

## The Future of Social Housing: From Social Housing Estates to Social Housing Systems

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### 1. *The future of social housing seems to be an outdated topic*

When we hear politicians talking about housing, they are usually talking about owner-occupation (Kemeny, 1981). And anywhere we look at the dynamics of the housing market, we see the share of owner-occupation on the rise. Everywhere, the social (non-market) rented sector is on the defensive.

There are considerable differences among the countries of the European Union. Especially in Great Britain, Germany, and the Netherlands, but also in Denmark, the relative – and in some cases also the absolute – volume of the social rented sector is in decline. In France and Sweden, on the other hand, the sector is showing signs of stabilization or even slight expansion.

The table on the following page gives an overview of the distribution of the housing stock by tenure for each member state of the European Union. First we look at the share of social rented housing. After the Netherlands, lonely at the top, come Denmark, the United Kingdom, and Austria, whereas the share of social rented units in Southern Europe, Luxembourg, and Belgium is decidedly low.

European countries differ widely with respect to the share of owner-occupiers with a mortgage debt. Denmark, the Netherlands, and the United Kingdom are the indisputable leaders in that league, followed by Ireland

and Luxembourg. Owner-occupiers with a mortgage debt are notably scarce in Southern Europe, followed by Germany and Austria.

As the table shows, the differences are most pronounced between Southern Europe, on the one hand, and Western and Central Europe, on the other. The predominant situation in Southern Europe is homeownership without a mortgage, and the social rented sector is marginal there. In Western Europe, the social rented sector is still substantial in a number of countries, and the high proportion of owner-occupiers with a mortgage debt is striking. In most Eastern European countries, owner-occupation is more than 70%, sometimes even more than 90%.

### 2. *Public promotion of owner-occupation*

Many governments pursue a political agenda that promotes owner-occupation (Kemeny, 1981). This seems paradoxical, since renting is a more flexible tenure and governments everywhere are concerned about rigidities on the labour market. Traditionally, mobility in the housing market has been strongly interrelated with labour-market mobility. In that light, one would assume that governments that call for more flexibility on the labour market would also argue in favour of greater flexibility on the housing market – and thus in favour of renting.

In all developed countries, residential mobility is much higher in the rental sector than in the homeownership sector, even when correcting for the composition of the population occupying those sectors (Clark & Dieleman, 1996). But what the governments are trying to achieve – an increase in the share of homeownership – would seem to actually hamper mobility. Moreover, in the owner-occupied sector, they are maintaining the real-estate transfer tax, which puts a penalty on buying and selling a house (Priemus & Dieleman, 2002).

In the past, the rate of owner-occupation rose at the expense of the commercial rented sector. After the Second World War, many countries in Europe introduced – and have retained – a system of rent control, which naturally discourages private investment in the commercial rented sector (World Bank, 1993). The subsequent long periods of inflation have further hampered new private investment in this sector (Feddes & Dieleman, 1997).

In countries like the United Kingdom and the Netherlands, the share of the commercial rented sector has shrunk dramatically – indeed, the current level seems to be the rock-bottom minimum. Households that are unable (or unwilling) to purchase a dwelling have almost no choice but to turn to the social rented sector. But even there, they may have a hard time finding a dwelling because of the eligibility criteria.

The continuing rise in the rate of owner-occupation has been accompanied by a decline in the market share of social rented housing. Notably, the United Kingdom introduced the Right-to-Buy for council tenants in 1980. This legislation clearly illustrates the current zero-sum game in play between homeownership and social rented

housing: the more homeownership there is, the less social housing there will be.

In the Netherlands, the national government expects the housing associations to sell off a substantial part of their rental stock – about 500,000 units in 10 years – to prospective homeowners. However, in the absence of any Right-to-Buy legislation, the government cannot force the housing associations to sell off their property.

In many other countries – and Germany is a case in point – no large-scale transfer of social housing into homeownership or private rental housing is taking place, nor is it envisioned. Still, social rented housing is losing ground there, because very little new construction is being carried out in that sector. This low level of production is directly related to the termination or tapering off of brick-and-mortar subsidies.

