

Promoting Affordable Housing within Market Economy

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Key words: Social responsibility, affordability, rental housing market, land management, legal tools, financial tools

SUMMARY

Promoting affordable housing is a main social responsibility of the society; safeguarding adequate housing conditions for all people is of great importance to create a balanced society. Thus, each state should establish a framework enabling public and private stakeholders to offer affordable housing. Market forces in a market economy system are able to support housing under affordable conditions. It is very important to promote sufficient supply of housing and prevent scarceness, especially in the strongly demanded regions. The land market and the supply of developed land for housing is an essential pre-condition, a challenge of public land management. The existence of a rental housing sector will be helpful; it poses an alternative to owner-occupied housing with less investment and financial burden for the tenant.

Nevertheless these aims could not be achieved without public intervention. Necessary are:

- Legal framework – e. g. social housing law, rent law and rules to implement affordable housing projects.
- Public financial opportunities – e. g. subsidies granted as extra payment (without re-funding) or as loans with low interest or with public securities; subsidies granted for the benefit of the dwelling (object-based grant) or for the direct benefit of the target household (subject-based grant).
- Stakeholders who are willing to be engaged in this limited-profit part of the property market – e. g. state/ government itself, publicly owned companies, non-profit organizations, foundations etc., and an increasing number of non-specialised actors (commercial developers and private landlords).

There is a big range of opportunities and each country has to discuss and determine the system preferred according to their situation.

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1. INTRODUCTION - SOCIAL WELFARE REQUIRES AFFORDABLE HOUSING

Ambitious societies have the aim that all families and households should have the possibility to live in appropriate dwellings at reasonable and secured conditions.¹ Satisfying housing conditions for all creates social freedom and welfare. Promoting affordable housing is of great importance for the poor part of the population and is a main **social responsibility** of the society.

The right to adequate housing is fixed in Article 11 (1) of the International Covenant of Economic, Social and Cultural Rights (CESCR). The General Comments execute: "States parties recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The human right to adequate housing, which is thus derived from the right to an adequate standard of living, is of central importance for the enjoyment of all economic, social and cultural rights." (Source: UN – Office of the High Commissioner for Human Rights: The right to adequate housing (Art.11 (1)), 13.12.1991. CESCR, General Comment 4, No. 1).

No. 7 of the General Comment remarks more in detail: "... the right to housing should be ensured to all persons irrespective of income or access to economic resources. Secondly, the reference in article 11 (1) must be read as referring not just to housing but to adequate housing. As both the Commission on Human Settlements and the Global Strategy for Shelter to the Year 2000 have stated: "Adequate shelter means ... adequate privacy, adequate space, adequate security, adequate lighting and ventilation, adequate basic infrastructure and adequate location with regard to work and basic facilities - all at a reasonable cost". (Source: UN – Office of the High Commissioner for Human Rights: The right to adequate housing (Art.11 (1)), 13.12.1991. CESCR, General Comment 4, No. 7).

Thus, the state has to establish a framework enabling public and private stakeholders to offer affordable housing. In addition to the social and human aspects promoting affordable housing is an economic affair and an organizational challenge too. Necessary are

- legal framework (law and rules),
- financial opportunities (money) and
- stakeholders who are engaged in this part of the property market.

¹ The term "dwelling" is used here as a generalized term for different items or tenure patterns used to describe the living place of a household (apartment, house, flat, condominium etc.).

Affordable housing projects are possible to be implemented by each investor, private or public, owner-occupier or land lord. According to experience the public stakeholders are of specific importance, e. g. state / government itself, publicly owned companies, non-profit organizations, foundations etc.).

Financial engagement of the public sector is indispensable. Two principles are generally differentiated (Kühne-Büning/ Nordalm/ Steveling 2005, p. 271ff.):

- Object grant: The financial aid is granted to the owner of a property who is bounded to let the apartment to the target group households only.
- Subject grant: The financial aid is granted to the target group household directly; the family looks for an appropriate apartment on the market, a part of the rent is paid with the financial aid.

The possibilities to promoting affordable housing (**tools**) are manifold. Financial aid can be granted as extra payment (without refunding) or it can be granted as credits, e. g. loans with low interest or loans with public securities. New apartments can be promoted or the modernization of housing stock will be preferred. The stakeholders can acquire properties/ buildings suitable for target group households or they can acquire rights from the property owners to distribute the target group households to the flats. Another important tool of the public sector is offering land for housing to reduced prices; the investors are obliged to reflect the reduced land price in reduced rents for target group households; this opportunity extends the supply and reduces the burden of rent level.

The contribution systemizes the possibilities of promoting the supply of affordable housing in market economies and illustrates figures and experiences from German perspective.

2. PROPERTY MARKET AND AFFORDABLE HOUSING

2.1 Market Forces

Housing is a part of the economy and works according to the rules of market economy. So the housing sector is determined by supply and demand; the transaction prices of apartments and houses as well as the rents of dwellings firstly are the results of market forces. In the center of interest in view of affordable housing is **the supply** of dwellings – rented apartments as well as owner-occupied houses. The market mechanism works as better as the market framework serves a perfectly executed market (transparency, many independent suppliers, many independent demanders, supply of adequate substitutes) (Kühne-Büning/ Nordalm/ Steveling 2005, p. 20). In theory it may be possible but in practice a free market economy system itself (without public intervention and public incentives) is usually not able to care for adequate housing conditions in volume and prices. The demand for favourable housing always is very high while the supply of reasonable dwellings usually is not sufficient, especially in preferred regions. This could be caused by reluctance of investors to create an artificial scarceness of supply and raising prices (speculation); another possibility is an insufficient supply of devel-

oped plots for housing estates caused by the public planning system, the land market and land owners.

