Affordable Housing Strategies

V Milligan and T Gilmour, University of New South Wales, Sydney, NSW, Australia
© 2012 Elsevier Ltd. All rights reserved.

Glossary

Affordable housing Affordable housing is housing that is provided at a rent or purchase price that does not exceed a designated standard of affordability. Affordability is usually defined by measuring whether housing costs exceed a fixed proportion of household income and/or whether household income is sufficient to meet other basic living costs after allowing for housing costs.

Not-for-profit organisations Not-for-profit organisations are independently governed, formally constituted entities that do not distribute their profits to shareholders or members.

Introduction

The need for affordable housing has grown as house prices have risen faster than the incomes of many housing consumers whose incomes fall in the lower bands of national income distributions (see article Policies to Support Access and Affordability of Housing). Now in many countries, there is evidence of a sizeable gap existing between the typical price of housing that is produced or traded in the housing market and an indicative price that is deemed affordable to lower-income households.

In response to this issue, contemporary affordable housing strategies employ multiple instruments and seek to engage actors and institutions across the public, private, and not-for-profit sectors. This article provides an overview of the changing approach to financing and delivering affordable housing that has emerged in recent decades and examines the respective contributions of public, private, and not-for-profit sector players. The focus is on housing systems where each of these sectors plays a significant part in providing affordable housing.

Much of the policy debate on strategies to provide affordable housing is framed by whether these support or regulate either the production (supply side) or the consumption (demand side) of housing. Often, strategies are also further classified and differentiated by tenure, that is, whether they support renters and renting or homeowners and homeownership. In this article, the range and mix of strategies used in contemporary societies to achieve more affordable housing is examined through a different lens, that of an institutional framework. This approach brings into focus the role and respective contributions of government, private sector, and not-for-profit agencies. It also helps to highlight how relationships between these sectors (such as public–private partnerships, intermediary organisations, and regulatory controls) are shaping the provision of affordable housing.

The underlying rationale for affordable housing strategies is to promote, produce, and protect appropriate housing that is affordable to households who face problems obtaining or sustaining housing in the market. How this is achieved can take many forms depending on the diagnosis of factors that are contributing to a shortage of affordable housing and the opportunities that are present in a particular institutional and geographical context for improving the prevailing situation. For example, in relation to supply shortages, strategies may focus on increasing the long-term supply of affordable housing for certain target groups or in particular locations where supply is inadequate, or they might be concerned with preserving (and/or replacing) an existing supply of low-priced housing in an area undergoing redevelopment and renewal. Also important are the ideologies and priorities of governments, which become manifest in the particular forms of subsidies and incentives that may be offered, the institutions chosen for service delivery and regulatory requirements. Strategies may also be designed to achieve additional supplementary objectives, for example, to promote more affordable housing in locations where there are labour market shortages or to increase social mix in desirable neighbourhoods that can offer more economic and social opportunities (especially jobs and services) to households, who may be disadvantaged by living in other more affordable but less well-endowed locations.

In relation to government priorities, there has been a widespread trend in recent decades to adopt policies that achieve goals for affordable housing through enabling ‘affordable’ forms of market-based homeownership, although policies in favour of rental housing and innovative tenures have reemerged in the first decade of the twenty-first century. This latest development has been given further impetus by the ‘subprime’ mortgage lending crisis in the United States, which impacted adversely on recent home buyers, as well as having much wider
negative ramifications in housing markets and national economies around the globe.

**The Changing Role of Public Institutions in Affordable Housing Provision**

Over much of the twentieth century, many national, regional, and/or municipal governments played a direct role in owning and managing a share of housing to be allocated to a mix of working and nonworking households, often at low rents (compared to market levels). The historic share of government-owned housing in national housing systems varies considerably. High levels of social housing (50–90%) were reached in the state-controlled and -planned economies of China and Eastern Europe and in the special cases of Hong Kong and Singapore. Many Northern and Western European countries had moderate shares (10–50%). Low shares (less than 10%) were typical in most English-speaking countries, southern Europe and countries that have not developed modern housing systems. A variety of factors have been cited to help explain the historic role of governments in providing housing directly, including addressing wartime housing destruction and production shortages and replacing undeveloped or nonexistent housing markets. Provision of public housing was also used to support state-driven welfare goals – particularly to overcome public health problems that had been linked to poor housing quality, and the desire of governments to keep wages low in support of economic productivity and competitiveness.

