MS 442

HOUSING DEVELOPERS – DEVELOPED WORLD

Abstract

In economically advanced European countries, housing development is often carried out by specific housing developers of a so called "Third Sector" which is situated between state and market. Limited-profit housing providers may take various legal forms, but have in common to be acting according to public interest and, consequently, get assigned subsidies of various forms or building land. Rent levels and access to their dwellings are legally restricted. This contribution takes a closer look at some countries where limited-profit housing developers play a major role (Austria, France, Netherlands, Sweden). In some countries in transition, there are attempts to implement similar models of housing development. These models are shortly introduced (Poland, Czech Republic, Slovakia). We conclude that "old" Europe can provide some important inputs how to set up limited-profit housing providers in transition countries.

Keywords

EU, CEE and SEE countries, limited-profit housing providers, housing development, social housing, transition countries,

Author and Co-author Contact Information

W. Amann
Institute for Real Estate, Construction and Housing
PB-2
1020 Vienna, Austria

A. Mundt
Institute for Real Estate, Construction and Housing
PB-2
1020 Vienna, Austria

Housing Developers – Developed World

Wolfgang Amann, Institute for Real Estate Construction and Housing, Vienna.

Alexis Mundt, Institute for Real Estate Construction and Housing, Vienna.

Glossary

Social rental sector Part of housing provision set up with the goal to satisfy the needs of those income classes which are excluded from homeownership or the open market rental sector.

Public private partnership (PPP) in housing describes an approach that private companies fulfil public service obligations, such as housing provision for defined households with need. For this purpose they have access to public funds (state aid). Successful PPP models are in place in several Western European and Asian countries, but still hardly in any transition economies.

Welfare Regimes Country groups that arrange their social policy frameworks according to different guidelines and principles. Esping-Andersen conceived the social-democratic, the conservative and the liberal welfare regimes. Often a Southern European welfare regime is added.

Introduction

Housing provision in developed countries is increasingly formalized and institutionalized. This is due to the fact that the supply of building land is regulated and individuals, firms, public bodies and limited-profit entities that engage in the production of living space are usually embedded in a tight legal framework. Yet, there are large differences in the way housing developers operate and which sphere on a continuum from private to public ownership they belong to.

Housing developers usually define their product, buy the necessary building land, coordinate and supervise the planning and building process, arrange for adequate financing and place the dwellings on the market. Sometimes they also ensure the long-term management of the buildings they produced. There is a whole bundle of literature on the adequate classification and analysis of housing developers in relation to national housing systems (Healey & Barret, 1990; Barlow & Duncan, 1994; Golland & Oxley, 2004).

One very interesting such study, Barlow and Duncan 1994, analyses the process of housing development in European states in the context of Esping-Andersen's (1990) classification of different welfare regimes. Not surprisingly, there are large differences in housing development across welfare states as regards the average size of production firms, the profit regimes under which they operate (building profits, development gains), the character of land supply (public ownership versus speculative) and the promotional form of housing (non-profit and self-promotion versus private sector). For example, countries pertaining to the liberal welfare regime (UK, Ireland) tend to have large builders and developers that rely more on speculative development gains than on building profits and largely belong to the private sector. Social-democratic regimes, on the other hand, have large builders that rely on building profits exclusively, since land-supply is under tight public control. The operation of builders is supervised by non-profit developers. Barlow and Duncan's very preliminary study unfortunately has not found many successors since 1994 (exception: Arbaci, 2007; Keivani & Werna, 2001: 70).

For the sake of this very short introduction, it is useful to differentiate the following formal (i.e. through official channels of recognised institutions) forms of housing development in developed countries:

- Direct government housing providers, usually by municipalities or the federal level,
- Limited-profit housing providers, such as co-operatives and social housing associations,
- Commercial housing providers, often focussing on large rental housing estates and condominiums or on single-family houses,
- Self-built housing provision.

Up until the interwar-period, housing provision was usually carried out by commercial housing providers and individuals. To some extent company and co-operative housing played a minor role in some countries even before, but building activity only started to sore once government provided adequate backing for these initiatives. In the 1920s and 1930s direct state provision of housing in the form of municipal apartments started to gain a foothold in Germany and many surrounding countries. Also in the UK, municipal housing started to become a cornerstone of housing provision.

