CEB
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE



WORKING PAPER

# Financing Social and Affordable Housing in Europe: the CEB's Approach

MAY 2015

## DISCLAIMER

The findings, interpretations and conclusions expressed here are those of the authors and do not necessarily reflect those of the Organs of the Council of Europe Development Bank (CEB), who cannot guarantee the accuracy of the data included in this paper.

The designations employed and the presentation of the material in this paper do not imply the expression of any opinion whatsoever on the part of the CEB concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The working paper is printed in this form to communicate the result of an analytical work with the objective of generating further discussions on the issue.


## ACKNOWLEDGEMENTS

This study was prepared by Lucia Athenosy (Senior Economist) and Viorica Revenco (Economist), Corporate Responsibility & Studies Department under the supervision of Jérôme Halb (Director of Corporate Responsibility & Studies Department, Deputy Director for European Cooperation & Strategy).

# Contents

**Introduction** ..... 3

**Part I: CEB financing and its social value** ..... 4

Chapter 1: Experience to date ..... 6

Chapter 2: Diversity of projects ..... 10

**Part II: Recent developments in housing needs and financing models** ..... 19

Chapter 3: The scale and scope of the new demand for housing ..... 19

Chapter 4: The profile of new actors in housing financing schemes ..... 34

**Concluding remarks** ..... 38

Bibliography ..... 40

Appendix 1: Criteria determining access to social housing in selected CEB member countries ..... 42

Appendix 2: The energy renovation of buildings under the EU's multiannual financial framework 2014-2020 ..... 43

## Abbreviations and acronyms

| | |
|---|---|
| AC | Administrative Council |
| CEB | Council of Europe Development Bank |
| CECODHAS | The European Federation of Public, Cooperative & Social Housing (Housing Europe). CECODHAS is the former name of Housing Europe. |
| EIB | European Investment Bank |
| ESD | Energy Service Directive |
| IFI(s) | International Financial Institution(s) |
| NMS | EU new member states: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic and Slovenia |
| NTA | Norway Trust Account for the Western Balkans |
| OSCE | Organisation for Security and Co-operation in Europe |
| SCA | Spanish Social Cohesion Account |
| SDA | Social Dividend Account |
| UNDP | United Nations Development Programme |
| UNHCR | United Nations High Commissioner for Refugees |

## Boxes / tables


| | |
|---|---|
| Box 1 | CEB sectoral lines of action |
| Box 2 | The Regional Housing Programme |
| Table 3.1 | Household composition in selected CEB member countries, 2013 |


## Figures


| | |
|---|---|
| Figure 1.1 | Geographic distribution of CEB lending to housing for "low-income persons" (2000-2014) |
| Figure 1.2 | Public and private borrowers in housing projects (2000-2014) |
| Figure 1.3 | Geographic distribution of public and private borrowers in housing projects (2000-2014) |
| Figure 3.1 | Housing stock in CEB member countries |
| Figure 3.2 | Types of tenure status across European countries |
| Figure 3.3 | Distribution of population by tenure status in selected CEB member countries, 2013 (% of population) |
| Figure 3.4 | Share of housing costs in disposable income in selected CEB member countries, 2013 |
| Figure 3.5 | Housing cost overburden rate by poverty status in selected CEB member countries, 2013 |
| Figure 3.6 | Social housing allocation systems |
| Figure 3.7 | Social housing stock in selected CEB member countries |
| Figure 3.8 | Number of private households and average household size in the EU-27, 2005-2013 |
| Figure 3.9 | Average household size in selected CEB member countries, 2013 |
| Figure 3.10 | Population pyramids in CEB member countries, 2010 and 2060 |
| Figure 3.11 | CEB member countries above or below the average median age, 2010 and 2060 |
| Figure 3.12 | Overcrowding rates by poverty status in selected CEB member countries, 2013 |
| Figure 3.13 | Severe deprivation rates by poverty status in selected CEB member countries, 2013 |
| Figure 3.14 | The stock of residential buildings by age in selected CEB member countries, 2008 |
| Figure 3.15 | Changes in the energy efficiency index for households in selected CEB member countries, 2000-2009 |
| Figure 4.1 | New sources of housing finance |
| Figure 4.2 | Financing social housing |
| Figure 4.3 | Funding sources for social housing in general and in selected CEB member countries |
| Appendix 2 | |
| Figure 1 | Financial mechanisms for sustainable energy financing |
| Figure 2 | Financing options available to managing authorities depending on final recipients |

# Introduction

Housing is not only a basic need but also a right, enshrined in many international human rights instruments. The European Social Charter has been adopted in its original or revised version by all Council of Europe member states. Similarly, the United Nations housing rights obligations have been accepted by all European states.

These instruments defend and promote access to adequate and affordable housing for all. Housing has, however, become one of the main areas of expenditure for European households, with the crisis further aggravating this burden and hurting the poor the most. More individuals and more types of population groups are finding housing unaffordable, reflected in longer waiting lists, particularly in pressure areas, and a broader profile of applicants for social housing.

Decent housing is a core issue in the CEB's target countries in Central, Eastern and South-Eastern Europe[1], where quality standards, particularly for social housing, are yet to be harmonised. In addition, across Europe, increasing numbers of people are becoming energy poor, with energy efficiency measures representing an important source of savings.

The Council of Europe Development Bank (CEB) sees housing as both a key factor for stabilising population movements and a starting point for employment. The Bank addresses the housing need from closely interrelated social, environmental and economic perspectives. By financing purely social and other priority housing projects in its member states, the Bank increases the availability of affordable and decent housing for low-income and other vulnerable populations such as migrants, refugees, displaced persons, the elderly, and young families, thus improving their quality of life and facilitating their integration into the community and labour force. By financing energy saving and efficiency investments, the Bank also plays a role in mitigating climate change and combatting energy poverty in Europe.