We can talk of a well-balanced housing market if the output of the market meets the following targets:

- The housing market should provide **enough dwellings** (volume of the housing market/ housing stock); the number of dwellings in a region should be in line with the number of families/ households.
- The housing market should provide a general good standard of dwellings and additionally **differentiated standards** at differentiated price and rent levels.
- The situation at the **land market** is very important and a pre-condition for a well-balanced housing market. “In addition it is important that the way they get the land does not result in social housing being of low quality, in poor locations, in insufficient numbers and so on” (Needham 2000, p. 1). The land market in countries with a forthcoming land administration system is influenced by its land use planning system. Affordable housing requires a strong cooperation with the public stakeholders responsible for land use planning and the private or public stakeholders acting in the land market.
- Other related factors according to the housing market are the capacity of the construction industry and the financing system (mortgage system and interest level).

The tasks according to affordable housing are

- to create a sufficient supply of dwellings – including sufficient land suitable for development of residential projects - ,
- to guarantee affordable conditions (quality and price) for an adequate part of the demanding groups and
- to organize that an adequate part of the supply is kept open for the target group households and is not occupied by better off households.

These objectives mostly require public intervention into the market system; but the interventions should be kept as small as possible. The dangers of divided markets or a secondary market sector with low standard and image should be prevented; in such cases the advantages of market forces are reduced or even cut off. The interventions of the public authorities are based on a legal framework; they are composed of legal responsibilities, financial aid in various form and stakeholders engaged in affordable housing issues – publicly or privately organized. There is a big range of opportunities and each country has to discuss and determine the system preferred according to its situation.

2.2 Social housing markets in Europe

Remark: The terms of “social housing” and “affordable housing” are very similar and mostly are used alternative, so in this paper. In Germany the term ‘social housing’ (Sozialer Wohnungsbau) is rarely used today; the term is linked to the former policy in the 60ties and

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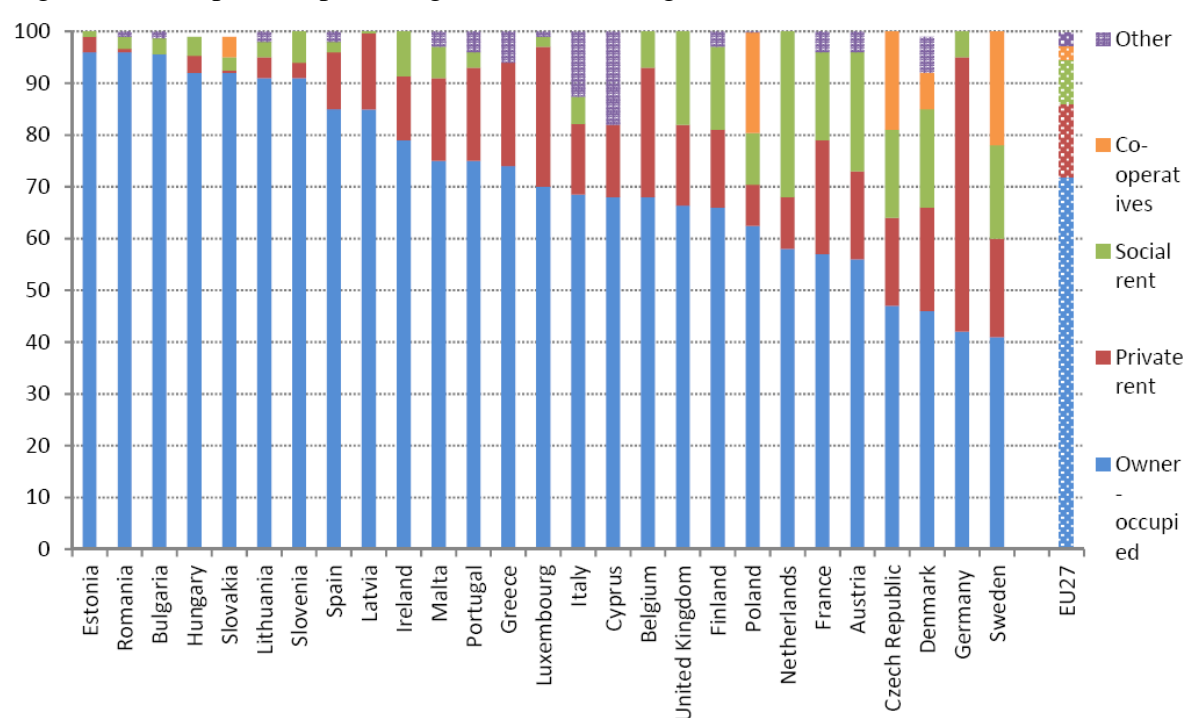
70ties. Today legal texts generally refer to the terms "publicly subsidised housing" (öffentlich geförderter Wohnungsbau) or "housing promotion" (Wohnraumförderung).

Social housing is organized and supported within two different tenure structures:

- Owner-occupied homes and condominiums.
- Tenant-occupied rental dwellings or apartments.