In the current millennium, traditional public housing developers, so prominent in the aftermath of the Second World War, have phased out their building activity in favour of limited-profit housing developers such as housing associations and other forms of housing organisations (UK, Belgium, Denmark, France, Netherlands and Austria). This form of housing production is peculiar to some thoroughly developed countries and will therefore constitute the focus of attention of the following sections.

HOUSING DEVELOPMENT BETWEEN STATE AND MARKET

The functioning of these housing developers of the “Third Sector” varies considerably across countries (Czischke, 2009) and the stock resulting from this development not exclusively belongs to the social rental stock oriented at low income households but may be accessible for middle income households as well. There is a large variety of legal forms (associations, foundations, co-operatives, limited companies, publicly of privately owned or under mixed-ownership). Usually there is some form of government control or approval of social housing developers which operate under special rules overriding ordinary law. Often their field of operation is constrained to the local or regional level. In some countries housing developers of the “Third Sector” depend heavily on public funding, whilst in others, private financing is increasingly channelled towards them (Figure 1).

************Figure 1 approx. here ***********

COUNTRY EXAMPLES

Limited-Profit Housing Associations in Austria

By providing discounted building land, grants, public loans or tax favoured investment, the federal government of Austria, together with its regional (Länder) and municipal governments has strategically promoted the development of limited-profit, cost-capped housing with estate-based cost rents. Limited-profit housing is procured and managed mainly by limited-profit housing associations, (LPHA) but also by municipal housing companies. LPHA in Austria comprise altogether 190 housing co-operatives, private-limited and public-limited companies with a total housing stock (rental dwellings and owner-occupied apartments) of some 865,000 units (approx. 22% of the total housing stock in Austria). The LPHA are responsible for one third of new residential construction. That is more than half of all multi-storey housing construction. With this very high market share, LPHA have not only outperformed municipal housing, but also private multi-apartment housing construction. The housing associations are co-operatives or are owned by public authorities, charity organisations, parties, unions, companies, banks or private persons. To avoid moral hazard, it is prohibited for construction firms to be owners of LPHA (Amann & Mundt, 2009).

LPHA are undertakings organised according to private law and a strict federal law. They are exempt from corporate tax, are not classified as state or "charitable" undertakings and are limited in the extraction and distribution of profit and in their field of operation. They aim at creating a housing sector that is characterized by a legally defined long-term binding of the built-up capital within the housing sector and the constraint to therefore reinvest in housing matters. The aim of LPHA is the provision of affordable housing for large parts of the population.

In short, the limited-profit housing system is characterised by four principles (Amann et al., 2009):

- Cost coverage principle: the obligatory calculation of rents based on construction costs in combination with rent limitation defined by the subsidy schemes guarantee a low and continuous level of rents (3-5 € /m^2 net).

- Limited field of action: the housing associations have to focus on housing construction, refurbishment and housing management. In fact it is an important aspect for long term success of the system that housing associations in general manage the houses they have produced before.
- Binding of property – limited-profit: Housing associations ought to make profits. But these profits have to be reinvested: in purchase of land, refurbishment or new construction. A limited part of the profit (max. 3,5% of registered capital) may be divided to the owners or shareholders.
- Control: Self control through umbrella organisation, supervision through provincial governments.

The present system of social housing finance in Austria provides guarantee-like effects, even without using explicit guarantees. This derives from the combination of public subsidies (low interest loans, annuity grants), the prior role of limited-profit housing associations in new construction and the effectiveness of housing banks ("Wohnbaubanken"). Therefore, limited-profit housing associations are regarded as low risk borrowers. The guarantee-like functioning of the housing subsidy scheme in all its complexity – financial support as well as control and supervision – is responsible for the very good conditions limited-profit housing associations face on the capital market.

HLM in France

The social rented sector in France is centred around the concept of subsidised rent projects, called "low-cost housing" (Habitations à Loyer Modéré: HLM). The associations providing HLM vary in legal form, ownership and management. Yet, some general features of HLM providers can be distinguished (Levy-Vroulant & Tutin, 2009).

