

# visions for social housing: international perspectives

Edited by Julie Cowans and  
Professor Duncan Maclennan CBE



THE SMITH INSTITUTE

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Published by the Smith Institute

ISBN 1 905370 40 7

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## Preface

Paul Hackett, Director of the Smith Institute

The future of social, or non-market, housing is high up the public policy agenda in every Western country. Governments are having to grapple not only with the impact of the global credit crisis in terms of falling house prices and unwanted sub-prime stock, but also with the consequences for investment in social housing and estate regeneration. Moreover, an economic downturn will add to public housing waiting lists, increase housing welfare costs, and narrow housing choice.

The state's intervention in housing markets had for more than a century defined social progress and improved the health and well-being of millions of low-income families. Public housing, in all its forms, was at the heart of the post-war welfare revolution and was instrumental in providing for social mobility. In today's property-owning societies this is no longer the case. Indeed, as this publication demonstrates, social housing has all too often become part of the multiple-deprivation problem. Rather than providing a hand-up, public housing (especially in mono-tenure estates) has all too often condemned families to the poverty trap and entrenched intergenerational housing inequalities.

This report goes straight to the heart of the matter, looks at how the world has changed and asks: what, in today's more affluent society, is social housing for? What can we learn from each other, and what reforms really make a difference in terms of better outcomes for tenants?

The authors, drawing on evidence and analysis from their own countries, provide some considered and practical answers. Most of the recommendations are relevant to all Western countries, and collectively they present an agenda for reform that extends well beyond housing policy. *Visions for Social Housing: International Perspectives* offers a unique and timely insight into how nations are facing up to their housing challenges, and explores what the lessons might be for the UK.

The Smith Institute thanks Julie Cowans and Professor Duncan MacLennan (directors of theplaceteam) for editing this collection of essays and drawing together the conclusions, and gratefully acknowledges the support of the Housing Corporation, the Housing Futures Network (L&Q, Riverside, Affinity Sutton, Places for People, and Gentoo), and theplaceteam towards this publication and the associated seminar.

The Smith Institute, founded in memory of the late John Smith QC MP, is an independent think tank that undertakes discussion, research and education on policy issues concerning equity, enterprise, economy and the environment.

## Foreword

Peter Dixon, Chairman of the Housing Corporation

At a time when there is an international focus on markets, and housing markets in particular, this report shows that many countries are also at a crossroads in their approaches to delivering non-market housing. The roles that governments, regulators and non-profit providers play in ensuring access to good-quality homes at affordable prices, whether in the market or non-market sectors, have never been more important.

The need to review the role of social housing predates the recent economic turmoil. A common theme across the chapters in this report is that the economic and sociopolitical contexts in which governments made their initial investment in social housing were radically different from those of today. The Housing Corporation has welcomed the debate in this country about the future role of social housing, which will help set the context within which our successor bodies, the Tenant Services Authority and the Homes & Communities Agency, will deliver.

For more than 40 years, the Housing Corporation has been at the centre of innovation in the delivery of affordable housing. Over that time we have delivered some 1.27 million homes, and have overseen the growth of a sector that has a present value of some £70 billion. Throughout, we have actively embraced new approaches and new ideas.

In the mid 1970s we established a grant model that over 30 years has helped transform the delivery of affordable homes for rent. In 1988 we pioneered the use of private finance to boost the delivery of affordable housing – since then, some £35 billion of private investment has been invested in what must be regarded as the most successful public-private partnership in the delivery of any public service.

In 2006 we introduced a mixed market of for-profit as well as non-profit organisations, broadening the range of social housing providers; a direction of travel consolidated by the opening up of our programme this year to local authorities and arm's-length management organisations. Along the way, we have achieved consistent improvements in the value obtained from public investment while at the same time driving through improvements in quality and leading the way in environmental performance.

We are on the cusp of the most radical reform of the institutions for affordable housing delivery since the Housing Act 1974 expanded the Housing Corporation's role in affordable housing delivery. After 44 years the Housing Corporation will transfer its investment role to the Homes & Communities Agency, and its regulatory functions to the

Tenants Services Authority. The learning and experiences from other jurisdictions facing similar social, economic and environmental challenges can inform our approach to institutional change, and we welcome the opportunity to support this valuable Smith Institute monograph.

## **Introduction**

Julie Cowans, Founder Director of theplaceteam

This publication is a contribution to the debate arising from a number of publications and think pieces by the Smith Institute, government and others seeking to understand what role social housing should play in future. Recent debates in England have often created more questions than they have answered, with a common theme being confusion and disagreement over what social housing is now for.

This debate is not happening in only one country. The sub-prime lending crisis in the US and the resulting credit crunch have brought the issues of housing affordability, access, financing and methods of provision to the top of the agenda in many countries around the world. Housing policy is a global socioeconomic issue.

A growing number of post-industrial economies are looking at the consequences of past social housing policies and endeavouring to construct a modernised vision for the future. Some are further ahead in their thinking than others, but there are useful insights and lessons we can learn from discussions with all of them.

The countries featured here are just a few of those that are having very similar debates about social housing, and its role and purpose in the future. Despite their very different cultures, populations, proportions of social housing, fiscal and political environments and methods of provision, some fundamental – and strikingly similar – shared policy themes have emerged.

We are certainly not alone in the UK in recognising the problems of our past and present approach, and in our thinking on potential solutions.

### **Outdated systems in changed circumstances**

The original purpose of social housing has been lost. In Blair Badcock's words, social housing as a "lay-by on a housing pathway" to a destination of choice and opportunity – somewhere to re-establish security and independence – has given way to a welfare *raison d'être* in the post-industrial era.

Its purpose now is to house those "largely outside the world of work", as Tony Fahey puts it in his chapter – only the most needy and vulnerable. Too often we house them in spatial concentrations of deprivation, with all the associated problems for the individual and for society at large. To use Michael Lennon's words, "multiple disadvantage and associated stigma are rife in many parts of the social housing stock... drug and alcohol abuse, vacant stock, empty shops, poor school records, shortages of and poor public services, discrimination in the labour market and so on are evident in major public housing estates".

Sadly, such descriptions ring true in (at least some parts of) all the countries featured here. Social housing's role, it is argued, as an important component of national, regional and local social and economic development – housing the workers in growing industrial societies – has been lost in the post-industrial era.

In all the countries featured here, and many more around the world, housing policy has been adversely affected by the swings and roundabouts of political ideologies, changing economies and increasingly consumerist societies. But in the case of social housing, the situation has been exacerbated by underinvestment in existing stock, mass sell-offs, and a failure to replace and grow stock in the face of increasingly acute demand. Over the long term, this has resulted in some disastrous common consequences.

It is a system now overdue for reform. To quote Bruce Katz and Margery Austin Turner in their chapter, "left unchecked, present trends threaten to undermine national economic, social, welfare, environmental and even educational priorities".

### **Constructing a new vision**

A very strong theme is the need, as developers and managers, to become better place makers, as opposed to simply producers and managers of units of social housing. The housing crisis in the wake of the credit crunch has shown us that the welfare approach to non-market housing is too narrow and has re-emphasised the need to link affordable housing policies and provision firmly with broader social and economic development.

Redefining social housing, broadening its role to the provision of a wider non-market housing function, is another strong theme of these essays. In taking this approach, the role and purpose of providers, procurers and funders is brought into focus. The growth in demand from a broader range of households for affordable housing, as well as social housing, yet the lack of affordable choices within and across tenures is moving us towards a set of policy approaches that are concerned with enabling access to housing which is affordable, and not only with providing social housing. In David Orr's words, "the activity

of social housing itself needs to be redefined far more broadly".

Increased rationing of social housing has occurred in all the countries featured and has resulted in perverse incentives for applicants to define and present themselves as being in greatest need, poor and vulnerable, unable to be self-sufficient or self-supporting. This selection process, combined with the magnifying effects of being housed where there is concentrated deprivation, welfare dependency, worklessness and social exclusion, is no proud legacy for the architects of the system. It seems, rather, to be the polar opposite of their original intentions.

Solutions explored here are housing approaches that include support and encouragement – like US-style enhanced vouchers – to assist in breaking the cycle of welfare dependency and incentivise families trying to leave welfare, as described by Bruce Katz and Margery Austin Turner.

Strategic action to mix communities – reducing income segregation and avoiding the stigma attached to social housing spatial concentrations – is common to all countries, to a greater or lesser degree. However, it is clearly felt that much more could be done to accelerate the process, and to halt more rapidly the decline where the full and inevitable effects of failed past policies and practices are yet to be played out.

Strategic sales of stock are explored, with use of the proceeds to reinvest in stock in more supportive communities – neighbourhoods that offer opportunity. Another suggested use of sale proceeds is to offer different types of products and services to people in need of non-market housing, which are more conducive to meeting their long-term housing requirements.

A key feature is the ability and flexibility to offer real housing choice to households in terms of type, tenure, location and longevity. Procurement in the private rented sector, facilitation of finance mortgage or equity, forms of shared equity, equity release, fixed-term or lifetime tenancies are all explored. So too is flexible tenure and the ability to facilitate the transference of housing assets within and between families and generations.

Of course, some groups will always require something like social housing as we now know it: long-term (possibly life) tenancies at low rent with supportive, non-profit management. But there must be more in the way of support and assistance that we can offer to those who want, who can manage or who aspire to other housing options that better suit their long-term needs and not just their immediate housing requirements.



At the end of the day, to achieve change, national leadership is vital because "many constituencies will find greater comfort in protecting their piece of a shrinking pie than in striking out for new, uncharted territory", as Bruce Katz and Margery Austin Turner put it.

In the concluding section of this monograph, a 12-point plan is recommended as a pathway to a new vision for affordable housing. It is in no way exclusive. New and exciting ideas are still in development, and countries not included here will have much to add also. But the clear conclusion from the contributions to this publication is that, as David Orr puts it, "the old ways of thinking about social housing will not deliver" for the future.



## A perspective from England

*We, not for profit housing providers, have a vision of a Europe with decent and affordable housing for all in economically, socially and environmentally sustainable neighbourhoods where all can reach their full potential.*

This is the vision statement agreed by CECODHAS, the European network of housing federations, in May 2008. It is a vision that is entirely recognisable for England. Indeed, with the present focus on the role housing providers have in building successful *places* it could have been written specifically with an English audience in mind.

But what role should social housing play in delivering the vision? What is its unique contribution? And in a vision that makes no direct mention of social housing, and where the focus is on plurality and quality of place, is the concept of social housing still useful?

This paper will briefly consider three possible roles for social housing. It will state a preference that social housing should be a powerful driver for delivering decent and affordable housing for all – in economically, socially and environmentally sustainable neighbourhoods where all can reach their full potential – because it is the most holistic, the most flexible and the most consistent with delivering the good society; fairer, more equitable, with greater social mobility and less impairment of life chances by accident of birth.

Having made this choice, the paper then sets out a series of social housing policy prescriptions (and policy prescriptions for related public policy areas) that flow from this choice. In short, it argues that the activity of social housing itself needs to be redefined far more broadly if this objective is to be met, and indeed questions whether the term “social housing” is adequate to describe this new, wider approach.

This changed role will require a wider and more varied set of government investment approaches and a similarly changed regulatory regime that is more focused on achieving key outcomes than on managing and critiquing process and form. Finally, social landlords themselves will need to change how they think about themselves and how they operate if they are successfully to achieve this aim.

### Context

At the start of the 20th century, about 90% of all homes were privately rented. This included the huge country mansions and townhouses of the rich and aristocratic. The majority of the population, though, were housed in appalling conditions. Our collective

folk memories of housing are still conditioned by these pictures and lie at the root of the continuing concern about housing policy.

A few enlightened social reformers had already recognised during the 19th century that improving housing conditions would have a dramatic impact on improving health and well-being. Some of the great housing trusts of that time remain with us, still providing high-quality homes. But the two great changes of the first half of the 20th century were the growth in home ownership and the huge rise in the delivery by local authorities of good-quality affordable homes to rent.

Council housing transformed the housing landscape. It was responsible for a real improvement in housing standards and was provided as a service to all who needed or wanted it. It did not seek only to house those in the greatest need. It had as its primary objective the housing of working people, regardless of their income. Although it lasted a relatively short time, the heyday of council housing really was characterised by people from all walks of life living in council homes. There was no stigma of failure attached to renting your home from the local authority.

So council housing and increasing levels of owner-occupation provided the huge majority of the population with their homes. The private rented sector shrivelled and housing associations played an important but marginal role in plugging the gaps.

In the 1970s we began to realise the full extent of the problems from building huge mono-tenure social housing estates. Such areas became economically isolated as the economy experienced a downturn and unemployment escalated. Levels of disrepair in council housing began to rise, and increasing numbers of people looked to owner-occupation for an answer to their housing problems.

This shift became dramatic when the right to buy social housing was instituted. Millions of people saw the benefit of buying good homes at huge discounts, especially in an environment where we had grown to expect real capital growth in the value of our homes. All these rational individual decisions led to some serious community consequences, with the number of available new lettings of council homes falling substantially. Rationing to the neediest resulted.

Access to good-quality affordable housing became increasingly difficult for people in work but on low incomes, as prices in the market grew by much more than the rate of wage growth and fewer rented homes became available. Added to this were population growth, changing demographics and evolving social norms, which collectively meant that

the number of households grew much more quickly than the number of new homes. This was made worse through the 1990s and into the early years of the 21st century by historically low levels of government investment in new affordable homes.

A further critical change came when governments decided that new social housing should be provided by non-profit, independent housing associations. In 1988 new legislation meant that housing associations could borrow from the private sector to supplement public investment and that the new borrowing would not show on the public balance sheet. Huge growth followed for housing associations, made even greater by the decision to transfer much of the stock of council homes to housing associations to allow further off-balance-sheet investment.

### **What is social housing for now?**

Looked at in isolation, there are a number of possible roles for social housing. Three are identified here, which might be described as economic, welfare or place.

An economic model for the role of social housing might be described as a form of Keynesian demand management. Investment in housing and construction may be seen to provide multiplier effect benefits to related sectors and stimulate the national economy (especially given the close link between our housing market and the performance of the wider English economy). In the present market conditions it might also be considered to provide counter-cyclical investment to support the development industry through a downturn.

There are many apparent attractions to this model. In theory at least, such investment can have a stimulating effect on the economy as well as providing the core benefit of delivering new affordable homes. It provides employment in the housing and construction industries and may provide training and apprenticeships that develop the skills base in the economy.

One might argue that these benefits will accrue whenever there is significant investment in housing. However, if this is regarded as the purpose of social housing, rather than as a consequential benefit, decisions will be made that are designed fundamentally to manipulate the market rather than to meet the needs of those who are excluded.

A welfare model is concerned with the immediate assistance of those in most need and with ensuring maximum value for the public purse in terms of need assisted. This might be considered to be the role that social housing plays now. Allocations of social rented housing are targeted on those seen to be in the greatest need, often housed in large, essentially mono-tenure estates.

This has clearly been important provision for many, and in the present market there remains very strong demand. Many people are now living in good-quality, affordable homes that would have been inaccessible to them on the open market. Given the recent historically low levels of new investment and house building, and given also the objectives of many housing associations and others to provide for those in greatest need, it is unsurprising that this welfare model should have developed.

Not intentionally, but inevitably, social rented housing is now seen as the housing of last resort, available only to those who can demonstrate that they are needy. However, recent studies<sup>1</sup> suggest that growing up in social housing is one of the strongest indicators of disadvantage in adult life. It is seen to disadvantage people by denying them access to assets; it has apparently trapped people in worklessness; and it can have low levels of customer satisfaction.

This is not what anyone wanted, least of all the staff and boards of housing associations and the people running council housing services. While no one suggests that social housing is itself the direct cause of worklessness and economic deprivation, it seems not to have been the solution. Those involved in providing the service are keenly aware of this, which at least in part explains the huge investment in neighbourhood support activities by housing associations over the past few years. But it is not enough. In 2008 the welfare model of social housing has contributed to a deeply polarised housing market where the open market meets the needs of the wealthy, social renting meets the needs of the most socially excluded and economically vulnerable, and those on low-to-average incomes are increasingly squeezed.

A model based on the concept of place is the one identified by the articulation of the ideal outcome – to provide decent and affordable housing for all in economically, socially and environmentally sustainable neighbourhoods where all can reach their full potential – as a vital element in the delivery of a wider social, economic and environmental vision. Essentially, this model argues that social housing's purpose is to be a critical tool for dealing with the multiple dimensions and consequences of imperfect markets.

Imperfections exist in the market for land, for employment, for access to education and in other key areas that may be considered central to the building of a cohesive society. These market failures create unacceptable externalities including unemployment, poor housing conditions, homelessness, affordability problems and distorted development

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<sup>1</sup> Feinstein, L, Lupton, R, Hammond, C, Mujtaba, T, Salter, E and Sorhaindo, A *The Public Value of Social Housing: A Longitudinal Analysis of the Relationship between Housing & Life Chances* (Smith Institute, 2008); Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Centre for Analysis of Social Exclusion, 2007)

patterns. These are clearly socially undesirable and militate against our shared understanding of how the good society might look.

A holistic approach based on place is one that, if fully implemented, has the best chance of achieving the goal of delivering the good society. This answer to the question of what is social housing for is driven by a wider principle that is a commitment to a vision of the good society, a desire that that vision should somehow be shared nationally – it would be hard to claim that this was the case at present – and that we understand the vision of a good society in terms such as equity, fairness, positive life chances and opportunity for all. It is the option regarded in this paper as the preferred one. This essay explores what policy choices should be made and what tools should be developed to support it.

### **Policy choices**

The first policy choice is to move away from the belief that all social housing should be provided by social housing providers, and that social housing providers should only provide social housing. We must move away from the delivery of social housing as though it were separate from the rest of society. This separation has often led to social housing being built in mono-tenure estates and has equally led to our perception of social housing being only about such estates. There is no reason that this must inevitably be the case.

Over the past few years the debate has moved on to the need to develop economically viable neighbourhoods. This is delivered either through encouraging sale of properties on mono-tenure rented estates or through building new homes for sale and for rent in the same development (but only rarely in a genuine mix of tenures). This is fine as far as it goes, but it is not enough.

Although it may appear to cost more up front, we need to encourage housing associations to rediscover the benefits of buying individual street properties and investing in very small-scale developments. This is an effective way of investing in existing places, of retaining the character of particular streets and of ensuring there is economic mix and viability.

Secondly, we need to understand that social housing providers can, and should, be providing homes for market sale and market rent as well as homes for shared ownership and social rent – not least because without this the economics of the straight provision of social rented accommodation are punishing. We may also need to encourage those who traditionally provide only homes for sale to extend their offer into renting.