Beginning in the 1970s, many governments with larger and smaller public housing systems began rethinking their direct role in housing in favour of market-based alternatives. Strategies aimed at both transforming existing public housing systems and adopting new ways of enabling the private and not-for-profit sectors to provide more affordable housing have been adopted widely, although at a variable pace and to different extents across countries, and with mixed results. Diverse and sometimes conflicting reasons are cited in the literature for this move including improving standards of service, avoiding debt in government accounts, leveraging additional resources from partners, and generating market-like cost efficiencies. The impacts of this policy transformation are reflected in new institutions and models of affordable housing, as discussed in the following sections. In time, these new institutional arrangements themselves have become influential in shaping housing strategies, sometimes constraining change and sometimes generating new ideas and dynamic responses.

The main kinds of adjustments to the role and strategies of governments that can be identified across many diverse countries over the last three decades include the following interconnected trends.

First, governments have shown a preference to provide income subsidies, incentives, or vouchers to individuals assessed as having a housing affordability problem, to boost their capacity to pay for their housing in the private market rather than to subsidise the production or purchase of housing directly. Key evidence of this trend is found in the large increases in expenditure on housing allowances in national accounts (see article Access and Affordability: Housing Allowances).

Second, governments have reduced their investment in the direct supply of social housing and linked this to policy settings that aim to increase targeting of the housing retained to those considered most needy, typically those on very low income or with special needs (such as a need for home-based support or modified housing) that are not catered to elsewhere in the housing system. Thus social housing sectors have shrunk as a proportion of all housing in a wide array of countries since peak levels of the second half of the twentieth century. As one consequence, many social housing sectors are now described as ‘residualised’, implying that they house a very limited range and mix of households and operate under highly prescribed rules of access and security of tenure.

Third, many governments have privatised significant amounts of their former public housing. Often this has been linked to a strategy to increase homeownership among lower-income households, by handing sitting tenants ownership or offering them ‘a right to buy’ and financial inducements (such as concessional loans or price discounts). This process has occurred most extensively in the former Soviet Bloc countries in the 1990s, whereby between 50 and 90% of state-owned housing in these countries was privatised, and also in urban China. However, it was also significant in Britain from the 1980s, where a third of the former stock of public housing had been sold to tenants, and in Australia at an even earlier time, where the majority of public housing that was built was tenanted and subsequently sold to sitting tenants, from the 1950s to the 1970s.

Fourth, commensurate with the deregulation of many national financial systems from the 1980s, the expansion of capital markets, and a diversifying mortgage industry, there has been a shift away from public lending for affordable housing (both renting and ownership forms) in favour of private financing. In a related move, many national governments have shifted responsibility for procuring and managing government-enabled affordable housing schemes to nongovernment vehicles and many former state-controlled financial institutions have been corporatised or privatised. The most prominent example is the giant American mortgage fund raiser, the Federal National Mortgage Association, known as Fannie Mae, which was founded in 1938 as a public institution with a charter to improve
access to mortgage finance for low- and moderate-income households in the United States. Fannie Mae was corporatised in the 1960s but, along with another government founded and regulated private shareholder corporation, the Federal Home Loan Mortgage Corporation (Freddie Mac), has continued to address the public policy goal of increasing access to homeownership, especially for minority groups and in areas traditionally underserved by mortgage lenders. However, following the 2007 subprime mortgage lending crisis, the US government was forced to take control of both these corporations to prevent their collapse.