- They receive supply-side subsidies for building new dwellings or buying and refurbishing existing ones, but no subsidies to cover operating costs.
- The social rental housing supply is financed mainly through off-market long-term loans, with the aid of state subsidies and local authorities. There are three broad types of social housing, corresponding to the three types of loans used to fund them. They each have different income ceilings controlling access and charge lower to higher social rents.
- The loans are obtained from a public bank funded by deposits in the housing savings scheme. Guarantees are provided for these loans by local authorities or by a mutual fund. In addition, off-market loans are provided from an employers' fund financed by a housing tax on wages. HLM often benefit from state and local land subsidies.
- HLM organisations can take various legal forms: HLM Public Offices, HLM Public Planning and Construction Offices and privately-run HLM (capital companies, subject to commercial law – they). Some HLM also take the form of semi-public companies, foundations and co-operatives, part of which focus on home-ownership.
- HLM are designed in a way that a sound financial balance is maintained. They are managed according to public accountancy standards, with (in the case of privately-run HLM) profit-limits to a certain share of capital invested. HLM organisations are financially and legally controlled by the Ministries of Housing and of Finance, and they are monitored so that their activities conform to their social objectives
- The allocation of HLM dwellings is subject of family circumstances, housing conditions and income. Local authorities are allocating a percentage of the housing stock according to their access criteria.

From these general concepts it is quite clear that the system of HLM in France has many similarities with the Austrian Limited-Profit Housing Associations, as described in the previous section. Yet, one important difference remains in the funding, which in Austria relies on capital market sources to a much greater extent. The HLM-scheme was used as a model when introducing the TBS system in Poland (see below).

"Woningcoporaties" in the Netherlands

Nowhere in Europe limited-profit housing is more dominant than in the Netherlands. It is owned and carried out by housing associations ("woningcorporaties"), which in many cases are foundations with-

out real owners. These have to act on a commercial basis, but any profits they make must be reinvested in housing. They participate in one of six performance areas, such as providing target groups with suitable housing, maintaining the standards of homes, ensuring financial security and contributing to the quality of life in neighbourhoods (Boelhouwer, 2007). Housing associations are very flexible and may buy and sell their dwellings on the market.
After a process of deregulation, in 1995, housing associations became financially independent through the so-called "grossing and balancing operation" ("brutering"). Over the last decade, the stock of limited-profit housing remained stable (around 2.4 million), because the number of sold and demolished dwellings more or less equalled the number of new-built and purchased dwellings. At present, there are around 500 housing associations with a tendency of mergers due to efficiency reasons.

Despite its independence from the government, the limited-profit housing sector is subject to two 'safety bodies', the Guarantee Fund for Social Housing (WSW) and the Central Housing Fund (CFV). Both are financially independent from the government and act as guarantors to housing association loans, which results in loans that are cheaper than those available on the capital market. Associations must register with the WSW and undergo a credit check. The fund is now financed by contributions from housing associations, who are required to set aside a certain amount, in case the assets of the WSW fall below a minimum level. If, for any reason, a housing association is not able to meet the financial demands of the WSW and is unable to obtain funds, it may be eligible for financial support from the Central Housing Fund (CFV). The CFV maintains financial supervision on behalf of the Minister of Housing and may restructure financially weak associations. In return, associations must consent to undertake reorganisation in order to establish financial stability. Once CFV support is accorded, the association can once again apply for membership and, in turn, WSW loan guarantees.

An internal supervisory body advises management, monitors the work of associations and takes action where necessary. Although central government withdrew from the field, the Minister of Housing still retained some powers of intervention. The Minister of Housing also has the power to block plans by the associations that were adopted without his prior permission. The associations endeavour to show that they act responsibly to society by promoting transparency of their policies and encouraging collaboration with others. A very recent decision of the EU Commission (Dec. 15th 2009) demanded a clearer separation of commercial and social activities of housing association and ensured that the allocation of dwellings is conducted in a transparent and objective manner, focussing more on a predefined target group of socially less advantaged persons. Other than that, the Commission confirmed the operation of Dutch housing associations to be in line with EU competition law.