Our housing market is dysfunctional more or less throughout. It responds poorly to demand, it is often inflexible in the products and choices it offers people, and it discourages mobility. For many people, a choice between social renting and owner-occupation is purely illusory. Those who qualify for social renting do so because they cannot afford ownership, and those who can afford to buy are thereby made ineligible for social renting. The offer needs to be much more flexible. Any provider can offer this flexibility, but housing associations in particular have the constitutional independence and flexibility that make it easier for them than for others.

Thirdly, we need to think much more creatively about changing tenure without having to move home. If you are a private renter, there is no mechanism to enable you to buy an equity share in your property. We have created a structure which assumes that people will move home as their circumstances change, rather than exploring ways to allow them to have a different financial and tenure relationship with their existing home.

This all implies that social landlords will become organisations far removed from their historical roots as single-focus providers of large-scale affordable rented housing (council housing) or as the fillers of the gaps in provision for the most excluded (housing associations). They will be required to continue the journey already begun to engage in a much wider range of activities and interventions. They will do this not because they are social housing organisations but because they are agencies that have the personal, asset and financial resources, the organisational capacity and the opportunity to contribute to the creation of the good society.

These interventions will be determined by the needs of the place and may include financial inclusion, community facilities, job training and preparation, job creation and the development of social enterprise, neighbourhood management and investment, community cohesion, environmental stewardship and much more.

Housing associations will equally be required to work with a much wider range of partners. These will, of course, continue to include government and its agencies, both at national and local level, and existing and new private finance partners. It will increasingly mean working with non-housing agencies in employment, education and training, economic development, social care and environmentalism. It will mean building alliances with social enterprises, with large and small voluntary and community groups and with ethnic-minority and faith groups.

This changed approach will mean developing these partnerships across geographical boundaries as well as across disciplines. And it will, to be successful, need to be based on



a clear understanding of the needs, desires and expectations of residents and the whole of the wider community. The delivery of any such success will be built on the excellent work already carried out by some housing associations and other providers in engaging the expertise of the community in decision making about place.

### **New tools**

The major tool for government support for new social housing has, since 1974, been capital grant. This has been successful in meeting the primary purpose (new homes) but is very inflexible. When a housing association (or any other approved provider) develops new homes with public investment, the only mechanism available from the Housing Corporation has been social housing grant.

With an understandable wish by government to see public money used efficiently, the driver for social housing grant has been ever-improving efficiency – better understood as lower grant rates. This is the wrong test. The better test is how effectively the investment is contributing to delivering the right product in the right place at the right time. Our obsession with the quantity of units delivered for each pound of social housing grant has led us to lose sight of the need to ensure we are delivering the right product in the right context.

To improve flexibility, we must ensure that social housing grant is only one way of securing government investment. We have to allow gap funding, or up-front infrastructure funding, or bridging finance, or land subsidy, or revenue support, as well. We should encourage equity investment by government rather than grant funding, when that works best for the funding and delivery partners and where it works for the product. We should encourage joint-venture risk sharing and we should be actively seeking mechanisms to encourage equity investment by private investors in the development activity. There may be other ways to support development, perhaps through favourable tax treatment and the enforcement of planning rules. Whichever of these is available, it is critical that we do not replace one single funding mechanism with another for administrative convenience.

This flexibility has the potential to transform the way new projects are funded and delivered and to improve the quality of new homes. It means moving away from a single determinant of value for money to a more sophisticated assessment, using as the driver cost per habitable square metre rather than the number of units built. It means thinking differently about how investment delivers most value over the long term rather than focusing on the up-front price. And in a market that, at the time of writing, is struggling for liquidity, an ability to think flexibly and creatively about new investment is likely to be the most prized asset for new delivery.

## **Regulation**

The sector has been subject to process-driven, bureaucratic, quantity-focused regulation. The one-to-one, mutually dependent relationship between the regulator and the regulated has led to an unhealthy structure where the most important relationship is between executive team and regulator, where governance takes second place to regulation as a driver for decision making, and where both are more important in practice than the accountability of boards to customers. It is imperative that this changes.

To be fit for purpose, the new regulatory regime must encourage innovation and entrepreneurialism, must stand behind effective corporate governance rather than replacing it, and must ensure that accountability to customers and communities is more important than accountability to the regulator. It must be outcome-focused rather than process-driven and it must understand that local responsiveness to place should be nurtured and supported rather than regulated and bureaucratized.

## **Changing the question**

If we are to deliver decent and affordable housing for all in economically, socially and environmentally sustainable neighbourhoods where all can reach their full potential, then – in addition to embracing new policy thinking, new delivery tools and greater flexibility – we have to ask the question: “In what way can social housing contribute to delivering this vision?”

If we ask the question in this way it opens a whole new social policy debate. We are where we are in housing terms partly because the political and social policy questions have been limited to discussing social housing in isolation rather than fitting it into a much wider context. A narrow debate about social housing has led us directly to the residual, welfare housing that is distrusted by many and which has trapped too many in social and economic exclusion.

The question what contribution a new development will make to producing an environmentally, economically and socially sustainable neighbourhood requires joined-up thinking about the effects of the development on climate change and fuel poverty. It leads to consideration of the economic impact of the development, including the possibility that it might assist in providing routes into work for those who need it. It explores how community safety can be maximised.

It addresses the way in which design, of buildings and of public space, contributes to well-being and confidence. It asks what community and neighbourhood facilities are required, not just for those in the social housing itself but for all in the community.

It recognises that the people who live there have a determining interest in what happens and have knowledge and expertise to contribute to creating the place. This is not tenure or wealth specific but it is place specific. And to do all this, to ask these questions in this way, provides the best opportunity to allow all who live in the community to reach their full potential.

### **Conclusion**

In England we are in the middle of a fundamental reappraisal of housing policy and delivery. Government has recognised the absolute requirement to invest in increasing the supply of new homes. It has also recognised that the old assumptions about delivery are in need of change. We have a new investment agency, the Homes & Communities Agency, and a new regulator for those who provide social housing, the Tenant Services Authority. This creates the best possible circumstances to change the way we do things and to be more flexible in our approach. It also creates an environment where the providers themselves have to think creatively and to move out of the delivery processes in which they may have become too comfortable.

There are huge challenges for the delivery agents here. Many have a role to play, but housing associations have a unique offer. The combination of public and private investment married to their long-term commitment to the places where they work and the people who live in them, and their ability to make investment decisions that reflect the needs of these people and places, make them uniquely placed to meet these changing demands.

It is almost impossible to imagine a future where "the market" will ensure that all housing needs are adequately met. This implies that what we now call social housing will always be necessary. Indeed, it might legitimately be argued that the availability of good-quality, affordable rented housing is a precondition for a successful and integrated economy. It is an especially pressing requirement now, in a market that is slowing down but which remains characterised by a lack of supply and major problems of affordability. In such circumstances, the temptation is to focus on supply above all. We cannot allow this to happen.

The building of successful, sustainable places is not susceptible to a political quick fix. It is susceptible to careful planning, to an understanding that decisions taken now unfold over decades, not weeks or months, and to a recognition that the old ways of thinking about social housing will not deliver. This is a vision that may now need us to stop using the term "social housing". The vision is of integrated places with different tenures and a plurality of providers, where it is easy to move from one tenure to another, one house to another, one place to another. We need a language that bridges the present divides rather than reinforcing them.



## A perspective from Australia

### Why housing markets don't work for everyone

The fallout from the sub-prime mortgage crisis, spilling from North America through the UK and Europe and now into Australia and elsewhere, is wreaking havoc in the stock markets and financial systems. A range of issues – including ill-disciplined lending, failing regulatory systems and paper transactions being traded with fragile underlying security – have all contributed to a financial collapse of yet-to-be-defined proportions.

The human consequence of downward-spiralling property markets, falling prices, wipe-offs in share values and evaporating institutional reputations is hundreds of thousands of families losing their homes – bankrupt or saddled with negative equity and debts that they will never repay. The case is starkly being made that there are limits to home ownership. As we know, markets will not provide decent housing for all who need it, especially low-income households, people with complex needs, and people in crisis, trauma or transition. For such groups, home ownership and the private rental markets are often inaccessible, unaffordable, insecure/unstable and discriminatory.

It is for these reasons that, in the post-war period, authorities perceived the need for substantial government intervention from which council housing, worker housing, co-operatives, housing associations and public housing emerged.

### The Australian context

Housing patterns and tenure mixes vary widely across countries. The US, Canada, Australia, New Zealand and South Africa typically have much higher home ownership rates than the countries from which immigrants to these nations travelled, driven by aspiration and drawn by comparative wealth and relatively low land costs.

Against this background, the social housing system in Australia has generally played a much smaller part in housing supply than it has in European countries, accounting for only 4–6% of housing stock, whereas proportions are much higher elsewhere. However, at different times and to different degrees, social housing has everywhere faced very similar challenges.

Social housing sits within the federated system of government in Australia, with the national government having the principal funding role and states and territories having service delivery responsibilities in the form of housing departments or corporatised entities. The non-government community housing sector is small (albeit growing).

The Commonwealth State Housing Agreement was established in 1947 and set up the

framework for Australian public housing over the next 60 years. Essentially, capital grants are provided to the states and territories, subject to matching state funds, and specific-purpose payments are made for emergency or transitional housing and homelessness. Long-term loans have been made available for capital purposes (at concessional rates) and for home ownership programmes.

It is important to stress that although the Commonwealth State Housing Agreement grew stock and public housing organisations through the “long boom” (in some states boosting stock levels up to 12-13%), the dominant policy settings and subsidies have always been for home ownership. Primary residences are exempted from capital gains tax at all levels, with no tax on imputed rents. Deposit assistance schemes have always existed in one form or another. Owning your own home is as Australian as Vegemite, surf lifesaving and the backyard barbie. Generous tax concessions are also available to investors in the private rental sector, which makes up around 25% of all housing stock.

In this context, social housing has been relatively marginal in itself but an important part of wider policy settings. In the 1950s-70s, a number of states actively merged industrial development policy, immigration and social housing as part of a mixed approach to investment attraction and economic development. Vast estates, like Elizabeth in South Australia, were built to house the largely migrant workforce for the massive expansions in manufacturing.

Up to the 1980s “progressive” policy still clung to the view that social or public housing was a legitimate alternative tenure open to all. Social housing was seen as providing security, stability and certainty and an alternative to the market, not simply as dealing with affordability.

By the 1990s all this had changed. Public housing lost favour in public policy; demand-side measures were in ascendency. Rationing systems were introduced and targeting tightened. Funding declined steadily, and the viability of public housing authorities sank. Public or social housing was for those with no other choice. Concentrations of stock with excessive targeting quickly led to concentrations of disadvantage. Stock quality also fell steadily. By 2005 every public housing authority in Australia was posting a substantial operating deficit.

The broader non-government housing institutions (community housing) played an important but small role in overall supply, with income streams from Commonwealth rent assistance insufficient to acquire stock. Leasing of government property has therefore been the mainstay of this group.

### **2007 – an affordability crisis**

By 2007 the decline of social housing had become part of a much broader crisis in housing affordability. Quite suddenly, housing became again a key topic of national policy and political debate.

According to the Australian Housing & Urban Research Institute, the average amount spent on housing costs across all households increased from around 4% of household income in the mid 1970s to just over 15% in 2003/04 and is now much higher again. Around 15% of all households pay at least 30% of their income meeting housing costs. For lower-income households, the proportion paid (28%) is almost double the Australian average.

It is estimated that approximately 50% of the private renter households in housing stress (those paying more than 30% of income and that are in the bottom 40% of the income distribution) experience serious housing affordability problems. Present estimates are that more than 200,000 low-income households in the private rental market are paying more than 50% of their household income in housing costs.

In these circumstances, there is interest in thinking afresh the framework for housing policy across tenures and across programmes. A new Australian federal government was elected in November 2007 and has proposed a range of initiatives, including:

- the establishment of a federal minister for housing;
- a variety of home ownership initiatives;
- the engagement of institutional investors in the private rental market (the national rental affordability scheme); and
- the establishment of a housing affordability fund to explore initiatives aiming to reduce supply costs.

For the Aboriginal population, life expectancy is 17 years less than for the rest of the country. Preventable and curable diseases are rife in some remote communities. Numeracy and literacy levels are very low, while alcohol and drug abuse are widespread. Funding allocations are consistently high, with deep-seated cultural and socioeconomic factors offered as explanations for the gulf in living conditions and aspirations.

Housing is seen as critical to improving these circumstances. A joint policy commission is being set up – chaired by the Prime Minister and the leader of the opposition – whose top priority is to develop a housing strategy for remote communities over the next five years. An additional A\$1.6 billion has been allocated over four years targeted at strategic

alliances in design, construction and training. Included in this are proposals for reform of land tenure on native lands to allow long-term private investment. This reflects the severe limitations of communally owned land in encouraging private investment, clarifying ownership and maintenance responsibilities and so on.

More widely, the new government has committed itself to the establishment of a National Affordable Housing Agreement. This will oversee present and future expenditure in both demand measures (through rent assistance and first home buyers grant) and supply-side interventions (the funding of public and social housing and the National Rental Affordability Scheme). It is aimed to encompass all of the government's major housing levers.

Against this background, and following more than a decade of decline, this is an important opportunity to pause, reflect and plan new policy settings.

### **The present situation**

Investment in public housing has declined significantly. Over the previous 10 years public housing funding was cut by more than 30%. The cumulative effect of the reduction is now almost A\$4 billion. As a consequence, social housing stock numbers have not kept up with population growth. Indeed, in the decade from 1998 to 2007, housing stock actually reduced by 3,500 dwellings down to 395,000 units – in part offset by growth in community housing, crisis accommodation and indigenous housing. (Community housing now represents around 9% of total social housing.)

The rate of decline of public housing stock numbers has now slowed; indeed, there was a modest increase in numbers from 2001 to 2008. This stands in contrast to the heady days of the 1980s, when more than 18,000 units of stock per annum were being added. As would be expected in a period of constant decline, the stock profile in each state or territory now has significant maintenance and capital requirements, with some stock more than 50 years old.

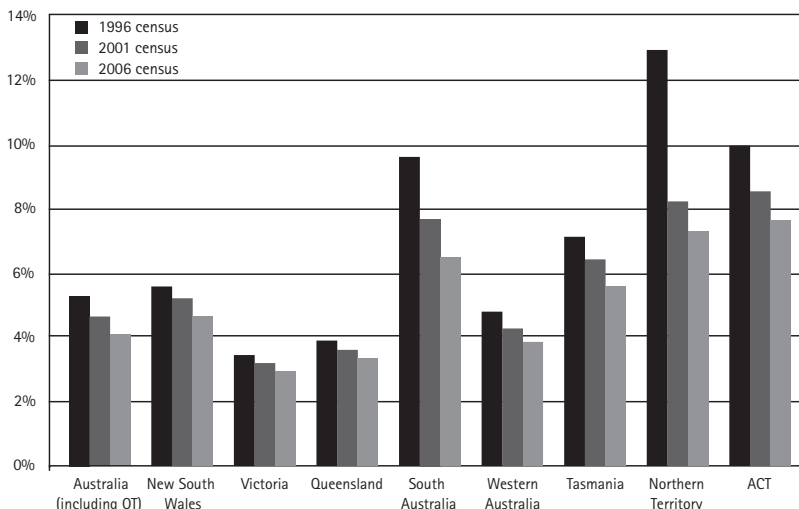
The targeting of social housing to applicants in greatest need – an insistence of Commonwealth policy – has resulted in substantial reductions in revenue and steadily increasing tenancy support costs to the authorities. Most public housing tenants pay around 25% of their total assessable income in rent. The vast majority (92%) of public housing tenants rely solely on welfare incomes or benefits.

Multiple disadvantage and associated stigma are rife in many parts of the social housing stock. All too commonly, issues associated with drug and alcohol abuse, vacant stock,



empty shops, poor school records, shortages of and poor public services, discrimination in the labour market and so on are evident in major public housing estates.

**Figure 1: Public housing dwellings as a percentage of total dwellings in Australia, 1996–2006**



Source: *Public Housing in Australia: Stigma, Home & Opportunity, paper no 1* (Housing & Community Research Unit)

The combination of targeting and underinvestment has been devastating. The profile of the tenant population is left unchecked such that only 26% of public housing tenants are employed. Over 62% of public housing tenants do not participate in the workforce at all. Additionally, the usual poverty traps associated with moving from welfare subsidies into the labour force are prevalent.

In June 2007 there were 176,000 households on established waiting lists, with almost 27,000 households newly allocated. A third of these had been waiting two or more years to be housed and almost 12,000, or 7% of the households on the waiting lists, were classified as being in greatest need – essentially homeless. In New South Wales the waiting list is roughly equal to approximately half of the stock (75,000 households waiting but only 150,000 units in total).

The decline of public housing has coincided with Australia's second "long boom" since the Second World War, fuelled by massive expansion in the resources sector.

In the decades from the immediate post-war period to the 1980s, Australia attracted an immigrant workforce chasing opportunity, escaping relative poverty and/or joining family. They aspired to, and were very often provided with, public housing that had been planned as part of a broader economic development strategy. Immigrants arriving now – most likely from Eastern and Central Europe, the Middle East, Africa and the Pacific states – with the same characteristics will not get housed in the same way.

They will either live with relatives or – if they can find such accommodation – rent privately at very high cost. If a couple both work, they will receive no rent support. They will not be able to buy ex-public housing stock except in places where it is surplus to requirements (in other words, people don't want to live there). After a probationary period, they can access deposit assistance – around 2% of average first-time-buyers' prices. They will need to save the remaining 18% now sought by banks.

Housing, once a force for economic development and redistribution in Australia, has now – in private markets and in non-market housing – become a force for inequity and social polarisation.

### **Looking ahead**

The medium-term outlook (over the next, say, 10-15 years) is likely to be a continuation of the trends now evident. Australia's population will continue to grow, especially through immigration. Household formation, which is growing faster than population, is expected to add approximately 95,000 households per annum over the next 12 years. Home ownership rates are likely to continue to fall in key age cohorts. Default rates are likely to rise as the credit crunch takes firmer hold. In every major city there will be a significant supply shortage in the private rental market as banks restrict lending. Rents will continue to rise in real terms.

Those people unable to access appropriate accommodation options in the home ownership and private rental markets will, as ever, turn to the social housing system.

### **What is social housing for now?**

There will always be a group of people – varying from time to time in composition and in numbers – who will not be able to access decent, secure and affordable accommodation in the private market. It is a test of public values whether support should then be provided. If the answer is yes, then social housing must expect to take its place in the policy and funding frameworks faced by everyone else seeking access to public funds.

In Australia, the public housing system – fairly or not – has lost much of the confidence

of political parties, with little evidence of an appetite for reinvestment into the present settings.

