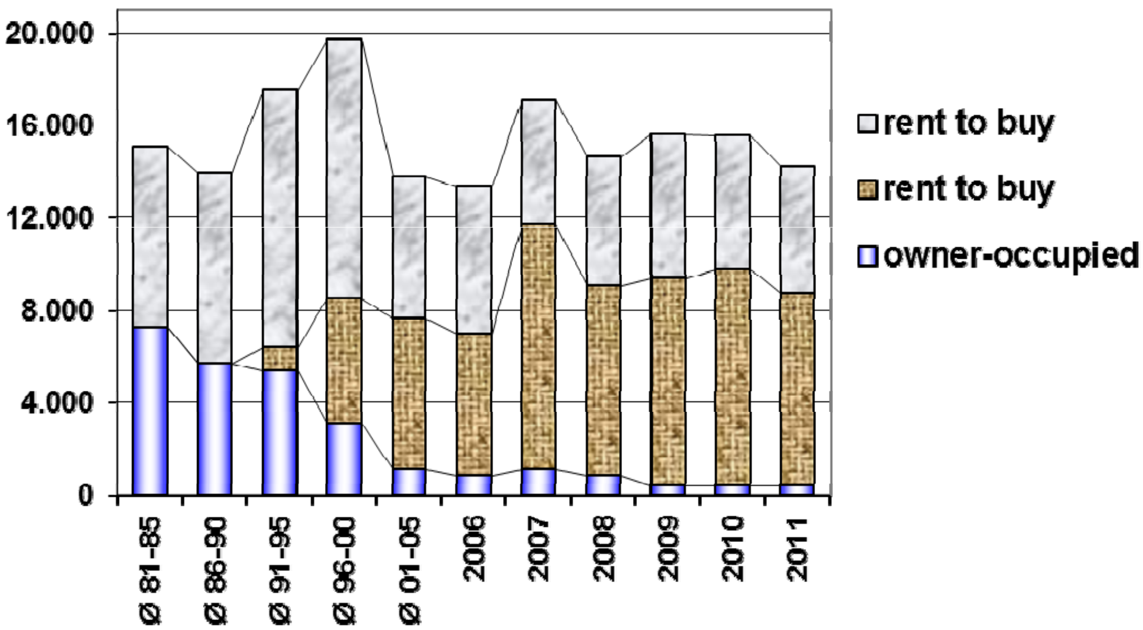
[12] http://www.ahuri.edu.au/downloads/2011_Events/Kratschmann_Amann_Bonds_seminar.pdf

Figure 2: Austrian Public Subsidies (Million Euros) 2001-2010



Source: Ministry of Finance, Statistics Austria and IIBW[13]

Figure 3: No of dwellings produced by Austrian Limited Profit Associations, 1981-2010



Source GBV and IIBW[14]

[13] ibid

Social housing in **Denmark** is owned by tenants and largely privately financed with an increasing contribution from local governments. Mortgages finance 84 per cent of the building of new cost-capped, cost rent social housing, which generally provides below market rate housing. These mortgages are complemented by funds from the municipality, which plays an increasing role providing capital loans (around 14 per cent of financing needs at zero interest) and also provides a guarantee for 65 per cent of building costs. To complete the financing package, funding is topped up by small deposit by the tenant (2 per cent) (Scanlon and Vestergaard, 2007:6). Mortgage repayments are financed by cost rents, based on a set percentage of building costs (3.4 per cent). Like many other systems, Danish social housing is exempt from income tax and real-estate tax. Low interest rates, defined repayment conditions (3.4%) on outstanding loans and a mature loan portfolio have enabled profits to accumulate since the late 1990s (ibid:6). There has been intense debate on the use of these funds and they have since been restructured and their assets redistributed.

To reduce costs on local expenses some municipalities resist social housing development in their areas and/or prefer less controversial housing for older people. However, these projects are increasingly encountering financial difficulty. According to Scanlon and Vestergaard (2007) under the previous government there was debate concerning the abolition of building subsidies in favour of personal income assistance, as has occurred in neighbouring Sweden and in the Netherlands. A new social democratic coalition government in 2011 may change directions in housing policy (as it has begun to do in immigration); however it has to reduce the government deficit, amidst a weak economy and stagnating housing market.

Under the cost rent system, there is a cap on construction and land costs but this constrains construction in high-land-cost areas such as Copenhagen. Special initiatives have been undertake in this city to promote construction there, including the import of pre-fabricated dwellings from Eastern Europe.

