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SEPTEMBER
2017

AFFORDABLE HOUSING IN EUROPE: Innovative public policies that can effectively address the housing crisis

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This business of ours has existed since the neolithic, and we still haven't learned". These are the words of a Spanish property developer who a few days ago opened a discussion group for experts to share concerns about the construction sector that aims for consensus solutions that allow the professionalisation of a trade that has been centre stage since the 2007 financial crisis and its consequences.

To be sure, the issue of housing is intrinsic to the city: cities were invented to be lived in. Later, with the creation of states, housing policies were raised to the level of national policies and the right to housing is now recognised in almost all constitutions. And the housing crisis is again the order of the day because of how the rise in the price of apartments in the major European cities directly impacts the lives of the residents. The vulnerable groups and the middle classes (and this is what is new) are forced to go and live on the outskirts because they cannot compete with the acquisitive power of investment funds and individuals that speculate with housing in the conviction that the scarcity

of land in consolidated urban areas will work in their favour. The second wave of spatial segregation in European cities is resulting from the incapacity of municipalities to slow the impact of the circulation of global capital, and the deceleration of the urbanisation process.

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The affordable housing crisis is an issue that cannot be hidden: in contrast to issues such as pollution, traffic jams, innovation or even tourism – which are intangible because they are difficult to measure or perceive from the individual point of view – the increased cost of living above employment income is a key problem for more than a third of citizens in the European Union, as all the important studies on the issue show.

Though the challenge of affordable housing in Europe has turned out to be huge, no single state seems to have been able to tackle it in a structural way. The objective of this paper is to review the mechanisms used by the various states to tackle housing cycles and to indicate the future challenges that can be conceived in a context strongly marked by the circulation of capital and the digital transformation.

The data at European level show that most residents live in their own homes, and that rental tends to be a secondary option; homeowners have medium or high salaries, whereas renters tend to be those with fewer resources.

From the review of the existing literature it is deduced that all the countries implement public policies aimed at guaranteeing the affordability of housing at national level and allocate a greater or lesser part of their GDP to it, even though across Europe budgets have been reduced since the 2007 economic recession. States work with cities in order to identify, qualify and build on the land needed for the housing to be developed, and it is in the comparison between European cities where the most diverse solutions for facing the housing issue are found.

This study seeks, on the one hand, to review the public policies implemented in the context of the end of a property cycle greatly affected by the financial crisis of ten years ago and, on the other, puts forward solutions that seem to have a greater chance of dealing with the problem in the future.

Encouraging national social housing policies

The crisis has led to countries with lower levels of social housing at a European level approving legal and budgetary measures to face the emergency. France, Germany, the Netherlands and the United Kingdom have strongly regulated housing markets with public incentives that successive

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governments revise with substantial involvement from the private sector.

France is one of the countries with largest housing stock in Europe: 57.7% are in ownership; 25.2% are free-of-tie rental and up to 14.6% are social rental. This data explains why in France affordable housing is considered an essential element for reducing social inequalities and protecting the most vulnerable sectors. For this reason, the Solidarity and Urban Renewal Act set the obligation of achieving a minimum percentage of 20% affordable housing (raised to 25% in some cases) in all municipalities of over 200,000 inhabitants. Now, the law for Access to Housing and Renewed Urban Planning facilitates the regulation of housing markets, regulates abusive practices, promotes access for families to housing and requires innovation and transparency from the sector.

In Germany rented housing predominates (53%), with home ownership at 43%. There is 4% of social housing and cities like Munich are exposed to sharp rise in the prices of apartments. Germany's social policies, inherited from the Weimar Republic, are based on three fundamental principles: preserving the rights of tenants and making them equal to those of owners, maintaining the quality of housing, and constancy in the production of housing.

The production of social housing in Germany follows the rules of the market, and private companies are responsible for maintaining and expanding the public stock; in order to be competitive, they receive subsidies and act in accordance with the policies of the municipalities in which they operate. Since 2006, the housing policies have been transferred to the *Länder*, and the federal governments have gained competences to regulate and guarantee the accessibility to housing. This regional empowerment has allowed the imbalances at regional level inherited from the differences in development between West Germany and an East Germany under Soviet control for over 40 years to be addressed.