Municipal housing companies in Sweden

In Sweden, providing adequate housing is the responsibility of the municipalities. Most municipality have their own independent non-profit housing company. SABO is the federation for the municipal housing companies (www.sabo.se) and now includes approx. 300 member organisations. These member organisations own and manage around 780,000 dwellings all over the country (18% of the total stock, 2005). Since the early 1950s municipal housing companies are run as independently as possible from wider municipal budgets and are usually organised as limited companies. Municipalities have the primary responsibility for planning and supplying good housing for the local population and those who wish to move to the area, while the federal government is responsible for providing the necessary legal and financial instruments.

Municipal housing companies combine commercial aims with social responsibilities and may only engage in a business activity if it is conducted without a prospect of profit and is essentially concerned with providing municipal amenities or services for the residents of the municipality. The social responsibility of the municipal housing companies today primarily means that they focus on offering good-quality, safe housing at a reasonable cost. The dwellings are allocated by the housing organisation itself or by a housing association run by the municipality.

New construction by the municipal sector roughly corresponds to its share in the total housing stock (around one fifth). It is funded on the open credit market, with loans sometimes backed by municipal guarantees. A typical project might be financed up to 90% of building costs by long-term loans, the rest is covered by the housing company's own capital (Turner, 2007).

The solidity of municipal housing companies has improved over time as their net worth, i.e. their assets minus liabilities, averaged 20% in 2005. The recent increase in property values contributed considerably to the rising solidity of municipal housing companies. The return on capital invested is around 6-7%. It is usually reinvested in building activities. Municipal housing associations' rents are set by negotiation with local tenants' associations and function also as a benchmark for the rent levels in the private rental market, which has in the past caused problems with EU-law on competition and level playing fields.

In addition, there is a very particular system of housing co-operatives in Sweden. HSB and Riksbyggen are the main actors in this sector, both of which are umbrella associations for many small co-operatives. Housing dependant on these co-operatives is equivalent to 700,000 apartments or 17% of the total housing sector. HSB currently represents close to half of this market.

Transition Countries

In a study commissioned by the EIB, the Hungarian research institute Ecorys (2005). resumed housing policy development in CEE and SEE countries as a general model (**Fehler! Verweisquelle konnte nicht gefunden werden.**):

1) In the first period of transition, housing construction is reduced to owner-built, particularly single family houses. The traditionally rather strong state involvement in financing, building, allocation and management decreases sharply. Housing production drops drastically, privatization and restitution take place.
2) In the following years legal reforms are undertaken, the banking sector establishes and develops mortgage instruments. The private sector recovers with the development of owner-occupied apartments. The authors include the present situation in Romania and Bulgaria in this stage.
3) Subsequently, the states develop subsidy policies. This is the case in CEE countries and Croatia today.
4) A final stage is described as having re-established social housing schemes and urban renewal policies. As a complementary sector, the non-profit sector with housing co-operatives, housing associations and housing corporations may operate under some kind of government supervision, enjoying government subsidies.

********* Figure 2 approx. here ************

********* Figure 3 approx. here ************
summarizes the dynamics of housing delivery systems throughout the stages of transformation. Only around a decade after the beginning of the transformation process, the lack of housing development triggered by the reduction in public sector development is increasingly balanced by private developer-built housing construction and, in some countries, by the emergence of non- or limited-profit housing production.

********* Figure 3 approx. here ************

Yet, in general, although construction of owner-occupied apartments has recovered, this is not the case for rental and especially limited-profit affordable housing (Tsenkova, 2005). The sharp decline in public housing in the 1990s did not recover at all. Municipalities are only active in housing construction in a few countries (e.g. Poland). Generally, the public sector still tries to avoid being involved once more in housing construction, as it disposed of owners' obligations by privatising big parts of the rental stock (Hegedüs, 2007)

The profession of rental housing developers is not established in the majority of CEE and SEE countries. Currently, housing developers are often subsidiaries of construction companies. Their primary interest is to employ their own construction division and to get returns on investment as soon as possible. Long term investments are neither their core business nor in their interest. Affordable rental housing developers in contrast must have a long term perspective. So far, only some attempts at a non-profit or limited-profit housing sector can be observed.