The tenure split of the housing stock is different in the European Union. Fig. 1 shows the high share of home-ownership in most Member States (average EU 27 over 70%). According to the most recent available data, today homeownership ranges from over 95% in the Eastern European countries of Estonia, Romania and Bulgaria, to about 40% in Germany and Sweden; Switzerland which is not in the list has a lower rate still. The rental sector is subdivided into dwellings in private or social rent tenure. Germany is the only country in the European Union where the private rental sector (53 %) is larger than the owner-occupied one (42 %). Relevant portions of the rental sector of more than 30% come across in 9 other countries (Netherlands, Austria, France, Sweden, Denmark, Czech Republic, Finland, UK and Luxembourg). This is an important feature when discussing the tools to promote affordable housing (comp. household tenure in UK: Jowsey 2011, p. 90ff.). The mentioned countries like Germany, tools are necessary operating with landlords as well as owner-occupiers; in countries with homeownership rates over 90 % one strategy will be sufficient. Despite large differences in tenure types, one general trend is an increase in homeownership rates in most EU countries; since many years this is a main objective of the housing policy in Germany too.

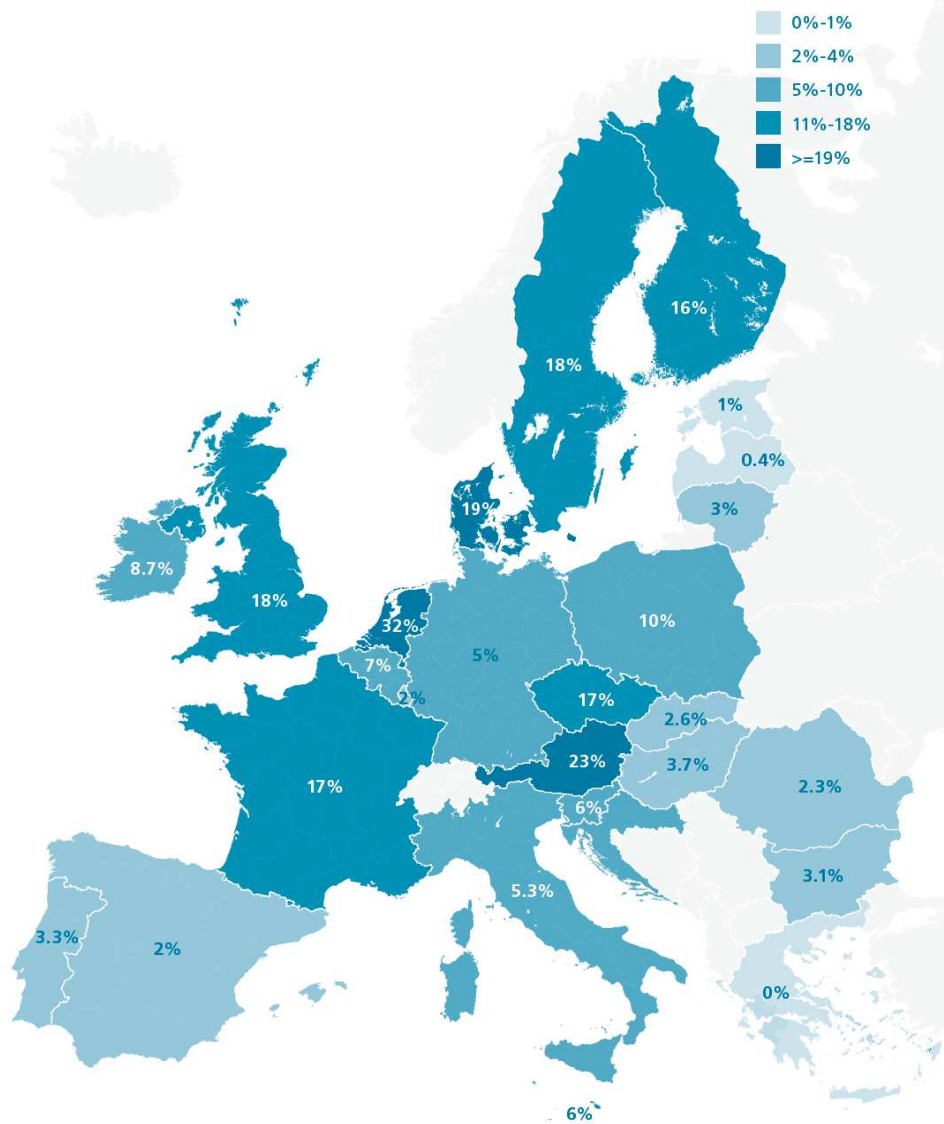
Fig. 1: Tenure split as a percentage of total dwellings stock in the EU 27 (2010)



Source: Pittini, A. (2012): Housing Affordability in the EU – Current situation and recent trends. CECODHAS Housing Europe’s Observatory Research Briefing, Year 5/ No. 1/ January 2012, p. 6

Fig. 1 also provides information about the social rent sector in the countries (green column) which is relevant in all countries except Latvia and Cyprus. Within the rental sector, the relative importance of private versus social rental varies substantially. In a few countries social rental housing accounts for more than 50% of the rental market (Netherlands, Austria, UK as well as in Eastern European countries which don't have a well-developed rental sector) (CECODHAS 2011, p. 10). In Germany the building stock under social housing represents about 5% of the national housing stock only (cp. Fig. 2).

