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Rental housing for middle income groups: a challenge for PPP-models

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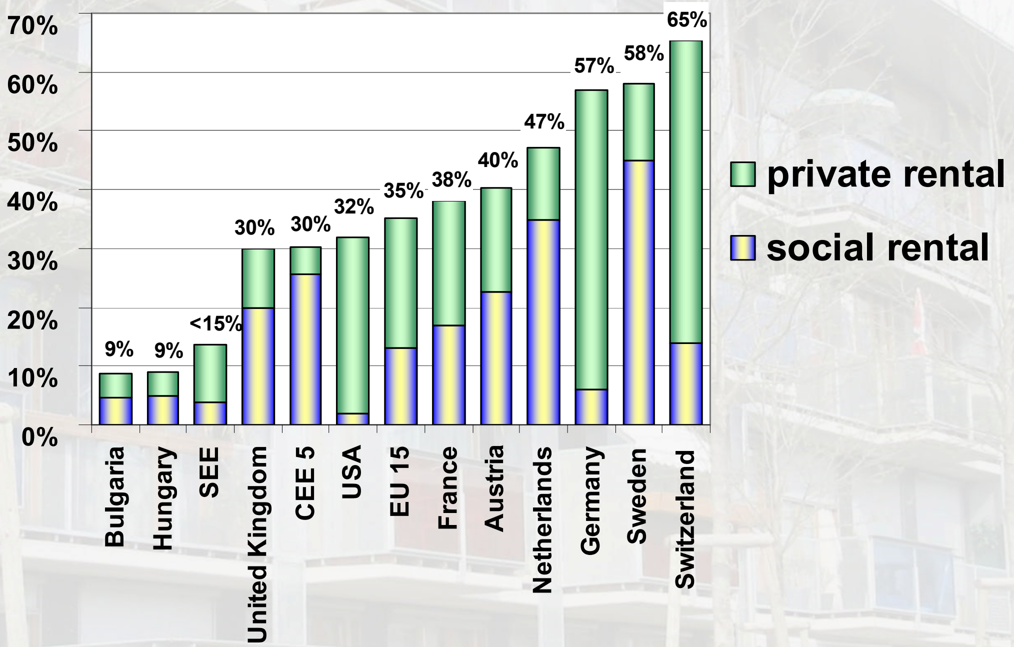
Contents

Market segments for middle income groups

- In Western countries middle income households are well accomodated by private market as well as subsidised housing
- In most countries middle income groups of any tenure benefit from housing promotion schemes, very often as PPP
- By contrast, countries in transition mostly have insufficient instruments targeted at middle income groups
- In CEE/SEE housing promotion schemes for low income groups are emerging; there is sufficient supply for top income groups
- But there are major deficiencies for the "BIG IN-BETWEEN", almost only upscale supply of condominiums,
almost no affordable rental housing
- Is it market failure?
- Is it underdeveloped PPP models?

Significance of rental housing tenure



Source: Housing Stat. in the EU (2005); Statistics Austria; Czischke (2005); PRC (2005), IUT, Schweiz. Bundesamt f. Statistik

Some definitions

Social housing

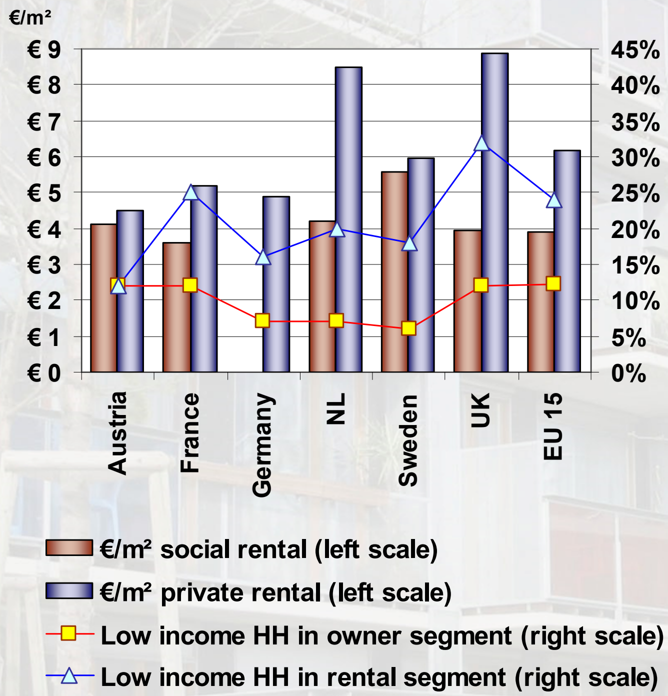
- Fundamental criterion: existence of rules allocating housing to specific population groups.
- Target groups may be defined legally by income limits: This way middle income households may be included.