The Polish TBS-Model

In 1997, Poland introduced a rental housing construction programme aimed at municipalities. Some 100,000 units have been constructed so far. The administration of this programme is carried out by the state-held BGK Bank and finance consists of long-term interest-subsidised loans (3.5% double-indexed). Construction is realised by non-profit housing associations (TBS), owned by municipalities, and by a few co-operatives. The rental apartments are targeted more at middle than at low income groups. Subsidies are subject to 30% private equity funding and the remaining 70% of funds are contributed by the National Housing Fund (KFM), which is financed predominantly out of the state budget. Since 2002, the funding was to a large part provided by state-guaranteed loans from the EIB and the CEB (Le Blanc, 2009). The large requirement for public outstanding loans amounts to a considerable problem. Also, within the political debate, insufficient targeting of the subsidies has been criticised, because objective criteria for the allocation of these very cheap dwellings are lacking. Narrowing the gap with market conditions is increasingly needed. Therefore co-financing and refinancing with commercial banks and the issue of domestic bonds should be considered to relieve the pressure of budgetary funding. Meanwhile, production output of the TBS sector has decreased strongly.

Co-operatives in the Czech Republic

In the Czech Republic, neither social housing nor non-profit housing associations are legally defined. Yet, in 1995, special subsidy programmes for new "quasi-rental" municipal housing construction appeared, with total subsidies amounting to approximately one quarter to one third of average dwelling construction costs. The programme allowed for the creation of co-operatives (PPP) between municipalities and participants (future tenants): a municipality, with the help of a commercial developer, secured the state subsidies. The remaining costs of development were covered by down-payments from future tenants and by commercial mortgage loans. Though a right to buy was allowed only after 20 years from the year of completion, the share in a housing co-operative could, under valid legislation, be liquidated immediately, resulting in a quasi-ownership structure. Even though this programme helped to increase new construction considerably, it was highly criticized for several reasons. Amongst these were the emergence of a black market in rent-regulated municipal dwellings and the illegal "sale" of rental contracts on rent-regulated municipal apartments, carried out via fictitious dwelling exchanges. Also, there were no limitations concerning the maximum cost per m2 or the maximum area of the dwelling and no means-testing was applied in the allocation. Owing to this body of criticism, the system was largely amended in 2003. The co-operative form was forbidden, cost and income ceilings were introduced and the participation of private capital was further encouraged. Apartments constructed with this state subsidy now have to remain in the ownership of the municipality and have to be used for the purpose of housing based on a lease right. Only some income groups (lower-incomes) may become tenants in such apartments, on condition that they do not own any other real estate intended for housing. The rent level corresponds approximately to cost rents. The subsidy programme for "quasi-rental" municipal housing has contributed considerably to the high rate of new construction in the Czech Republic.

The Slovak non-profit housing scheme

Only 4% of the Slovakian housing stock is constituted by municipal dwellings and 14% by co-operative dwellings. Due to the scarcity of social housing, rental contracts with the municipalities are generally limited to three years. As a result, the existing law on non-profit organisations was amplified on the subject of housing. The tax reductions that were introduced benefit associations and co-operatives, but they do not apply to capital companies. Owners may be municipalities or private individuals. Nevertheless, only housing associations that are predominantly owned by municipalities may receive state subsidies. They also have to respect specific building cost caps. After a set-up period of several years, in 2004 and 2005, the first two housing associations following this model were founded. One of them is owned by the city of Bratislava (90%) and Istrobanka (10%). The other one, based in the Northern Bohemian city of Martin, received important help from the Dutch housing fund DIGH (Dutch International Guarantees for Housing). These two associations have just begun building activity. The foundation of these associations met with considerable difficulties. Approbation from the local authorities had to be obtained. The authorities are concerned about a capital outflow and so have established strict control mechanisms.