Fig. 2: Social rental housing as percentage of total housing stock



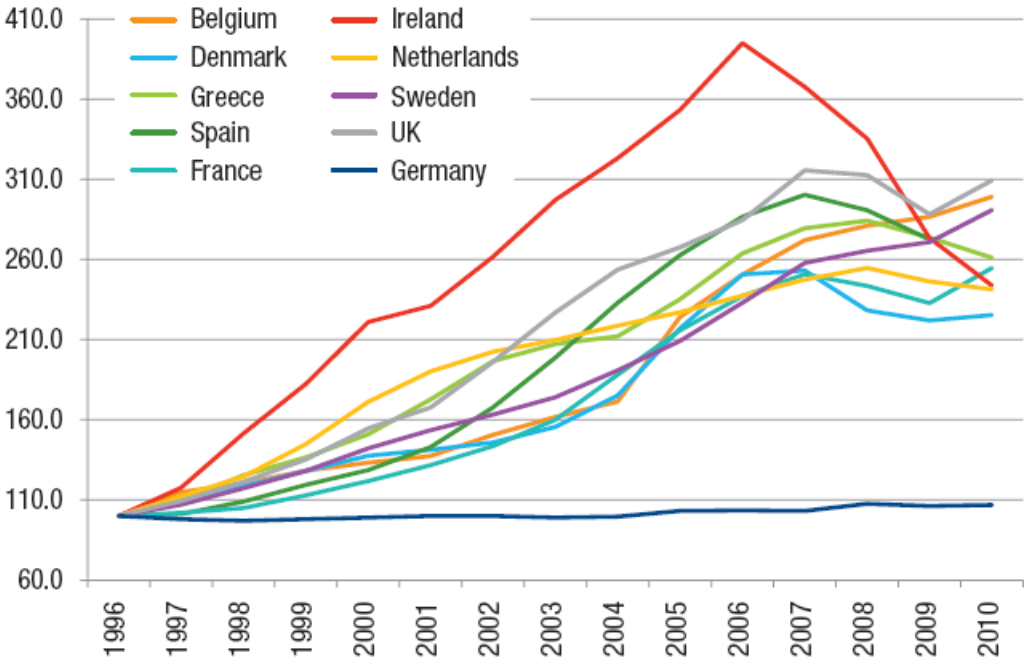
Source: CECODHAS Housing Europe (2011): Housing Europe Review 2012, p. 23

The figures with big differences across Europe in social rental housing as percentage of the total building stock are not comprehensible and need more interpretation; while in Finland, Sweden, Denmark, UK, France, Czech Republic and Austria social rental housing have a per-

centage of narrow to 20 %, Germany, Belgium, Italy, Slovenia, Spain and Portugal get along with about 3-6 % of the stock, although the socio-economic situation in the countries is not that much different. But the strategies to promote affordable housing may be different.

The market prices for housing properties developed strongly in the period 1996-2006 in most of the European countries (increase factor 2 – 3) and had been stopped since the financial crisis. Exclusions are Ireland (extremely vulnerable) and Germany (unimproved or steady over the whole decade). Especially in the European metropolitan regions and big cities many households were excluded from housing market access and cannot find adequate dwellings here. In the major German cities the comfortable situation changed with the economic recovery after 2009; prices and rents are increasing now again, but still not much over the level of inflation rate.

Fig. 3: Nominal House Price Indices 1996 - 2010 (1996 = 100)



Source: European Mortgage Federation

2.3 Market for affordable housing in Germany

Fig. 2 shows a percentage of 5 % for Germany or about 2 million social housing rental dwellings within the total housing stock. The stock of affordable housing in Germany is much more extended than the 5% legally social housing stock. Especially the dwellings managed by cooperatives are part of the affordable housing system. They are called “quasi-social housing” including large parts of the municipal housing stock that is no longer legally social housing. In many cases, however, municipal political leaders have decided to continue to operate them

as de facto social housing in terms of rents and access (Droste, Chr.; Knorr-Siedow, Th.: Social Housing in Germany. In: Whitehead, Chr.; Scanlon, K. (2007), p. 97). This ex-social municipal housing stock was reduced in many cities in the last decade because of privatisation. Municipalities in both western and eastern Germany, in difficult fiscal shape, have sold thousands of public homes to international institutional investors, particularly US, British or Japanese pension funds; this abruptly was stopped by the financial crisis in 2007.

In Germany the social housing policy changed during the last 3 decades completely. After World War II the main task was to construct plenty of new dwellings to satisfy the demand of the growing population with increasing standard of living. In the 1960ties and 1970ties social housing was a separated part of the housing market driven by specific private or public stakeholders and direct investment of public money (companies under non-profit law, the majority was in ownership of municipalities, the Länder or socially based organisations as churches or unions and cooperatives). The suppliers of social housing dwellings were required to accept tenants under income limits, rent ceilings and limits of flat size and number of rooms. In the following decade the object-based financial aid changed more and more into a subject-based financial support directly to those who cannot find adequate living space at the market. In 1989 the non-profit status – the return on investment as limited to 4% p. a. – was cancelled. The number of social housing units is permanently declining because the status of being part of the social housing regime finishes after a fixed period; this ranged from about 40 years in the 1970s and 1980s to 12-20 years in recent years; after its expiry, the owners of the dwellings are free to rent or sell the dwellings at market prices (Droste, Chr.; Knorr-Siedow, Th.: Social Housing in Germany. In: Whitehead, Chr.; Scanlon, K. (2007), p. 90).