The reform of the public and, importantly, *social* housing sectors is a precondition for additional resources. Some early priorities include:

- On-going tenure should be related to present rather than historic circumstances. For people on disability or old-age pensions, life tenure is clearly appropriate. For others there should be a periodic review of circumstances.
- Pathways from renting to partial and full home ownership need to be in place. Shared equity models are being developed or are in place in some jurisdictions to help those tenants with incomes allowing aspirations towards home ownership.
- Concentrations of disadvantage and poorly performing stock need to be tackled together, with attendant costs and value write-downs. There are few (if any) situations where "mixed communities" can be achieved without significant public subsidy. Social mobility is as important as providing a safety net, since the net appears not to be able to bear the weight – in other words, social economic circumstances in some places appear to be in decline.
- Governments should be able to allocate capital based upon performance. The dominance of state-based public housing authorities gives governments little choice if they wish to invest. These are in effect monopoly systems.
- "Value" should be created, managed and utilised in all investment programmes. Public housing authorities have now accumulated A\$67 billion of public assets on their balance sheets.
- Alternative provider systems should be grown at scale. The UK and European models of housing associations may work in Australia, bringing freshness, commercial disciplines and private debt to the table.
- Common accounting and accountability through regulation should be introduced for all providers.

The expectation must be better social and physical outcomes – public investment that transparently delivers human and community gain as well as shelter. This requires organisations that go beyond housing services and asset management to managing

neighbourhoods and helping transition to work. Stigma can be removed only where pride and confidence are its replacements. This is not easily done and will take time. The starting point is to define contemporary social housing in these terms.

In this environment, a case can be made for substantial and sustained investment by government in the sector. Australia will need to provide 100,000 additional social housing dwellings by 2020 simply to keep its 1996 proportion of stock in line with population size. Further growth will require funding additional to the A\$25 billion required for this more modest aim.

### **Conclusion**

The period in the wake of the US-generated sub-prime lending crisis may generate the circumstances for renewed public and social housing investment. The need has never really changed, but the political and necessary public support evident in the growth era has collapsed in recent years. How to rebuild confidence and demonstrate the value of the investment required is now the challenge. The present environment is probably the best chance presented in recent decades.



## Chapter 3

# The United States

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## A perspective from the United States

The sub-prime mortgage crisis has suddenly brought housing back on to the US national policy agenda. But while federal policy makers naturally focus their attention on crisis abatement, the country's broader housing challenges, particularly in the rental sector, deserve attention and demand structural reform. If the US is serious about its commitment to grow the national economy, make work pay, leave no child behind, and grow in environmentally sustainable ways, then today's rental housing problems must be more effectively tackled.

The federal housing policy debate can and should be reinvigorated during the next presidential election and beyond, building on the imaginative new solutions arising from state and local governments and the vibrant state and local political coalitions that are successfully promoting meaningful housing reforms and initiatives. These coalitions are using fresh language, deploying new arguments, and involving powerful partners from the business community in their push for change – presenting a potential model for building broader support for a reinvigorated housing policy at the federal level as well.

### Context

A third of all Americans – more than 37 million households – rent, and a growing share of renters cannot find homes that they can reasonably afford. Moreover, as metropolitan areas sprawl outwards and jobs become increasingly dispersed, fewer low-waged renters can find housing near their workplace. While employment growth is fastest in the low-density counties on the fringes of US metropolitan areas, affordable housing – and affordable rental housing in particular – remains disproportionately located in inner-city and older suburban neighbourhoods. In fact, in many metropolitan areas, a substantial share of the affordable rental stock is concentrated in distressed, high-poverty neighbourhoods.

These challenges warrant more serious and sustained policy attention than they at present receive, both because they create hardship for low- and moderate-income families across the country and because they undermine other high-priority policy agendas. Specifically, the lack of affordable housing hinders economic productivity and undermines the premise that full-time workers should be able to achieve a decent standard of living. In addition, the concentration of affordable housing in distressed inner-city neighbourhoods traps low-income children in dangerous places where state schools are failing.

Today's rental housing market challenges reflect a confluence of demographic, economic, and social forces that the present array of federal housing programmes can no longer effectively address.

Nationwide, rents are rising faster than incomes for a growing segment of the workforce. The burden of transportation and housing costs approaches 60% of income in the top 100 metropolitan areas and is increasing as petrol prices rise.

Moreover, in prosperous metropolitan areas, the supply of housing is not keeping pace with employment and population growth. Local zoning laws, land use controls, and other regulatory barriers limit total housing production, raise the cost of new units, and often prevent the production of low-cost units. As population expands in a market with constrained supply, the increased competition for units causes prices to rise.

According to Harvard's Joint Center on Housing, the on-going sub-prime mortgage crisis has placed even more pressure on the rental market. The boom in home ownership that occurred in the early part of this decade caused the production of new rental properties to decline for five straight years between 2002 and 2007. And at the same time as that supply has fallen, demand for rental housing has grown, because of the foreclosure crisis and larger demographic forces.

Within metropolitan areas, affordable rental housing is especially scarce in communities where job opportunities are expanding. Historically, both jobs and affordable rental housing were concentrated in central city locations.

But over the last few decades, employment growth has become increasingly dispersed, while exclusionary zoning laws have limited the development of rental housing in many suburban communities. Inner cities, then, remain the primary source of affordable rental housing within most metropolitan regions. Nationally, two-thirds of poor renters live in inner cities.

The clustering of affordable rental housing in inner-city neighbourhoods concentrates minority poverty and exacerbates distress. Some 7.9 million poor people still lived in "extreme poverty" areas in 2000, and more than half of all high-poverty neighbourhoods are predominantly black or Hispanic.<sup>1</sup> Residents of these distressed neighbourhoods often fall victim to a host of undesirable outcomes: higher rates of crime, teenage pregnancy and educational failure; poor health and mental health; reduced private-sector investment and higher prices for basic consumer goods; and greater dependence on overburdened local governments.

Most significant is that the gap between housing needs and subsidy resources is steadily

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<sup>1</sup> This report defines "high-poverty neighbourhoods" as those with poverty rates of more than 30% and "extreme-poverty neighbourhoods" as those with poverty rates of more than 40%.



widening, with no resolution in sight. Since federal housing assistance is not an entitlement, only about a third of eligible households receive assistance.<sup>2</sup> In essence, low-income renters participate in a national "housing lottery" in which the distribution of housing has ceased to be fair or rational.

In addition, programmes to produce more rental housing units continue to focus on inner-city neighbourhoods – further concentrating poverty rather than expanding access to opportunity. Finally, federal programmes provide few incentives to states and localities to remove the regulatory barriers that raise production costs and distort the location of rental housing.

In the absence of federal leadership on rental housing policy, many local and state governments have stepped into the void because they increasingly recognise the connection between the availability of affordable housing and future economic vitality.

### **A new division of responsibility**

A renewed commitment from the federal government is necessary to address the breadth and depth of the affordable housing challenges faced today. If the new President is committed to tackling the challenges outlined here, we will need a new division of responsibility. No single level of government can or should try to address today's complex rental housing challenges on its own. Federal, state and local government each have an essential role to play. Therefore, we propose a new division of responsibility – and accountability – between the federal government and states and localities.

Only the federal government has the fiscal capacity to address the consequences of stagnant wage growth and income inequality nationwide. As long as incomes for a substantial segment of the population fall short of what it takes to cover the costs of producing and operating adequate housing, state and local governments simply cannot afford to close the affordability gap for enough households. Therefore, federal policies should target the demand side of the housing affordability equation, ensuring that all households have sufficient income or a housing voucher to make adequate housing affordable.

If the federal government addresses the demand side of today's housing affordability crisis, state and local jurisdictions can and should assume lead responsibility for the remaining, supply-side challenges. Using both regulatory policies and supply-side

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<sup>2</sup> This estimate is derived by dividing the total number of directly assisted rental units (4.9 million) by 13.7 million, which is the total number of extremely low-income (less than 30% of US average monthly income) and very low-income (less than 50%) households, given that most direct federal assistance programmes target these income levels.

subsidies, states and localities should create incentives that induce private-market actors (both for-profit and non-profit) to produce and maintain rental housing that is affordable for people with moderate incomes.

Under this basic framework, the federal government would retain a strong interest in the impact of state and local supply-side policies, because federal efforts to boost incomes will come to naught in markets where the housing supply is artificially constrained. Therefore, the federal role with respect to supply-side policy must be to create strong incentives for states and local jurisdictions to reduce regulatory barriers that unnecessarily constrain supply and inflate costs. The goal is to produce affordable rental housing where it is needed most, as well as to ensure that families are not excluded from opportunity-rich communities because of their race or ethnicity.

This proposed strategy goes beyond narrow housing goals to advance a broader set of national priorities that at present are being undermined by the failures of federal housing policy. Specifically, by expanding the availability of affordable housing in regions where jobs are plentiful and the population is expanding, this strategy enhances the economic productivity and competitiveness of the nation as a whole.

By raising after-tax wages to a level sufficient to cover the cost of decent housing, the proposed strategy lives up to the fundamental premise that people who work full-time should be able to provide their families with a decent standard of living. By tackling the regulatory barriers that have concentrated affordable rental housing in distressed inner-city neighbourhoods, it expands opportunities for low-income families to raise their children in safe and healthy communities with well-performing state schools. And by ensuring that high-quality, affordable housing is built in locationally efficient places, it makes housing part of the sustainability solution.

### **Boosting families' purchasing power**

Ensuring that people who work full-time earn enough to afford decent housing is the critical first step in a 21st-century housing policy. The federal minimum wage standard and the earned-income tax credit programme both represent powerful tools for accomplishing this goal.

And while a substantial increase in the federal minimum wage must clearly be part of a strategy for ensuring that full-time workers earn enough to afford minimally adequate housing,<sup>3</sup> the minimum wage cannot fill the income gap alone. Combining a modest

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3 On 25 May 2007 President Bush signed the Fair Minimum Wage Act of 2007 to increase the minimum wage to \$7.25 per hour over two years.

increase in the federal minimum wage with a substantial expansion of the earned-income tax credit (or the refundable tax credit for renters proposed by John Quigley) offers an administratively efficient strategy for making housing more affordable for many working families.

One of the limitations of a national, income-based strategy is that it fails to reflect variations across markets in the cost of decent housing. In other words, the strategies above may be sufficient in some low-cost markets but still leave working families in high-cost markets with unaffordable rents. One option would be to adjust earned-income tax credit payments to reflect local housing costs. Another would be to revise the voucher system.

For households headed by elderly or disabled people who cannot work and for families with children in which adults are not working (or are not working full-time), pools of housing vouchers could be linked to appropriate incentives and services. For example, one pool might be designed to provide a dignified safety net for those who cannot work and who lack the resources to obtain decent housing. Elderly or disabled households could use these vouchers to live in conventional rental housing or to move into supportive housing.

Another pool of vouchers might target families leaving welfare, combined with a rent formula that encourages work and a requirement that families enter into a self-sufficiency contract, in order to make the best possible use of housing assistance. A third pool of vouchers might target families with young children living in severely distressed neighbourhoods, providing support and help to relocate to communities with well-performing schools.

A potential strategy for encouraging states and localities to expand rental housing production and reduce market rent levels would be to set a single national payment standard for the new vouchers in conjunction with a supplemental fund that local authorities would be required to use to top up vouchers to a level sufficient to cover the costs of adequate housing in the local market. As other state and local policies brought local housing costs down and expanded the stock of moderately priced units, money from this fund that was not needed to supplement federal voucher payments could be redirected to other, locally determined housing purposes.

To encourage efficiencies, the federally funded voucher programme should be administered regionally, not by individual, local jurisdictions (as is the current housing choice voucher programme). To lessen administrative restrictions and make it easier for low-income families, particularly ethnic-minority families living in inner cities, to know

about and act on the full range of housing options that a voucher makes affordable, administration should be regional and open to competition to encourage innovation.

### **Expanding the supply of affordable housing**

If the federal government tackled the income side of the rental housing affordability challenge as outlined above, its supply-side intervention could focus on leveraging the full panoply of state and local powers and policies.

More specifically, federal production resources should be designed to encourage state and local governments to be “affordable housing friendly” in the design and application of their regulatory regimes. In that way, federal programmes could catalyse the production of substantially more affordable housing than is possible with present or even substantially higher funding levels. Federal production resources also should be allocated in such a way as to ensure that affordable housing is built in the right places – in communities of choice and opportunity that have good schools and quality jobs.

The federal government should employ a combination of carrots and sticks to effectively guide state and local action. First, existing metropolitan planning organisations should receive federal funding (and technical assistance) to prepare regional housing strategies that complement the regional transportation plans already mandated by federal law.

These housing strategies should ensure that all communities in a metropolitan area, including the prosperous ones, participate in the production of housing for families with a broad range of incomes. Metropolitan planning organisations are a logical choice for the development of regional housing strategies, given that they are generally governed by elected representatives of city and county governments, have been responsible for metropolitan transportation decision making since the early 1990s, and increasingly are staffed with professionals possessed of planning expertise.

To complement the metropolitan focus of the metropolitan planning organisations, new federal resources should be made available to support and nurture the creation of non-profit regional housing corporations. The principal task of these corporations would be to develop and preserve affordable rental housing in growing suburban areas. Some would, by necessity, be new non-profit entities; others would probably evolve from existing community development corporations.

Within this new regional planning framework, cities and urban counties would continue to receive federal grants and subsidy but they would be required to implement housing programmes in ways that further and are consistent with regional housing strategies.

We propose that states continue to administer the low-income housing tax credit programme, but the formula for allocating credits would be recalibrated to increase the availability of credits in areas where new rental production is demonstrably needed. And low-income housing tax credit income limits and incentives should be adjusted to discourage the concentration of more affordable housing in distressed neighbourhoods and to support both housing developments serving a broad range of incomes within revitalising communities and developments that expand the availability of rental housing for low- and moderate-income households in opportunity-rich communities.

### **First steps to reform**

The transition to a new system of federal responsibilities would have to include a responsible strategy for dealing with the existing stock of federally subsidised housing – public housing and privately owned rental housing alike. The following are four short-term, high-priority next steps that the new President should take with respect to federal rental housing policy.

- **Require existing metropolitan planning organisations to produce regional housing plans in conjunction with their already mandated transportation plans.** This requirement would begin the process of linking regional housing and transportation and could encourage some metropolitan regions to begin addressing regulatory barriers and other rental housing supply constraints.
- **Create new pools of federal housing vouchers.** These would be awarded competitively to local and regional entities that can implement innovative programmes linking vouchers with effective support services. The new voucher pools would be explicitly intended to encourage and support work among welfare-leavers and to enable low-income families with children to relocate to communities that have high-performing state schools.
- **Expand and retarget the low-income housing tax credit programme.** First, the programme's resources should be reallocated to provide more credits to states where rental housing is in short supply and fewer credits to states with sufficient (or excess) supply. In addition, its income limits should be adjusted so that credits support two distinct types of housing developments: mixed-income housing in revitalising communities (where the broadest possible mix of incomes is needed) and affordable housing in opportunity-rich communities (where more of the low-income housing tax credit units should target low- and moderate-income families within mixed-income neighbourhoods).

- **Preserve and transform the present inventory of public and federally assisted housing through new initiatives.** These new initiatives include a reinvigorated HOPE VI programme to demolish and replace severely distressed public housing; reliable federal funding for the renewal of section 8 contracts, which help qualifying households bridge the gap to market rents and allow them to pocket the difference if they find suitable housing at rents lower than market average;<sup>4</sup> and a new block grant programme for acquisition and recapitalisation of affordable housing by non-profit organisations, guaranteeing long-term affordability.

These four steps offer the opportunity to begin moving federal affordable rental housing policy in a new direction – towards a framework that addresses the fundamental challenges facing the country today.

### **Conclusion**

Ever since its inception in the 1930s, federal rental housing policy has been evolving – responding to market trends, changes in political circumstances, and the shifting philosophies of the day. The pressing housing challenges facing the nation at the start of the 21st century require a renewal of the federal rental housing policy – because, left unchecked, present trends threaten to undermine national economic, social, welfare, environmental and even educational priorities.

These recommendations build on the energy and innovation emerging from state and local leaders across the country. Accordingly, they are meant to be federalist rather than federal and to fully acknowledge the pre-eminent role of state and local governments in setting the rules of housing production.

The recommendations focus primarily on closing the growing gap between wages and rents in the US. They also recognise that the federal role in producing affordable housing must catalyse markets, stimulate the overhaul of regulatory restrictions, promote mixed-income housing, decommission federal enclaves of poverty, support city and suburban collaboration, and diminish the ill effects of Balkanised, duplicative and fiscally wasteful administration.

There are, no doubt, risks to pursuing this strategy, and many constituencies will find

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<sup>4</sup> Section 8 assistance has been an important source of support for low-income renters since the 1970s. It is not a universal entitlement but households who qualify and accepted into the programme are subsidised, in broad terms, as they receive support for the gap between prevailing market rents for appropriate accommodation and their assessed ability to pay rent. Should households find housing that meets the programme standards at lower rents, then they may keep the subvention associated with the average market rent.

greater comfort in protecting their piece of a shrinking pie than in striking out for new, uncharted territory. Yet political risk taking and political leadership are essential if the present stalemate over housing policy is to be broken. The next President should forge a new national compact on housing and launch a period of meaningful policy debate, reform and action.

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## A perspective from New Zealand

### A distinctive mode of housing provision

The evolution of housing assistance in New Zealand has created a mode of provision very distinct from the European experience. In New Zealand, a central agency is still engaged in directly providing social housing and continues to dominate supply. Housing New Zealand Corporation (HNZC), with 69,000 rental units, accounts for 80% of the social housing supply, leaving local authorities and community housing providers with 16% and 4% respectively.

What also sets New Zealand apart internationally, along with Australia and the US, is the small size of the social housing sector. Social rentals amount to only 5.5% of total stock numbers – in contrast, for example, with 18% in the UK. In New Zealand, however, a sizeable part of the housing assistance outlay is spread among low-income renters, boarders and hard-pressed home buyers in the private market.

An accommodation supplement is paid to about 240,000 recipients, representing 53% of the private rental market. Arguably, the accommodation supplement payment to about 50,000 boarders contributes to the exceedingly low rate of homelessness in New Zealand. Therefore, housing assistance is actually directed to sustaining affordable tenancies and mortgages in the private market in lieu of growing a larger social housing sector. But as a demand-side income supplement, the accommodation supplement is a comparatively blunt instrument for the purposes of social housing policy.

These differences are really significant in the context of the questions raised by Professor John Hills in his review of the future roles of social housing in England.<sup>1</sup> Even with much more social housing, the effects of residualisation remain a source of general concern in European policy circles. In New Zealand (and Australia), social housing is highly residualised.