At a practical level, it is worth highlighting the so-called *Bündnisses für bezahlbares Wohnen und Bauen* (Alliance for Affordable Housing and Construction), a coalition that brings all the actors involved in housing construction together at one table and aims to build and modernise housing, with preference given to the affordable housing market in the new expansions of urban areas with housing shortages.

Transparency in the construction process is the main element in this strategy, which requires a review of excessive prices and costs, along with other demands in terms of energy efficiency. Some of the goals achieved are the acceptance of new residential housing and advanced forms of house-building like series construction; the federal government has tripled the federal funds for social housing to over €1.5bn. What is more, it has boosted the creation of a new land classification as an Urban Area (*Urbane Gebiet*). This new use aims to facilitate the development of internal urban areas and what is called the "city of short distance", favouring proximity among land uses. It is a flexible tool meant to facilitate the construction of housing in the centre of cities and commercial areas through the construction of taller buildings with greater density.

In the Netherlands home ownership predominates, though it is worth highlighting the importance of social housing – at 33% the highest percentage in the whole EU, as compared to 10% of free-of-tie rental housing. Historically, social housing has been a constant priority at all levels of government. In cities such as Amsterdam, social housing represents 48% of the stock; the rest is divided between the 28% of home ownership and 24% of free-of-tie rental. The registered social housing organisations in the Netherlands (*Woning corporaties*) are non-profit private bodies and their mandate is to give priority to households with lower incomes. Though the housing associations work within a legal framework created by the state, they are independent organisations that set their own targets and have their own financial responsibilities.

The United Kingdom's socio-residential structure is similar to the French, with a notable tendency towards home ownership (66.4%); in terms of rental, social rental predominates over free-of-tie renting. Three housing categories are distinguished: social rental (housing owned by the local authorities and registered private providers), affordable rental (controlled rents at below 80% of the rental value in the private market) and intermediate housing (rental housing or that for

sale at a price higher than that of social housing but lower than the market price).

Housing associations are the main bodies responsible for the management of affordable housing in the United Kingdom and the construction of new housing is funded through three sources: housing association reserves, government aid, and private financing, which consists of bank loans or subsidised funds on the capital markets.

As a housing policy at national level, this year the United Kingdom government presented a Housing White Paper, which foresees involving various actors to reform a housing market that is considered inefficient. The aims of the paper are the identification and planning of places accepted for housing; the acceleration of the construction process (facilitating the tasks of builders and developers); the diversification of the market (expanding the opportunities for each actor), and providing support to people (maintaining and strengthening social policies that facilitate access to housing).

As has been seen, the proportion of rented housing relative to home ownership and the existence of affordable housing stock depends on the historical tradition and evolution of each country's cities. Though it will be difficult for countries with little social housing provision to reach the minimum proportions (between 15% and 20% social rental in the housing stock), it is worth pointing out the opportunities that have arisen out of this change of cycle.

Changes of trend resulting from the change of cycle

The 2007 financial crisis widened social inequalities and the recession significantly increased the perception that European households allocate too much of their money to housing. Today, in most European countries, more than a third of citizens recognise that they feel greatly limited by the cost of housing.

On the one hand, this can be explained by a process of decelerated urbanisation in Europe. The trend in urban areas is no longer the growth of thirty years ago, and therefore not as much new land is generated. There is growing concern about environmental sustainability and the reduction of the ecological footprint has become fundamental for all municipalities; though in recent decades the phenomenon of suburbanisation had expanded across the metropolitan areas of the whole of Europe, with isolated, low-density residences, increasingly there is awareness of the need to keep growth compact and preserve the rural land. Dispersed urban areas have an indirect environmental cost and a disproportionate economic cost on municipalities, which have to provide urban services and public transport to isolated areas that are sparsely populated. Taking land to increase the housing stock is in conflict with the territorial aspiration to preserve natural areas.

This is a highly important issue which greatly impacts urban planning measures to tackle the housing emergency. In the German municipalities, there is consensus on generating land for housing with very strict conditions on compactness and density: land can only be reserved for municipal expansion in areas that are well-connected to public transport and have a high level of projected inhabited density.