Today providers of publicly subsidised housing include municipal housing companies and cooperatives (which constitute the traditional non-profit sector) as well as private landlords, commercial developers and investors with a variety of shareholders (comp. Schulte/ Bone-Winkel/ Thomas/ Holzmann 2005, p. 211ff.). From a legal point of view, all housing companies are considered market actors, although municipal housing companies act according to local policies and housing needs (Source: www.housingineurope.eu/publications/country-profiles; 20.03.12). A good example for the conglomerate of stakeholders in the sector of affordable housing is the umbrella organisation of GdW. The members of the GdW Federal Union of German Housing and Real Estate Associations are 1.897 housing cooperatives, 739 municipal and public housing associations as well as 138 real estate associations in the private sector, 53 church housing associations and 49 further institutions (GdW 2009, p. 116). The members represent about 6 million rental dwellings, nearly 30 % of all rental flats in Germany. The members' housing stock includes about 1,2 million social housing dwellings and 2,2 million flats managed by housing cooperatives.

Since the legal rules turned away from the funding of specific types of dwelling towards personal subsidies and from socio-spatial policy to individual care, the range of promoting affordable housing in Germany could be better counted by the number of supported households than by dwelling units. In 2009 this has been a minimum of 5 million households (12,5 % of all households), much more than 2 million dwellings still registered under the social housing regime. 80 % are involved in the social security system and benefit from different types of

income transfer, e. g. long-term unemployment benefits (Arbeitslosengeld II) or basic social security benefits (Grundsicherung); both already include housing cost (2009: 15 billion EUR). 20 % or 1 million households benefit from housing allowance (Wohngeld; 2009: 1,6 billion EUR). Retired persons are the biggest subgroup of housing allowance donees; 9 % of these households are owner-occupiers and 13 % lived in a social housing unit only in 2009 (Wohngeld- und Mietenbericht 2010, p. 9).

2.4 How to define “affordable”?

The affordability of housing cost depends from the level of household income, the market rent level – or the charge of mortgage paying in case of owner-occupiers – and the cost of living in a region. The relation between these factors is not uniform but changes between strong and weak regions. In core regions with high economic dynamic the relation often is most problematic (in Germany e. g. Munich, Rhine-Main or Stuttgart); also in very weak regions with high unemployment it is difficult for many families to cover housing cost.

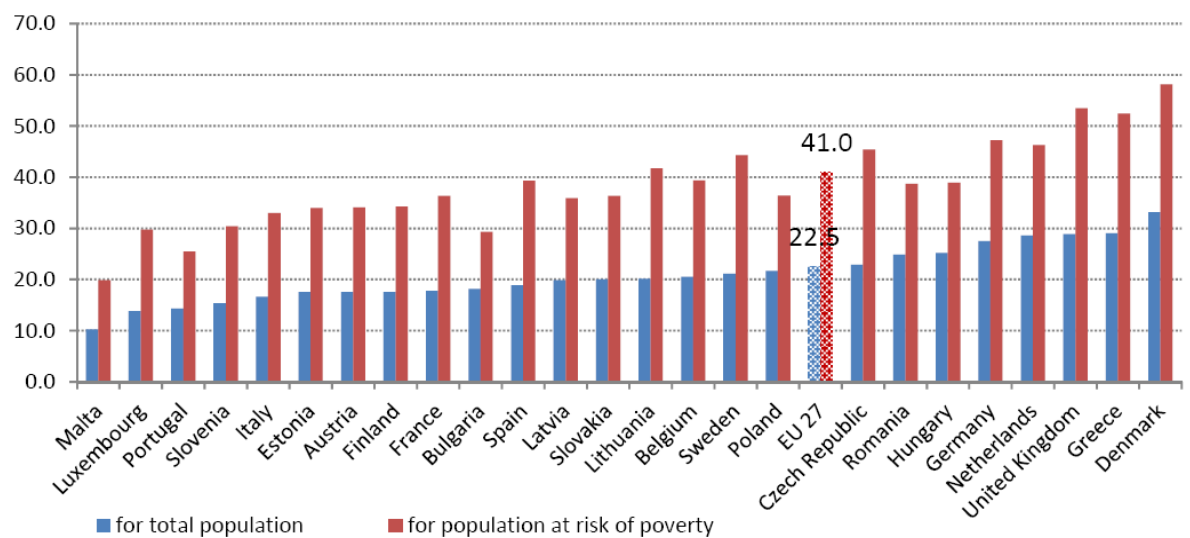
The Committee of economic, social and cultural rights (CESCR) explains “affordability” in No. 8 c) of General Comment 4 related to Art. 11 (1) of the International Covenant on Economic, Social and Cultural Rights: “Personal or household financial costs associated with housing should be at such a level that the attainment and satisfaction of other basic needs are not threatened or compromised. Steps should be taken by States parties to ensure that the percentage of housing-related costs is, in general, commensurate with income levels.” (Office of the High Commissioner for Human Rights, United Nations, 13.12.1991). This explanation leaves it to each state to substantiate the term which is subject to national interpretation.