This working paper provides an overview of the Bank's activities in housing financing. It also assesses recent trends in housing needs and considers how these will shape the demand for social and affordable housing and its financing. The paper is a follow-up to the study published in 2010, "Sustainable Housing and Urban Development: the CEB's contribution".

The paper comprises two main parts:

I. CEB Financing and its Social Value
II. Recent Developments in Housing Needs and Financing Models

Part I describes the CEB's approach to housing and its long-standing experience in financing social housing projects, with a focus on the past fifteen years of activity. The project portfolio is illustrated by case studies, analysed according to beneficiary profile, highlighting the CEB's social value in this sector of action.

Part II analyses the scale and scope of the new demand for social and affordable housing and the emerging housing financing schemes and actors. It identifies new population groups affected by housing unaffordability and outlines innovations in public finance. The paper then discusses the CEB's approach to maintaining its relevance and social role in the context of such changes.

[1] CEB member states, with bold indicating the Bank's target countries in Central, Eastern and South-Eastern Europe: **Albania, Bosnia and Herzegovina**, Belgium, **Bulgaria, Croatia, Cyprus, Czech Republic**, Denmark**, Estonia**, Finland, France, **Georgia**, Germany, Greece, Holy See, **Hungary**, Iceland, Ireland, Italy, **Kosovo**, **Latvia, Lithuania**, Liechtenstein, Luxembourg, **Malta, Republic of Moldova, Montenegro**, Netherlands, Norway, **Poland**, Portugal, **Romania**, San Marino, **Serbia, Slovak Republic, Slovenia**, Spain, Sweden, Switzerland, "**the former Yugoslav Republic of Macedonia"** and **Turkey**.

# PART I: CEB Financing and its Social Value

This part of the paper presents the CEB's specific approach to housing and describes the Bank's project portfolio, which is then illustrated by a series of case studies and analysed according to the profile of the beneficiaries targeted in each of the projects. The objective of this first part is to highlight the diversity and social value of the Bank's investments in the housing sector.

***

Since its creation in 1956, the CEB has provided extensive support to the housing sector. The original reference to housing in the CEB's mandate was within the statutory priority to provide assistance to refugees and displaced persons. But very quickly, the Bank broadened its scope of action in this sector: in addition to handling emergency situations, it also had to respond to the needs of its member states in matters of "housing for the less well-off parts of the population", by facilitating their access to home-ownership or rental housing.

In the context of evolving housing markets and socio-demographic patterns, the CEB's approach to "housing for low-income persons" and its scope of action in this sector have changed over the years in order to meet the demand for social and affordable housing across CEB member countries.

The CEB operates within national housing policies and gives priority to the relevant national legislation defining criteria for housing for low-income[2], i.e. socio-economically disadvantaged, persons. In the absence of satisfactory national legislation, the CEB applies its own eligibility criteria based on factors such as income, floor area, ownership and residence. Projects in favour of priority or vulnerable populations can be financed according to specific criteria established for each project.

The term "low-income" captures various social realities across European countries: different national definitions of income thresholds in different countries involve various categories of beneficiaries in CEB projects. The profile of beneficiaries in CEB housing projects may therefore differ across countries in terms of income.

In a demand-driven context, the Bank's activity is not limited to providing housing for the poorest strata of the population by supporting national housing programmes. The Bank's social mandate provides a rationale for financing housing investments for a broader range of population groups. Indeed, facilitating access to home-ownership or rental housing contributes to strengthening social cohesion for people having revenues around the national average and thus keeping them out of vulnerable groups. The CEB's scope of action is therefore wider than the specific segment of social housing per se (see definition in Part II) and covers the provision of social and affordable housing. In effect, CEB projects can be aimed at lower and middle-income persons who may be at risk on the regular housing market, and not only at low-income persons who are necessarily included in this category. CEB projects target beneficiaries who can service a mortgage or regularly pay a rent however low or subsidised it may be. The objective is therefore to finance projects for the provision of decent and affordable housing for lower and middle-income persons.

[2] A word of caution is called for on the term "low income" that could in fact be misleading. "Low income", as used in the context of housing, does not refer to any classification by income of CEB member countries. In particular, it is not a reference to the World Bank's country classification by income set each year on 1 July for operational and analytical purposes: based on its gross national income (GNI) per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income.

## Box 1: CEB sectoral lines of action

Set up by the Committee of Ministers of the Council of Europe in 1956 as the Council of Europe Resettlement Fund for National Refugees and Overpopulation in Europe, the CEB is the oldest IFI and the only development bank with an exclusively social vocation in Europe.

The CEB's experience in financing housing projects dates back to its very creation. The original purpose of the Bank's involvement in housing was to provide shelter to refugees and displaced persons. But from the very first year of its existence, the Bank had to broaden its scope of action in order to respond to the needs of its member states in matters of "housing for the less well-off parts of the population". Thus, the first project financed in Greece, in 1956, was a programme of aid facilitating access to home-ownership for refugees but also for low-income craftsmen. Indeed, statistics covering the projects financed between 1956 and 1992 show that some 60% of the housing investments financed during that period were concerned with re-housing the population.