Summary and Conclusions

In economically advanced European countries, housing development is often carried out by specific housing developers of a so called "Third Sector" which is situated between state and market. Limited-profit housing provides may take various legal forms. Yet, they have in common to be acting according to public interest and, therefore, get assigned subsidies of various forms or building land. Rent levels and access to their dwellings are legally restricted.

Analysing the opportunities to establish affordable limited-profit housing in CEE countries, two important prerequisites can be named. First, the operation of limited-profit housing developers must be defined by law, as building up assets is promoted by public funding. Second, a sound financing model is required.

Limited-profit housing development is designed as alternative to private housing and also to public housing. These developers are managed on a private market basis, but have to accept thorough public supervision and auditing. Over the years, business operations may generate substantial assets. This results in economically strong companies with a sound and secure position on financing markets and markets for construction services. This also requires strict regulations regarding the treatment of profits and assets. Therefore an adequate legal framework has to define that profits should be made, but must be reinvested in housing.

The IIBW (Institute for Real Estate, Construction and Housing Ltd., Vienna) and DIGH (Dutch International Guarantees for Housing) have designed a financing model, following the principles of a Housing Finance Agency for Countries in Transition (H!FACT) towards the implementation of an affordable rental housing market in several CEE countries. The fundamental aim is to provide inputs out of housing systems in "old" Europe for an efficient framework for the operation of limited-profit developers.

See also: Housing Finance: Transition Societies (408), Economies of Social Housing (105), Cooperative housing ownership (487).

References

Amann, W. & Mundt, A. (2009) Indicators of a unitary rental market in Austria. Paper presented at the ENHR Conference in Prague 28.6.-1.7.2009.

Amann, W., Lawson, J. & Mundt, A. (2009) Structured Financing Allows for Affordable Rental Housing in Austria. In: Housing Finance International, June 2009, S.14-18.

Arbaci, S. (2007) Ethnic Segregation, Housing Systems and Welfare Regimes in Europe. European Journal of Housing Policy, Vol. 7 (4), pp. 401-433.

Barlow, J. & Duncan, S. (1994) Success and Failure in Housing Provision, European Systems Compared (Oxford, New York, Tokyo: Elsevier Science Ltd.).

Boelhouwer, P.J. (2007) The future of Dutch housing association. In: Journal of Housing and the Built Environment, Vol. 22, p.383-391.

Czsichke, D. (2009): Managing Social Rental Housing in the EU: A Comparative Study. In: European Journal of Housing Policy, Vol. 7 (2), pp. 121-51.

Ecorys Research and Consulting (2005) Housing Sector Study in Central Eastern and South Eastern Europe, Final Draft Report, 25/07/2005. Study prepared for the European Investment Bank. Budapest: Ecorys.

Esping-Andersen, G. (1990) The Three Worlds of Welfare Capitalism (Princeton, J.J.: Princeton University Press).

Golland, A. & Oxley, M. (2004) Housing development in Europe. Chapter 12. In: Golland, A. & Blake, R. (Eds.) Housing Development. Theory, Process and Practice. London & New York: Routledge, p. 295-320.

Healey, P. & Barret, S.M., (1990) Structure and Agency in Land and Property Development Processes: Some Ideas for Research. Urban Studies, Vol. 27 (1), pp.89-104.

Hegedüs, J. (2007) Social Housing in Transition Countries. In: Whitehead, C. & Scanlon, K. (Eds.) Social Housing in Europe. London: LSE, pp. 165-177..

Keivani, R. & Werna, E. (2001): Modes of housing provision in developing countries. In: Progress in Planning, Vol. 55, p. 65-118.

Le Blanc, D. (2009) Residential Rental Housing Finance. In: Chiquier, L. & Lea, M. (Eds.) Housing finance policy in ermerging markets. Washington: The World Bank, pp. 363-94.

Tsenkova, S. (2005). Trends and Progress in Housing Reforms in South Eastern Europe, Council of Europe Development Bank (CEB).

Turner, B. (2007) Social Housing in Sweden. In: Whitehead, C. & Scanlon, K. (Eds.) Social Housing in Europe. London: LSE, pp. 148-164.