The European population is not growing at the same rate as some decades ago, but the need to increase the housing stock remains due to social changes. Households atomise, family nucleuses change, and job insecurity throughout people's lives demands greater flexibility and facilities for geographical mobility.

On the other hand, added to the financial crisis is an unprecedented digital revolution that is radically transforming the property business, as the leading companies in the sector recognise. On the one hand, carrying a window connected to the world in our pockets in the form of a smartphone or tablet has changed our lives: we share apartments, we buy and sell second-hand objects and hold videoconferences with our thumbs without having the slightest idea about programming. What began to revolutionise the world of business is already starting to have an impact on the city, because access to services is gaining ground on ownership, and in the coming years we will see businesses based on monthly charges or shared vehicles.

The rise in housing costs above employment income is a key concern for more than a third of citizens in the European Union.

This change of paradigm is also perceived in technological platforms like Uber and Airbnb, which gain millions of users each day without the cities having time to adapt their legislation as a result. The phenomenon clearly exceeds the administration's capacity to renew its mechanisms of control, and the paradox results that the municipal services themselves use the digital platforms they are penalising to detect cases of illegal rental or transport.

Thus, the internet has increased the fierce competition between companies to sell or rent apartments both to residents of a specific city as well as to foreigners looking for second residences or housing in which to invest. On the other hand, digital short-term rental platforms open up the possibility of renting, or even subletting (illegally), a part of an apartment or even a whole one. Though it has not been possible to demonstrate the direct impact of temporary apartment rental on housing prices in tourist destination cities, it is clear that the ease and immediacy of making your own apartment available to global travellers increases the perception of "bricks and mortar" as a good investment. There is at least consensus among experts that the stimulus and ease of the digital platforms affects the personal aspiration to become a property owner.

Technological disruption also extends to other services and we will see in coming years how proximity healthcare and

household services are contracted and delivered on the web. Sustainable mobility benefits from technology to the extent that it eases taking decisions in real time about the availability of public transport and shared vehicles, motorcycles, and electric bicycles. The large urban operators that provide municipal services are also considering reinventing themselves by offering complex solutions to old problems of civic behaviour, safety and energy production at urban level.

Digital manufacturing has reached schools and even the youngest now learn programming code in order to become advanced users of web technologies. Around Europe, cities are following the example of Barcelona's Public Network of Fab Labs (*Xarxa Pública d'Ateneus de Fabricació*), which complements regulated education and brings technology closer to students that are passionate about the "makers" phenomenon. Returning manufacturing to cities, printing bespoke objects, co-creating in collaborative environments and empowering citizens to take maximum advantage of technology's good side opens the doors to a revolution of the local economy.

In the light of the changes noted, it becomes a priority for the European states to increase the affordable rental stock and equalise the housing rights of owners and renters. Access to home ownership already has consolidated support in many countries, but the most vulnerable groups are those who live

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in rental properties because they cannot take on the costs of financial products, and who end up systematically cut out by public policies historically too focussed on guaranteeing the right to property over the right to housing. Below, some measures tested by certain European states are reviewed.

Restructuring bank assets as an opportunity to increase the social housing supply

As various reports and bodies that defend the right to housing have pointed out, in Europe, the impossibility of repaying mortgage debt in the midst of the crisis hit the most vulnerable groups. As a result, it is estimated that some 500,000 people in Spanish were evicted or faced foreclosure, accumulating significant debts even after their properties had been repossessed. Coinciding with a national unemployment rate of up to 26% at the height of the crisis, Spanish banks accumulated apartments from individuals who could not meet mortgage payments.

Some years later, it was recognised that the responsibility would have to be shared between the debtor and the banks, who applied abusive clauses to the mortgages and placed ex-

tremely lax conditions on the granting of credit. Although it comes much too late for many families, today no one denies that the Spanish financial sector must be involved in restructuring the housing market.

In fact, for many banks getting problematic assets off their hands is a priority, as they do not have experience commercialising or managing housing that is often dispersed among a multitude of buildings and located on the outskirts of cities. This gives a unique opportunity to expand the social housing stock with bank assets in disuse.