The sector of "housing for low-income persons" is today part of the line of action devoted to strengthening social integration, which also contains "aid to refugees, migrants and displaced persons" and the "improvement of living conditions in urban and rural areas".

| Sectoral lines of action | Sectors of action |
|---|---|
| Strengthening social integration | • Aid to refugees, migrants and displaced persons<br>• **Housing for low-income persons**<br>• Improvement of living conditions in urban and rural areas |
| Managing the environment | • Natural or ecological disasters<br>• Protection of the environment<br>• Protection and rehabilitation of historic and cultural heritage |
| Supporting public infrastructure with a social vocation | • Health<br>• Education and vocational training<br>• Infrastructure of administrative and judicial public services |
| Supporting micro-, small and medium sized enterprises (MSMEs) | • Creation and preservation of viable jobs |

The CEB's approach to "housing for low-income persons" and its scope of action in this field are defined in the "Overall Policy Framework for Loan and Project Financing" (Resolution 1562 (2013)) and its implementation document "Handbook for the preparation and monitoring of projects" (updated in March 2015). These documents are available on the CEB's website.

What is specific to the CEB is that it also addresses housing issues through its other sectors of action. In a cross-sector approach, housing and associated infrastructure can be provided under the following four sectors: "aid to refugees, migrants and displaced persons", "improvement of living conditions in urban and rural areas", "natural or ecological disasters" and "protection of the environment". The diverse nature of CEB investments in the housing sector is illustrated in three Case Studies presented in Chapter 2.

# Chapter 1: Experience to date

Projects financed by the CEB in the sector of "housing for low-income persons" involve the renovation, construction or refurbishment of housing and the conversion of existing buildings to residential use in order to provide decent and affordable housing for people on low incomes. Eligible projects may target access to property ownership, rented accommodation and associated infrastructure, provided under national or local government assisted schemes or regulated commercial programmes.

## ▪ Amounts approved and disbursed

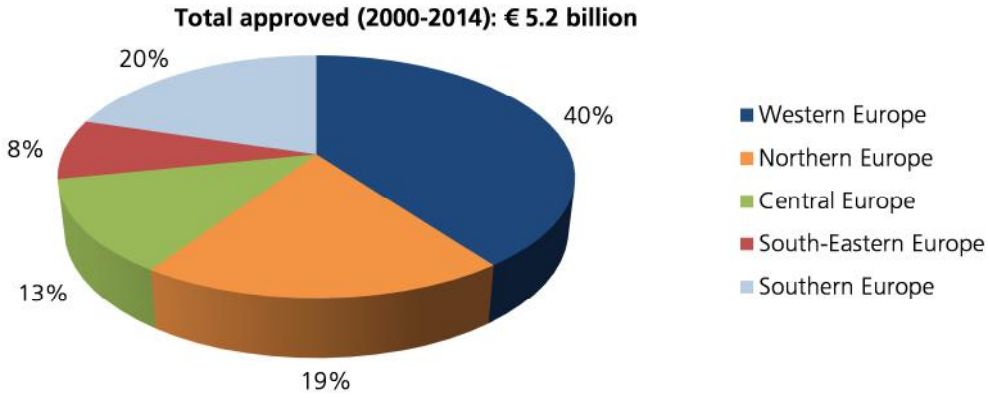
With the roots of the Bank's financing in favour of the housing sector dating back to 1956, the total volume of projects approved in this sector comes close to € 10 billion, representing a significant 20% share of total loans approved over the period 1956-2014.

- Between 1956 and 1999, the CEB approved loans totalling € 4.5 billion and disbursed € 3.1 billion, representing 21% of total loans approved and 23% of total loans disbursed over this period.
- Between 2000 and 2014, the CEB approved loans totalling € 5.2 billion and disbursed € 4 billion. Relative to its total lending, CEB loans to the housing sector averaged 17%.

## ▪ Geographic distribution

From a geographic perspective, CEB lending to housing for low-income persons between 2000 and 2014 was concentrated in Western Europe (Belgium, Germany, France and Ireland) with € 2.1 billion approved, representing 40% of the total portfolio (see Figure 1.1).

**Figure 1.1: Geographic distribution of CEB lending to housing for "low-income persons"**




The remaining distribution was balanced:

- Large housing projects in Southern Europe (Italy, Portugal and Spain) accounted for € 1.1 billion or 20% of the total approved since 2000.
- Housing projects were also financed for € 1 billion or 19% of the total in Northern Europe (Baltic countries, Denmark, Finland, Norway and Sweden).

- € 654 million or 13% of the total were financed in Central Europe (Hungary, Poland and Slovak Republic).
- The housing sector in South Eastern Europe (Western Balkans, Bulgaria, Republic of Moldova and Romania) benefited from CEB financing worth € 415 million, representing 8% of the total.

At country level, the Bank's largest borrowers in the housing sector over the period 2000-2014 were Belgium (20% of total loans approved), Spain (14%), France (12%), Finland (11%), Denmark (8%), Poland (7%) and Germany (6%). These countries represented more than 75% of the CEB's loan portfolio in this sector over the period.