Finally, there have been trends in locating responsibility for housing policy across spheres and agencies of government. One discernible trend from the 1990s was devolution of responsibility for housing programmes to lower levels of government to encourage locally driven responses. However, where this was accompanied by a reduction in national funding, such as in Canada, Germany, Austria, and Australia (until recently), this has contributed to affordability problems. Somewhat paradoxically, there has been a growing recognition at the heart of central government that shortages of affordable housing are contributing to wider economic problems, including labour market shortages and reduced economic competitiveness. Even before the Global Financial Crisis from 2008, this development had prompted the reengagement of government agencies, especially Treasuries, in affordable housing strategies in countries such as Britain, Ireland, and Australia.

While housing policy remains a sovereign issue, international and regional agencies are showing increasing interest. For example, the United Nations has several agencies, such as UN Habitat, that promote housing goals and provide information and advice to governments and other national institutions. The World Bank also assists national governments by providing housing information, expertise, and policy advice, which is particularly oriented to developing countries. There is also interest from regional agencies in the way that neighbouring governments organise their housing systems. For example, the European Union has been concerned recently to promote a level playing field between not-for-profit and private sector housing developers across member countries. Other networks, such as the European Liaison Committee on Housing (CECODHAS), promote policy development through strategic research and advisory activities. In the finance area, the Bank of International Settlements and the International Monetary Fund are active in assessing national financing systems for housing and advising on finance-related policies and institutional arrangements that will help to promote an adequate supply of finance for housing.

While many of the trends listed above may be read as suggesting a contraction of the role of governments in affordable housing in favour of private provision, a full assessment also has to take into account myriad other ways that governments continue to influence the financing, provision, allocation, and management of affordable housing through nongovernment models. The main contemporary roles that characterise the state’s contribution can be grouped into three types. The first set involves provision of a variety of subsidies and financial incentives that are linked to the independent supply of additional affordable housing and/or the provision of other government resources, especially housing allowances and the allocation of public land for affordable housing. The second set is regulatory controls to help ensure that public policy goals for affordable housing are met by arm’s length providers that receive government assistance. Thirdly, planning policies that are designed to meet affordability goals are applied. These can encompass developer levies for affordable housing, bonuses and concessions (e.g., less onerous parking provisions) for affordable housing providers, and requirements for inclusion of a component of affordable housing in designated new development and redevelopment areas. The potential of these mechanisms can be assessed in terms of the quantity of housing that can be produced; capacity to influence the quality of housing outcomes and to promote innovation (towards the achievement of affordability as well as a variety of social, economic, and environmental goals); value-for-money considerations; and, importantly, the longevity of affordability and other benefits that result from government investment.

The effectiveness of contemporary affordable housing strategies can also be related directly to how these diverse levers are brought together strategically to achieve affordability goals. Typically, each mechanism that is applied operates as one part of a structured package of financial and nonfinancial levers. For example, British planning policies have operated in conjunction with the provision of partial grants for construction to ensure that government-regulated affordable housing providers have access to well-located sites, while the provision of generous housing allowances to tenants means that low-income tenants can pay rents that cover the costs of a significant component of private financing in the projects.

**Private Sector Institutions**

The majority of residential accommodation in modern housing systems is built by the private sector. Traditionally, small firms and individual contractors have dominated provision but larger development companies, mortgage finance institutions, and specialised real estate professionals tend to become dominant as markets mature and institutional arrangements evolve.
In this context, questioning during the 1970s in many developed countries of public housing as the main source of low-income rental accommodation led to new strategies to use private sector institutions (and not-for-profit agencies, as described next). Many governments switched their emphasis to improving effective ‘demand’ by subsidising tenant income to help them to afford to rent in the private market. A prominent example was the introduction in 1974 in the United States of ‘Section 8’ housing vouchers where federal funds meet the gap between 30% of a household’s income and market rents (see article Access and Affordability: Housing Vouchers). Though some vouchers are tied to particular properties, vouchers can allow tenants to move to different locations. The scheme’s supporters claim that it passes the responsibility for property ownership to the private sector, increases labour mobility, and deconcentrates poverty. Critics point to the failure of these growing schemes to dampen rents and to help overcome shortages of affordable housing. In a more comprehensive scheme to that of the United States, in 1982 Britain introduced ‘housing benefit’ – an income subsidy available to all landlords whether public, private, or not-for-profit. Many other countries have followed a similar approach.