Two types of rental housing markets

- Dual rental market: Social sector is shielded from competition of the private market, reserved for low income households, functions as a residual safety net. Private market is characterized by high rents and insecure rental contracts.
- Unitary rental market: Rent level determined by competition between private and social housing providers. Social housing sector is directed towards larger population groups, preventing a marginalization of its tenants.

Kemeny, J. (1995), Kemeny et al (2001)

Dual or unitary rental markets



Distinguished by
a) difference in rent levels,
b) overall volume of social housing,
c) residualisation of rental sector to low income groups

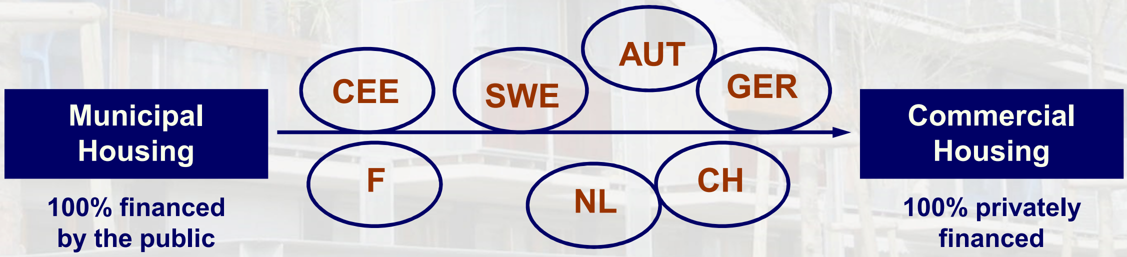
Dual rental markets e.g. in
- **Ireland**
- **Switzerland**
- **UK**
- **USA**
- **CEE/SEE**

Unitary rental market e.g. in
- **Austria**
- **Finland**
- **Sweden**

Source: Housing Statistics in the EU (2005)

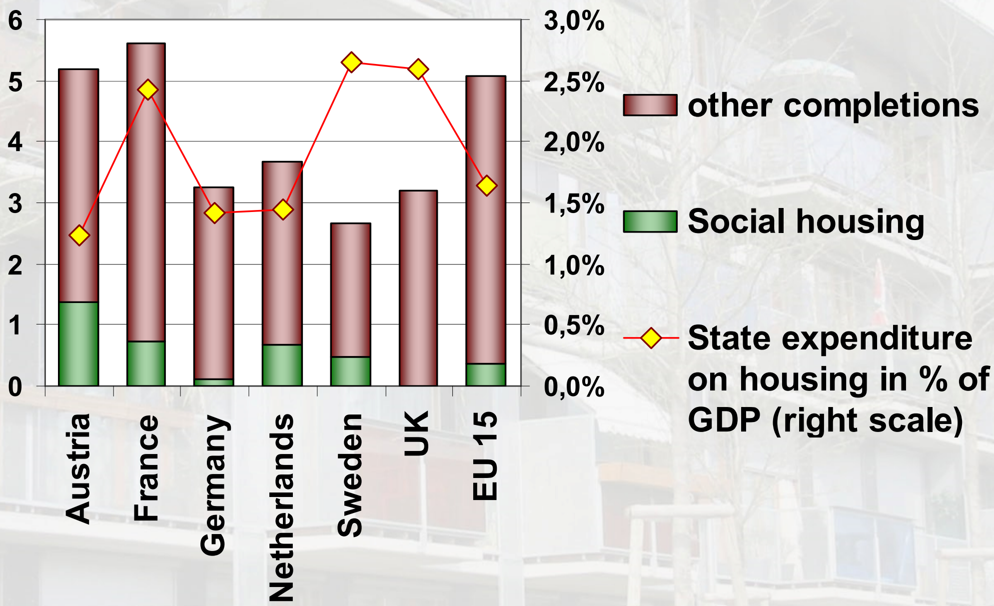
Why Public Private Partnerships in housing?