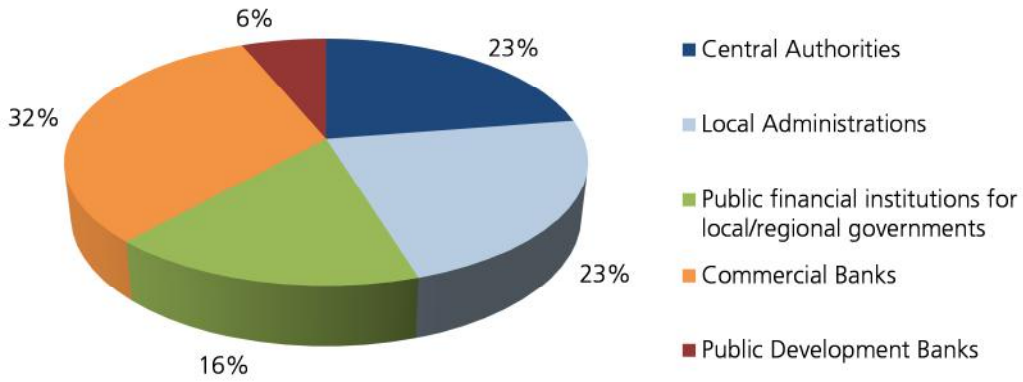
CEB lending to the housing sector in the Central, Eastern and South Eastern European countries, known as "target countries" has represented € 1.2 billion or 23% of the total portfolio in this sector over the last fifteen years. Inside the CEB's target group, the largest borrowers were Poland (32% of total loans approved for housing projects in CEB target countries), Romania (21%), Hungary (14%) and the Slovak Republic (9%) over the period 2000-2014.

Over the last fifteen years, there has been a clear shift in the geographic distribution of CEB lending in this sector towards the target countries. Whereas in the first decades of the Bank's existence lending focused mostly on seven countries, namely Germany, Greece, Italy, Malta, Portugal, Spain and Turkey, in recent years it has reached 25 countries of operation. While some of the main borrowers from Western and Southern Europe have decreased their shares (Spain) or disappeared from the portfolio (Greece, Italy, Turkey), the housing sector in CEB target countries (Western Balkans) has particularly gained in importance. In effect, in countries with a mature social and affordable housing sector (Western and Northern Europe), the CEB's share of financing has not been very extensive, whereas in countries without public housing provision CEB-financed projects have been the only source of affordable public dwellings (Republic of Moldova, Serbia, "the former Yugoslav Republic of Macedonia"). This shift is in line with recent developments in the housing sector explained in Part II.

### Distribution channels

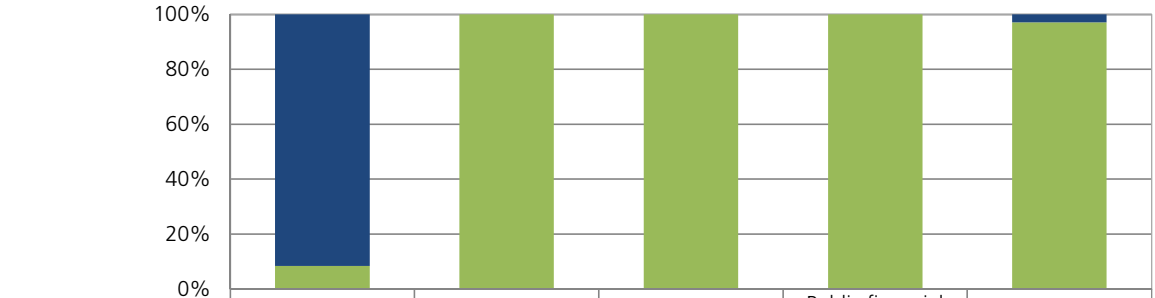
To reach the intended final project beneficiaries, the CEB operates via intermediaries, i.e. sovereigns, local governments, public or private financial institutions. Between 2000 and 2014, 68% of CEB borrowers in the housing sector were public, i.e. central, regional or local public administrations (46%), public financial institutions operating exclusively/mainly for local governments (16%) and public development banks (6%), while 32% of CEB borrowers were commercial banks (see Figure 1.2).

**Figure 1.2: Public and private borrowers in housing projects (2000-2014)**



From a geographic perspective (see Figure 1.3), experience shows that housing projects have been implemented through commercial banks in Western and Southern European countries. On the other hand, borrowers in the housing sector in CEB target countries have been almost exclusively central authorities. In Nordic countries, public financial institutions operating for regional/local authorities have been the main distribution channel for housing lending, whereas in some cases in Belgium, Finland and Spain, the CEB has operated with regional/ local authorities implementing projects through housing associations or public-sector companies.

**Figure 1.3: Geographic distribution of public and private borrowers in housing projects (2000-2014)**




| Figures in EUR millions | Central Authorities | Regional / Local Administrations | Public Development Banks | Public financial institutions for local/regional governments | Commercial Banks |
|---|---|---|---|---|---|
| Target countries | 1 078 | 0 | 0 | 0 | 50 |
| Non-Target countries | 100 | 1 185 | 327 | 858 | 1 626 |

### ▪ Grant assistance

In addition to loans, grant resources can be made available through the CEB's fiduciary accounts in order to subsidise interest rates and/or to finance technical assistance and/or part of the investment costs. This blending of loans and grants can facilitate the preparation and implementation of projects (via technical assistance), improve the economic viability of a given project (via interest rate subsidies and/or investment grants) and ensure greater social impact. On a much smaller scale, the Bank can also make grant contributions under the CEB's statutory priorities to provide emergency aid to refugees, migrants, displaced persons and victims of natural or ecological disasters, and other particularly vulnerable populations.

In the housing sector, grants can be allocated via the CEB's Social Dividend Account (SDA), the Spanish Social Cohesion Account (SCA), the Norway Trust Account for the Western Balkans (NTA) and the CEB's consultancy budget.

Additional support of this type has been allocated to housing projects in the following CEB target countries:

- Housing projects for low and middle-income persons (see Case Study 1) have received grants totalling € 8 million in Albania, the Republic of Moldova, Romania and "the former Yugoslav Republic of Macedonia".
- Housing projects for vulnerable populations (see Case Study 2) have benefitted from grants totalling € 13 million which have been allocated for: i) housing for refugees and displaced persons in Bosnia and Herzegovina, Croatia, Lithuania and Serbia, ii) housing for Roma in Bulgaria and Hungary, and iii) post-disaster housing reconstruction in Serbia.
- The CEB provided € 7 million (in the form of grant contributions from the SDA) in favour of grant projects for refugees and displaced persons in the Western Balkans and Georgia. These projects were implemented by UNHCR and UNDP.