Private sector institutions have also been used to increase affordable housing supply. Contracting of private developers and builders by public and not-for-profit agencies to construct affordable properties on their behalf is longstanding and widespread and firms that work mainly in this part of the market have flourished in some countries, such as the United States. In many countries that have not established or retained a significant publicly owned social housing sector, private individuals and corporations have also been encouraged through government incentives and regulations to own properties for low-cost rental. The United States and Germany are two leading examples of countries taking mainly a market-based approach to the provision of low-cost rental housing. Much of the former West Germany’s sizeable rental sector (around half of all dwellings) was developed from the 1980s under generous tax incentives offered to private investors who were required by law to set rents that were affordable for middle-income households. However, since unification, Germany has followed other countries in switching away from supply-linked incentives to housing allowances for low-income individuals. In the United States, the Low-Income Housing Tax Credit (LIHTC) scheme, introduced in 1986, uses tax breaks as incentives for private investors to build new affordable units with rents set at 30% of local salary levels. These properties are retained as affordable for a minimum 30 years, sometimes longer. During the last two decades some 1.7 million properties have been built through this method in the United States, with three-quarters of tax credits allocated to private institutions and one-quarter to not-for-profit agencies. Either private or not-for-profit institutions allocate and manage this housing on behalf of the investors in accord with policy requirements.

Contrasting with equity investment in the United States and Germany, the more common approach internationally has been to use private debt finance to support construction of affordable housing. Britain introduced private finance in 1988, and the mix of mainly medium-term bank loans coupled with a smaller volume of bond issues finances around half the cost of new affordable housing projects (the remainder is funded from government grants and provider surpluses). In continental Europe, private finance tends to come not directly through banks, but is channelled through state-sponsored intermediaries that are generally regulated, though run at arm’s length from the government. France, for example, has a dedicated agency that directs tax-privileged deposits from individuals and a fixed share of payroll tax revenue to public and not-for-profit social housing agencies. Some countries, such as Switzerland, guarantee the housing bond-raising vehicle to enhance its credit rating and thereby reduce the cost of funds raised. Others, such as a jointly public and not-for-profit-sector-funded intermediary in the Netherlands, guarantee many of the loans made by banks to not-for-profit agencies.

The Global Financial Crisis from 2008 has challenged the viability of a number of schemes used over the last two decades to encourage private sector involvement in affordable housing. In particular, private finance has become harder to obtain and more expensive, and funds from developer levies and cross subsidies have declined as market activity fell. During 2008, many banks faced a liquidity crisis and were not able to make new loans. In Britain, the margin charged on loans to affordable housing providers increased from around 0.25 to 2%. In the United States, corporate losses led to a lack of investors in tax credit schemes and many affordable housing schemes have been kept on hold. Considerable investment has been required by governments to underpin private investment in affordable housing, including liquidity support for banks, direct grants or provision of public land for housing providers, and economic stimulus packages to protect construction industry jobs and to compensate for ailing private sector supply. One outcome has been that many governments that had wound back their housing role have been forced to increase their funding of housing.

**Not-for-Profit Institutions**

The involvement of not-for-profit institutions in the provision of affordable housing has been longstanding, though their role and scale has changed over time. Philanthropy has a long tradition in many countries, often linked with faith groups or secular interests such
as trade unions, and became more important during industrialisation as social conditions worsened while governments made little provision for social welfare. In Western Europe and the United States towards the end of the nineteenth century, housing trusts and charitable societies funded by donations started to produce affordable rental housing at scale. These were supplemented by not-for-profit ‘model housing companies’, mixing business and philanthropy by paying below-market dividends or loan interest to socially minded investors. Unlike traditional philanthropic approaches that targeted provision at high-needs individuals, the model housing companies in Britain and the United States provided accommodation for people in regular employment. Governments supported these initiatives by exempting the organisations from paying income tax, and in Britain by providing public loans at below-market rates.