In **England**, the new 'affordable rent' regime involves a substantial reduction in grant rates, balanced by authorisation for developing housing associations to charge rents at up to 80% of local market norms (historically around 60%). These higher rents will help support debt per dwelling levels substantially higher than under the traditional system. The new 'affordable rents' will apply to all homes newly constructed by social landlords under the regime as well as to a proportion of existing homes being relet by developing housing associations (it has been estimated that to develop each new rented home under this regime will necessitate re-letting 3.5 existing homes at quasi-market rents). An important consequence of the new arrangements will be an increase in landlords' indebtedness. Over time, the housing benefit expenditure consequences of the

[14] http://www.ahuri.edu.au/downloads/2011_Events/Kratschmann_Amann_Bonds_seminar.pdf

framework will also be considerable since it is envisaged that the higher rent homes will be targeted on the traditional social housing client group in which working households account for only 30-35 per cent of the total.

In **France**, housing continues to be a vehicle for Keynesian economic management (RICS, 2011:23) and the core financing and delivery mechanism has not only been sustained throughout the 2000s but expanded, albeit with reforms to the issuing of tax exempt savings accounts which attract savings to the Caisse de Depot (CDC), the French financial intermediary for public infrastructure finance. These reforms have arguably improved financing conditions (Lawson, 2010). A 1 per cent housing construction tax on employers provides a second protected circuit of savings and investment for social housing construction in local areas. France has pursued a counter cyclical strategy of increasing social housing production and renovation in recent years – 100,000 new and renovated dwellings were financed in 2009 (RICS, 2011:26).

Developments in housing prices have been variable across France and persistent scarcity and affordability issues can be found in major employment centres. In some urban areas, there is also considerable decay in the built environment amidst social conflict (major riots in 2005) and public image problems on social housing estates (Schaeffer, 2009; Tutin, 2008).

In **Germany**, governments have for many decades played the role of an enabler rather than direct provider of social housing (Qu, 2010) via a system of public loans and taxation incentives which underpinned the growth, but later decline, of social housing provided by private landlords. When in receipt of subsidy, private landlords were obliged to let housing to eligible households at reduced rents, but when the subsidies expire rents become less regulated. The exhaustion of subsidy periods and the lack of new subsidy schemes accounts for most of the fall in the size of the social rented sector in West Germany since it peaked at around 19 per cent of the stock in the late 1960s (Fitzpatrick and Stephens, 2007:26).

In the past decade, financial investors including hedge funds, have targeted public housing stock held by the municipal housing organisations. Public landlords have been keen to sell their stock due to ongoing budget problems. Investors are attracted to public housing, rather than private housing, by the low cost of appraisal and economy of scale of large homogenous well accounted for rental assets. High rates of return (10-15%) are promised to investors via a strategy of sales to tenants, sale of assets on the capital market and financial leverage. Privatisation has been rapid, with claims that the sector in its public form will soon disappear altogether: *"The remaining public interest culture in housing and the long-established partnership culture between community and community housing are at stake here"* (Kofner, 2007:3).

In the **Netherlands**, the privatisation of municipal housing companies into non-profit private associations has been almost total. Housing associations are largely self-regulated and reliant on capital market financing and their own equity. During the 1990s they undertook increased activity at the higher end of market, with sales equivalent to the production of new dwellings. Some associations have large financial surpluses. They are highly independent, yet hold deteriorating political legitimacy and have been subject to intense scrutiny from the European Commissioner for Competition. This has led to the abolition of tax exemptions, implementation of stricter accounting laws inhibiting Robin Hood activities and the re-regulation of their social task in 2009 (Lawson and Elsinga, 2008).

Housing associations require loans with long maturities and in the past have received 50 year loans from the Dutch state. Following financial restructuring and granting of financial independence to housing associations in the 1990s, the Dutch government withdrew as direct financier and instead designed a guarantee (WSW) to reduce the cost of private finance for social housing. In the advent of default, the WSW fund would step in to secure payment of the loan under the same terms and conditions. Such a mechanism was considered essential as housing associations, of varying solvency, moved towards financial independence. It was not intended for private landlords, having a very different risk profile and little history of public investment in what was perceived as a social resource. Furthermore, private landlords did not tend to invest in low income housing and typically avoided economically depressed neighbourhoods. The government wanted to ensure that housing associations would remain active in these markets providing housing opportunities for low and middle income households and improving urban quality in poorer areas.

The WSW remains a crucial attribute of the social housing system today, yet has come under intense pressure as the financial independence and cash flow of housing associations has become much more constrained in the 2010s. Associations are no longer able to cross subsidise non-profit making activities with favourably financed commercial ones as market changes and strong regulatory barriers now prevent this. In recent years, income from rents has been constrained by a nominated rent setting system pegging rises to (low) inflation levels. Corporation tax must now be paid by housing associations for their (ring fenced) profit-making activities, once a key revenue source providing equity for less profitable activities, such as affordable rental housing and quality improvements. From the beginning of 2011 (following the 2009 EC decision on state aid to Dutch housing associations), the WSW guarantee only applies to investments in affordable rental housing and closely related services.[15]

In **Scotland**, the encouragement for social landlords to cross-subsidise new housing development costs from portfolio-wide rental income implies social rents rising at slightly higher rates than historically. However, there is no intention to emulate the

[15] Under the former guarantee scheme it was possible to finance the semi-commercial part also as long as it was part of a ‘social project’.