**Box 2: The Regional Housing Programme**

Since 2010, the Bank has been actively involved in a joint initiative, called the Regional Housing Programme (RHP), to provide some 74,000 refugees and displaced persons with durable housing solutions in four Partner Countries: Bosnia and Herzegovina, Croatia, Montenegro and Serbia. The RHP is supported by the international community, including the CEB, the European Commission, the United States of America, the UNHCR and the OSCE.

The CEB's main role is to manage the multi-donor RHP Fund (with contributions totalling € 175 million at end-2014) and to assist the Partner Countries in preparing and implementing their housing projects. The CEB also monitors the use of grants disbursed from the RHP Fund, facilitates coordination among stakeholders and manages the technical assistance, financed by the European Commission (see the CEB's Regional Housing Programme webpage).

## Chapter 2: Diversity of projects

The main purpose of CEB housing projects is to facilitate access to decent and affordable housing either by providing mortgage or by alleviating the scarcity of housing (constructing new dwellings or rehabilitating the existing stock). The provision of social and affordable housing to economically and socially disadvantaged population groups represents a large share of the CEB's activities.

What is specific to the CEB is that the housing sector covers several of the CEB's missions. In a cross-sector approach, the Bank also reacts to housing issues across its other sectors of action. Beyond the objective of improving the living conditions for those who are poorly housed, the construction of housing is also part of the Bank's mission to provide shelter to refugees, migrants, victims of natural disasters and other vulnerable populations such as the elderly, ethnic minorities and handicapped persons. The CEB contributes to the provision of housing to socially or physically vulnerable groups with specific needs and/or lacking in special-purpose housing.

The provision of sustainable housing at an affordable price can especially target vulnerable households hit by energy poverty, thus combining environmental and social objectives. From a broader perspective, the Bank also plays a role in urban renewal through the financing of housing-related municipal infrastructure and contributes to combating climate change through the financing of energy saving and efficiency investments in residential and non-residential buildings. Within this cross-sector approach, these projects are not explicitly defined as investments in the housing sector, but their main goal is to address specific social objectives by providing housing and related infrastructure.

In order to demonstrate the diversity of CEB investments and analyse their social value, this section presents three case studies reflecting the various types of housing and the various groups of beneficiaries:

Case Study 1: Social and affordable housing (including activities under the sector of action "housing for low-income persons")

Case Study 2: Housing for vulnerable populations

Case Study 3: Energy efficiency retrofitting

Taking into consideration the priority given to social impact within CEB projects, the case studies mainly focus on the social effects of the projects, i.e. direct effects on the end-beneficiaries targeted in the projects. The result assessment focuses on the immediate effects generated by the projects, i.e. the number of dwellings built/rehabilitated and the number of end-beneficiaries. Data are based on actual disbursements. These effects, taken from in-house operational documents, are provided by the borrower within the framework of regular monitoring of each project financed by the CEB. Upon completion, the borrower details the use of CEB funds and compliance with the pre-approved objectives, and provides information on the material and social results. The broader social outcomes of some of these projects were assessed by the CEB's Evaluation Department (see the CEB's Evaluation webpage, entitled "Social housing for low-income persons").

Over the period 2000-2014, CEB loans totalling € 4 billion allowed for the construction or rehabilitation of some 350,000 social and affordable dwellings in 20 countries.

In each project presented below, the year of its approval is indicated in brackets.

## Case study 1. Social and affordable housing

### SOCIAL HOUSING IN BELGIUM (2009, 2011)

**Objective**: the provision of some 3,000 mortgage loans in the form of "social mortgages" for the purchase, construction or renovation of principal residences and zero-interest *éco-prêts*, i.e. "green loans" for energy-efficiency investments in social dwellings

**Borrower**: Fonds du Logement des Familles Nombreuses de Wallonie (FLW)

**Beneficiaries**: large low-income families with at least three children in Wallonia

**CEB loan**:

- Approved in 2009, € 50 million, covering 50% of the total cost of € 100 million
- Approved in 2011, € 80 million, covering 50% of the total cost of € 160 million

The programme was implemented between 2009 and 2013.

**Social effects**:

A total of 2,535 large families living on low incomes benefitted from 2,130 social mortgages and 710 green loans. This financing helped provide decent, affordable and energy-efficient dwellings to vulnerable families, 54% of whom used to live in insalubrious dwellings and 21% in overcrowded ones. The programme also helped address the issue of fuel poverty and improve the energy efficiency of housing in Wallonia.

### SOCIAL RENTAL HOUSING IN FINLAND (2009)

**Objective**: the renovation and construction of social rental dwellings, including housing designed for the elderly, in the Helsinki area

**Borrower**: City of Helsinki

**Beneficiaries**: lower income households and disadvantaged population groups living in Helsinki

**CEB loan**: € 100 million, covering 47% of the total cost of € 213 million

The programme was implemented between 2009 and 2011.

**Social effects**:

The programme provided for the construction of 637 new housing units and rehabilitation of 1,374 units. The tenants selected to the city-owned state-supported rental housing were low- and lower income households, of which 75% had an monthly gross household income under € 3,000 and 50% under € 2,000 (while the average monthly gross income per person in 2011 was approximately € 3,200). Moreover, 60% of beneficiaries were households in urgent need of a housing solution. The programme contributed to the development of the social rental sector in fast growing areas due to rural-urban migration, increasing numbers of one-person households and a particularly fast growing foreign-born population.