During the middle decades of the twentieth century, government funding for affordable housing provision in most countries was channelled more through public rather than not-for-profit agencies. Consequently, the sector remained small. The funding balance for new construction shifted during the 1970s due to increasing rejection of public housing, as described above. Britain switched funding towards not-for-profit ‘housing associations’ from 1974, leading to a wave of new organisation formation. In the United States, funds provided under the 1974 Community Development Block Grant Program led to an expansion of not-for-profit ‘community development corporations’ (CDCs) that increasingly focused on affordable housing rather than general neighbourhood issues. They became mandated after 1986 to receive a portion of funding from LIHTC tax credits, leading to further expansion of the not-for-profit housing sector. In the Netherlands, housing associations became the dominant providers of social housing after the 1970s as central government funds were directed exclusively to them along with extensive transfers of municipal housing. In other European countries, such as Switzerland, Denmark, France, and Austria, preexisting organisations such as housing cooperatives and other socially oriented organisations became the preferred vehicles for providing affordable housing.

With greater funding of not-for-profit providers came greater independence from government, and arguably the need for more complex systems of regulation, inspection, and intervention to achieve public policy goals and to manage risk. Many developed countries adopted systems of regulating providers by setting rules for their governance, business, and reporting. However, dismantling of public systems has not always been supported by capacity building in alternative institutions and enhanced regulation. For instance, in many former state-controlled housing systems in Eastern Europe, new institutional arrangements (such as for mortgage finance) have been slow to develop and adequate regulatory powers have not been put in place, resulting in a severe diminution in institutional control over housing functions and standards.

Consideration of the degree of control by government of not-for-profit agencies receiving public funds continues to be contested. Balance is needed between the prevention of organisational failure, which jeopardises investment and tenant occupation, and the ability of organisations to be entrepreneurial and innovative. Growing regulatory controls have led to greater professionalism and capacity building in the sector, allowing not-for-profit organisations to expand their range of activities. Many providers have taken advantage of access to private finance, as described above, with some undertaking for-profit activities (such as market-rate property development) to cross-subsidise provision of affordable rental housing. There has also been innovation with shared ownership and shared equity schemes, which offer pathways into homeownership for lower-income households. Innovative organisational forms, such as common equity cooperatives and tenant cooperatives in Europe and Canada, and community land trusts in Britain and the United States, offer new approaches to creating and preserving affordability by mixing community ownership and resident buy in. Other not for profit organisations have expanded their social remit, aiming to bring cohesion to troubled neighbourhoods by providing or supporting community facilities and offering training support and employment to their tenants.

In addition to not-for-profit organisations increasingly building new affordable housing stock, in some countries such as Britain, the United States, and the Netherlands, they have grown through the transfer of public housing assets. Britain has transferred ownership of over 1.3 million units to housing associations in the last two decades, with the programme accelerating from 1997 when extra funding was provided to allow the transfer of larger urban estates in poorer condition. Since 2000, British municipal governments have also transferred management (but not ownership) of a further one million public housing units to ‘arm’s length management companies’. These are constituted as not-for-profit organisations, although under the terms of their contract with municipalities can revert to public management if performance standards are not maintained. Similar arm’s length companies have replaced municipal providers in many parts of Europe. Stock transfer in Britain has made not-for-profit providers the dominant force in affordable housing, eclipsing the role of the public sector. In both Britain and the Netherlands, some providers that have grown very large through merger have been criticised for losing neighbourhood connectivity, opaque accountability and growing wealth evidenced by high executive salaries and large balance sheets. This position can be
contrasted with countries such as Ireland, Australia, New Zealand, Hong Kong, and Singapore, where most social housing remains in the public sector and not-for-profit providers are often small, neighbourhood organisations. In Canada, while not-for-profits own two-thirds of the social housing stock they too are mostly small local organisations that are unable to invest in their own growth. In the United States, the system of tax credit allocation has mitigated against the growth of more than a handful of national housing providers, and there is greater reliance on volunteering and philanthropic donation to support core activities. These examples highlight the diversity of approaches to the structuring of not-for-profit housing sectors across countries and the varying influence on affordable housing provision that may result.