While there are fewer state housing tenants, a strict priority allocation system is progressively concentrating “non-working” beneficiaries – often with complex needs – in state housing. This is placing added social and economic strain on state housing neighbourhoods and on tenants already under stress and unfairly prone to stigma. Improving their life chances – especially by upgrading housing, dispersing stock, and strengthening the communities in which children are growing up – remains the overriding priority for social housing policy.

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<sup>1</sup> Hills, *J Ends & Means: The Future Roles of Social Housing in England* (Centre for Analysis of Social Exclusion, 2007)

At the same time, demographic and social trends driving change in the composition of demand have coincided with a rampant housing market during a prolonged upswing (2002 to 2007). This has significantly extended the spectrum of housing need beyond the traditional concerns of social housing policy in New Zealand. As a result of labour market adjustment, more and more poorly paid workers – the “working poor” – are likely to be stranded in an inherently changeable private rental market throughout their working lives and on into retirement. While many qualify for the accommodation supplement to assist with housing costs, they cannot realistically look forward to buying their own home.

These factors, along with other structural changes, have contributed to an 8% fall in the owner-occupation rate over the last 15 years. Cyclical factors also played their part in hastening the decline in the home ownership rate during the housing boom: a spike in immigration fuelled demand and prices between 2002 and 2004; thereafter, with plentiful mortgage finance available, residential investors increasingly crowded first-time buyers out of the market. By the beginning of 2008 – an election year – this had pushed affordability to the top of the political agenda.

But unlike in Australia, it is the first home that is the least affordable. The movement in rents kept within the rate of general inflation during the boom because of the high level of investment in rental properties. However, a market correction is now under way. Because of present uncertainties about how far house prices and mortgage interest rates will fall, and whether rents will rise as landlords and investors exit the residential market, the outlook for the so-called “intermediate market” segment is attracting as much attention in the policy work programme as is core housing need.

New Zealand provides a unique policy perspective on the implications – social and fiscal – of exercising a high degree of central control in responding to changing tenure structure and regionally distinctive housing markets. Before examining the policy options ahead, it is useful to consider some of the major shifts in past housing policy to lend historical perspective.

### **A “property-owning democracy”**

By the mid 1970s, New Zealand and Australia, together with Norway, were near the top of any housing league on three counts. Three in every four households owned or were buying their own home. By international standards these were spacious and well-equipped properties, and shares of housing were reasonably even.<sup>2</sup> What was the housing

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2 Hugh Stretton singled out New Zealanders as having “the world’s most nearly equal shares of private urban land and house room” and noted that “their other inequalities of wealth and income are amongst the lowest and unlike most others they are not visibly increasing”. See: Stretton, H *Capitalism, Socialism & the Environment* (Cambridge University Press, 1976), p57

policy regime that served as a cornerstone of the “wage earners’ welfare state”?

For most of the second half of the 20th century successive governments expanded the supply of state housing and supported growth of home ownership as the preferred form of tenure for working families.<sup>3</sup> Initially the government was responding to dire shortages in the aftermath of the Second World War; but thereafter, through the “long boom” years, plentiful employment, real wage gains and government spending pushed the ownership rate over 70%. Home ownership assistance in New Zealand, as well as in Australia, was also part of a post-war social contract that traded off the more generous social protection provided to Europeans in retirement for the security of owner-occupation and asset accumulation.

Over a 15-year period, between 1951 and 1966, state housing expanded to 7% of the dwelling stock, and home ownership grew by 8% to eventually peak at about 75% in the late 1980s. Housing demand was dominated by nuclear families with secure earnings, and state housing generally functioned as an affordable transitional tenure that enabled workers to save a home deposit. The right to capitalise the family benefit, a universal benefit paid to the mother of each child, helped to bridge the “deposit gap”.

On the supply side, a lending programme that tied “state advances” loans to home building kept the housing industry buoyant and paved the way for the creation of the “property-owning democracy”. Policies such as a group building scheme ensured that new entry-level housing was affordable for first-time buyers, by only subsidising smallish bungalows with no more than three bedrooms. State housing was mass produced, though modern, and estates were located in close proximity to manufacturing jobs.

Thus housing policy was tailored to suit the prosperous economic conditions underpinning occupational mobility and entry into home ownership; and with the private rental sector offering choice and flexibility to households not ready to own, there was little cause to develop non-profit community-based housing as an alternative to traditional state housing. For this reason, community housing still remains in an embryonic state.

### **Reforming social housing in the 1990s**

By the 1980s criticism of the welfare state and its public-sector offspring, including the state housing agency, was mounting. Between 1984 and 1999 the New Zealand economy was transformed from one of the most closed and protected among OECD states to, arguably, one of the most open and least regulated. Markets were liberalised and public

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<sup>3</sup> For the best social history of housing in New Zealand, see: Ferguson, G *Building the New Zealand Dream* (Dunmore Press, 1994)

services overhauled at the same time that economic restructuring was eliminating jobs, de-institutionalisation was in full swing, and social security was being cut back.

A blend of neo-liberalism, institutional economics and public choice theory inspired a fundamental questioning of the respective roles of market and state in New Zealand. As with other sectors of the economy, this ideological trinity shaped the framing of a radical policy agenda in housing.<sup>4</sup> Despite the level of public investment in housing, assistance programmes were – according to the minister introducing the housing reforms in 1991–92 – “fragmented, unco-ordinated, inefficient and unfair”.

It was decided that state housing should be there only as a safety net, operate as a commercial enterprise, and return a dividend each year to the Crown. The aims of shifting to an income supplement for housing were: to introduce a de facto voucher system so tenants could access their tenure of choice (tenure neutrality); to equalise the level of subsidy received by social and private tenants (horizontal equity); and to reduce dependency on the more generously subsidised state housing. Thus the introduction of state housing rents benchmarked against market rates for the same-sized dwelling in equivalent locations was designed to remove the advantage of lower social rents based on historic costs and to produce greater allocational efficiency.

As a result of these reforms, the bulk of the housing outlay was switched to demand-side assistance (the accommodation supplement), and the state-owned enterprise (Housing New Zealand) began charging state tenants a market rent and paying a dividend to the Crown. Lots of tenants were driven out of state housing and into the private market, where households began sharing homes in an attempt to contain their housing costs. This increased the incidence of crowding-related illness. Government subsidies for council housing ceased, potentially putting at risk the 15,000 social housing units managed by local government.

The programme to privatise state assets was extended to public housing, and by 1999 almost 12,000 state houses had been sold. In 1995 the finance minister who played a leading role in designing the housing reforms concluded that “with the government’s social objectives continuing to be met through the accommodation supplement, there is no reason to prevent the sale of the whole of the Crown’s rental housing stock”.<sup>5</sup> Of course, in the absence of a mature community-housing sector, this would have meant “placing

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4 By the late 1990s, a former Labour Prime Minister, David Lange, was moved to quip that he might yet live to see the furnishings removed from the last state house. Lange was alluding to the fact that in 1937, his predecessor, Joseph Savage, had helped to shift a dining table into the first state house built by a Labour government.

5 Richardson, R *Making a Difference* (Shoal Bay Press, 1995)

the rental business in the private sector where it belongs". Analysis shows, however, that some of the state housing sold was lost forever to the low-rent segment of the market.<sup>6</sup>

During the 1990s, public policy lost sight of the pivotal role that good housing plays in sustaining community, and the potential to contribute indirectly to non-shelter outcomes in health, economic participation and education. The role of investment in housing and land in a modern economy largely went unexamined, as did the costs to economic efficiency and social equity when land use and transport planning, infrastructure networks, urban design and housing supply are not properly co-ordinated in a sprawling city-region such as Auckland.

### **Restoring social protection**

Government changed in 1999. With housing issues assuming growing importance, the portfolio was shortly allocated to one of the most senior ministers, who was also responsible for social development and employment. Rebuilding the state housing portfolio was emblematic of where the new government's priorities lay in housing. By contrast, other governments have been selling off public housing (in the Australian states), transferring dwellings en masse to housing associations (in England and Scotland), or encouraging the conversion of social rental homes to owner-occupation (in the Netherlands).

In New Zealand, sales to state tenants were immediately halted; an additional 7,000 state rental units have been acquired or leased; "large-scale transfer" has meant buying back and modernising 1,800 pensioner and general rental units from Auckland City; and Wellington City will receive NZ\$220 million over the next decade to modernise council flats – so long as the portfolio is retained for 30 years. Elsewhere, since 2003 some 741 council units have been modernised, and nearly 500 units of community housing have been added with Housing Innovation Fund monies. The combined social housing portfolio has recovered to 86,730 dwellings, yet continues to fall as a proportion of total stock as this is growing at a faster rate.

Labour has also pledged to reinstate income-related rents for state tenants and ration allocation according to need.<sup>7</sup> With respect to the purpose of social housing, the Prime Minister, Helen Clark, spoke for her government when she indicated that state tenants ought to be able to "call their place their own".

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6 Laurence Murphy examines the repercussions of state house sales in the journal of the Australasian Housing Institute: Murphy, L "Counting the Costs: Reflections on the Impacts of Privatisation of State Housing in New Zealand" in *Housing Works* (May 2006), pp22-24

7 The AS continues to be paid to means-tested private tenants, boarders and home buyers, and following review in 2006-07 remains a necessary component of government housing assistance.

Public policy through the 1990s suffered from spatial amnesia.<sup>8</sup> It has taken analysts in social and economic development agencies the best part of a decade to rediscover area targeting, place making and community development as essential components of a joined-up policy response to economic marginalisation and social exclusion.

Housing New Zealand Corporation reintroduced place-based intervention in the early 2000s. Targeted programmes have been funded to: reduce overcrowding in suburbs with poor health outcomes;<sup>9</sup> address substandard housing in deprived rural communities;<sup>10</sup> embark on community renewal on priority estates; and retrofit and insulate all pre-1978 state houses to make them healthier and compliant with today's energy efficiency standards.

But, for some time, adherence to an "old Labour" housing manifesto, with its singular focus on state housing, held back serious consideration of alternative social housing options. A national housing strategy<sup>11</sup> launched in May 2005 identified the ways in which housing demand was expected to change into the future, mapping out priorities and strategic directions for a policy work programme. Most notably, as the housing boom built momentum, affordability issues moved to centre stage.

Since 1991 the rate of owner-occupation has fallen from 75% to 67%. Some of this can be attributed to processes of structural adjustment in the economy, along with demographic and social change; some to the sweeping reforms in public policy introduced during the 1980s and 1990s. Then, in late 2007, with the boom pushing affordability to the top of the political agenda, the Department of Prime Minister & Cabinet set up a project team to investigate policy options more suited to market conditions.<sup>12</sup> This heralded a shift from a reliance throughout the previous decade on demand-side assistance, to a greater role for supply-side initiatives.

### **The policy response to changing priorities**

With falling levels of ownership and high demand for sub-market housing, questions are being asked once more about the adequacy of prevailing policy settings.

8 Apart from some council local economic development strategies

9 A Healthy Housing programme evaluation found that acute housing-related hospital admission rates were reduced by 37% in those predominantly Pacific communities in South Auckland where public health nurses worked with housing asset managers to address some of the worst pockets of overcrowding in South Auckland.

10 The Rural Housing Programme, which began as a response to the death of children from house fires in Northland, has slowly made inroads into a backlog of badly neglected private rentals by employing community providers and local workers to repair and/or replace unsafe and unsanitary dwellings and septic tanks.

11 Housing New Zealand Corporation *Building the Future: The New Zealand Housing Strategy* (2005)

12 Department of Prime Minister & Cabinet *Final Report of the House Prices Unit: House Price Increases & Housing in New Zealand* (March 2008)



With a little over 4 million people, New Zealand has a small, though growing, population. Auckland, with a third of the country's population, will probably grow demographically and ethnically more like Honolulu. The population is ageing and smaller households are growing in number, but so too are the numbers of large Polynesian intergenerational households. Yet, by about 2025, people from Asian countries will outnumber people from the Pacific, and thereafter they will overtake the Maori population.

The economic restructuring embarked upon in the mid 1980s significantly amplified income inequality during the following decade<sup>13</sup> and pushed the spectrum of housing need further up the income distribution. While the reinstatement of income-related rents in 2000 somewhat offset the very low incomes of state tenants, and tax credits for working families since 2005 have lifted incomes in the lower and middle deciles, when the New Zealand living standards survey was updated in 2004 an estimated 26% of children under 18 were still living in "severe" or "significant" hardship.<sup>14</sup>

The on-going implications of structural change are all too clear for Housing New Zealand Corporation as it works to modernise and reconfigure stock built for nuclear families: between 1986 and 2006 the rate of increase in the average income of state tenants was half that for all households; over 90% of tenants receive statutory income; 70% of head tenants are women; a third of tenants are single and more often than not such tenants are elderly; a third are single parents; over half the people housed are under the age of 20; Maori and Pacific peoples are significantly overrepresented among tenants.

But in some regional housing markets with more state housing, the indicators point to even greater concentration of disadvantaged families than these averages reveal. While they are not to be compared to sink estates in the UK or the US – and the problem is less extensive – the housing and physical fabric of these stressed communities has reached the end of its economic life, leaving the land grossly undercapitalised, especially in Auckland.

Today these concentrations of public housing bring the unintended consequences of past policies into exceedingly sharp focus. Some places have rates of domestic violence, truancy, youth offending, and drug and alcohol abuse that are among the nation's highest. They also have the highest densities of liquor stores and gaming machines. In some households, three generations are on welfare payments; and, with far fewer fathers around as role models, young males naturally succumb to peer group pressure and gang-related violence is endemic.

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13 Of the 20 OECD nations for which data are available, the increase in New Zealand's Gini score (which indicates the level of inequality of income or wealth distribution) was "very significant and is the largest" – Ministry of Social Development *Household Incomes in New Zealand: Trends in Indicators of Inequality & Hardship 1982 to 2004* (2007)

14 Ministry of Social Development *New Zealand Living Standards 2004* (2006)

Following the success of a community renewal pilot in Tamaki, the government is embarking on a large-scale project to transform this well-located area of 3,000 dwellings in the inner eastern suburbs of Auckland. There will be more medium-density housing to meet intensification targets given by the regional growth strategy. This also makes it possible to reduce the percentage of state houses within the project area, without any overall loss in Housing New Zealand Corporation stock numbers, and add affordable community housing and starter homes to the mix.

With developable land along public transport corridors at a premium in Auckland, the government is also looking more closely at the longer-term potential of other public land for affordable housing. For example, Hobsonville, which has good connections to Auckland's western corridor, will be New Zealand's version of an "eco-town". Urban development will be sustainable and includes housing that is 15% social, 15% affordable, with the remainder at market rate.

How much state housing is enough? Housing New Zealand Corporation has a very small waiting list on a per capita basis, compared with Australian states. Nevertheless, for most tenants, a state house will no longer be a lay-by on a housing pathway. Although some elderly tenants will move into residential care, and some single mothers will earn enough to exit the sector once their children are at school, a majority will continue to remain in state housing. What will need to change as the state rental stock is reconfigured, however, is the right to continue to occupy the same dwelling as a household's need changes.

Also, horizontal equity ought to oblige those tenants who cherry-picked the stock when market rents were introduced in the mid 1990s, and still pay a market rate, to vacate the state house. Alternatively, if they were allowed to purchase the house they already occupy, market renters could remain in the same neighbourhood to enhance socioeconomic and tenure mix. Preferential access to targeted mortgage insurance and shared-equity schemes for marginal home buyers may be a sufficient incentive. A shared equity pilot was launched in July 2008 for first-time buyers in the five most expensive regional housing markets.

Although housing starts surged during the recent boom, a combination of supply-side options to improve choice and reduce production costs is under investigation.<sup>15</sup> The

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<sup>15</sup> One approach is reviewing regulatory provisions to reduce land conversion and construction costs. A second work stream is identifying any surplus government land, including state housing tracts, in high-demand areas. A third project team is evaluating the urban development authority model as a way of capturing some of the value uplift from public investment for affordable housing. Another major strand of policy work has led to the drafting of legislation to enable local authorities to use the planning system as a source of affordable housing contributions.

See: <http://www.beehive.govt.nz/release/action+plan+increase+affordable+housing>

assumption is that the affordability stress experienced during the boom by significant numbers of intermediate renters, especially the working poor, will not sufficiently ease as the market corrects.

Even with the accommodation supplement, ought the growing numbers of poor families and elderly non-owners be expected to spend a lifetime renting in such a changeable tenure? While private tenancies average 16 months, Housing New Zealand Corporation tenancies average five-and-a-half years. Research shows that the higher rates of turnover in the private rental market are largely due to misunderstandings about rights and obligations, unpaid rent, poor quality and undermaintenance, and unprofessional management. From a fiscal standpoint, future expansion of the private rental sector and growing numbers of lifelong renters will make for a mounting outlay on accommodation supplement.

The policy work with the most direct relevance for the future of social housing is building upon what has already been learned over the last five years from small-scale community housing demonstration projects funded via the Housing Innovation Fund. Despite the "social dividend" attributable to community housing, projects financed by this fund are not necessarily as cost-effective as other social housing interventions. However, one of the fiscal implications of building up a portfolio of community-based non-profit tenancies in place of privately owned tenancies is that, where the accommodation supplement is paid to a tenant, instead of leaking offshore – as much of the outlay does<sup>16</sup> – it would be retained for reinvestment in the community housing asset.

Can New Zealand really afford to resource properly a modest-sized non-profit sector in order to broaden social rental options to meet intermediate market demand? What would be necessary to scale up some community housing providers to the point of viability, including attracting mainstream institutional investors into the non-profit sector?

The indications are that a major capital injection would be required to meet the necessary conditions for creating even a few successful housing associations along British lines. In due course, under affordable housing legislation now before parliament, developer contributions are expected to help with some of the underwriting of community housing trusts. And if tax credits were tied to low-rent construction, as in the US and now in Australia, community trusts could also become project partners.

There are further options for stabilising house prices and growing community housing

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<sup>16</sup> A significant part of the accommodation supplement becomes a transfer from Treasury to the tenant, and then to a landlord who has borrowed from a bank that has sourced funds offshore.

that remain out of scope. The House Prices Unit identified "a number of changes that could be made to the current tax regime that could contribute to a moderation in the growth of house prices, through a reduction in investor demand".<sup>17</sup> In addition, if the stamp duty on property transactions removed in the 1990s were to be reintroduced, the proceeds could be hypothecated for community housing.<sup>18</sup>

The one drawback of the non-profit model is that community housing tenants do not generally have an opportunity to invest in a home, which remains the principal source of private wealth for most New Zealanders. Importantly, this difference between owning and renting holds the key to whether or not New Zealanders will acquire much wealth in their lifetime – apart from those tenants who inherit the parental home. For this reason, in 2007 the government launched an employer-backed superannuation scheme that contributors will eventually be allowed to draw on for a first home deposit – starting in 2010.