In Catalonia, that much of this housing remains empty gives the administrations an opportunity. Thanks to legal instruments such as the right of first refusal and withdrawal recognised by the law on the right to housing in Catalonia, they could acquire the housing at optimum prices before the banks offer them to third parties.

A report by the *Taula del Tercer Sector de Catalunya* published this year estimates that in Catalonia the financial bodies have 47,000 empty housing units and have only temporarily allowed 10% of their assets to be dedicated to social uses.

The fact that the property sector finds itself in a phase of reactivation must be used to put the empty apartments into circulation at a price that matches the banks' level of commitment to the cities in which they operate. To mobilise flats from the banking sector, Belgium and Luxembourg have created agencies that provide guarantees to owners who rent to people with fewer resources. Italy encourages rental to vulnerable groups through incentives and fiscal benefits. Malta, Italy, Portugal and Spain have tried various formulas to recover empty housing for social use.

Dealing with speculation controlling the price of land

Another key factor in containing housing prices is the price of land. Following the tradition of the Netherlands, countries such as United Kingdom, Luxembourg and Belgium have successfully implemented surface rights instead of selling public land. This formula fixes the payment of an annual fee for a long period of time (for example, 100 years) with the condition that the land does not cease to be public property. During the time the land is leased, the owner has the full right to inhabit it, but at the end of the period, the ownership of the land falls into public hands. This formula, though relatively new in countries such as Spain, is spreading little by little because it allows municipalities to grow in density, services and population without giving up one of their scarcest goods: public land.

Surface rights are a response to some apparently contradictory needs: the need of individuals to have stability, security and guarantees of permanence in their housing over long periods of time, and municipalities' requirement to preserve a significant reserve of public land to offer affordable alternatives to the property market despite the fluctuations of cycles. It is a convenient formula because it gives full guar-

antees to users and can contribute to changing the extensive personal preference for becoming a homeowner.

Many European municipalities also propose surface rights formulas that anticipate the situations of loss of work or economic problems. In this case, it is expected that the users will return the apartments to the municipalities, recovering part of the capital invested. This is fundamental and turns out to be much more competitive than the mortgage formula because in the case of default, the person returns the flat but the debt is written off: it is a de facto form of dation in payment.

Promoting a change of mentality: Equity in the protection of the rights of owners and renters

The middle classes have lost acquisitive power and there is an enormous disparity between the profits of assets and the profits of work. One of the structural problems of countries with weak public housing policies is that the profits of property have consistently outperformed the profits of work over a long period.

What is more, this trend has been aggravated by states with little long-term vision which, because of the instability of the pension system or their dependence on the global finance markets, have driven millions of citizens to deposit their savings in “bricks and mortar”, disincentivising more productive investments in economic activity.

For a long time, the fiscal policies pushed by the state to stimulate the property regime in the housing market incentivised – presumably unintentionally – the increase in housing prices. In many European countries, housing policies have tended to favour homeowners, with spending that could reach 2.3% of GDP. But the possibility of deducting mortgage expenses and taxation favouring home ownership have tended to favour the most affluent places.

To reverse these effects, the Netherlands, the Baltics and Belgium have reduced the mortgage interest deductions, which has influenced the increased preference for rental. It is hoped that this will contribute to stabilising the demand for purchases and, ultimately, contain house prices.

The European Commission inspired the measures that Spain and Portugal designed to incentivise renting, with antagonistic collateral effects: though the reform of the Urban Rental Law in Spain, for example, sought to place the empty housing in circulation, it ended up providing guarantees to the apartment owners, facilitating evictions in the case of non-payment and allowing short-term contracts. It has been argued that the law was designed to serve the interests of the banking sector such that, when the crisis got severe, the banks were able to rent the apartments for a short period of time with the desire to recover them for sale a few years later. Whatever the motivation, the evidence is that the chance of reducing contracts to only three years has been detrimental to renters, who are exposed to renegotiated rental prices with

strong increases in periods of upward trends.