'affordable rent' regime introduced in England by sharply higher rents for all newly built homes and some existing homes being relet. Nevertheless, as in England, the extent to which the new regime is sustainable beyond the short term is questionable in terms of the cumulative impact on rent levels and associated housing benefit expenditure, as well as landlords' debt burden. With housing associations also being moved onto a regime where grant is paid upon scheme completion rather than upfront, financial risk is also increased because the entire project cost must be carried by the developing organisation while the scheme is on site.

Over and above the 'mainstream' affordable housing development programme described above, Scotland has also been developing its National Housing Trust initiative (NHT)[16]. This mechanism facilitates the development of intermediate rental housing – i.e. homes let to low to moderate income working households at around 80% of local market rents. It is jointly funded by participating local authorities and private developer partners, with the Scottish Government underwriting any shortfall in the repayment of local authority loans through a repayment guarantee. A similarity with the NRAS model in Australia is the NHT's reliance on expected future receipts from house sales after a 10 year period. The aspiration is that many of the buyers will be existing tenants.

In **Sweden** there have been major changes to the universalist social rental system since the 1990s and this process continues. Changes on the supply side by the conservative government following EC scrutiny have involved major cuts to investment grants to municipal housing companies, interest rates subsidies and tax breaks. Housing allowances have also been reformed. Housing outcomes during the past decade include rising housing costs, declining levels of social housing production, increased sales to tenants in central locations via co-operative shares and the concentration of vulnerable tenants in the remaining social rental housing (Magnusson-Turner, 2008; Turner and Whitehead, 2003).

In the **United States**, tax incentives and regulatory arrangements since 1986 have strongly steered investment, particularly by banks and the government regulated finance corporations, Fannie Mae and Freddie Mac, towards investment in affordable housing. The stability of the core housing investment settings in the US before the GFC is credited with enabling a very efficient private financing system to develop over 20 years, centred on the Low Income Housing Tax Credit (LIHTC) program. "*The consensus among industry informants is that the LIHTC program is a durable, politically resilient, and popular program that benefits significantly from its enabling legislation as part of the tax code, its wide geographic scope, and its state-level*

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[16] Scottish Futures Trust (2011) *National Housing Trust Financial Model Guide* www.scottishfuturestrust.org.uk/publications/national_housing_trust

Scottish Government (2011) *National Housing Trust: Reflections on Phase 1 – Discussion Paper* www.scotland.gov.uk/Resource/Doc/921/0119159.pdf

Implementation" (JCHS Harvard, 2010:5). In the decade to 2005, an average of 110,000 tax credit subsidised units[17] were made available each year, 95 per cent for tenants earning below 60 per cent of area median income. Sixty per cent of schemes were new build, 40 per cent refurbishments (Schwartz, 2010).

3.3 Financing social and affordable housing development after the GFC

As mentioned earlier in this review, social housing organisations have increasingly had to rely on capital markets to finance their activities, rather than having an assured flow of low or no cost public loans and grants as in the past. The performance during the GFC of the different approaches to financing (as outlined above) provides an indication of their robustness, as we discuss next.

France operates a protected circuit of savings for public infrastructure. These savings are pooled and parcelled into low interest loans, including a share for affordable housing. The supply of these loans, both off-market and off-budget, are an outcome of having a more regulated financial system, which is less common in countries that have pursued the deregulation of their financial systems. During the GFC, the volume of protected savings in France grew considerably (a safe haven), enabling social housing programs to be expanded and to operate counter cyclically.

In **Austria**, the affordable housing sector benefits from a semi-protected circuit of finance, in which special purpose tax privileged bonds (HCCB) are retailed by banks to raise investment for affordable housing developed by limited profit builders. During the GFC these bonds were not protected by the Austrian Government's savings guarantee and temporarily lost their market position.

In the **Netherlands**, the market for affordable housing investment is open, but in practice a very small number of players, primarily public sector banks, are familiar with and supportive of the business of housing associations. To dampen the cost of lending via these institutions, a public/sector guarantee secures mortgage obligations. Concentration has increased since the GFC and some associations are wary of the banks' monopoly position.

A similar strategy has also been employed in **England** and **Scotland**, via The Housing Finance Corporation, which services smaller providers. This non-profit intermediary is an ideal partner for channelling European Investment Bank loans to support a large number of social housing regeneration projects, in the context of shrinking and less competitive role for commercial banks hard hit by the credit crunch and new banking regulation (Basel III).

[17] Note, however, that subsidised rental supply is significantly underfunded for levels of housing need (see Landis & McClure, 2010: 334-335). LIHTC projects comprise only 2 per cent of US housing stock (Table 1).