## **Conclusion**

Escalating house prices and deteriorating affordability during the housing boom have been partly caused by underlying structural shifts in supply and demand as well as the more immediate cyclical pressures such as strong immigration, abundant credit, property speculation, and rising mortgage rates. So long as the central bank lacks powers to tackle overinvestment in residential property, and given the reluctance of governments to tax capital gains, affordability stress is bound to be just as pronounced in future cycles. Moreover, it would be most unusual to repeat the recent experience of New Zealand in which rents changed very little in real terms during the housing boom.

Instead of reacting to recurring property cycles and episodic housing crises, or being held hostage by dogma, policy rationale should speak to a vision for properly housing New Zealanders. Where markets fail to respond adequately to genuine need, that becomes the task of social housing. But how do housing ministers successfully intervene in markets when, taken together, policies relating to the monetary system, taxation, labour markets, social assistance, planning and transport often exercise as much, if not more, influence on social and affordable housing outcomes?

*This chapter contains the views of the author and not Housing New Zealand Corporation.*

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17 "Existing tax arrangements favour housing over other investment options. The tax system also gives mortgaged investors in rental property an advantage over similarly mortgaged first home buyers" – Department of Prime Minister & Cabinet *Final Report of the House Prices Unit: House Price Increases & Housing in New Zealand* (2008)

18 If need be, owner-occupied property could be exempt up to a certain value and the duty would be staircased so that higher-value properties attracted a higher levy. Reserves accumulated in the community housing fund during boom years could then be allocated counter-cyclically to prevent the loss of housing industry capacity during a downturn.



## Chapter 5

# Canada

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## A perspective from Canada

With the global pressures of the past decade, a reconsideration of the realistic and effective role of housing initiatives and interventions is urgently needed in Canada. Social housing providers have been pressured to adapt and – unlike in other countries – governments have not responded to challenges with the appropriate level of funding. This paper suggests that a major shift in Canadian housing policy is needed to build a housing system that offers choice and security to Canadian households while building better outcomes for individual health and well-being, economic performance, and the environment.

Reductions in support for new social housing and confusion over which level of government is responsible for what have been dominant themes since the mid 1990s. Demand for affordable rented housing has grown, and at the same time there has been no net increase in private-sector rental housing stock. This represents a major Canadian challenge.

There is high demand for affordable housing from a range of socioeconomic groups. As well as very low-income households, high demand exists from skilled workers, newcomers, Aboriginal peoples and recent graduates entering the workforce. There is growing concern from health and social service agencies, whose progress is hampered by the lack of housing for their staff as well as clients, and for cities whose economies are challenged by affordable housing shortages and whose residents are facing crowding, stress, poorer health and homelessness in consequence. It is argued that what is needed is a fresh approach that recognises Canada's need for a healthy housing system to address market failures and support the economic competitiveness of places while ensuring the best possible outcomes for its citizens.

### The context

Canada has approximately 660,000 units of social housing, representing about 6% of its overall housing stock. Given that a third of the country's 11.5 million households are renters, the private-sector rental market is a critical player in the housing system.

In aggregate, the rental stock has not increased between 2001 and 2006, despite the addition of 90,000 new rental units, of which 27,000 were added to the social sector. The lack of real growth is mostly a result of demolitions and conversions. The majority of the social stock is between 20 and 50 years old and the private stock is about the same age; both stand in need of repair and modernisation. Without new investment, the public and private rental stock will continue to face demolition, sale and conversion.

A variety of different programmes were used to build Canada's social housing, with a number of goals in mind. In the first major wave, public (government-owned) housing was built solely for low-income households and mostly in large-scale developments.

It is important to note that it was not intended to be permanent housing; rather, it was to serve as a place to live until incomes improved.

By the mid 1970s this approach was seen to have its problems. There was a lack of opportunity in the new neighbourhoods created, regular maintenance was not always carried out, and many of the public housing "projects" were seen by residents and neighbours as ghettos.

In order to correct this, and on the heels of urban renewal initiatives, a later wave of community programmes was put in place intended to avoid stigmatisation and to create more socially and economically viable communities. Thereafter, project size was smaller, design was improved so as to fit the housing into existing neighbourhoods, and a mixed-income approach was implemented. A non-profit co-operative programme whereby residents owned and managed the housing was introduced, as well as a community-based programme in which volunteers managed the housing through non-profit boards.

The programmes' original objectives were to serve a mix of low- and moderate-income households while fostering stronger communities and assisting with neighbourhood regeneration. Over time, energy-efficiency standards were implemented, special-needs households were integrated, and commercial uses such as daycare centres and video shops were added to some developments. As community corporations matured, the range of tenure types expanded, with home ownership included.

A critical facilitator of this new approach was the establishment and support of non-profit community-based resource groups. These groups developed the expertise to undertake development, train new, community-based boards of directors, and plan for the longer-term maintenance and upkeep of the properties. Without the support of these community experts, it would not have been possible to grow Canada's community-based sector.

Many of these groups began to work more closely with other community groups having different mandates that included immigrant settlement, employment training, daycare provision and so forth. The outcomes of this kind of integrated work have not been evaluated, but as population health, community economic development and environmental outcomes are increasingly understood to be positive outcomes of social housing, project planning is beginning to be undertaken with these goals in mind.



Canada has 1.5 million households in core need, who must pay in excess of 30% of gross income in order to have decent-quality, suitable housing. This number grew significantly between 1991 and 2001 and is likely to continue to increase, given the lack of progress in increasing the supply of affordable housing. More striking is that over half a million households have severe affordability issues, spending more than half their pre-tax income on housing. In addition, Canada has a growing number of homeless individuals and families. Aboriginal peoples are greatly over-represented among the homeless.

There is no question that an income issue is present in many households. Advocates of social policy have pointed to the need for increases in the minimum wage, which is set at the provincial level. Minimum wages have not kept pace with inflation. A single-parent family in Vancouver, Calgary or Toronto would need three times the minimum wage to cover rent for an average two- or three-bedroom apartment, using 30% of gross income as the benchmark. A higher minimum wage would lift many of the households in core need.

Younger households are increasingly shut out of home ownership as house prices rise, which puts increasing demands on a shrinking rental stock. There is a vast backlog of Aboriginal need both on and off reserve. In the 2006 Harcourt report to the Prime Minister, it was noted that there were some 30,000 to 40,000 households in acute housing need on reserves alone. Concentrations of poor households in some neighbourhoods are an emerging concern for Canada.

Canada's support for social housing production contracted sharply by the mid 1990s, falling from annual production levels of about 25,000 units to its present level of about 6,000 units. The 1993 federal budget completely eliminated support for new production of social housing. Administration of the existing social housing stock was offered to the provinces in the 1990s, with the result that the federal role in social and affordable housing was significantly reduced.

The dramatically lower production levels, together with increasing depths of need and homelessness, has been gradually residualising the social housing sector to the point that it now serves only needier households. Some providers still retain units of market housing, which offers some options for working households, but given the shortage of units and the lack of market options these households are less likely to move out.

More recently, the federal government has begun to support new production again. However, the funding arrangements have changed. Capital contributions have replaced operating subsidies that formerly provided on-going financial support for up to 35 years.

The increased emphasis on the provinces and territories as the lead players in developing and delivering housing policy has created mixed results. Some have retained their historic budgets and continued to support new housing production, but most have used federal transfers to reduce their historic contributions to social housing budgets.

As a consequence of these budget cuts and the change to capitalising contributions, the production of new housing is now significantly reduced. Provincial policy decisions have varied, but most provinces choose to fund a mix of programmes – including rent supplements, home ownership, elderly housing support, and modernisation and expansion of the social housing stock – despite the relatively small size of their budgets. There is an attraction for provinces in choosing to use the funds to provide housing to the elderly or special-needs groups, in order to free up pressure on their existing social and health budgets. This can lead to other groups, such as families, being left out.

Devolution of housing responsibilities has further reduced the national capacity to think about housing systems and their outcomes. The fragmentation in policy making across regional governments has created a leadership void, uncertainty and an inability to get a sense of how Canada is performing. Clear targets have not been set by provincial or federal governments on what the funds should produce or how they might be linked to other priority social, economic or environmental areas.

At worst, federal bursts of new investment support can end up producing little if any subsidised housing at the provincial level and do little to support the federal government's own regional activities. Canada has been slow to understand the benefits of making housing programmes efficient and effective. A notable exception is the work of local action committees in delivering homelessness funds.

The growing number of homeless people in Canada is the most highly visible result of disinvestments in social programmes and particularly in housing programmes. Most prevalent in larger cities, the homeless population includes the unemployed, the under-employed, and the gainfully employed in areas of high housing costs, along with people suffering from addictions or mental illness. Charitable responses such as soup kitchens and emergency shelters are now present in all larger cities.

In 1999 the federal government created the National Homeless Initiative. The programme was later modified to secure longer-term stable housing and renamed the Homelessness Partnering Strategy. It seeks to understand the root causes of homelessness and to provide lasting solutions. Each of the 61 communities funded has formed a group of interdepartmental, inter-agency representatives.

The local action teams have been a positive outcome of programme design and suggest a useful, community-based structure for larger investments in housing. Communities quickly worked out that improving the homeless shelter system, in itself, would not solve the problem. A symposium of the community representatives held in Ottawa in 2008 called on the federal government to invest in housing programmes, not just the Homelessness Partnering Strategy. Housing and not more homeless shelters was declared to be the solution to homelessness.

While the community representatives involved in delivering the programme are – for the most part – not involved in housing programmes, after eight years of working on homelessness programmes and shelters they understand that in Canada homelessness is rooted in the lack of affordable housing programmes.

### **Canada's challenges**

Canada is facing many of the same challenges as other nations in the wake of globalisation. Income disparities have grown, while the cost of post-secondary education has left many young people with large student loans to pay off and little hope of becoming home owners. Social services have been diminishing. Cities with growth economies are not able to attract the workers needed because of severe shortages of affordable housing. Waiting lists for social housing continue to grow, with only minimal additions to the stock since the mid 1990s. Waiting lists in major cities are 10-15 years long. Residents of social housing are increasingly those on very low incomes, in increasingly concentrated areas.

Affordable housing shortages have squeezed more households into crowded or unaffordable accommodation. Mixed-income, mixed-tenure communities are not being created in new developments. With funding in short supply and land and construction costs increasing in larger cities, new construction of market housing tends to serve high-income earners. The housing provision is reinforcing social inequality.

With devolution of responsibility for housing to provinces and territories, and in some areas further devolution to municipalities, developing a functional whole-system approach to housing is a challenge for Canada.

Rather than more fragmentation, a new framework of co-operation among Canada's governments is needed, with incentives and regulations. This framework should not just direct its affordable housing policy to low-income households in need. The demand for affordable housing is much, much broader. Housing policy should also address the needs of moderate-income households that are being squeezed out of home ownership and compete for units in a social and private rental sector that is not growing. Options for

moderate-income households could be increased by investigating other options, such as co-ownership, but this will not work without access to new development opportunities.

Canada needs new social housing but it also needs more options for affordable housing, including private-sector rental and home ownership. Local governments, suffering from the squeeze, should be brought in as partners and play a critically important role. Change is required in the use of local planning powers. For example the use of inclusionary zoning in order to use development opportunities more effectively, to facilitate land banking for social and affordable housing, and to allocate housing land close to work opportunities. In Canada, these changes need support at the provincial level. Cities can also pursue environmental objectives through supporting more compact and inclusive developments and encouraging alternative design standards that increase energy efficiency.

The mixed-income approach that contributed to the success of Canada's social housing stock in the past has been a hallmark of its long-term success, but this is now compromised. Reduced budgets for new development and the growing depth of need among those on waiting lists has resulted in targeting and rationing this scarce resource to only the very neediest. Reductions in social services have meant that tenants have fewer options for support, and communities and individuals are suffering as a result. Inclusionary zoning and a return to mixed-income communities could give local governments the tools they need to prevent further concentrations of low-income households.

### **A bigger bang**

A new housing policy framework should seek social, economic and environmental outcomes. In the past Canada has used its housing programmes to build healthy, integrated communities, but more recently the focus has shifted to targeting the neediest, which will not be sustainable over the longer term.

At present, regulating and monitoring progress against objectives is underdeveloped. Indeed, the core objective – what social housing is for – is not well developed. The federal government needs to lead on developing an overall framework with adequate resources to support a healthy housing system. Provinces and territories as the delivery agents need to restore their funding commitments and develop programmes that suit their regional priorities while demonstrating their ability to have greater outcomes. They must also regularly communicate how funds are spent.

Outputs as well as outcomes must be openly reported. The output of housing units that

remain affordable over time and provide for future needs is critical, but so too are the outcomes that the housing achieves in non-shelter areas. Measuring health effects, neighbourhood effects, educational outcomes, reductions in greenhouse gases and so forth is critical to understanding the outcomes of housing investment by governments – and the savings that can accrue in other areas of their mandated roles.

These are not easy tasks but, in order to work more smartly as governments and communities, horizontal connections need to be made and a framework put in place that will support the dialogue that will lead to improved results and better accountability.

### **Meeting need/eliminating homelessness**

While Canada has benefited from the opportunities created by global economic change, it has not addressed the less desirable consequences of globalisation – such as low real wage growth, increased inequalities of income and wealth, and rising land and housing costs, particularly in cities with growing economies. The scale of Canada's affordability crisis and the impact of globalisation on housing markets both call for a different housing strategy than the country has had in the past.

Programmes addressed at homelessness will not succeed in the absence of affordable housing programmes. Rather than a return to monolithic programmes to address just those in severest need, Canada needs a holistic approach that will open markets and communities to innovation – innovation that will create less costly and more energy-efficient dwellings as well as vehicles for tenants and residents to build equity, whether or not they can afford traditional home ownership tenure.

Canada needs to find ways to incentivise municipalities to have inclusionary zoning policies so that land is available in all communities for rental housing and other affordable housing types. A Canadian housing framework should also have clear goals with measures to reduce the number of households in need and to eliminate street homelessness over a limited time period.

Increasing energy costs and a changing rental demographic will create new demands but also new opportunities to push for innovation. Inclusionary zoning can create new opportunities to provide for a range of housing options – of different tenures, sizes and types, including shared ownership – which will be attractive and affordable for a broader range of those in need, not just the lowest-income households. Models are needed.

### **Renewing neighbourhoods**

Canada's social housing and neighbourhood improvement programmes of the 1960s and

1970s, and specifically the community-based housing sector that led the redevelopments, played a large role in inoculating its neighbourhoods against decay and decline. Healthy, mixed-income neighbourhoods with small, integrated social housing projects built a better environment for commerce, created social institutions that supported the sustainability of the new communities, and produced better outcomes for residents. Some of the best examples were Granville Island in Vancouver, St Lawrence Market in Toronto and Milton Park in Montreal.

However, it is now clear that there has been a growth of concentrations of poor households and ethnic minorities in many cities. These concentrations and the lack of alternatives for low-income households result in overcrowding, deteriorating housing, flight of market investment, reduced property values and poorer health. Although Canada's universal healthcare programme has been credited with keeping health outcomes relatively equal for all Canadians, in common with many countries some of these neighbourhoods of concentrated deprivation now have markedly reduced life expectancies compared with neighbouring communities within the same cities.

There have been several focused efforts to improve such neighbourhoods, but many more neighbourhoods are deteriorating. Flexible funding arrangements are needed to support concerted, cross-sectoral measures that will engage residents and attract more commercial investment. Community-based – non-profit – housing groups and associations need more resources in order to play a central role in these neighbourhoods. Housing and related action can be the means by which to lift these communities, address severe need and bring a mix of residents and housing forms and tenures. Not all communities are sustainable over the long run, but where the region shows promise, building social and co-operative housing in a mix of non-profit and for-profit rental and ownership can reverse downward spirals of decay and recreate sustainable neighbourhoods.

### **Providers – supporting a non-profit housing sector**

When devolution to the provinces occurred, the non-profit co-operative and community housing sector negotiated to maintain the administration of much of the housing stock.

There are severe limitations on the potential for non-profit community housing providers to operate as successful businesses, borrow funds, sell if required, and intensify existing projects. They are left to take the risk with projects that receive only minimal capital subsidy, which can pose difficulties with private loans in times of interest hikes. Furthermore, they are not empowered to make sound decisions on how to manage their overall portfolio in a way that will allow the transfer of funds and equity over the portfolio.

Stop-and-start programmes and the uncertainty as to how each jurisdiction will allocate its capital leaves many non-profit community organisations without the ability to keep capacity to develop in place. The longer-term plans for non-profit community housing organisations have suffered as a result of there being no clear policy, erratic funding, mixed messages in terms of outcomes, and an ageing stock that is expensive to maintain.

Despite the constraints, the success of non-profit bodies is evident. However, they are capable of much more. The place of these community housing agencies need not be confined to providing housing for the most needy. Some are already innovators in new tenure forms, in moving residents back to work, in engaging youth to achieve better success in school and in being community leaders. They have already proven to be effective; they now need to have the flexibility and mandate to take on these challenges and to work in co-operation with other community agencies to achieve mutual goals.

Canada's existing stock of non-profit community housing represents a significant asset for a country with growing shortages of affordable housing. Community housing providers offer many advantages beyond the provision of shelter to the needy. These organisations have been able to rejuvenate communities successfully, yet their effectiveness at producing better outcomes at community, individual and environmental levels has not been fully appreciated or assessed by governments.

These non-profit vehicles could be a major tool to help meet Canadian housing and community challenges. They have assets that could be levered to produce results and efficiencies. In short, they can create a legacy for continual improvement and investment in communities. Recent reports have shown that by creating a legacy rather than redeploying the funds for other uses, the social housing sector can not only maintain the existing stock but can also provide capital funds for a substantial increase in its stock on a predictable and on-going basis. This needs to be factored into a review of government housing policy and strategy.

Community groups need to find and define their place. They will need some thinking around rationalising a minimum size; they will need opportunities to develop capacity. Energy concerns will grow and, as tenants face higher heating costs, providers will be left to find ways to ease the cost by improving energy efficiency. Communities will, no doubt, put pressure on them to grow, but without a sustained framework and commitment to funding by governments, the risks they take in increasing their debt loads may become too great to continue. Governments seeking ways to deliver multiple outcomes will find it far more effective to sustain and support community agencies to take on this task.

The non-profit sector in Canada is an underexploited resource. While other countries have encouraged the growth and development of non-profit community builders and managers, Canada has given little and erratic attention to their contribution. Government is underestimating their capacity to make a significant contribution to affordable housing provision and to regenerating distressed communities. Growth and development of this national resource should form a major plank of policy development.