By contrast, the case of Germany is interesting because the law recognises the interests of homeowners and the renters' right to the property equally. For this reason, rental contracts are long term, and may even be inherited. Thanks to instruments such as the price reference index, the annual increases applicable to rents are regulated in relation to the surroundings and the nearby areas. If abusive practices by landlords are detected (such as for example, a rent increase of over 20% above the reference prices) they can be penalised and fined.

Affordable housing in affordable neighbourhoods

One of the problems with the housing crisis is that it is a phenomenon with various causes. Addressing the problem requires the coordination of multiple agents and affects almost all the departments of urban areas: the areas of social rights, town planning and law, the finance departments and those responsible for environmental policies.

The difficulty of access to housing has very palpable consequences in cities, and they have to take measures that, beyond the residential functions, guarantee the affordability of neighbourhoods. CIDOB itself has reflected on the implementation of the basic income, and I have argued in other papers that when inequalities increase in global cities segregation occurs both in the social composition and the mixing of uses as house

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prices rise in the most desirable areas. Making housing affordable is spoken of, but not as much as making work in neighbourhoods accessible: it is necessary to eliminate the barriers to living life in dignity in certain neighbourhoods.

Measures like the Universal Basic Income can stop the processes of gentrification and growing inequality in cities. Investors who buy apartments for half a million euros do not need to walk through the neighbourhood and often do not habitually live in the apartment. By contrast, having people who provide proximity services or run businesses in the neighbourhood is fundamental to keeping the middle classes there. Without schools, without hairdressers, without accessible businesses and repair shops, you can only live if you can afford to import the services from elsewhere. Combining the building of the affordable rental stock that cities need with the implementation of a Basic Income could be a way out to restore the balance between the centres and the outskirts of European cities.

New forms of housing: Co-living

The private sector has also adapted quickly to the changes in housing demand. With the bursting of the housing bubble and the prices of apartments reaching unpayable levels with

salaries frozen, the housing sector has recovered the old resource of making housing affordable by offering extremely minimal – almost negligible – private units along with the possibility of sharing spaces and services with the whole group of tenants in the buildings. In many cities hybrid building projects are beginning to appear with gyms, cinema rooms, laundries, libraries, cooking services and shared roof terraces.

Private developers tend to construct buildings of these characteristics as unipersonal homes for millennials (young people of up to 35 years old) who live alone or in a couple. The return on rents on the housing units is slight and the size of the units becomes very small. By contrast, business is generated by operating services and managing the building. The tenants pay a fair price for the housing and complement it with a monthly fee in the form of expenses for community services. They are planned to answer the demand of the residents themselves along with the local community.

In Barcelona, housing cooperatives and some pioneers among certain development companies offer units that are a little larger that are thought out for families with the necessary rooms. The community project plans, builds and manages the shared spaces, which become ideal complementary spaces for bringing up children, extracurricular training, social life and the neighbourhood.

It becomes a priority for the European states to increase the affordable rental stock and equalise the housing rights of owners and renters.

It is a convenient form of housing, with a medium- to long-term business model that can bring a great deal to the city. On the one hand, it contributes to producing affordable housing units. On the other, the hybrid nature of the buildings, the co-management of the shared spaces, and the activity of the residents over the 24 hours has the potential to build blocks that are more than just a number of apartments in the neighbourhood in which they are placed.

Conclusions

The affordable housing issue will probably never be resolved because it is intrinsic to the economy and social development of cities. What is more, as has been seen, there is a clear delay in certain European states that have not known how to keep a significant part of housing out of the speculative market. Without significant provisions for affordable housing, countering individual preference for ownership will become difficult, and efforts will have to be tripled for European cities to have housing markets like those of Amsterdam or Vienna. These states can no longer count on the asset of unlimited land and will therefore have to invent compact formulas to optimise the buildable areas.

What is more, to move faster, many countries already have private initiatives that have seen the production of affordable housing as a fair and safe business if it is accompanied by legal and financial guarantees from the administration, who ultimately take on the risks.

It is necessary to be attentive to the changes in individual preferences and technological disruption, because the traditional measures in terms of legislation and urban development come too late and are insufficient. An in-depth reading of the measures implemented in each state can provide local solutions if the premise of equality is maintained among the citizens, whether they are homeowners or renters.