For housing associations operating across the UK 2011 saw further contraction in the availability of conventional long-term loan finance. Whereas longer-term loans have remained on offer from certain lenders, these are increasingly subject to clauses allowing for periodic (e.g. five-yearly) review such that the loan may be repriced at a higher rate. Effectively, from a borrower perspective, finance of this type is a short-term product. This increases associations' need to hedge against re-financing risk, thereby inflating the effective cost of loan finance.

In response to these conditions, associations have been shifting further towards capital market bond financing, either directly in bilateral deals with financial institutions or – as noted above – indirectly via intermediaries such as The Housing Finance Corporation (THFC). Bond funding has been seen as attractive, both in terms of its potentially long-dated nature and because it has recently been competitive in 'cost-of-funds' terms.

More generally, 2011 saw UK housing associations entering an increasingly risky financial environment. Not only are associations facing new challenges in obtaining new finance, they are also becoming sensitised to previously unrealised risks as regards existing loan books. The underlying problem is that much of the finance secured by associations over the past decade has been provided at margins that are no longer tenable for lenders because of the much-increased cost of finance to the banks themselves. From a lender perspective, such loans have become a liability rather than an asset.

In these circumstances, existing lenders have naturally been under pressure to identify loan repricing opportunities. Previously, discussion of the associated risks for housing associations has tended to focus on the possible negative consequences of a landlord breaching loan covenant conditions – e.g. through exceeding a stipulated gearing ratio or through other managerial failings. However, there is growing realisation that associations, in fact, face wider risks because of existing loan covenant conditions allowing lenders to require borrower compensation if market conditions or regulatory rules impair a bank's own access to capital. Indeed, demonstrating that this is not a purely theoretical possibility, 2011 saw one lender seeking to invoke just such a 'market disruption' clause in its financing agreements with a large number of associations. While the relevant lender is not one of the sector's major players, there are understandable concerns that this could create a dangerous precedent.

In the **United States**, demand for low income housing tax credits was severely depleted after 2008 not only because of unfavourable investment conditions in many housing markets where prices collapsed, but also because of the low profitability (and hence low or negative tax burdens) or even, in some cases, insolvency of major investors (especially banks), along with the near-collapse of Freddie Mac and Fannie Mae (major originators of LIHTCs). Weak demand and falling prices for tax credits caused problems for approved and prospective projects. Similarly to the Netherlands, the market for tax credits had become narrow and alternative investors were not attracted to the scheme under volatile conditions.

Since the crisis, rescue plans for affordable housing under the American Recovery and Reinvestment Act have included enhancements to tax credit provisions to increase investor appetite and supplementary federal grant funding programs to bridge the funding gap. This has helped to restore the yield for tax credits in several markets but not all. Effectively at present, public subsidies are offsetting the slump in private investment (JCHS Harvard 2010; Schwartz, 2011).

The aftermath of the GFC has a had a further medium term housing finance impact in the US in that it has disrupted the flow of funds to a National Housing Trust Fund set up by the Obama administration in 2008 (after a long campaign). The Trust was intended to operate as a mechanism to collect funds from various public and private sources, most of which would be channelled to housing projects for the lowest income households. However, key intended funding sources (such as levies to be paid by Freddie Mac and Fannie Mae) have not eventuated.[18]

The review above strongly suggests that capital markets need the reassurance of public collateral, guarantees, sound financial management and regulation as well as revenue support (rent assistance) in order to invest in affordable housing. Governments must also play a dynamic role in allocating risk between different players in the sector, making lending to housing providers more attractive to investors. Open markets can quickly divert resources away from affordable housing or increase the cost of that support. This interdependency and instability creates tensions within each affordable housing system, which in turn mediates the contours of debates between key stakeholders – different government stakeholders, housing providers, financial institutions, (mobilised) tenants – to which policy makers, either implicitly or explicitly, are exposed. Mechanisms least susceptible to the GFC were obviously those most protected from it.

3.4 Rent regulation, eligibility and assistance

Reflecting a convergence in social housing policy, there have been moves in several countries to further target social housing and to shift away from funding for supply towards individual targeted assistance strategies. There have also been moves in formerly social democratic Scandinavian countries to pursue 'right-to-buy' schemes for social housing (modelled on the UK) and to privilege home ownership. For example, under the former conservative government in Denmark consideration was given to the abolition of building subsidies. Under the liberal-conservative government in Sweden, since 2008 tenants have the right to purchase their municipal company dwelling under the government's policy of expanding home ownership (Magnussen-Turner, 2008; Sørvoll, 2009). With the growth of home ownership in these countries, Sørvoll sees real threats to their social democratic tradition.

