

TACKLING THE HOUSING AFFORDABILITY CHALLENGE

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- Andrew's recent publications in the public domain include *Shared ownership: ugly sister or Cinderella?* (2016-with others), *From the margins to the mainstream: a study of the prospects for shared home ownership in the North West* (2016), *Local housing, community living: prospects for scaling up and scaling out community-led housing* (2016), *Working together, thinking alike: what do councils and local enterprise partnerships expect from housing associations?* (2015) *A tale of two regions: can low and middle-income earners afford to live in the South East* (2014), *Housing and planning: what makes the difference?* (2014), *Reselling shared ownership properties after improvements* (2013) and *The Case for a Property Speculation Tax* (2013).
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SCOPE OF PRESENTATION: DEVELOPED COUNTRIES

This presentation will not, therefore, focus on some of the issues associated with emerging economies and dealt with by other speakers including:

- Land tenure
- Title issues
- Informal construction
- Incremental and self-build
- Provision of basic services
- Development of basic infrastructure

AFFORDABILITY: HOUSE PRICES

- Nominal House Price Indices 2005-2015

	2005	2010	2015
Belgium	98.0	106.9	127.8
France	90.9	104.9	101.50
Germany	99.8	102.9	120.9
Netherlands	95.6	101.3	90.7
Spain	81.3	91.7	74.9
UK	89.7	104.5	132.2
USA	94.4	84.1	99.5

- Source: Hypostat (2006= 100)

AFFORDABILITY: HOUSE PRICES

- Although prices have risen and are cyclical the picture is mixed; the issue is often one of overall supply.
- Prices may seem reasonable as an average for the country but this may conceal huge variations
 - Average house price United Kingdom June 2017: £220,094.
 - Average house price London June 2017: £482,779
 - Average house price Northern Ireland June 2017: £124,007
- In any case, its not just about prices; its about prices and incomes

AFFORDABILITY: PRICES AND INCOMES

- Individual circumstances vary, but a useful yardstick used in much of Europe is that housing costs should not exceed c. 35% of disposable household income.
- In some cities housing costs for those on median incomes can exceed 50% of household disposal incomes.
- When affordability becomes stretched a range of negative consequences follow:
 - Homelessness
 - Overcrowding
 - Ill-health
 - Poor educational attainment

AFFORDABILITY: PRICES AND INCOMES

- Negative consequences (cont.)
 - Social exclusion
 - Can lower homeownership levels; of interest to the housing finance sector but also important in terms of social cohesion and public welfare provision.
- **Ultimately all these consequences affect economic performance.**

AFFORDABILITY: MORTGAGE FINANCE

- Since the banking crisis the position has been exacerbated by reduced access to mortgage finance caused by:
 - Reduced lender liquidity
 - Enhanced regulation- both consumer and prudential
 - Necessary improvements in risk assessment/management by lenders (USA, UK)
 - Availability has improved in recent years but what happens as the cycle turns downwards again?
 - Inevitably those worst hit when mortgage finance is restricted are those on lower/less secure incomes and those with impaired credit histories- those who are worst affected by unaffordable housing in the first place.

TACKLING AFFORDABILITY

- Governments use a combination of:
 - Improving access to “mainstream” housing for sale or rent (e.g. Canada, USA,)
 - Develop “affordable/social housing” as a specific tenure usually involving subsidy to reduce rents and/or improve access. (e.g. Netherlands, UK, France)
- These approaches are not mutually exclusive although improving access has tended to supersede development of affordable housing during the past three decades.

IMPROVING ACCESS

- Governments apply a variety of approaches, usually aimed at increasing effective demand for market sale/renting:
 - Voucher schemes (USA)
 - Equity loans (e.g. Help to Buy equity loans in UK)
 - Mortgage guarantees (e.g. Help to Buy mortgage guarantee in UK)
 - Assistance to specific groups such as those with disabilities or victims of family violence (e.g. Canada)
 - Housing benefit to enable those on lower incomes to access market rental housing. (e.g. Germany, Belgium, UK)

IMPROVING ACCESS

- These approaches can produce results but carry potential negative effects:
 - They tend to be demand-side subsidies and can feed through into price rises, particularly as they usually do not directly impact on new housing supply.
 - They can have an impact on rent levels also (UK Government has acted to limit housing benefit to the private sector)
 - They can distort markets and produce unforeseen consequences
 - It is inherently difficult to impact on the quantity of supply or to direct it to the right places (France builds 5 homes per 1,000 people, largely encouraged by tax-breaks but still has almost 8% empty homes and a surplus of housing in many cities while many lower income households still cannot access adequate housing.)