The main indicator to identify affordability is the share of housing cost in disposable income. A very common limit to exceed affordability is the threshold of 30 % cost according to housing in relation to the gross income of a household. EUROSTAT considers a household as ‘overburdened’ when the total housing costs - including utilities (water, electricity, gas and heating) and any costs related to regular maintenance and structural insurance - represent more than 40 % of disposable income (Pittini, A. 2012, p. 2).

On average in EU 27 and based on the total population the European households spend 22,5 % of their income on housing; housing costs include utilities and deduction of housing allowances. The situation of the lower income households becomes apparent if the burden of those with an income below 60% of median national income (“population at risk of poverty”) is analysed. The share for them is almost double with an overall rate of 41 % (Pittini, A. 2012, p. 3). Fig. 4 shows the inhomogeneous rates for the EU 27 countries, and very high rates in Denmark, Greece, UK (over 50 % of population at risk of poverty) as well as Netherlands and Germany. People at risk of poverty living alone are the ones who spend the most on housing compared to their income, while large families are the ones spending relatively the least. The figures of the CECODHAS-survey result in 10,1% of European households, and 37% of the population at risk of poverty spend more than 40% of disposable income on housing. They are considered as ‘overburdened’ by housing costs, i.e. what they have to pay for housing is too

much compared to what they can afford (Pettini, A. 2012, p. 4).

Fig. 4: Share of housing costs as a percentage of disposable income in the EU 27 by poverty status (2010)



Source: Pettini, A. 2012: CECODHAS Housing Europe: Housing Europe Review 2012, p. 3

3. LEGAL RULES PROMOTING AFFORDABLE HOUSING

The housing market is a local or regional market. Rent level and the level of construction costs are strongly influenced by regional aspects. So the municipalities and the counties are the administrative structures which have to govern affordable housing in each single case. The framework (rules and distribution of subsidies) should be organized at an upper level. Today the framework of affordable housing in Germany is in responsibility of the Federal States (Länder); some detailed rules may be fixed at the local level. The law requires that Federal States, regions, counties and municipalities have to cooperate in social housing issues.

3.1 Specialized law on affordable housing

Before the Federalism Reform in 2005 in Germany affordable housing was a common issue of the national level (Bund) and the 16 Federal States. From the 1950s, the legal foundation of social housing was given by the Second Home-building Law (II. Wohnungsbaugesetz, or WoBauG). German housing policy previously centered on massive direct and indirect subsidies to builders (grants and tax reliefs). This law was replaced in September 2001 by the **Law on Social Housing Provision (WoFG)**. Since the competence in social housing turned to the Länder in 2005 it is the choice of the Länder to keep the WoFG or to pass a new bill at the State's level. Today six of the States passed a new law, in the other States the WoFG is still relevant as the general legal framework (BBSR 2011, p. 5). Since the 1980s, the situation of affordable housing turned away from increasing the number of dwellings, because the gener-

ally high housing standards made state interference more obsolete. Now the legal rules are targeted on the quality of the building stock and the needs of special groups (subject-based subsidies).

The **target groups** are defined by the legislation as households who cannot secure themselves with an adequate accommodation and need support. The policy supports in particular low-income households as well as families and other households with children, single parents, pregnant women, elderly, homeless and other needy persons (www.housingineurope.eu/publications/country-profiles).

The Law on Social Housing Provision (Wohnraumförderungsgesetz – WoFG) includes the promoting of affordable housing in different **forms of tenure**:

- Rental dwellings,
- cooperatives with shared ownership/equity (Genossenschaften) and
- owner-occupied dwellings.

Different possibilities are fixed in law to **support affordable housing** (§ 2 WoFG):

- Construction of adequate dwellings including its purchase of new constructed dwelling (max. 2 years old),
- purchase of existing dwellings,
- modernisation of dwellings,
- arrangements that the house owner accepts tenants chosen by the municipality (purchase of the right to occupy - Belegungsrecht).

The law also mentions different kinds of **granting subsidies**:

- Approving subsidies as loans with favorite conditions,
- approving subsidies as grants,
- securities given by public institutions (loan guarantee, letter of indemnity, etc.),
- offering land for housing from public stock to affordable prices (§ 4 WoFG). This obligation is an important motivation of public land banking. Public institutions including public companies organized according to private law are required by law to ensure that there is available land for housing in an appropriate volume and to adequate prices to promote affordable housing (Needham/ de Kam (2000), p. 20).

Additional the law assigns the following **task to the municipalities** (§ 4 WoFG):

- The municipalities are required to care that plots dedicated to housing are not speculatively accumulated, but will be built up and taken into use;
- in view of the existing housing stock the municipality has to care that appropriate dwellings will be modernized.
- Finally the municipalities are obliged to consult and support potential house builders (§ 4 WoFG).
- Techniques of land-saving and cost-reducing construction methods should be preferred.

The Law on Social Housing Provisions (WoFG) embodies different tasks to the public sector

and offers a wide range of tools to promote affordable housing. The municipalities are the main stakeholders to implement affordable housing policy locally. The Federal States provide and distribute the public money which is essential to promote affordable housing. From the 1980s, the federal States' programmes were increasingly opened up to individual and institutional private investors. Today many federal states require a concept of housing policy in advance of granting subsidies legitimated by the municipal council (**social housing provision concept**). The concept describes the technical and social situation of housing in a municipality and sets the focus to the preferred strategies, implementation tools and distribution of subsidies.