[18] See http://www.nlihc.org/doc/FAQ-NHTF.pdf

Renting, and in particular social renting, is also under scrutiny and review by the conservative government in the Netherlands. Following EU pressure, the Netherlands government narrowed eligibility for social housing to households earning less than €33,000. However, in an unexpected turnaround in November 2011, the European Parliament voted overwhelmingly to remove the income limit on social housing, arguing that social mix and universal access were 'higher goals' and that an income limit was not only unnecessary but totally undesirable.[19]

The Dutch government also wants tenants earning above €43,000 to have more rapid rent increases (5% per year) to encourage them to leave the social sector and buy a home (despite the high cost to the government of providing mortgage interest tax deductions). This will also have significant impacts on the affordability of rental dwellings in high need areas, such as Amsterdam. Finally, from 2013, housing associations will pay €760 million per year towards the costs of rent assistance. This will greatly reduce the cash flows upon which their private fund raising depends and on which the WSW guarantee (see above) is based.

Conversely to these trends, there have been efforts in France to strengthen the legal right to secure tenure and access to adequate housing. In 2007 legislation introduced a legally enforceable right to housing for 'priority categories from December 2008 and other social housing applicants who have experienced an abnormally long delay' to be introduced from January 2012 (Fitzpatrick and Stephens, 2007:26). Since 2006, Austria has also improved the rights of non-Austrian citizens to access municipal and limited profit housing, ending a much criticised policy and practice.

In England, the post-2010 coalition government's adherence to 'localism' has had important social housing policy consequences. These have included the relaxation of social housing regulation and the delegation to social landlords of greater control over housing applicant eligibility. On the former, after a decade of intensive regulation substantially focused on service delivery effectiveness of both local authorities and housing associations, the regulatory focus has been re-targeted on associations and their financial viability. Central to this is the notion of a sector where 'landlords are accountable to their tenants, not to the regulator' (DCLG 2010a p7). Thus, 'tenant scrutiny' replaces regulator scrutiny as the main means of monitoring and improving landlord performance.

Delegation of greater control over applicant eligibility to local authorities has been implemented through the Localism Act 2011. This revokes the previous statutory requirement on local authorities to maintain open housing waiting lists. Ministers have, for example, suggested that authorities might choose to register only applicants

[19] See http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0371&language=EN

assessed as having substantial housing need, a local connection or a ‘clean record’ in respect of any earlier social housing tenancy (DCLGb 2010).

In a similar vein, but perhaps with more far-reaching implications for social housing in England is the delegation to landlords of the power to offer tenancies on a fixed term basis. While such terms must be of at least two years duration, both local authorities and housing associations have been freed to choose whether or not to retain the traditional practice of awarding open-ended tenancies. With this measure having been enacted only in 2011 its impacts cannot yet be judged with certainty. However, survey evidence suggests that most large housing associations will move to this new regime (Bury & Hollander, 2011). The extent to which this will be part of a more general move towards fixed term tenancies on the part of all social landlords remains to be seen.

In the United States, there is wide variation in access among lower income and minority group households to affordable rental housing. This situation reflects both vast differences in urban housing markets (that affect development costs and the relative availability of affordable market housing) and heavily rationed access to Housing Choice Vouchers (HCV). In LIHTC funded projects, access by lower income households to better neighbourhoods may be constrained by higher area income levels that are reflected in higher rents.

3.5 Organisational and business model changes

In **Austria**, the delivery vehicle and business model for social housing remains stable, while the public financing elements are in a state of relative flux, as discussed above. One of the core reasons for this is the untying of funds for housing programs, which has led to a variety of provincial programs across the country. There is now more scope for varying programs at the provincial level, but there is also scope for funding not to be spent on housing concerns. The Federation of Limited Profit Housing Associations is keeping a close watch on developments.

In **Denmark**, tenant-controlled housing associations are finding it more difficult to develop new projects in high cost locations due to land cost caps and because local governments have become more reluctant to facilitate development since the cost of their contributions was raised from 7 per cent to 14 per cent.

In **France**, expansion of the social housing sector continues, but this may change when fiscal constraint curtails economic stimulus measures.

Germany is undergoing one of the most profound changes to its organisational structure of housing provision, as mentioned above, with the increasing role of private investment funds in the ownership of municipal housing companies.

The financial independence of **Dutch** housing associations has made them less easy to control and there have been a number of reported undesirable developments:

- Increased turbulence in housing markets (boom/bust) and long term stagnation in social housing production
- Inability of governments to influence levels of production via housing associations
- Highly polarised discussions between housing associations and the government over who is responsible for improving problem neighbourhoods, where corporations dominate the local housing market
- Controversial developments in business planning and management practices, concerning a focus on profit maximisation, widespread mergers, speculative land banking strategies, anti-competitive practices and market dominance, misappropriation of funds and failures of internal supervisory committees
- Dominance of financial viability in steering investment rather than locally agreed social tasks
- Lack of government action to ensure fulfilment of regulatory requirements (the Social Housing Management Decree (BBSH)) (Lawson for SGS Consultants, 2009)