DEVELOPING AFFORDABLE HOUSING

- Affordable housing can be broadly defined as housing made available using public subsidy on sub-market terms and accessed by households whose incomes are too low or needs too complex to allow them to access housing via the market.
- Can be public or private. (France)
- Can be not-for-profit (Netherlands, UK) or for profit (Austria, USA)
- Usually involves sub-market renting but can involve hybrid tenures such as shared ownership.
- Usually involves a supply-side subsidy. (Netherlands, France, UK).

SUPPLY-SIDE SUBSIDY; PROS AND CONS

- Supply-side subsidy can directly equate to the quantity of homes developed
- It can also allow direction of the type of homes, quality and distribution.
- Issues such as durability and environmental sustainability can be tackled by specification of requirements. These are issues to be tackled under the new EU Housing Partnership being developed under the EU Urban Agenda. Access to EIB funding will be a key aspect.

SUPPLY-SIDE SUBSIDY; PROS AND CONS

- There are disadvantages to this approach:
 - Market disciplines may not apply
 - Allocation of homes may be an issue (Germany, UK)
 - There has been a tendency to develop large mono-tenure estates which may:
 - Be the subject of social stigma (UK)
 - Concentrate social problems and disadvantage (USA, where demolition and deliberate creation of new mixed-communities has been a policy since the 1970's)
- “Mixed communities” is now a watchword but can be costly and difficult to achieve although there has been some progress notably where subsidised housing is produced via planning gain subsidy or developer subsidy (UK)

TRENDS IN AFFORDABLE HOUSING PROVISION

- A move away from provision of new affordable/social housing and reduction in existing portfolios fuelled by:
 - Shrinking role of the role of the state in many developed countries over the past three decades due to neo-liberal economic policies.
 - Considerations of state aid and competition with private sector (e.g. Netherlands)
 - Greater focus on homeownership as tenure of popular choice and as means for households to gain equity. Has led to housing market subsidy and Right to Buy
 - Move from supply-side to demand-side subsidy.
- Examples are widespread (e.g. Canada, USA, UK, Germany) but not a universal phenomenon (e.g. France)

TRENDS IN AFFORDABLE HOUSING PROVISION

- Greater reliance on private finance, partly due to changed fiscal/policy priorities but also due to fiscal/public spending austerity in the post-banking crisis environment:
 - Greater reliance on capital markets (UK)
 - Moves to spread access to bond finance (Australian plans for a bond aggregator like THFC)
 - Moves away from grant funding and state banks towards private sources (e.g. Netherlands)
 - Selling of social housing portfolios and direct investment by private corporates (Germany, Netherlands, Austria)
 - Use of low-income tax credits has stimulated investment in affordable housing in the USA.

TRENDS IN AFFORDABLE HOUSING PROVISION

- Focus on obtaining value for public funds, increasing shortage of affordable/social housing and “state aid” considerations has led to “residualisation” of this housing:
 - Increased concentrations of low-income and workless households,
 - Increased social problems and crime
 - Poor educational and career attainment
 - Lack of support for affordable/social housing amongst broader populations and unwillingness to pay taxes to support the housing and/or residents.

TRENDS IN AFFORDABLE HOUSING PROVISION

- Pre-occupation with homeownership and desire to reduce public subsidy and/or obtain higher numbers for a given level of subsidy have led to increased interest in hybrid tenures in some markets such as the UK.
 - Shared ownership (part-rent part-buy) offers a good example.
 - These products can be popular but raise the question as to whether those in the greatest need are and should receive the greatest assistance? Who is subsidising whom?

CONCLUSION: ARE WE TACKLING AFFORDABILITY?

- The emphasis has changed towards assisting affordability rather than developing affordable housing as a distinct sub-market tenure.
- In spite of the banking crisis, affordability remains a major impediment for a wide spectrum of households.
- There are difficult questions as to who should be assisted via limited resources
- In many cases the fundamental problem remains one of housing supply
- It is clear that the housing finance sector will be key to tackling affordability going forward, both in funding the provision of new homes and through the provision of mortgage finance.



TACKLING AFFORDABILITY

Thank you!

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