## RENTAL HOUSING FOR YOUNG HOUSEHOLDS IN ROMANIA (2001, 2002, 2005)

**Objective**: the construction of social rental dwellings implemented by the National Housing Agency

**Borrower**: the Ministry of Finance

**Beneficiaries**: young people in the 18-35 age bracket living on low incomes

**CEB loan**:

- Approved in 2001 and 2002, two CEB loans totalling US$ 100 million, covering 44% of the total cost of US$ 226 million
- Approved in 2005, a CEB loan of € 140 million, covering 67% of the total cost of € 210 million

**CEB grant support**: € 1 million allocated in the form of interest-rate subsidies from the SDA

The programme was implemented between 2001 and 2013.

**Social effects**:

The first two phases of the programme (US$ 100 million) allowed for the construction and rehabilitation of more than 12,800 apartments providing accommodation for about 28,000 persons. During the third phase, an additional 8,620 social rental housing units were provided in favour of more than 15,500 young persons on low incomes. The dwellings were rented at affordable rates (not exceeding 25% of the monthly income) to young families giving them an opportunity to save money so as to acquire their own residence at the end of the contractual rental period.

## SOCIAL RENTAL HOUSING IN THE REPUBLIC OF MOLDOVA (2006, 2011)

**Objective**: the development of the rental housing stock in favour of socially-vulnerable families

**Borrower**: the Ministry of Finance

**Beneficiaries**: low-income and vulnerable households

**CEB loan**:

- Approved in 2006, € 4.9 million, covering 64% of the total cost of € 7.6 million
- Approved in 2011, € 13.4 million, covering 65% of the total cost of € 20.4 million

**CEB grant support**:

- € 1 million allocated in the form of interest-rate subsidies from the SDA (1st phase)
- € 2 million to be allocated in the form of interest-rate subsidies from the SDA (2nd phase)
- € 67,000 allocated for technical assistance from the CEB's consultancy budget

**Social effects**:

Implemented between 2006 and 2013, the 1st phase allowed for the provision of 250 dwellings in 4 buildings accommodating some 800 persons. It represented the first social housing project in the Republic of Moldova and succeeded in establishing a new model of partnership between the Government and municipalities. Moreover, it helped solve the issue of Transnistrian refugees (36% of the project's beneficiaries) in Chisinau, pending since 1992.

By completing 15 unfinished blocks of apartments in 12 municipalities throughout the Republic of Moldova by 2018, the 2nd phase should deliver some 700 social dwellings providing access to affordable housing to some 2,500 persons from poor and vulnerable social groups. In a national context of high rental rates and unsatisfied housing demand, the project is expected to contribute to strengthening social cohesion in one of the CEB's most economically disadvantaged member countries.

## AFFORDABLE HOUSING IN POLAND (2001, 2002)

**Objective**: the development of the regulated rental housing sector through the construction and modernisation of more than 26,000 decent and affordable dwellings

**Borrower**: the Ministry of Finance (1st phase) and Bank Gospodarstwa Krajowego (2nd phase)

**Beneficiaries**: lower and middle-income households

**CEB loan**:

- PLN 630 million (equiv. to € 166 million), covering 50% of the total cost of PLN 1.3 billion
- PLN 700 million (equiv. to € 195 million), covering 50% of the total cost of PLN 1.4 billion

The programme was implemented between 2001 and 2007.

**Social effects**:

Around 26,000 built and rehabilitated dwellings benefitted 73,000 lower and middle-income persons. The majority (70%) of the dwellings were of relatively small size (surface area between 40 and 60 sq. m), well below the national average. The programme also aimed at introducing effective management methods and competition rules in the social rental housing market, assisting local authorities in performing their legal obligation to provide decent housing and promoting labour mobility.

## Case study 2. Housing for vulnerable populations

### HOUSING FOR REFUGEES AND DISPLACED PERSONS IN BOSNIA AND HERZEGOVINA (2004, 2013)

**Objective**: the reconstruction of the housing stock damaged during the war

**Borrower**: the Ministry of Finance and Treasury

**Beneficiaries**: displaced persons living in temporary accommodation (collective centres or alternative housing)

**CEB loan**:

- Approved in 2004, € 8 million, covering 30% of the total cost of € 27 million
- Approved in 2013, € 60 million, covering 58% of the total cost of € 104 million

**CEB grant support**:

- € 1.9 million allocated in the form of interest-rate subsidies from the SDA (1st project)
- € 135,000 allocated for technical assistance from the NTA and the SCA (2nd project)
- € 2 million to be allocated in the form of interest-rate subsidies from the SDA (2nd project)

Additional technical assistance of € 1.2 million for the implementation phase of the second project has been sourced from the EU's Western Balkans Investment Framework facility.

The first project was implemented between 2004 and 2010. The planned implementation period for the second project is 2013-2017.

**Social effects**:

The first project provided otherwise unavailable funds to start solving the situation of the most vulnerable refugees and displaced persons in Bosnia and Herzegovina. By providing direct funding for this project, the CEB has attained much more than offering durable solutions through the provision of reconstructed 1,100 dwellings and return support to 4,500 persons in transitory situations. The project also contributed to mitigating the dependency and victim syndrome that these persons had developed, supporting their reinsertion in their community of origin, and strengthening the stabilisation process.