This situation has contributed to a major shift in public policy affecting the re-regulation of Dutch social housing sector. For more details see SGS Consultants (2009)

After several years of heated national debate in **Sweden** and complaint from the EU, a new Public Housing Act was passed in 2010 altering the role of municipal housing companies (MHCs) in their business model and rent setting, promoting more business like approach and allowing private landlords to have more say in rent negotiations. According to SABO, the Swedish Organisation for Municipal Housing Companies, MHCs:

"should run their operation on businesslike principles, which represents a deviation from the principles embodied in the Local Government Act requiring operations to be run on a cost price basis and prohibiting undertakings being run for profit. At the same time, the Act clarifies that a businesslike perspective is compatible with active social responsibility."[20]

In the **UK**, the momentum of social rented sector structural reform has ebbed significantly since 2007. In part, this reflects changes of political control at national government level in London and Edinburgh. One consequence has been a general slowdown in the pace of council housing stock transfers in England and a virtually total cessation of this dynamic in Scotland (see Table 7). Council housing finance in England is about to experience fundamental reform whereby, through debt restructuring, those local authorities retaining a landlord role (now just under 50% of all councils) will become largely self-financing. This has previously been seen as removing any financial incentive for further stock transfers (Pawson & Mullins, 2010). Nevertheless, in its

[20] http://www.sabo.se/aktuellt/nyheter_s/2010/juni/Sidor/Riksdagen_nyalagen.aspx

recent housing policy statement, the Westminster coalition government indicated support for a new round of such activity: 'We will bring forward proposals for a programme of transfers...' (UK Government, 2011, p26).

Table 7: Housing stock transfers* in Great Britain, 2000-2011

	England	Scotland	Wales	Britain
2000/01	16			16
2001/02	7			7
2002/03	15	3		18
2003/04	7		1	8
2004/05	10			10
2005/06	8			8
2006/07	10	2		12
2007/08	18	1	3	22
2008/09	4			4
2009/10	3		1	4
2010/11	4		3	7

*Number of transfers involving a local authority's entire housing portfolio

While their numbers have been much diminished in recent years, it is worth noting that a significant proportion of post-2007 stock transfers (especially in Wales) have involved purpose-created landlord bodies established with 'mutual style' governance arrangements. That is, where ownership of ex-local authority housing passing to the tenants, collectively, via a new landlord entity where tenants are the only shareholders. Such entities are known as 'community mutual' (or 'community gateway') organisations. They exemplify a strand of UK housing policy thinking that sees council housing stock transfers as an important opportunity to strengthen landlord accountability and tenant empowerment.

In the 2002-2007 period, alongside the stock transfer programme, some 60 local authorities in England devolved operational responsibility for housing to arms length management organisations (ALMOs). Housing ALMOs are governed by 'stakeholder style' boards composed of tenants, councillors and 'independents'. For sponsoring local authorities, the most tangible attraction was an ALMO's potential entitlement to additional housing subsidy to fund stock upgrading in order to comply with the nationally prescribed Decent Homes Standard. Such eligibility depended on an ALMO demonstrating (via regulatory inspection) its managerial excellence.

Since 2008, however, growing numbers of ALMOs have seen their original contractual terms expiring and this has presented policy choices for those concerned. Relevant here is that under the post-2010 coalition government ALMOs' privileged funding status has been terminated. However, despite their somewhat precarious status, it was recently suggested that most housing ALMOs are likely remain in existence for the foreseeable future, in some cases taking on roles additional to housing management (Birch, 2011). While about a quarter of the councils that set up housing ALMOs over the past decade have recently opted to recover full control of housing management, several ALMO-sponsoring councils have backed the 'conversion' of their arms length body to housing association status via stock transfer. In all such instances, majority tenant backing for this option has been secured. And, while ALMO establishment has been attributed mainly to municipal opportunism in the context of financial incentives under the former Westminster government, it is interesting to note that new housing ALMOs have recently been set up by two local authorities without any prospect of additional public funding. This suggests that the 'quasi autonomous' model may have some inherent attractions, perhaps as a vehicle for tenant and community empowerment and aspirations to 'de-politicise' decision-making around housing management and investment.

In the **US**, non-profit affordable housing developers have been subject to increasing competition for dwindling funds, which has affected the viability of the development business of some of these organisations.

3.6 Land policy and development promotion

Land is a crucial element in housing provision and land supply policy can provide a direct means of ensuring that affordable housing development opportunities exist. In turn, these can be realised via complementary planning measures designating the use of land for affordable housing, generating effective (or explicit) subsidy from the issuing of planning permission, specifying required housing types as a condition of development approval and requiring dwellings constructed to be managed in a particular way for a defined target group.