The granting of subsidies is connected with **income ceilings** and thresholds according to the size of dwellings. There are different rules in the Federal States; the following figures are not strict ceilings but they show the range of disposable income if full subsidy is granted. The yearly disposable income may not exceed

- for 1-person household 12.000 EUR,
- for 2-person household 18.000 EUR,
- each additional person in household + 4.100 EUR,
- per child additional + 500 EUR.

The disposable income of a family with 2 children is limited in case of full subsidy to 27.200 EUR p. a.

The **restrictions of living space** are fixed by the Federal States. Appropriate sizes of rental dwellings are

- for 1-person household 50 m²,
- for 2-person household 60 m²,
- for 3-person household 75 m²,
- for 4-person household 85 m²,
- for each other person in household + 10 m²

In case of owner occupation the size thresholds are:

- households up to 2 persons 90 m²,
- households up to 5 persons 130 m².

3.2 Rent law

The rental housing market in Germany is determined by strong rent law protecting tenants and setting restrictions to the land lords. The legal framework of rent law is valid for the rental dwelling sector all in all, the rules for adequate housing provision contracts are not more severe (except old social housing contracts based on the principle of “cost rent”), but the rules are very important for the affordable housing framework too. The most important aspects are:

- Protection against eviction: Dismissal by land lord is possible only, if the tenant does not satisfy his/her duties out of the contract – e.g. missing payments for more than one months, no care for or damage of the dwelling –, if the land lord’s family itself has an urgent need to use the flat for their own purposes or if an adequate economical exploitation is prevented.
- The level of the rent can be controlled against the “local comparative market rents”

which are monitored in a “list of comparable rents” organized e. g. by the associations of tenants and of land lords. It is no obligations to agree upon a list of comparable rents in a municipality. Especially in big and medium sized cities you can find such rent indexes.

- The increase of rent payment is limited to 20 % within 3 years.
- In case of modernization of a dwelling the yearly increase in rent payment is limited to the equivalent of 11 % of the modernization costs.

There is no institution which controls the rent market; it is up to the tenant to care about it and – in case of misuse – fight against it by court. Rent law is part of the civil law, public institutions do not have a obligations to control these rules (Kühne-Büning/ Nordalm/ Steveling 2005, p. 83f.).

3.3 Planning law and affordable housing

Few legal rules relevant to the promotion of affordable housing are given in the German Federal Building Code (Baugesetzbuch – BauGB). Within legally binding local development plans the municipalities have the opportunity to designate areas for residential buildings which could be part of the social housing provisions (§ 9 (1) No. 7 BauGB). Today municipalities rarely operate with this designation, e. g. for small areas or single plots spread over a district. Large coherent social housing districts could cause many social problems as the experiences from 1970s - 1980s showed. Moreover the general planning aspect - given in § 1 (6) No. 2 BauGB – requests that the composition of inhabitants in an area should be kept or created in a socially balanced manner. Unilateral structures of population should be avoided; this in contrary is also relevant for rich people’s “gated communities”.

In regions with high demand on the housing market it is an increasingly widespread practice in new developments to set a minimum percentage of social housing the developer is obliged to implement. This is a policy in the big German cities. Implementation is made with the help of Urban Development Contracts according to § 11 BauGB. These contracts are used to fix arrangements next to the planning permission between municipality and investor (Mütze/Senff/Möller, 2007, p. 25). Tools like this are in place in many other countries too. For instance in England, the Section 106 Agreement is a legally binding agreement between the Local Planning Authority and the developers, which often requires developers to minimize negative impacts on the local community, e. g. market access problems of lower income groups after realizing the new development. In Spain in each new urban development a minimum of 30% of the land must be used for protected housing. Also in the Flemish Region in Belgium, a recent decree established the involvement of the private sector in social housing provision: in each new estate development (consisting of over 10 houses/50 apartments) at least 20% has to be social housing, 40% if the land belongs to the public sector. In France, law sets the obligation to have at least 20% of social housing in every municipality over 3500 inhabitants (CECODHAS Housing Europe, 2011: Housing Europe Review 2012, p. 29).

4. FINANCIAL TOOLS TO PROMOTE AFFORDABLE HOUSING

Some tools serving affordable housing by public stakeholders are always mentioned in the chapters above. The following list of possible tools gives a summarizing overview and focus on the financial tools. The list is organized according to the different types of subsidies.

Fig. 5: Financial tools to promote affordable housing

- Direct subsidies
 - Object-based grant
 - Rental dwellings (support to the land lord)
 - Construction/ modernisation cost
 - Interest-reduced loans
 - Expenditure-based loans
 - Owner-occupied dwellings (support to the target household)
 - Construction/ modernization cost
 - Interest-reduced loans
 - Expenditure-based loans
 - Promotion of building society savings
 - Subject-based grant (support to the target household)
 - Housing allowance
 - for tenants (Wohngeld)
 - for owners (Lastenzuschuss)
 - Extraordinary support to target households
 - Provision of dwellings based on municipal rights to occupy
- Indirect subsidies
 - Tax incentives
 - Rental dwellings (support to the land lord)
 - Income tax (increased or extra depreciation)
 - Property transaction tax
 - Inheritance tax
 - Qwner-occupied dwellings (support to the target household)
 - Income tax (fixed amount of tax reduction)
 - Property transaction tax
 - Inheritance tax
 - Framework for social housing market
 - Rental market framework
 - Rent price comparison system
 - Rent increase ceilings
 - Land market policy
 - Adequate land selling prices from public land stock