With a greater loan amount, the second project seeks to build on the lessons learned from the previous one. The project should provide at least 2,600 new or refurbished public rental housing units for at least 7,200 internally displaced persons still living in collective centres and alternative accommodation throughout the country.

## ROMA INTEGRATION IN HUNGARY (2005)

**Objective**: the social integration of Roma by addressing the serious housing, education, health and employment problems of the Roma community. Investments were concentrated on the improvement of housing conditions and related social and technical infrastructure.

**Borrower**: the Ministry of Finance

**Beneficiaries**: Roma families living in segregated settlements

**CEB loan**: € 5 million, covering 78% of the total cost of € 6.4 million

**CEB grant support**: € 200,000 allocated in the form of interest-rate subsidies from the SDA

**Social effects**:

The "housing component" was implemented for the benefit of nearly 950 Roma families in 36 municipalities, where segregated settlement problems were the most serious. Additionally, some members of Roma civil society and minority self-governments benefitted from capacity building. By addressing the multi-dimensional problems that Roma were faced with, the project provided tangible improvements in the living conditions of Roma families and provided elements to facilitate their integration. The project was able to reach Roma in truly disadvantageous positions and has thus succeeded where many other undertakings have failed. The project implementers tried a multi-sector approach, involving many actors and creating partnerships between local governments, Roma organisations and NGOs, as well as combining domestic and international financing sources. Given the heterogeneity of Roma housing and integration problems, the project was able to deliver comprehensive solutions tailored to their needs.

## RENTAL HOUSING FOR THE ELDERLY IN DENMARK (2002, 2005-2007)

**Objective**: the construction and rehabilitation of some 6,500 public state-subsidised rental housing units for the elderly within the framework of the national social welfare programme.

**Borrower**: KommuneKredit, Copenhagen

**Beneficiaries**: Danish municipalities and regions providing housing for the elderly on their territory

**CEB loan**: € 400 million approved in four loans (for € 100 million each) in 2002, 2005, 2006 and 2007, covering 32% of the total cost of € 1.27 billion (based on aggregate amounts)

The programme was implemented between 2002 and 2009. The fourth loan was financed in 2007 in conjunction with the EIB.

**Social effects**:

The programme helped build and rehabilitate some 6,500 rental housing units benefitting some 10,000 seniors, in the form of sheltered housing, residences providing services and care, and nursing facilities for the most dependent elderly. Final beneficiaries were selected by the municipalities responsible for carrying out a selection on the basis of the individuals' needs, including their health situation and special care needs, in accordance with the general criteria applicable concerning their ability to live alone in a flat or a house. Most housing units had a surface area of 65 sq. m or less as this was the maximum size that entitled the tenant to obtain an individual housing benefit. Irrespective of its typology, the average cost per dwelling provided varied slightly, from € 144,000 to € 160,000, mainly reflecting the difference between construction and renovation investments.

## POST-EARTHQUAKE HOUSING RECONSTRUCTION IN TURKEY (1999)

**Objective**: the reconstruction of 17,700 housing units either destroyed or seriously damaged by the earthquake that occurred in the Marmara region in August 1999

This project involved the reconstruction of 25,900 dwellings in urban and rural areas, of which some 17,700 units (68%) were financed by the CEB.

**Borrower**: the Ministry of Public Works and Settlements

**Beneficiaries**: victims of the earthquake in the Marmara region in August 1999

**CEB loan**: US$ 324 million, covering 70% of the total cost of US$ 465 million

Within this project, Turkey received considerable international financial support and technical assistance, particularly from the World Bank.

**Social effects**:

The project benefitted families located in the areas most affected by the earthquake. The project provided 17,700 units and benefitted some 82,000 quake victims who were displaced or were living in tents or camps. By adopting and enforcing land use plans and building codes in accordance with anti-seismic standards, the reconstructed houses are of better quality and resistance to earthquakes.

## Case study 3. Energy efficiency retrofitting

### GREEN INVESTMENT PROGRAMME (PIVERT) IN BELGIUM (2010)

**Objective**: the thermal renovation of up to 12,000 social dwellings amongst the least energy efficient of the Walloon housing stock

The works mainly cover the insulation of dwellings and the replacement of windows and heating and ventilation systems. The technical and financial eligibility criteria in this programme are very stringent. The targeted energy performance of rehabilitated buildings is high, and in some cases very high (e.g. passive housing).

**Borrower**: Société Wallonne du Logement (SWL)

**Beneficiaries**: low-income groups living in social dwellings in the Walloon Region of Belgium

**CEB loan**: € 125 million, covering 31% of the total cost of € 400 million

At end 2014, the project was under implementation and expected to be completed in 2015.

**Environmental effects**:

Energy efficiency measures resulted in an average 60% reduction in energy consumption in about 8,500 dwellings renovated in the two phases of the PIVERT programme. On the basis of an energy consumption of 9 litres of fuel/sq. m, this programme consistently reduced the overall carbon footprint by 30,000 tons of $CO_2$ per year. Environmental impact is expected to increase in the two subsequent phases of the programme.

**Social effects**:

Around 26,000 inhabitants in Wallonia benefitted from the renovation during the first two phases of the programme. SWL estimated that the average monthly reduction in rental service charges (through the reduction in energy bills) was around € 62 per household. Given the average household income of 15,000€/year, energy efficiency measures helped reduce fuel poverty and contributed to increasing the purchasing power of the targeted population. Lastly, the project also contributed to improving the living conditions of social tenants with insecure or low incomes.