Across many European countries and in the United States landuse planners use local area strategic plans, land use zoning, planning obligations and land re-adjustment to facilitate affordable housing development. While requirements and powers are typically set via national or provincial legislation, local government plays a crucial role in implementation, performing as either impediment or catalyst to affordable housing outcomes. Some planning systems are more proactive than others; for example, France, Germany, Austria, the Netherlands and Sweden have all played an active role in land assembly, infrastructure provision and the strategic sale of land for the development of specific types of housing (Lawson et al., 2011; Oxley et al., 2009:6)

Pre-emptive land banking and the timely delivery of serviced land to selected developers has long been the tradition amongst many city governments such as Amsterdam, Vienna and Stockholm. A review of their role in social housing was undertaken by Needham and De Kam in 2000 and partially updated by the City of Amsterdam in 2004 and Groetelaars et al. in 2008. A wider Review of European Planning

Systems was undertaken by Oxley et al. in 2009, with specific reference to the role of city governments in housing production.

In Germanic countries, municipal land banking continues to play a crucial role. In cities such as Vienna, a system of pre-emptive land purchase, pre-development and targeted release continues to support cost-capped, cost rent, limited profit housing to this day (Lawson et al., 2010). *Wohnfond* is an independent non-profit and private organisation, with a strong relationship, both strategically and financially, with the City of Vienna. It has been operating in Vienna's land market for more than 25 years. Alongside other private developers, land development opportunities are sought by Wohnfond in appropriate areas as specified in the City's long term urban strategy (STEP). As a strategically placed non-profit organisation, Wohnfond coordinates property developers, house owners, municipal departments and service centres of the municipality of Vienna (Wohnfond, 2010). It is both an agency for urban renovation and the supply of new housing opportunities.

As mentioned earlier, EU Competition Law is beginning to exert a pervasive impact on social housing provision and potentially will influence the role of municipal land developers in social housing promotion. Recent research has examined how different national strategies conform to EU policy on state aid and competition (Groetelaars et al., 2010) and this may be the next critical area to receive attention from the Commissioner for Competition.

In other European countries, there has been a growing trend towards reliance on private land owners and developers to contribute resources for affordable housing development. Of the countries in our selection, England, Germany, France, the Netherlands and Scotland have all adopted some form of development obligation or inclusionary zoning, shifting land supply responsibilities from the public to the private sector, as their municipal land banks are either ill-resourced or reluctant to meet this requirement. Such obligations are decried by some private developers and their advocates as a 'stealth tax' which undermines scheme viability by cutting profit margins. Economists, however, argue that the ultimate effect of such policies is to deflate the cost of housing land and in this way to reduce the cost of development.

In England, the vast majority of affordable housing completions in recent years have been secured through the planning system. For example, of the c30,000 affordable homes completed in 2010/11, more than 90% involved 'developer contributions' of some kind. Often these take the form of 'free land', with construction costs needing to be funded through government subsidy and private finance. However, 10% of all completed affordable homes in 2010/11 were funded entirely through developer contributions – i.e. site and construction costs wholly underwritten by cross-subsidy from private sales (DCLG statistics (HSSA Part N).[21] In addition to underpinning development finance, the system of securing affordable housing through the planning system in England has been important in facilitating the construction of (some) social and affordable housing in more desirable areas from which traditionally developed and financed social housing would have been excluded through high land costs. In recent years only one in four new affordable homes has been built within existing mono-tenure estates (Crook et al, 2011).

In 2011, however, UK government anxiety over the post-GFC collapse of private housebuilding has led to a policy reversal in this area. Private developers holding planning permission for unstarted housebuilding projects in England have been empowered to require that local authorities reconsider developer contributions for affordable housing already agreed (UK Government, 2011). The thinking here seems to be that, relieved of the need to make such contributions, developers may be incentivised to progress 'stalled schemes' in the expectation that these could prove more profitable than previously calculated. Whether this policy change will prove to be more than a temporary relaxation is not yet clear.

France has been employing inclusionary planning instruments since 1990s, when the Besson Law was adopted. This practice was later formalised and tightened in 2000 requiring all local authorities to have at least 20 percent social housing within their areas and offering a system of fiscal incentives and sanctions to promote and enforce this target. Since 2006, the planning system has explicitly and actively promoted the provision of affordable and social rental housing via inclusionary zoning, setting targets and, in some cases, penalising localities that fail to comply. However, there has been significant resistance to this strategy from wealthier local areas, which would rather pay the fine than support additional social housing.[22]

Under French practice developers make proposals and apply for planning permission under the guidance of an urban development plan (PLU), which contains specific zones for the provision of designated facilities, as well as establishing their required architectural and technical standards. In this locally defined plan, areas for public space and density levels are also outlined. Deviations from the plan can occur by negotiation within strategic guidelines (Oxley et al., 2009:23). Targets are also specified. There have been no major changes to legislation enacted in 2000, which requires local authorities with more than 3,500 inhabitants (or 1,500 in the Paris area) to have at least 20 per cent of the housing stock devoted to HLM (social rented) dwellings. The principal aim is

[21] http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms/hssabpsa1011/hssadatareturns1011/)

[22] http://www.france24.com/en/20101220-french-cities-rather-pay-fine-invest-social-housing-municipal-urban-planning-fondation-abbe-pierre-homeless

increased social mix; a high profile political concern in a country where problem estates are a prominent social issue (Schaefer, 2008 in Oxley et al., 2009:34).