**Cross Sector Partnerships**

Despite the distinction drawn so far in this article between public, private, and not-for-profit institutions, the provision and management of affordable housing is becoming increasingly complex and often involves cross-sector activities. This is not new, particularly the outsourcing of tasks such as property design, construction, and routine maintenance by the public (and increasingly the not-for-profit sector) to private entities. The rationale for this arrangement is normally the belief in private sector efficiencies, specialisation, and potential for scale economies. Outsourcing also allows competitive bidding for contracts, which should reduce costs. Critics of this type of arrangement cite potential problems with the quality of service provided by the private contractor, the complexity and costs of involving multiple agents and the public policy issues of private companies earning shareholder profits from public subsidy.

A more recent development has been the growth of risk/reward sharing arrangements such as public-private partnerships (PPPs) that, in the affordable housing sector, often also involve not-for-profit organisations (see article Public-Private Housing Partnerships). Though originally used for delivering physical infrastructure such as roads and bridges, PPPs have been used from the 1990s for social housing renewal in a number of countries. These schemes typically regenerate monotonous public housing estates, improving housing quality, mixing public, affordable, and market rate housing, and stabilising troubled communities, through better service and employment provision. The structure of consortia varies considerably, though generally involves a complex balancing of risk and reward depending on the capabilities of each partner. In Britain, the main model used for housing renewal during the last decade has been the ‘private finance initiative’ launched in 1992. In the United States, HOPE VI (1993) provided the framework for the restructuring of 224 public housing estates.

**Conclusions**

Meeting the growing need for affordable housing is one of the biggest challenges in both developed and developing countries. Contemporary national strategies involve many different institutional approaches, and are characterised by dynamic relations between the public, private, and not-for-profit sectors. Although these approaches are influenced by the country (or regional) context, especially historic tenure mix, the place of housing in the welfare system and local structures of housing provision, common themes, and converging trends are also evident. For example, there has been a general move away from direct provision of affordable housing by public agencies in favour of approaches involving the private and not-for-profit sectors, either separately or in partnership. This has resulted, in most countries, in a more complex landscape of affordable housing financing, ownership, and management. Nevertheless, public support remains significant using a mix of lever such as income support for housing, incentives offered through capital grants for providers and/or tax privileges for investors, and regulation of affordable housing providers. As evident during the recent global financial crisis, many governments have had to recommit to direct intervention to prevent systemic failure.

The growth of cross-sectoral relations and new institutions, coupled with the more general introduction of market forces into affordable housing provision, has led to what some commentators see as a move towards ‘hybrid’ organisations. Hybridity is the balancing within an institution of responsibilities to the state (public goals), the market (through using entrepreneurial approaches), and society (achieving good community outcomes). For example, not-for-profit organisations need to become financially astute in their use of commercial bank lending, public agencies need to understand market forces, and private firms need to address social responsibilities. The concept of hybridity is helpful as it suggests the traditional distinctions between institutions in the public, private, and not-for-profit sector are becoming more blurred, with particular benefits traditionally associated with one type of institution now potentially achievable in another. It also highlights the complexity and dynamic character of approaches to the institutional provision of affordable housing.

*See also:* Access and Affordability: Housing Allowances; Access and Affordability: Housing Vouchers; Policies to Support Access and Affordability of Housing; Public-Private Housing Partnerships.
Further Reading