### 3. Ensuring affordable housing for low-income households?

The question now is how, in developed and developing countries, housing for lower-income groups can best be arranged. Our Dutch experience leads us to approach this issue in the following way.

If a particular housing sector is specifically designed for the poor, it will be considered poor by design. Very soon, a stigma will become attached to such public housing estates, as experience with public housing in the United States has shown.

If residents in such housing improve their financial position, a dilemma soon threatens: should these households be allowed to stay undisturbed where they are, with the consequence that to some extent, public sup-

### Housing stock, tenure, and finance in EU countries, 1996 (%)

	Owner-occupied		Rented		
	Without mortgage	With mortgage	Social	Private <sup>a</sup>	Rent-free
<i>Western and Central Europe</i>					
Netherlands	8	44	41	7	1
Belgium	37	29	9	22	3
Germany	22	19	13	42	4
France	30	26	16	23	5
Ireland	44	37	12	5	2
Luxembourg	36	35	3	23	4
Austria	30	20	21	23	7
United Kingdom	24	42	25	7	2
<i>Northern Europe</i>					
Denmark	7	46	27	19	1
<i>Southern Europe</i>					
Greece	69	7	0	22	3
Italy	66	11	5	12	6
Portugal	52	14	4	21	9
Spain	63	18	1	12	6
Total <sup>b</sup>	36	24	14	21	5

<sup>a</sup> Including housing provided by the employer

<sup>b</sup> Weighted for the number of households in each country

Source: Eurostat (ECHP '96), processed by SCP, SCP, 2000: 415

port will be granted to households that do not need it? Alternatively, should one try to persuade – or even oblige – these households to move to more expensive dwellings, thereby diminishing consumer sovereignty on the housing market and leading to a homogeneous population on public rental estates?

Finally, everywhere in the world critical questions are being asked about the efficiency of public producers and service providers.

In the Netherlands, the choice was made in the 19th century for the private provision of social housing: public tasks carried out under public scrutiny by private organizations – the housing associations. That appears to have led to professional housing managers operating within a public legal framework.

In the United Kingdom, we can now observe a similar tendency. There we see a tradition of public housing providers: local housing authorities, which are now being replaced at a rapid rate by private, but nevertheless social, housing associations. The privatization of social landlords, while at the same time maintaining a robust public legal framework, could also be considered in other countries.

A substantial increase in the share of social rented dwellings would certainly be worthwhile in most countries, not only because the need for housing for low-income households is so great, but also because the social rented sector functions better when it accommodates a highly differentiated population: not only the poorest, but also a broad array of middle-income groups. This diversity prevents stigmatization and leads to a high level of occupant satisfaction.

A further observation is fundamental. I am aware that in most countries housing support is granted exclusively to the providers of housing services: property subsidies, or supply subsidies. This strategy is exactly the same as that adopted by most European countries in the 1950s and 1960s. But in the 1970s – later in some countries – there was a turning point (Priemus & Kemp, 2004): a shift from supply-side housing support to the support of the demand side. This took the form of housing benefits in the United Kingdom, housing allowances in Germany and the Netherlands, and housing vouchers in United States.

#### 4. From property subsidies to housing allowances

Housing support of the demand side has a number of advantages:

1. It does not distort the market as much as property subsidies, so it can combine a real consumer sovereignty on the housing market (when the general housing shortages are over) with a level playing field for housing providers, who have to compete with each other. This will stimulate the efficiency and the dynamics in the housing provision considerably.
2. It is targeted to the households who need such a support the most. By definition, poor families will take advantage of housing allowances. As soon as their income increases, the housing support will decrease. A difficult theme here is the poverty trap. Property subsidies are given to new dwellings, where we find mostly middle-income groups. When their income increases, the property subsidies keep coming: the targeting of property subsidies is a very weak point.
3. When we support the demand side, the danger of stigma and spatial segregation is much less than in the case of property subsidies given to certain estates. There are more opportunities for a mixed population in neighbourhoods and estates than in the property subsidies system.