### **Conclusion**

Canadian housing policy is in need of major reform. Federal leadership and co-operation are required and the role and scope of municipalities needs clarification. At present, there is little discussion or evidence on what policy responses will be most effective in meeting the country's growing affordable housing need. As a consequence there is a mixed bag of programmes that are likely to have a negligible effect in terms of reducing need or of improving the life chances of residents and the economic viability of places. A large number of programmes to spend diminishing funding is inefficient.

The range of types, sizes and income distribution of households requiring access to affordable housing has changed in Canada, as in much of the developed world. Housing supply, its distribution, size, tenure and costs, must reflect this. Affordable housing is about much more than social housing. And while social housing is still needed, it should be integrated into more supportive communities.

The mixed communities of the past have given way to segregated neighbourhoods, resulting in concentrated poverty. Policy action is required to mix incomes on new developments and create renewal strategies for distressed estates, resulting in a range of incomes and housing options within neighbourhoods.

Community non-profits and the private sector both have a role to play. But in meeting holistic housing policy objectives there needs to be an overall coherent and well-understood strategy with measurable outcomes. Provision and funding need more coherence in order to meet affordable housing objectives. Non-profits, as a vehicle for delivering social, economic and environmentally sustainable growth renewal, are as yet a largely under-exploited resource.

The federal government, while providing some funding to non-profits in past years, has not committed in any way to continue to do so. Provincial and territorial funding levels have dramatically declined. Provincial governments have proven to be most consistently involved in housing only when there are incentives from the federal government.



Canada's competitiveness depends on the health of its housing system, and its housing system will be most effective with an approach that includes all levels of government and provides predictability, sustainability and the development of a non-profit sector, along with incentives to the private sector where these are proven to be effective and efficient in meeting policy objectives. Without such a framework in Canada, uncertainty continues, opportunities are missed and human potential is stifled.



## A perspective from Ireland

Compared with most other north-west European countries, the social housing sector in Ireland is somewhat small, at just under 11% of the housing stock (156,000 dwellings in 2006). Arrangements for its provision and funding are also atypical: the majority (some 70%) of its dwellings are procured and managed directly by local authorities and practically all of its funding is derived from direct government grants.

However, the meaning of social housing in Ireland – what it is *for* – has gone through a particular trajectory since its early years, and it is this evolution of meaning that is the sector's most distinctive characteristic.

For much of its history, social housing in Ireland served as a stepping stone to owner-occupation, rather than as a tenure in its own right. In this regard it had more in common with the "asset-based welfare" strategies that are common in South East Asia and have recently gained favour with some Western governments, particularly in the English-speaking world. However, from the mid 1980s this situation changed. Following radical cutbacks in funding and new building, the sector declined in size and evolved towards a model of welfare housing found in many other Western countries.

In this chapter, we first sketch in the historical emergence of social housing in Ireland as asset-based welfare. We then turn to the reforms of the 1980s, which changed it into welfare housing, and outline some of the implications that have followed in the years since.

### **1900 to 1980: social housing as asset-based welfare**

The foundations of Irish social housing were laid around the turn of the 20th century, when the country was still part of the UK. In the very earliest years, there was little that was unusual about its form or function: it sought to provide the then standard responses to the standard problems of housing for the poor, and the attendant concerns with public health, social order and economic efficiency.

As in Britain, the early social housing providers were charitable or semi-philanthropic bodies. But as state funding for the sector grew, local authorities took over as the main providers, spurred in part by the inability of the non-profit sector to provide sufficient output and in part by the desire of local government to expand its own role.

The divergence of Irish social housing from the standard model arose from its entanglement in the politics of land reform which emerged at the close of the 19th century. In this

period, agrarian politics moved to centre stage in the political scene in Ireland and in the process stamped a lasting character on Irish social housing. It first had the effect of boosting the size and rural orientation of the sector, but eventually it gave rise to the asset-based welfare role for social housing that was to be its distinguishing feature until the late 1980s.

The origin of these outcomes lay in the British government's drive to reform the rural landholding system, which in turn was spurred by the centrality of the land question to nationalist politics in the period. Hoping to defuse tensions arising from the cleavage between the largely Catholic tenantry and the Protestant landlord class, the British government sponsored a full-scale buy-out of landholdings by tenants – and as an offshoot, provided generous subsidies to rural county councils for social housing to accommodate rural labourers.<sup>1</sup>

Social housing, in effect, was offered as a "consolation prize" for rural labourers, who were excluded from the benefits of land reform but were politically significant enough not to be ignored entirely. A body of rural social housing legislation, separate from that governing urban social housing, emerged in a lagged sequence following the major Land Acts and echoed the special concern for agrarian issues that the land acts represented.

The impact on the size and rural orientation of the social housing sector of the new state subsidies was evident by 1914. Local government in Ireland had by then provided almost 45,000 social dwellings, compared with 24,000 units provided by local government in the whole of Britain. In Ireland, only 18% of social housing was in urban areas, compared with 98% in Britain.<sup>2</sup> This outcome flowed from the exceptionally rapid growth of rural social housing up to 1914.

The second major spin-off of land reform for social housing – its conversion to an asset-based welfare role – began to emerge in the 1930s, some 15 years after the Irish Free State was established, although it took a further three decades for that role fully to mature and percolate the system. Here, the land reform catalyst emerged in 1933 when the government granted a reduction to farmers in outstanding purchase annuities they were obliged to pay arising from settlements with landlords.

Complaining of the lack of even-handedness which this concession represented, rural

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1 Fahey, T "The Family Economy in the Development of Welfare Regimes: A Case Study" in *European Sociological Review* vol 18, no 1 (2002), pp51-64

2 Fraser, M *John Bull's Other Homes: State Housing Et British Policy in Ireland, 1883-1922* (Liverpool University Press, 1996); Malpass, P and Murie, A *Housing Policy Et Practice* (5th edition) (Macmillan, 1999)

social housing tenants campaigned for a right to buy their dwellings in terms echoing those granted to farmers for the purchase of their holdings under the land acts. Following a ringing endorsement of the social value of small property ownership by a government commission set up to investigate this issue, the right to purchase was granted to rural social housing tenants in the 1936 Labourers Act, with purchase annuities discounted to 75% of pre-purchase rents.<sup>3</sup>

Attractive though this scheme was, it did not properly take off until a further discount on purchase annuities – to 50% of rents – was granted in the late 1950s. The result was extensive conversion of rural county council tenants into owner-occupiers: by 1964, 80% of county council cottages were owner-occupied. The asset-based welfare aspect of this transition was amplified by the fact that these cottages typically came with gardens intended to be large enough to enable significant self-provisioning of food for the families that lived in them.

The full maturation of this system came with the 1966 Housing Act, which unified the urban and rural housing codes and in the process brought the right-to-buy provisions of the rural code into the (by then quite large) urban social housing sector. Generous sales schemes for urban social housing emerged in the 1970s and 1980s, leading to a massive sell-off of urban social housing. The only major limitation in the scheme arose from legal difficulties in arriving at individual private title for flats, which had the effect that the right to buy was never extended to flat complexes in city areas (mainly Dublin).

This long history of privatisation of social housing meant that there was a long-standing disjunction between the level of social housing output, which up to the late 1980s was consistently large, and the size of the social housing sector, which never grew in proportion. Social housing construction averaged at 36% of total national housing output between the 1930s and 1970s, and during the 1930s and 1950s it exceeded 50%.

Yet by the 1960s, because of sales of rural county council cottages, the stock of social housing had risen to only 18% of the national stock; and by the early 1990s, as the sales of urban stock took effect, it had fallen back to 10%. By the latter period, some two-thirds of the dwellings that had been constructed as social housing over the course of the 20th century had been sold to tenants, and these dwellings accounted for approximately a quarter of owner-occupied housing at that time. This was a major reason why the owner-occupation rate in Ireland in the early 1990s, which stood at around 80%, was among the highest in the developed world.

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<sup>3</sup> Fahey, *op cit*

### The 1980s: redefinition

The mid 1980s proved a turning point in the long-term evolution of social housing in Ireland. The expansionary state spending that had sustained social housing output over the preceding decades ran into difficulties as the economy stagnated, unemployment and emigration soared, government expenditure ran out of control, and the burden of taxation (particularly income tax) sparked popular protest. In 1987 the government sought to escape from this quagmire by turning towards a new low-tax, low-spend economic and social model – and social housing was one of the early targets of this new approach. Social housing expenditure was sharply cut back, and output in the sector fell to historic lows in the years that followed.

The effect was to redefine the role of social housing: it ceased to become available to low-income working households and instead became welfare housing, targeted on a narrow range of long-term welfare-dependent households, particularly lone mothers and the elderly. The association between poverty and social housing tenure had always been present to some degree, since a consequence of tenant purchase was that only the least well-off households in the sector continued to remain in social housing tenure (though this also meant that social housing *neighbourhoods* typically contained a mix of social tenants and former tenants who had bought their dwellings).

But, following the change of direction in 1987, the association between poverty and social housing became increasingly direct as new social provision became more residualised. Between 1987 and 1994, the proportion of local authority tenant households with incomes below 60% of the national average grew from 59% to 75%.<sup>4</sup>

A further factor contributing to weakening of social housing was the “surrender grant” scheme that operated between 1984 and 1987. This scheme provided grants to local authority tenants to encourage them to surrender their dwelling and buy a home in the private sector, and was taken up almost entirely by households in employment. Although nationally only 6.5% of tenant households took advantage of the scheme, the uptake was heavily concentrated in certain areas of Dublin – and here its residualising effect was intense, since the intake of new tenants that replaced the departing householders were overwhelmingly welfare-dependent.

The former role of social housing as a stepping stone to home ownership also more or less ended in this period, even though tenant purchase schemes continued to be available in principle. The reasons these schemes ceased to be effective were twofold. First, the new

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<sup>4</sup> Nolan, B, Whelan, C and Williams, J *Where Are Poor Households? The Spatial Distribution of Poverty & Deprivation in Ireland* (Oak Tree Press, 1998)

welfare-dependent profile of the tenant population meant that their capacity to purchase became weaker than in previous decades. Second, the valuation basis on which terms of sale were based became less favourable and, in the era of soaring house prices which arrived in the mid 1990s, pushed the cost of purchase beyond the reach of even the better-off social housing tenants.

### **1990 to date: social housing as welfare housing**

Although the years since 2000 have seen some increase in social housing construction, in both absolute and relative terms it has failed to regain the levels of output seen prior to the 1980s. Rather, social housing policy since 1990 has concentrated on dealing with the implications of social housing's new welfare function. During this period a series of measures intended to address this development have been introduced, including new reliance on subsidisation of private rents as a form of social housing support, and a new focus on strengthening housing management capacity in local authorities.

### **Rent supplement and the rental accommodation scheme**

As the cuts to social housing output described above took hold, Irish policy makers, like their counterparts in many other Western European countries, looked to rent subsidies for private-sector tenants as a means of housing many of those who would traditionally have been accommodated in the social rented sector. This was particularly so in connection with single adults – a government review in 1995 argued that traditional social housing was a more cost-effective option for larger households.

The numbers on "rent supplement", as these rent subsidies were called, grew by 107% between 1994 and 2005. Although the benefit was originally designed as a short-term housing support, the average duration of claims lengthened substantially so that in this period rent supplement became a de facto parallel social housing system.<sup>5</sup>

However, the efficacy of this method of housing low-income households is not without concerns. The growth in claimant numbers occurred at a time of inflation in private rents, leading to fears of uncontrollable growth in the cost of rent subsidies. In addition, studies produced mainly by non-governmental organisations highlighted the poor quality of the private rental housing that was available to tenants.<sup>6</sup> In response, the government announced in 2002 that responsibility for administration of rent supplement claims of 18 months or longer in duration would be transferred from the health authorities to local government.

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5 Norris, M, Healy, J and Coates, D "Drivers of Rising Housing Allowance Claimant Numbers: Evidence from the Irish Private Rented Sector" in *Housing Studies* vol 23, no 1 (2008), pp89-109

6 Guerin, D *Housing Income Support in the Private Rented Sector* (Combat Poverty Agency, 1999)

In effect, this scheme – which is called the “rental accommodation scheme” – sought to socialise a segment of the private rented housing market. Under the scheme, local authorities take private rented dwellings on long-term leases from private landlords (for whom rental income is then secure) and make them available for letting to tenants who have long-term dependence on rent supplement. The intention was that the market power of local authorities would yield better deals on rents, thus generating cost savings to government, and would also ensure that good-quality accommodation was provided to tenants.

### **Social housing management**

The persistently modest size of the social housing sector outlined earlier has weakened the scope for local authorities to develop housing management capacity. Unlike in the UK, no distinct career path for social housing managers in Ireland was available, nor was a professional body or system of training and continuing professional development established.

However, the recent fall-off in tenant purchase coupled with the increased concentration of poor households within the sector has increased the necessity for effective management, and local authorities' performance in this regard attracted growing criticism from central government from the early 1990s. These criticisms inspired a range of ameliorative measures, both of an enabling nature – such as the provision of guidance, training and targeted grant aid – and of enforcement tools, such as the introduction of stricter performance-monitoring tools.<sup>7</sup>

### **Regeneration and tenure mixing**

The increasingly disadvantaged social profile of the social housing sector since the early 1990s has inspired two categories of response. Firstly, a plethora of initiatives intended to regenerate run-down social housing estates have been put in place, and these have been paralleled by area-based initiatives to address spatial concentrations of poverty more broadly.

Secondly, local housing providers have been instructed to avoid generating new concentrations of social housing by building smaller estates, located in mixed-income areas, and by including owner-occupied dwellings in social housing estates. The legislative underpinning for this approach was provided in the form of the 2000 Planning & Development Act, which enables local authorities to require that up to 20% of new housing developments are devoted to social housing and/or housing for sale to low-income home buyers.

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<sup>7</sup> Norris, M and O'Connell, C "Local Authority Housing Management Reform in the Republic of Ireland: Progress to Date – Impediments to Future Progress" in *European Journal of Housing Policy* vol 2, no 2 (2002), pp245-264



### Supporting low-income home buyers

As social housing in the 1990s lost its traditional role as a route to home ownership (as described earlier), the focus on home ownership as a means to respond to the needs of low-income households remained and found expression in a new set of supports for low-income home buyers. The availability of mortgage credit expanded radically during the 1990s as the financial system was liberalised, but house prices rose at the same time and continued to place commercial home purchase beyond the reach of working households on low incomes.

In response, a number of supports for low-income home buyers have been introduced. These include: the affordable housing scheme (housing sold at a discount from market value); the shared-ownership scheme (households buy part of the equity in a dwelling, while the local authority buys the remainder) and the mortgage allowance (which pays an annual allowance towards the mortgage costs of social tenants who surrender their dwellings and purchase a home).

However, research by Norris, Coates and Kane<sup>8</sup> on these measures is largely negative about their effectiveness. They report low take-up of some supports, and very high rates of mortgage arrears associated with other more popular supports. Thus they suggest that these measures may propel households into home ownership when they cannot really afford its full costs. This contrasts with the traditional reliance on social housing as a stepping stone to home ownership, which enabled households to pay an affordable social rent for as long as they needed to and buy only when they could afford it.

### Alternative social landlords

As mentioned above, non-profit agencies provided the majority of social housing in Ireland in the sector's early years but local authorities soon took over as the dominant providers and remained as such for most of the 20th century. However, this situation has begun to change in recent years, largely reflecting a view that non-profit housing agencies might provide a more efficient system of housing provision and management than the traditional local authority housing departments.

Dedicated state funding for non-profit social housing provision emerged in 1984 and grew over the following decade. As a result, the non-profit sector has expanded significantly and now provides almost a third of social rented housing. However, enthusiasm for provision through the non-profit sector has not reached the levels found in some other Western countries. In particular, while there have been some instances of transfer

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<sup>8</sup> Norris, M, Coates, D and Kane, F "Breaching the Limits of Owner Occupation? Supporting Low-income Buyers in the Inflated Irish Housing Market" in *European Journal of Housing Policy* vol 7, no 3 (2007), pp337-356

of existing social housing stock from the control of local government to the non-profit sector, these instances have been limited and have not amounted to the wholesale transformation of social housing ownership found, for example, in the UK.

### **Conclusion**

Social housing in Ireland is now "for" a different, and in many ways narrower, purpose than it was during much of its history. In the past its peculiar feature was its linkage with home ownership: from the 1930s onwards it opened the path to owner-occupation of housing for the rural working class, and from the 1960s to the late 1980s it did the same for the urban working class. It thereby contributed in no small way to making Ireland a property-owning society as the 1990s arrived.

Since then property ownership has continued to be a strong focus of Irish housing policy, but social housing has ceased to be a significant part of that concern. Rather, it has become a smaller segment of the housing system and has narrowed its focus to the welfare population – those such as lone parents and the elderly, who are largely outside the world of work.

It now faces the struggle of being an effective form of housing for that population category and, in keeping with practice in other countries, has experimented with ways of doing so. These experiments have had mixed success, though some of them are too new for their effects yet to become clear. In consequence, while it is now apparent what social housing today seeks to be "for", it is less evident whether or how well the task it has taken on is capable of being effectively discharged.

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## Chapter 7

# The Netherlands

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## A perspective from the Netherlands

When set in an international context, social rented housing in the Netherlands can be characterised by a relatively large share of the housing stock and a wide diversity of dwellings and tenants. The social rented stock in the Netherlands is managed by housing associations: private institutions that operate within a specific public regulatory framework.

During the 1990s the social housing sector was subject to a policy of deregulation, decentralisation and privatisation. This resulted in a change in the role of housing associations, largely the sole provider of social rented housing. Associations were effectively deregulated and any debts to the government in effect written off, but as a result they receive little subsidy. They have become largely independent from the government, more active in the provision of owner-occupied and more expensive rental housing (the surpluses of which subsidise social housing) and have increased their activity in other areas of public interest, such as care, employment and education.

The broad role of Dutch housing associations has many advantages.<sup>2</sup> It has helped to prevent stigmatisation and deterioration of social housing, as well as spatial concentration of disadvantaged households, which are common in other countries. It also helps to implement more comprehensive "place-based" policies to deal with wider social issues within and across neighbourhoods.

Furthermore, a large share of social housing providers can contribute to the moderation of rents through competition between non-profit landlords and private landlords. Housing associations in the Netherlands have also acted as a dampener for economic cycles, by continuing to invest when for-profit landlords decline to do so in conditions when more profitable opportunities are available outside rental housing. And, importantly, social housing provision in the Netherlands has become relatively cheap for the taxpayer.

In summary, there are many advantages to be gained in providing social housing in this way, which avoids the costly and socially undesirable unintended consequences experienced in many other countries. Nevertheless, the Dutch social housing system is certainly not without problems, and there are important lessons for other countries.