Source: Kühne-Büning/ Nordalm /Steveling (2005): Grundlagen der Wohnungs- und Immobilienwirtschaft, p. 279; own supplements

Financial tools and legal tools are overlapping; some financial tools are already mentioned in law (comp. Murfeld 2000, p. 612ff.). Additional there are tools and subsidies of general public housing policy, e. g. for energy-saving house techniques, dwellings for handicapped people and tax reductions for monuments and modernization of buildings within urban renewal areas; they are available and used in the affordable housing sector too.

All in all subsidies to support households having difficulties on the housing market to acquire adequate dwellings to adequate conditions are available

- as part of the social security system (e. g. basic help for long-term unemployed families), paid according to social security law;
- as part of housing allowance paid by the Federal State according to housing allowance law predominantly to households which are beyond social security thresholds;
- as part of the social housing provision system paid by the federal States according to social housing provision law (WoFG).

The latter part based on the Law of Social Housing Provisions is most important for additional affordable housing projects. As already mentioned the municipalities are responsible at the level of project development, the financial and legal responsibility is in charge of the federal States today; compensating its former responsibility in social housing the Federal State (Bund) is still involved in financing social housing provision till 2019. The range of social housing provision can be seen in Fig. 6 and 7.

Fig. 6: Number and type of subsidized dwellings in Germany 2002 to 2010

	2002	2003	2004	2005	2006	2007	2008	2009	2010
16 Federal States in total									
Subsidized dwellings									
in absolute terms	91.539	64.516	55.147	60.204	52.954	56.312	72.203	73.286	57.643
in percentage	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Thereof (in %)									
New constructions	42,5	46,8	51,0	42,4	42,3	35,2	29,1	32,1	38,5
Investment in building stock	57,5	53,2	49,0	57,6	57,7	64,8	70,9	67,9	61,5
Rental dwellings	65,0	54,7	60,7	62,8	61,2	63,3	58,9	56,9	53,5
Owner-occupied dwellings	35,0	45,3	39,3	37,2	38,8	36,7	41,1	43,1	46,5

Source: BBSR (2011): Fortführung der Kompensationsmittel für die Wohnraumförderung (Endbericht), p. 10.

www.bbsr.bund.de

Fig. 7: Cash equivalent of social housing subsidies in Germany 2006 to 2010

	2006	2007	2008	2009	2010
16 Federal States in total					
Social housing subsidies (cash equivalents in Mio. EUR)					
in absolute terms (Mio. EUR)	794,73	845,49	1.050,16	1.159,76	1.048,30
in percentage	100,0	100,0	100,0	100,0	100,0
Thereof (in %)					
New construction	74,5	67,3	62,2	69,6	72,6
Investment in building stock	25,5	32,7	37,8	30,4	27,4
Rental dwellings	48,3	50,3	46,9	49,7	52,8
Owner-occupied dwellings	51,7	49,7	53,1	50,3	47,2

Source: BBSR (2011): Fortführung der Kompensationsmittel für die Wohnraumförderung (Endbericht), p. 9.

5. CONCLUSIONS

In view of the work of the FIG Task Force “Property and Housing” with a focus on affordable housing the following conclusions might be part of consideration:

- Adequate housing is a fundamental need of each family/ household. Access and affordable conditions of the housing market are highly relevant aspects of a country’s **social policy**.
- The problem of affordable housing is highlighted in regions with strong economic effort and limping supply.
- Affordable housing needs **strategies** having focus upon the quantity aspects of housing or upon the quality aspects of housing. If the regional market does not allocate enough dwellings in relation to the number of households in the region a quantity-aligned strategy is necessary; is the numerical situation sufficient a quality-aligned strategy should be pursued.
- Assumption of each strategy is **information** about the housing market and housing situation of the people; a monitoring system is necessary. Necessary also are **benchmarks**, e. g. which is an adequate size of a dwelling for a family, which are adequate proportions of a family’s disposable income for housing and for a reasonable standard of living.
- The aim in a quantity-aligned strategy is the broadening of the supply of the housing market. This is not only a question of the capacity of the construction industry but a question of the capacity of urban planning, of land resources which can be made available for the social housing stakeholders, and the **land management attitude** of the local authorities.
- Affordable housing needs public intervention and **public financial support** to close the gap in comparison to free housing market conditions and to assist the target groups. Financial support can be granted for the benefit of the dwelling (object-based grant) or for the direct benefit of the target household (subject-based grant).
- It should be aspired to combine social housing developments and private residential

property developments within an urban development area in a mixture. The experiences of large neighborhoods of social housing complexes are unfavorable in a long-term perspective; the social problems in unilateral neighborhoods tend to accumulate and the value of the building stock is unsustainable. Social housing must not decline to low quality housing.

- Next to the owner-occupied market a **rental housing market** should be established. Many low-income households are not able to finance a dwelling of standard quality. Areas with low-cost dwellings – owner-occupied or rented – are put in jeopardy to become a slum area. A rental housing market including affordable housing and public support could be an alternative for low income households.

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