Since the 1990s, land prices have risen in the Western part of the Netherlands for a range of reasons, including land speculation as well as environmental and planning constraints. Increasingly, the strategies of private land owners are having a greater influence on the supply of land for housing in the Netherlands than the municipal land banks. As a consequence, Dutch housing associations are choosing to engage in their own land banking strategies, sometimes proactively, defensively or even for speculative purposes, to bolster their position in the market (Buitelaar et al, 2009).

In the Netherlands where the production of social housing is no longer steered nationally by public loans and subsidies and cannot rely on municipal land departments for cheap land, an alternative mechanism has been found, following intensive lobbying by housing associations (De Kam, 2007). A new planning act, introduced in 2008, has enabled the designation of land at defined rent and sale prices for specific housing categories, including social rental and 'social owner occupied' housing. The new Act introduced what many consider to be a form of inclusionary zoning for social housing. Yet it relies on the co-operation of local authorities which shape the strategic and land use plans for their cities. Current outputs (see above) suggest that this has been lacking so far.

4. A critical assessment

Based on our review, a number of general comments can be made on the efficacy of contemporary social housing systems.

During the past decade there has been a general decline in social/affordable housing production in most countries, although France and Austria stand out as exceptions to this story. These are countries with strong financial intermediation that have co-financed social housing production as a counter cyclical measure to boost construction employment and avoid economic recession. It can be concluded that social housing organisations reliant on private finance do best with semi-protected circuits of finance and strong financial intermediation as in France, the Netherlands and Austria.

Adaptation to the new debt financing regime has produced contrasting results. While a vast amount of private capital has been drawn into financing social housing this has come at some cost to public policy – production levels, affordability and access. In some countries, adverse financial conditions in the capital markets have significantly impeded production and/or placed indebted social housing providers in financially vulnerable situations.

There have been significant shifts in the role of public and private actors in the land development process affecting social housing provision. Increasingly emphasis has been placed on the use of landuse planning tools such as inclusionary zoning, which are shifting responsibility for affordable housing production from the public to the private sector and from central agencies to local governments. This is certainly the case in countries such as the Netherlands and the UK, where state ownership and control of land resources is negligible or has dwindled under increasingly liberal market conditions. Fiscally and legally constrained, regional and local governments use the power of planning permission to sporadically and unevenly extract funds for affordable housing from private developers (Lawson et al., 2011).

Nevertheless, strategies of the kind described above can be criticised as tying social and affordable housing production too closely to market activity. Hence, any downturn in the latter has immediate negative consequences on the former (as recently seen in the UK). Thus a strategic and sustained public role is required in land and finance markets in order to influence scale and pace of production, increase affordability and ensure fulfilment of social tasks. The most comprehensive approach, from the selected cases, is Austria (in particular, Vienna), where land supply agencies work strategically with city governments to provide suitable sites for affordable housing.

Narrowing eligibility criteria and allocation mechanisms threatens the universal nature of social housing systems in countries such as the Netherlands and Sweden. Further narrowing could exacerbate socio-tenure and spatial polarisation and also create an affordability gap for middle income households.

There is a danger that self-sufficient independent housing providers may lose their public legitimacy, when they do not fulfil social expectations and when it is seen that government regulation fails to ensure that such organisations maintain socially acceptable standards – e.g. in relation to senior executive pay. In the Netherlands this situation has led to the erosion of organisational privileges, such as charitable status and tax exemptions.

In 2007 before the GFC, it could be argued that ideas about social housing policy were going through a period of reassessment, signs of which emerged in the mid 2000s, leading to experimentation in supply measures, more entrepreneurial tenant services and a shift to mixed tenure developments. Development of policy has taken a different course since the GFC with the stagnation of housing markets and the ongoing sovereign debt crisis, in Europe particularly, resulting in room for policy manoeuvre being severely constrained. There is strong pressure for more European intervention in national government expenditure, which would of course affect any subsidies relating to social housing provision.

A more positive assessment of social housing developments is that they are contributing towards economic, social and environmental policy goals. This approach is reflected in some of the policy directions that we have outlined in the report, including:

- Efforts to use social housing construction as a vehicle to stabilise volatile housing markets;
- Increased efforts to address urban decay and spatial polarisation via both soft and hard renewal;
- Wider application of inclusionary zoning and development requirements for housing affordability; and
- Re-evaluation of the goal of home ownership for all and a shift towards developing a complementary spectrum of tenures, including hybrid or intermediate tenures.

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