For example, the independent position of housing associations leads to questions of

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<sup>2</sup> See: Gruis, V and Priemus, H "European Competition Policy and National Housing Policies: International Implications of the Dutch Case" in *Housing Studies* vol 23, no 3 (2008), pp485-506; Kemeny, J, Kersloot, J and Thalmann, P "Non-profit Housing Influencing, Leading and Dominating the Unitary Rental Market: Three Case Studies" in *Housing Studies* vol 20, no 6 (2005), pp855-872

adequate governance. Their activities in the upper segments of the housing market have led to questions about the level playing field in the Dutch housing market. And the activities in other areas of public interest have created questions about the domain and core competences of housing associations.

### **Social housing in the Netherlands**

Before the 1990s, Dutch housing policy was subject to a relatively large extent of control by central government. As part of the vigorous build-up of the welfare state, which lasted much longer in the Netherlands than in many other European countries,<sup>3</sup> the government strongly stimulated social housing investment through regulations and extensive subsidy programmes. Many of these social housing investments were channelled through the housing association sector, which consequently flourished.

The government Memorandum on Housing in the Nineties<sup>4</sup> marked a turning point in Dutch housing policy. However, following the international trend, the national government announced a cutback in financial support for social housing. In return, the Social Housing Management Decree (*Besluit Beheer Sociale Huursector* or BBSH), introduced in 1993, allowed housing associations a lot of administrative freedom. They are still "supervised" by the government, but now on the basis of retrospective accountability.

In addition, direct financial support through "brick-and-mortar" subsidies and government loans was abolished during the 1990s. At the same time, the formal non-profit objectives of the sector were maintained.<sup>5</sup> Financial support of social housing now mainly exists in the shape of rental subsidies. Households with an income below a certain level can apply for individual housing allowance, which is dependent on income and rent level. The housing allowance is available to those who rent from housing associations as well as from private landlords.

In the Netherlands over 99% of the non-profit housing stock, which accounts for about 35% of the total housing stock, is managed by housing associations that are best described as private, non-profit institutions with public, social obligations.

The BBSH stipulates that all the activities of housing associations have to be in the interest of housing, especially housing of lower-income households. The same holds for the

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3 Boelhouwer, P "Trends in Dutch Housing Policy and the Shifting Position of the Social Rented Sector" in *Urban Studies* vol 39, no 2 (2002), pp219-235

4 Ministry of VROM *Volkshuisvesting in de Jaren Negentig* [Memorandum on Housing in the Nineties] (SDU Uitgeverij, 1989)

5 Gruis, VH and Nieboer, NET "Social Housing Investment without Public Finance: The Dutch Case" in *Public Finance & Management* vol 6, no 1 (2006), pp122-144

eventual profits that result from those activities. Housing associations must give priority to accommodating households with a weak position in the housing market (mainly lower-income households). However, they are allowed to provide dwellings for other groups. They are also allowed to deliver high-rent or owner-occupied housing.

As a consequence, Dutch housing associations are often typified as hybrid organisations, which carry out public tasks but are independent, private organisations that also have market-driven objectives.<sup>6</sup> This hybrid operating method has meant that most schemes are multi- or mixed tenure – neighbourhoods which contain a range of incomes and social status. The homes themselves are not readily or permanently identified as social housing. Consequently, social housing in the Netherlands has managed to avoid stigma, and the tenure is generally not spatially concentrated.

In terms of regulation, the BBSH sets out the obligations of housing associations in the form of general “fields of performance”: accommodation of target groups, preservation of the quality of dwellings and their environment, consultation of tenants, provision of housing and care arrangements, securing financial continuity and using financial surpluses in the interest of housing. In other words, outcomes rather than outputs.

### **Present challenges**

The main issues facing housing policy in the Netherlands are:

- the large and growing gap between renters and home owners;
- dealing with problematic neighbourhoods;
- shrinking cities;
- the environmental sustainability of the housing stock; and
- the ageing population.

In the Netherlands, low-income households are mainly dependent on the social rented sector. Household financial restrictions mean that it is very difficult for them to enter the owner-occupied housing sector.

Low-income tenants receive housing allowances, and social rents are kept below market rents. Moreover, there is little supply of low-priced owner-occupied housing and the risks attached to owning a house are often too large for low-income households. This gap between the rental market and the owner-occupied market has increased as a result of continuous real house price inflation in combination with tight rent control.

6 Priemus, H “Social Housing as a Transitional Tenure? Reflections on the Netherlands’ New Housing Memorandum 2000–2010” in *Housing Studies* vol 16, no 2 (2001), pp243–256

The policy of tax deduction of mortgage interest rates did not enable affordable access to owner-occupation but has led to an additional increase in house price inflation, exacerbating the problem of affordability of home ownership. Although it is generally recognised that the present combination of rent control and tax deduction contributes to the gulf between the rental and owner-occupied market, the present government has chosen to freeze rents (in real terms) and maintain the tax deduction to keep both the renting and owner-occupied citizens (electors) from encountering financial problems.

As in most other countries, there do exist neighbourhoods with a relatively high concentration of socioeconomic problems. Housing minister Ella Vogelaar has selected 40 neighbourhoods that require extra investment in order to secure their future. The terminology used is that the aim is to turn these problematic, "weak" neighbourhoods into "beautiful" or "powerful" neighbourhoods. For all these neighbourhoods, local authorities have drawn up investment plans in co-operation with housing associations.

Another problem shared with other countries is that of shrinking cities. Some cities in the Netherlands, particularly in the south-east province of Limburg, are expecting a significant decrease in population in the coming 30 years, due to demographic developments. Furthermore, there are also some cities that have serious difficulties in keeping and attracting middle- and higher-income households, in spite of their location in a region where the population is still growing. Rotterdam is the clearest case of such a city in the Netherlands. These shrinking cities are facing a serious challenge to maintain their attractiveness under unfavourable market circumstances.

Finally, a substantial part of the housing stock needs to be transformed in order to meet the changing needs of the (ageing) population and to increase energy efficiency and reduce carbon-dioxide emissions.

### **The changing role of housing associations**

Since the 1990s the role of housing associations has changed, in reaction to developments in their regulatory context and in response to issues in the housing market. Their changing role encompasses diversification of activities and taking on a more leading role, particularly in neighbourhood transformation.

Housing associations have become more active in the provision of owner-occupied housing and more expensive rental housing. This is partly a reaction to their increased financial and administrative independence and associated market orientation. The lack of direct government support has stimulated housing associations to adopt a Robin Hood type strategy: using the profits from development and sale of commercial housing to



finance core social housing tasks.

This has also made them more aware of the necessity to build housing of good quality and to take into account a long-term business perspective. Even if new housing is primarily meant as an addition to the social rented stock, proceeds from sale may in the future be necessary to finance future housing activities. Consequently, housing associations are becoming much more aware of and sensitive to the development of the (open) market value of their stock.

The changing composition of new housing development is also a response to changing market circumstances. There is a need for affordable housing, but demand is for affordable owner-occupied housing. In general, if we compare the size of the existing stock to the size of the primary target group (low-income households), there is no shortage of social rented housing as such in the Netherlands. At the same time, because of favourable economic developments and the tax deduction, the demand for owner-occupied housing has risen.

In combination with the lack of affordable owner-occupied housing, associations have also implemented initiatives to make owner-occupation available to a wider group, by selling part of their stock. They have also introduced various types of special sale programmes, in which dwellings are sold with substantial discounts under specific conditions.<sup>7</sup> Finally, housing associations own a large part of the housing stock in the problematic neighbourhoods. Development of owner-occupied housing is a substantial part of the strategy to transform these neighbourhoods.

Housing associations are also becoming more active outside the (physical) provision of housing. This is partly related to developments in their regulatory context. In the late 1990s the government introduced "liveability of neighbourhoods" and "attuning housing and care services" as performance fields in the BBSH. Housing associations have also expanded their activities in their own interest. In particular, liveability of neighbourhoods is a prerequisite for improving the popularity and market value of their stock.

Furthermore, many associations consider expansion into care, education and employment to be part of their social mission. This development is part of a wider international trend among social housing providers, who recognise that merely offering physical housing is not sufficient to create sustainable communities and to help empowerment of people.

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7 See: Gruis, VH, Elsinga, M, Wolters, AG and Priemus, H "Tenant Empowerment through Innovative Tenures: An Analysis of Woonbron Maasoever's Client Choice Programme" in *Housing Studies* vol 20, no 1 (2005), pp127-147

For Dutch housing associations in particular, diversification may also be explained from their search for a *raison d'être*. Since the 1990s it has often been stated by commentators that there is no need for additional public housing. At the same time, housing associations have seen an increase in wealth, because of the increased market value of their stock (related to rising house prices). This made them subject to a wide public debate, with the basic question being: what are these rich housing associations doing with all that money? Nowadays the government encourages the diversification of housing associations' activities into other public sectors, although primarily as a funder and not as a party that is primarily responsible for making and conducting policies.

Housing associations have begun developing and managing property for schools and care facilities; they contribute to programmes to increase safety, employment and education in neighbourhoods; and they have developed so-called "behind-the-door" initiatives in which they refer households with financial problems to welfare organisations. In certain neighbourhoods, housing associations are the primary co-ordinating institute for physical restructuring and associated social programmes and have thus taken over a part of the task that was traditionally carried out by local government civil servants.

It is important to note the extent to which the developments described above vary between housing associations. The transformation of housing associations into independent organisations has taken place fairly recently (particularly in comparison with their long tradition as semi-government organisations), and they are still looking for ways to reshape themselves into social entrepreneurs.

In practice, housing associations take different approaches. There are housing associations that seem to position themselves as social real estate investors, as well as associations that are developing into broad social institutions working to improve housing, care and welfare. Some associations emphasise local accountability and negotiations with local stakeholders, while other associations focus on business efficiency and improvement of operational services to their clients. While many of the housing associations seem to want to adopt a strategy focused on innovation and diversification, there are also housing associations that stick to their traditional tasks.<sup>8</sup>

### **Problems for social housing and providers**

The different choices that housing associations are making raise specific questions for national housing policies and for social housing as a tenure. With social housing providers positioning themselves more as independent societal entrepreneurs, operating between

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<sup>8</sup> See, for example: Gruis, V *Organisational Archetypes for Dutch Housing Associations, Environment & Planning C* (forthcoming, 2008)

market and state, the government is questioning if and how it should influence the activities of social housing providers. Many argue for increased local accountability of housing associations, but it is difficult to find arrangements that secure local accountability and at the same time leave enough space for independent and effective social entrepreneurship that is not hampered by too much bureaucratic regulation.

The different choices that housing associations make about their target groups and range and intensity of activities lead to specific challenges for their organisational structures and cultures. There are also questions about the efficiency of housing associations. Because they operate within a relatively protected market and do not have shareholders, there are few incentives for cost-efficiency.

The range of activities of housing associations brings forth questions about the legitimacy of (financial) state support in relation to European competition policies.<sup>9</sup> Their activities in the more commercial segments of the housing market can lead to disturbance of the level playing field with commercial developers, and bring the danger of money leaking away from the semi-public sector into the commercial sector.

In this respect, it is interesting to note that Dutch housing associations are now subject to corporate tax in such a way that they have fewer possibilities to opt for tax deductions than have private institutional investors – implying a disturbance of the level playing field in reverse. One housing association has recently entered a legal process with the objective of leaving the social sector and associated regulatory framework. In its view, the advantages of being a registered social landlord are now less than the disadvantages. If this housing association succeeds, other housing associations may follow, leaving the sector largely uncontrollable by government.

The diversification of housing associations, combined with a recent leading role in neighbourhood revitalisation, is not without its risks therefore. Although there are several inspiring examples of housing associations that take on a broader role, as in the UK there is a substantial difference between the front-runners and the rest of the sector.

Many associations are still coping with the consequences of the changed regulatory context within their traditional housing activities. Attention and energy demanded by the new activities may distract organisations from their core activities. Furthermore, the unclear position of housing associations can lead local governments to want to transfer some of their own tasks to them. If housing associations do not see enough reason to

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<sup>9</sup> As pointed out in: Gruis, V and Priemus, H "European Competition Policy and National Housing Policies: International Implications of the Dutch Case" in *Housing Studies* vol 23, no 3 (2008), pp485-506

fulfil these tasks, they might end up not being conducted at all.

The geographical limitations of housing associations mean that they are active in many of the problematic neighbourhoods, but not in all. This may lead to some neighbourhoods remaining out of the picture. There is also a danger that interests transcending neighbourhood boundaries may remain out of the picture. In the long run, there is a risk that housing associations could become in a sense a replacement for the government as an agent for broad societal services, but in the shape of an agent that is outside direct democratic control.

As in other countries, residualisation of the social rented sector is an issue of concern for some areas, though possibly to a different degree. The sale of social rented dwellings and restructuring of the social housing stock have led to an increased concentration of low-income households in the social rented sector in a number of places.

However, in the short term, because the Netherlands still has a large proportion of its total housing stock in the social housing sector and because providers cater for a range of income groups and tenures, residualisation is not as spatially or tenure concentrated as other countries. Its large market share enables the housing association sector to allocate housing to a large and diverse group of people. This protects the sector from the stigmatisation that often occurs in other countries, where the social rented sector is primarily targeted at the poor.

It also enables housing associations to combine the redevelopment of weak urban areas – which usually implies a decrease in social housing in favour of commercial housing – with new social housing development on greenfield locations, and thus to contribute to a wide spatial distribution of social housing. Nevertheless, it seems wise to monitor closely the developments and boundaries of the reduction of social housing stock so that preventative action can be taken if necessary.

## **Conclusion**

In the Dutch case, the nature and method of social housing provision has had profound effects on the role and outcomes of social housing. The large market share accounted for by the housing association sector helps to prevent spatial segregation and stigmatisation, and also allows housing associations to generate financial resources for continuous (re)development of their stock, largely independently of the government.

In the Netherlands, social housing is fit for a wide group of people, not just those with no other options. This is also an aspiration of many other countries. It must be borne in mind,

however, that it was a century of substantial government support that allowed housing associations to develop into the asset-rich institutions they are now. Within the present neo-liberal policy setting, it seems highly unlikely that other governments would be willing to support their social rented sector to such an extent.

If other countries opt for a wider target group for their social rented sector without substantial growth of housing stock in the sector, it implies that the availability for low-income households will decrease. Therefore, such policies should be combined with generating alternative housing possibilities outside the social rented sector, for example by supporting low-income home ownership and renting in the private sector.

In the Netherlands nowadays housing associations are not only providers of social rented housing but are also developing themselves into social entrepreneurs that are active in a broad field of societal interest. Some of the challenges in this development for Dutch central government include:

- ensuring adequate governance and (local) accountability of housing associations;
- creating a level playing field between housing associations and commercial investors;
- determining whether housing associations should remain subject to specific government regulation and, if so, developing adequate policies to achieve this while avoiding unnecessary bureaucracy;
- determining policies for the (limitation of) housing associations' tasks in relation to the roles and functions of other social institutions;
- stimulation of the efficiency of housing associations; and
- monitoring negative effects of the residualising social rented stock.

In summary, the main lesson for the international reader could be that a strong social housing sector can have many benefits, but has a variety of specific problems of governance attached to it as well. The problems may well be outweighed by the advantages, but should not be ignored.

# Conclusions and recommendations

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## Conclusions and recommendations

The UK is clearly not alone in voicing its concerns about the future of social housing. The debate about its role and purpose is taking place in many developed countries around the world – far more than we have discussed here.

The debates surrounding the vision for social housing – or how we enable access to housing for those unable to participate in the market – are global. The ramifications of the US sub-prime lending crisis and the resulting credit crunch are being felt around the world and have brought housing affordability, access, methods of funding and provision into very sharp focus. There is now more shared ground in terms of problem recognition and solutions analysis than there possibly ever has been.

There is clearly a need for sub- or non-market housing for those unable to participate in markets. But the question fundamental to the debate is what outcomes we expect from its provision. And then, from that, flow questions about how such housing provision is funded and delivered.

As a result of the changing nature of populations, economies, globalisation and consumerism, the questions of who this housing is for, what type of provision there should be, and who provides it, have changed dramatically from social housing's origins. The results we see in many areas, in all countries – intergenerational concentrations of deprivation, lack of opportunity, worklessness, poor education and so on – are a world away from the sector's original objectives. Many countries agree that reform is overdue. The challenge may be to revisit some, if not all, of the original intentions of non-market housing and apply them to a modern socioeconomic context.

Many of the early industrialising economies have had a century-long commitment to non-market provision of rental housing. In the UK, for much of that period, non-market became synonymous with state or municipal ownership and management: social housing. Over the past quarter-century the UK, like the other systems examined here, has concerned itself with sales of social housing, stock transfer, shifting investment support and new roles for private finance in social and non-market housing, which have created a more diverse social rental sector.

The non-profit housing association sector has expanded significantly as council provision has sharply contracted. These associations have taken key roles in area renewal, homelessness provision and general needs provision. So in the UK, often learning from overseas experience – sometimes of what not to do – we no longer equate the notion of social

housing with state provision alone.

Indeed, like some other countries, we have been revisiting our perception of the non-profit provider role in housing, seeing it as both more connected to non-housing activities and as embracing housing market and non-market sectors, with a range of renting and owning options to offer.

### **International and national: different contexts, same concepts**

In the nations discussed, and in the wider OECD, globalisation has meant growth but increased inequality. Households in the lower income deciles have improved their economic situation less rapidly than have those in the upper deciles. Younger households have seen less rapid income growth than mature workers. The improvement in performance among immigrants and their children in school systems, labour markets and housing markets has become less pronounced and less rapid than before 1980.

Meanwhile, land and property prices, albeit with significant cyclical fluctuations, have increased faster than productivity growth. With globalisation, the real burden of shelter costs has risen for the bottom half of income distributions. The consequences have been increased affordability issues for the poor and growing concentrations of poorer households – worryingly, often concentrated in social housing – within metropolitan areas.

At the same time has occurred the spread of poorer and middle-income household to remoter suburbs in search of lower housing costs, at the inconvenience and cost of longer, costlier (and environmentally damaging) commuting. Sprawl and income segregation – often with new clusters of visible minorities – across neighbourhoods have accompanied the growth-induced resurgence of metropolitan areas. Auckland, Sydney, Toronto, Dublin, London and Amsterdam have much in common.

Despite having vastly differing populations, proportions of social housing, fiscal and political environments and methods of provision, some fundamental – and strikingly similar – shared policy themes emerge across the countries considered here. Too often, their social housing occupants' daily experience of life – poverty, welfare dependency, poor life chances, low expectations, high crime – and that of their neighbours are also strikingly similar. Different contexts; same concepts.