In the Netherlands, when the transition from property subsidies to housing allowances was put into force, for a period of about 20 years we adopted a mixed system: a combination of property subsidies and housing allowances, in which the contribution of housing allowances increased gradually. In 1995, property subsidies were abandoned and now we only have housing allowances. One tenant in three receives a housing allowance.

#### 5. Are social housing providers still necessary?

Does all this mean that social housing providers are now superfluous? In the Netherlands we do not think so. The carrying out of public tasks by a large share of landlords is very important for the housing of low-

### **Housing support on the demand side**

**Demand-side approaches do not distort the market, can be targeted to families that need help the most, and avoid the stigma associated with social housing estates. At present, in the Netherlands, property subsidies have been abandoned in favour of housing allowances.**

income groups: to give priority to vulnerable categories, such as the handicapped, ethnic minorities, and low-income groups; to involve tenants in management and policy; and to provide sheltered housing arrangements that enable the elderly to continue to live independently.

In our opinion, there are several good reasons to maintain the status of non-profit housing corporations in a demand-driven model:

1. It is wise to keep housing corporations committed to their traditional task of providing housing, including housing services and a housing environment. The commitment keeps housing corporations available as housing providers, even when the economy is in decline.
2. The obligation to reinvest surpluses in housing is a very successful formula for “value capturing.” It allows the government to support social housing without having to offer new property subsidies, while it prevents public funds from leaking out of the housing sector. It also strengthens the financial position of individual housing corporations and of the sector as a whole.
3. The fundamental task for housing corporations with a public remit is to serve the needs of vulnerable households on the housing market. Corporations are not allowed to engage in negative risk selection of tenants. Any “normal” landlord will always try to give priority to families who do not pose a risk. This practice is detrimental to vulnerable groups. Even with the aid of housing vouchers, they would still run into problems on the housing market if there were no social housing institutions to look after their interests.

The negative risk selection and the cherry-picking behaviour of most commercial landlords are particularly responsible for the difficulties faced by low-income households. For that reason, there is still substantial societal support for social landlords in the Netherlands. There is certainly a conviction that the share of social-rented dwellings (now about 35%) should be reduced if the economy continues to grow in the next few years.

Account needs to be taken both in the Netherlands and in other countries of the way in which prosperity leads households to split up more readily, so that the average household size falls. As a result, the average household income rises much less steeply than the national income. Economic growth boosts household formation; subsequently, the income per household declines because of the increasing individualization and the concurrent shrinkage of households. In this respect, housing, demography, and the economy are closely intertwined (Ermisch, 1983; Van Fulpen, 1985).

## 6. Conclusions

In general, governments will distance themselves from direct housing provision. This stance will lead to further reforms, mainly with respect to council housing in Britain and municipal housing companies in Sweden, where traditionally the interrelation between public authorities and housing provision has been strongest. Ideally, the shift away from government intervention and towards demand-side subsidies for the provision of housing should be accompanied by measures to prevent social housing becoming marginalized and stigmatized.

There are at least five ways to promote this:

1. Ensure the continuity of non-profit housing associations with a clear mandate to provide for vulnerable households, but also with the opportunity to target a wider range of socio-economic groups, not only low-income groups.
2. Organize a good government-supported guarantee system so that the social housing sector and lower and middle-income households can obtain loans from private financial institutions at a relatively low interest rate.
3. Buttress the position of tenants on the housing and house-building market. The cooperative tradition in Denmark, for instance, gives households a say in the management and development of housing.
4. Provide for measures to maintain new construction, and release enough land for construction in times of a severe decline in house building. The cases of Belgium and Sweden illustrate how those

### **The continued need for non-profit housing**

**Non-profit housing corporations remain committed to housing provision during recessions, reinvest any surpluses in providing further housing, and serve the needs of vulnerable households on the housing market.**

at the bottom of the housing market bear the brunt of a slowdown in production.

5. Build up, or maintain, a robust system of income-related housing support.

In other words, we have to move from **social housing estates** to **social housing systems**.

Each country has to determine which housing and urban policy is most appropriate in its specific situation. Path-dependency of housing policies must not be neglected. I hope that my contribution and my conclusions can form a source of inspiration for countries outside the Netherlands in determining its own housing and urban policy.

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