- Municipal housing targeted at low income groups
- Affordability problem faced by middle income groups as well
- Housing market does not provide sufficient housing, taking the given ability to pay
- Combining the efficiency of the markets with the backing of the state



Rental housing and state expenditure

Annual dwelling completions per 1 000 inhabitants (left scale)



Source: Housing Stat. in the EU (2005); Ball (2005), PRC Boucentrum International (2005)

The Netherlands: three levels of security

- Social housing organisations are private companies, but meet a public mandate. They provide 35% of the housing stock.
- At first, housing was fully financed by the state. By “Brutering“ in 1993 all outstanding mortgage loans were transfered to the social housing sector. In return the future admission of (supply-side) subsidies was canceled.
- The social housing organisations founded several funds for mutual support (“primary security“). The WSW Social Housing Guarantee Fund, a private organisation, warrants a “secondary security“. The State and local authorities provide backup guarantees as safety net.
- Financing of social housing on best capital market conditions.
- Within this framework affordable rents are only possibly by intensive investment of equity, sale of rental apartments and shift of earnings from stock to new construction.
- The state still invests 1.4% of GDP in housing.

Switzerland: Bond Issuing Co-operative

- Switzerland has a relatively small social housing sector (14% of the stock). Housing is subsidised by state guarantees and a small housing fund.
- Social housing organisations are integrated in a „Bond Issuing Co-operative“ (BIC). The State (Federal Housing Office) provides backup guarantees.
- Funding requirements of several housing organisations are pooled. BIC raises funds at favourable conditions by issuing state-guaranteed bonds through private or public placements.
- Housing construction is financed from different sources: equity of the housing organisations, mutual guarantees from the sector and a state guarantee up to 70% of construction cost.

Austria: Limited-Profit Housing Associations

- Public mandate defined by LPHA law and subsidy regulations
- LPHA are private companies, owned by municipalities, public bodies, charity organisations, parties, unions, companies, banks, private persons, as well as co-operative
- Cost coverage principle, cost rent
- Limitation of profit, binding of property
- Efficient audit and control mechanism
- The state invests 1,2% of GDP in housing

Financing of social housing in Austria

• Subsidies (grants, loans): mostly the subsidy schemes define cost and subsidy limits. This incites the LPHA to keep construction and financing costs down.	20-40%
• Equity of developer:	5-10%
• Equity of future tenants: if it is more than 50€/m² it results in a right to buy (≠ lease to own-model)	0-15%
• Commercial loans: today largely financed by Housing Banks, which refinance by housing construction convertible bonds (HCCB) with very favourable conditions.	50-70%

HFA – A Housing Finance Agency as a model for CEE/SEE

- Feasibility study by I•IBW in cooperation with international commercial banks, financing institutions and donors
- A PPP to bridge existing institutional and financial deficits
- To lift rental housing supply for low and middle income groups in CEE/SEE
- To facilitate refurbishment
- We learned from PPP models in Western Europe, but simplified and adjusted them to the specific situation in CEE/SEE
- Pilot countries Slovakia, Romania, Kosovo and Montenegro

Financing models of HFA

DIGH model – taking the risk of first loss

Guarantee-bound model

Batch financing model

German interest guarantee model

Junior Loans	highest risk / first loss / most difficult to finance / often covered by subsidies
50-70% Senior Loans	Typically mortgage loans / L/V-ratio from <50% in some Western Balkan countries and >85% in Western countries
Equity	Not only for security, but it influences the refinancing costs for the bank

Results for CEE/SEE

High output, affordable rents and reasonable costs for the public ask for a package of measures:

- **For CEE affordable rents mean monthly approx. 2 €/m² annuity, without subsidies rents exceed 7 €/m²**
- **PPP means contributions of all players:**
  housing developers: cost rent, limitation of profit
  target countries: subsidies (loans, guarantees), legal framework, VAT-regulation
  municipalities: building land free of charge
  commercial banks: pressure on conditions
  international donors: guarantees, loans
- **Model calculations proof that financing with <30% public funding is possible**
- **PPP means supply side subsidy: thus we need an efficient system of audit and control**

A status quo-scenario?

- **High and even rising owner-occupancy rates**
- **Frozen mobility for low and middle income groups**
- **Decline of housing consumption (living space per capita)**
- **Stagnating construction output**
- **…**
- **…**

… a gloomy perspective!

Thank you for your attention

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