Some of the countries covered in this publication began to move in new directions decades ago; others did not, and are only recently trying to engage. However, there is a surprisingly large amount of shared thinking on potential solutions to some of these problems.



Abandoning present systems for an approach that takes a broader view of both successful place making and maximising opportunity for individuals seems to be a common thread in the progress already made for reform. The contributors here still voice a strong commitment to social housing but see its provision as broader – non-market, rather than “social” as we have come to know it – and as only one part of the continuum of provision and activity to meet households’ housing and broader community needs.

### **From working-class progress to welfare system**

In most of the systems examined, the initial purpose of social housing, whether state or non-profit, was to support working households (and often not only the poorest) in urbanising, industrialising contexts. And many systems deliberately sought a share of tenants well up the income distribution.

That more mixed, albeit expensively attained, role was subordinated to more mainstream welfare service provision after the 1950s. Concern shifted from consideration of social housing as a broad socioeconomic tool to its use in narrowly meeting the immediate shelter needs of very low-income or unemployed households (but with lifetime tenancies) and fixation with tightly targeted eligibility and limits on the type and cost of homes and services delivered.

These concerns gradually squeezed out notions of creating successful neighbourhoods. With inadequate maintenance, the high hopes and high towers of the 1950s and 1960s became the low aspirations and poor quality options of the 1970s.

Since then, the pattern that has emerged has reflected at least two major waves of policy change. These macro shifts in housing policy thinking have reflected new understandings of or constraints on how to run housing policies in changing, global times. Different manifestations of the same global pressures, and innovations, can be seen across most of the systems discussed.

Municipal capital cutbacks, reduced on-budget spending and subsidies, and stock transfer were all part of a more general international shift to reduce government debt and expenditure associated with housing provision. Policy focus shifted to owner-occupation as a less expensive long-term option. The grossing-up operation in the Netherlands, the contraction of provision in New Zealand in the 1990s, the bleak federal stance against housing programmes in the US, in Australia until 2008 and, to this time, in Canada were all first-wave adjustments.

This meant that most countries underinvested in rental housing, the stock aged, and badly

specified value-for-money considerations often resulted in poor-quality, standardised and soulless designs on large estates to achieve economies; many of these estates were built on locationally poor sites.

Most countries sold off stock in significant numbers and did not build sufficient new non-market replacements. As stock totals declined, the downside consequences of new economic policies became apparent so that social housing stock was gradually rationed to only the most needy, poor and vulnerable in society and became a tenure (usually) of last choice. With that came stigma and the consolidation of places that held back citizens and their children, communities and cities.

These processes are not yet all played out. They can still be seen in UK and US cities, or in the growing number of badly run-down neighbourhoods in Winnipeg and Toronto, or in Auckland. However, despite growing evidence of the unintended consequences of these policies, and a wealth of evidence from other nations over at least the last decade, we have continued to do what we've always done, only to get what we always got.

### **Time for reform**

Recognition – though too late in the day for much in the way of preventative action – is, however, leading to some serious debate on the future of housing policy, as evident in this collection of essays. There is a clear acknowledgment that what is *not* required is yet more tinkering at the edges. Fundamental change is required to make our housing policies – and, within that, social housing provision (but possibly not as we know it) – achieve a range of outcomes of which immediate shelter is just one.

Some countries developed a strong second wave of policies and programmes that confronted these emerging issues of affordability, concentrated deprivation and homelessness. These responses often involved a strengthened non-profit investment. The UK government has, since 2000, been promoting second-wave policies and has steadily strengthened housing policy commitments over the past five years. The US government too promoted major rental sector and renewal changes until programmes withered in the Bush years. In both the US and Canada there have been major federal innovative approaches in homelessness policy and provision.

But other developments have been less encouraging, as (it is argued) is seen in Canada, where there is no clear forward federal housing programme, provinces have been reducing capital support and there are no national and few provincial programmes for neighbourhood renewal.

Action in Ireland, New Zealand and Australia shows a renewed interest in housing policy. The Clark governments in New Zealand have restored investment activity in the non-profit sector, while the new government of Australia has taken major steps to boost the programmes that the states had begun to initiate over the past five years or so. The chapters here suggest that the UK can usefully look at these examples to see how policy experiments are developing and unfolding.

### **Provider and subsidy effects on outcomes**

In terms of the organisation of policy systems for the provision of social housing, countries have vacillated between centralised and decentralised approaches as well as supply- and demand-side solutions. The right balance, it appears, has yet to be found in any of these countries.

Providers were generously grant funded and responsible, in the main, for providing straightforward social housing in uncompetitive environments, with no incentive to take commercial decisions on issues such as effective asset management strategies. In recent decades the effective deployment of these state subsidies is measured in numbers of homes produced and households removed from the priority need waiting list. Despite the rhetoric, the results have shown that this approach has been concerned neither with long-term outcomes for the residents, their children and the community nor with its contributory effect on other social and economic policy objectives.

However, in the Netherlands, early recognition – perhaps with the benefit of relatively large scale – of some of these issues enabled an early change in the course of approaches to who provided, how and for whom. This led to initiatives to address the lack of a commercial approach, competition and consumer choice, the issue of over-centralised administration, and the lack of freedom to innovate. While the results are not without problems – such as concerns about accountability and capacity to meet a very broad set of objectives – they have shown undoubted benefits. The stigma and lack of opportunity associated with social housing in other countries, while still evident in some places, is on a much-reduced scale in the Netherlands generally.

Other nations have addressed provider incentives (many perverse), funding streams, and the often politically sensitive division of responsibilities between central governments, their agents and locally developed new approaches.

Policy innovation in the non-profit – community or housing association – sector has been significant in new thinking in the countries featured here, especially at local scales. The creation of mixed-income communities and better integration of non-market renting and

low-cost home ownership, clearer connections between housing and other renewal or support actions, expanded roles for partnerships and private finance and more voice for citizens and communities have been apparent in at least some parts of all the nations discussed here.

Yet critics, in and out of government, have continued to question the logic of social housing investment. To a greater or lesser degree, these essays have described an often re-emerging policy argument over the last two or three decades that social housing is not necessary, distorts markets, and provides perverse incentives to providers and recipients. The view is that "the market will provide".

However, owner-occupation has its limitations, and the private rented sector – with little government encouragement in many countries – has not stepped in to fill the gap left by the relative reduction in social housing. That said, recent affordability problems for newly forming households who might previously have sought owner-occupation, plus the emergence of a significant number of new landlords through the upswing in the market prior to 2007, have led to hopes of a revival of a better-quality sector. Also, in Ireland, fiscal incentives to the private sector for the procurement of housing for applicants on the social list seems a positive step and may encourage investment.

But the common, and almost unquestioned (or perhaps even unquestionable) commitment to a "property-owning democracy" has become the dominant policy aim in most countries. Indeed, it has become the electorate's aspiration too. Governments, however, have been vague on where they see the efficient split between assisted owning and assisted renting.

In some jurisdictions, there are strong advocates for low-income rental policy led by allowances paid directly to would-be tenants in order that they can exercise more individual choice in their housing solution. This, it is argued, can stimulate more competition in quality and cost between and within the public and private sectors.

The US voucher system and the Irish residential accommodation scheme (whereby local authorities procure housing for those in need from the private rented sector in return for rental guarantees) are both popular and effective. Recent housing benefit reforms in England also appear to be a move in this direction, in paying a local housing allowance directly to residents. However, for choice and competition truly to be expanded effectively and efficiently, a fiscally more level playing field between private and public sectors seems necessary.

**Commercial approaches in meeting social policy objectives**

In contrast to three decades ago, non-profit housing providers can now often hold substantial assets of their own; this is obviously the case in the Netherlands and increasingly so in England and Canada, though less apparent in Australasia. These assets can be, and are being, allied effectively to new challenges. And looking to a future of continued urban growth with scarce land, non-profit bodies have key roles to play in capturing growth gains, proceeds from sales in mixed-tenure developments, and indeed the gains from planning and infrastructure provision decisions.

Place-making activity – as opposed to provision and management of social housing units – if done successfully can result in significant value enhancement. This value can be reinvested in sub-market activity to meet public policy objectives. Rolling programmes can be established to ensure effective asset management so that neighbourhoods remain well maintained, are continuously improved and do not suffer historical problems of underinvestment.

Governments can use the non-profit sector to work with the grain of growth, capture gains and ensure affordable and mixed housing by "taxing" unearned gains rather than workers' incomes. Growth management and renewal both require local agents that can integrate different policy tasks, including, for example, housing and environmental action.

Non-profits with community involvement and remits beyond housing, as in the successful activities of housing associations in the Netherlands and non-profit community development corporations in the US, can play key roles in securing policy outcomes that, for some tasks in some settings, lie beyond the capability of private landlords alone. However, questions of federal leadership, strong co-ordination of services at local government level and a system that ensures accountability are essential components to ensure that public policy objectives drive the vehicle, rather than the other way around.

Managing transformation in housing tenure and wealth over the life cycle is an important but still underdeveloped aspect of national housing policies. For the elderly there are increasing issues of how to extract equity from home values to support themselves. This requirement is likely to grow rather than shrink as the workers of the future become less and less happy about shouldering the burden of a burgeoning retiree population richer in assets and incomes than themselves. Better ways are required to help the elderly step down their housing equity without disrupting where and how they live.

At the other end of the age distribution, the last decade has been marked by reductions in the capability of younger households to sustain home ownership. Arguably, ignoring

this issue has made the present bust in housing markets in the UK and the US worse than it needed to be.

Owner-occupation rates in New Zealand have fallen by around 9% in recent years as new entrants find access increasingly unaffordable and so cheaper alternatives and tenures are sought. The marked growth in what has become known as the intermediate market (that is, those for whom social housing is inaccessible or undesirable but who cannot afford to own a home) in all countries has and will continue to be exacerbated in the wake of the credit crunch. This rapidly expanding area of housing need and demand has changed the nature of discussions in many countries on housing policy – widening the debate from being concerned just about social housing to cover affordable housing generally.

In short, these international perspectives show us that policy is becoming concerned now with enabling *access to housing that is affordable*, rather than simply the provision of affordable, or social housing units.

Moving the debate on in this way is leading countries to think more broadly about solutions, consumer choice, markets and methods of provision – and, importantly, links to other social and economic policies.

For example, issues arise about how to step up equity for lower-income and younger households without compromising market stability. Could non-profits help in ways that transfer resources, perhaps with some fiscal incentive, from older households to their younger relatives – that is, can there be new conduits for the transfer of wealth across generations?

Markets have to be at the core of effective housing and housing finance provision. If housing outcomes in nations and cities are to meet key policy goals effectively, they have to confront the difficult stylised facts for fairness and globalisation, as well as the manifest market failures that enmesh broader outcomes. Different regulation and taxation will be required, but so too will delivery vehicles for renewal and growth management – and that is the challenge for multi-activity, non-profit place makers and asset managers.

### **Focus for change**

Clearly, social housing's role and purpose have changed considerably in all countries discussed here. Its socioeconomic purpose has been subsumed by a welfarist, safety-net approach that has led to some very challenging outcomes over the long term. The countries here have recognised, at various points and to various degrees, that new approaches are needed if we want to achieve better outcomes for families in need of affordable homes, and also for communities and society as a whole.

As we move toward procuring non-market housing in different ways, from different providers, in a greater variety of tenures, the providers too will be more diverse than in the past. It is the outcomes we expect from facilitating non-market housing that are the main focus for change.

There are 12 immediate strategic policy points that emerge from this cross-national discussion:

## **For governments**

### **1. Beyond welfare housing**

Housing systems and policies matter. It is not enough to move past the present downswing simply by recourse to monetary regulatory policies and one-off, time-limited initiatives; national governments need to have a competence and understanding to design housing policies that create the right vehicles, governance structures and incentives to deliver big economic, environmental and social outcomes over the long term in a market-responsive way. Housing policy is about big systems and not just residual welfare provision for the poor.

### **2. Enabling household choice and access**

Governments have to get past the craven political economy of ever boosting home ownership in the upswing only to pay the price, and penalise poorer owners, in the downswing; good government encourages stability and does not promise what cannot be achieved. Housing policy should have a new focus on creating effective tenure and provider mixes that meet real objectives over the longer term, rather than illusory short-term tenure goals. Rental housing, both public and private, market and non-market – for a broader range of socioeconomic groups – needs a new priority in policy thinking, as do new forms of access to ownership, in order to enable as flexible and responsive a range of choice as is possible.

Time-limited, reviewable allowances paid to would-be residents, perhaps in vouchers, could meet immediate housing needs, while giving true choice, and may encourage real competition between and within market and non-market sectors to improve and increase supply. Affordable access to owner-occupation needs to be broadened beyond state-sponsored, complicated shared-equity models. The ability to convert revenue benefits into lump sums for ownership deposits, as is the case in New Zealand, and facilities to transfer accumulated intergenerational housing assets should be examined.

### **3. Enabling vehicles that deliver outcomes**

Governments, in re-engaging with housing issues, should not look back to old, costly

and often unsuccessful state solutions but should look more to commercially minded organisations with social objectives that can partner and deliver in the process of change; this will involve non-profit bodies but also for-profit firms that develop such working styles. The focus of national policy attention and leadership should be on social and economic outcomes – which are broader than numbers of units provided, or limited types of tenure – with provision types and methods more broadly defined.

#### **4. Systems of funding and procurement**

Systems of paying for and procuring affordable housing and even, as previously argued by the authors, of distributing the gains from for-profit housing activities – described in the Netherlands as Robin Hood policies – should be designed to help families trying to leave welfare. Linking this to approaches to maximise housing choice and flexibility of tenure (for example, to begin to see social housing assistance as a person-centred service rather than as a product) will assist in reducing stigma and in breaking the cycle of welfare dependency associated with the social housing product, and could offer greater opportunity to residents and, importantly, their children.

#### **5. Flexibility to be market responsive**

The speed and ferocity of the present global economic downswing has brought into sharp focus the inflexibility of current policies on tenure preference, provider and funding systems. Long-term successful place making that contributes to social and economic development should be the focus of government. Allowing flexibility for the "stewards" of places to respond to changing economic climates and their spillover effects – by, for example, trading within stock, providing flexibility in tenures, and greater freedoms in the use of subsidies and gap funding – will lead to the achievement of greater balance in localised and national markets. Policy has to promote more connected solutions and enable effective organisations to provide them.

### **For providers**

#### **6. Creating and recreating communities of opportunity**

Housing policies always have to be alert to localised externalities and place effects, and this applies to growth management as well as renewal contexts; equally, the housing sector should be pursued to provide evidence of positive neighbourhood effects, community involvement and mixed community benefits. Such asset management strategies for continuous improvement and diversification of stock – not only in terms of the physical fabric of dwellings but also in maximising the opportunities of residents and their children, and lifting the quality of place and its liveability – need to play lesser roles in housing rhetoric and greater roles in the contexts where they could matter.



### **7. An assumption of desegregation, deconcentration and continuous improvement**

There is much evidence of a need for further income desegregation in the non-market sectors discussed here; the onus should be on non-profit housing bodies to justify (comply or explain) why they may not be providing a range of tenures and types among the units they own or are developing. They should be encouraged to sell a proportion of homes in locations where they dominate provision – and/or where the proportion of households in poverty is dominant – and to use those receipts to buy or develop in more diverse markets and communities that are more supportive to households' needs and aspirations.

Effective landlords in both the public and private sectors should plan for strategic churn of a percentage of stock held each year as part of effective asset management and a portfolio of sales, development and acquisitions. Non-profit sectors would do well to learn from success in this area to enable reinvestment in rolling, continual improvement and opportunity funds.

### **8. Providing and enabling wider housing choice**

Providers and procurement bodies should let or sell homes, and the financial support and property rights that go with each option, in a planned, customised, proactive fashion rather than by overly bureaucratic rules concerned only with methods. Applicants should be given – or assisted to access – the rights and resources that match their plans, aspirations and potential. This relates to equity-sharing and asset-transference choices and tenure longevity, for instance; a more "medical" model is required where cases are assessed in relation to aims, contexts and possible treatments, with annual review.

### **9. Tenure flexibility and use of households assets**

Providers need to give more attention to the asset accumulation and contraction strategies for younger and older households: strategies could explore, for example, roles in facilitating wealth transfer across generations within families, and investment bonds that allow tenants to invest in landlords' funds with dividends paid as an ownership deposit later on. Providers should recognise the potential for social and economic benefits to be derived from tenure flexibility and fluidity across their existing stock and future acquisitions.

## **For regulators**

### **10. Beyond numbers: becoming outcome led**

Regulators should measure long-term outcomes rather than outputs of product types and numbers. This could lead to more flexible funding mechanisms and forms of state subsidy and intervention – for example, gap funding place-making activity either permanently or

temporarily to stimulate markets, state equity investment, revenue support to individuals (in forms such as housing vouchers) but also to communities, and other joint public-private investment initiatives.

Outcomes should be assessed continually by considering the effect of interventions in (at least) three areas: the value to local economic and social policy and strategy; the likely long-term benefit to the community as a whole; and the increase in opportunities available to residents and their children.

### **11. Encouraging choice and competition**

Regulators should pay more attention to the connectivity, contestability and competitiveness of overall local provision systems and not just single provider assessments. The rhetoric of housing choice and opportunity is not enough if the availability of products and services is limited. Regulators need to examine what housing type, longevity and tenure choice is available in relation to relative demand, but also its location relative to work opportunities and transport nodes.

### **12. Encouraging innovation and asset leverage**

Regulators should encourage, support and enable existing organisations to utilise and maximise the value of their assets where supported (by public funds) for policy compatible purpose – short, medium and long term. Unlocking the assets – created jointly and initially by state subsidy, then enhanced by good business and good fortune – as in the Netherlands, is an opportunity to think more broadly and more commercially about meeting public policy objectives. As long as accountability remains intact, risk is well managed and outcomes are regularly and carefully monitored, then non-profits, often in partnership with for-profit place makers (as has been demonstrated) can be a significant force for change in balancing housing markets.

In summary, social housing needs redefining, as do the systems that support it. The essays here suggest a move away from provision of social housing and towards a new vision that enables access to housing which is affordable. It should be provided by whoever can do it best and measured in terms of outcomes not outputs. The type, tenure and location of that housing option should be a matter of consumer choice as far as is practical. Provision of housing should be in decent, socioeconomically mixed and diverse communities that offer opportunity and maximum potential for residents now and for the next generation.

We should devise nationwide proactive policies to strategically recreate existing neighbourhoods of (predominantly) social housing in line with this new vision as a matter of priority.

And, importantly, the *raison d'être* of the system – the rationale for intervening in the market – should be to make a positive contribution to social and economic advancement, for society as well as for individuals.

The 12 points listed above are by no means exhaustive. But they may set us on the right road to reform.