### RETROFITTING OF PANEL BUILDINGS IN THE SLOVAK REPUBLIC (2012)

**Objective**: the retrofitting of panel buildings and old brick multi-apartment houses, built between the 1950s and 1990s

Undertaken by around 200 condominiums, the investments under the CEB loan are mainly expected to cover the insulation of walls, roofs, floors and balconies, the replacement of windows (double/triple glazed) and the installation of efficient boilers, heat exchangers and radiators.

**Borrower**: Slovenska sporitelna a.s. (SLSP)

**Beneficiaries**: lower and middle-income inhabitants of panel buildings throughout the Slovak Republic

**CEB loan**: € 30 million, covering 50% of the total cost of € 60 million

At end 2014, the project was under implementation and expected to be completed by end 2015.

**Environmental effects**:

It is envisaged by the borrower that the energy consumption of each rehabilitated building will be reduced by 30% to 60%. The first tranche of € 15 million, disbursed in 2013, contributed to retrofitting some 6,300 dwellings in panel buildings with up to 3,000 sq. m of living area.

**Social effects**:

In addition to lowering the energy costs, the project will increase the buildings' life expectancy and, at the same time, improve the living conditions of the final beneficiaries. For families at risk of poverty (approximately 12% of the final beneficiaries), energy savings could amount to more than 10% of their disposable income.

## RETROFITTING OF MULTI-APARTMENT BUILDINGS IN ESTONIA (2008)

**Objective**: the retrofitting of about 17,700 dwellings in multiple-unit residential buildings built before 1993 and thus a reduction in greenhouse gas emissions in Estonia's residential sector

**Borrower**: KredEx, Credit and Export Guarantee Fund

**Beneficiaries**: housing associations, co-operatives and communities of apartment owners

**CEB loan**: € 28.8 million, covering 50% of the total cost of € 57.6 million

KredEx on-lent the CEB loan, together with the EU Structural Funds (€ 17 million or 29.5% of the cost), to two local commercial banks, SEB and Swedbank, that provided long maturity sub-loans at preferential interest rates to Estonian housing associations, co-operatives and communities of apartment owners. The remaining share came from KredEx (5.5%) and final beneficiaries (15%). This programme was implemented between 2008 and 2012, with technical assistance provided by KFW Bankengruppe.

**Environmental effects**:

The project enabled at least 20% savings in energy consumption, especially in smaller (up to 3,000 sq. m of living area) multi-apartment buildings that usually have less access to financing. CEB technical services estimated that this project assisted the country to consistently reduce greenhouse gas emissions by more than 24,000 tons of $CO_2$ per year.

**Social effects**:

The thermal rehabilitation of about 17,700 dwellings benefited directly more than 25,000 inhabitants. In addition to lowering the energy cost burden on the beneficiary households (with reductions of between 7% and 20%, based on CEB estimations), the reduction in energy consumption is sufficient to cover the reimbursement of loans contracted within this project. Communication campaigns carried out in connection with this innovative project led to increasing awareness of the importance of energy saving measures among the population.

# PART II: Recent Developments in Housing Needs and Financing Models

Part II of this working paper analyses the nature of the new demand for housing, especially in the areas of social housing and retrofitting – the sectors that come within the CEB's mandate. As the crisis and changes in demand challenge existing financing models and resources, the new actors and schemes in housing finance are also described here.

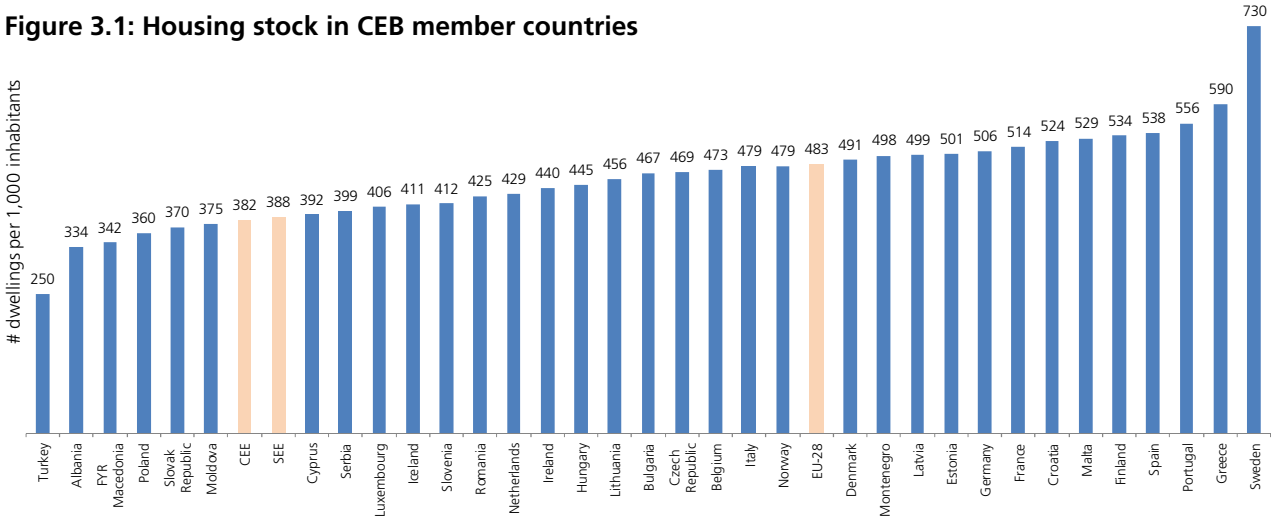
## Chapter 3: The scale and scope of the new demand for housing

Following the financial crisis, housing demand is undergoing a number of changes, which are also shaped by social and environmental factors. More population groups have become vulnerable to housing exclusion and are in search of affordable and social housing. These demand fluctuations in housing markets are not merely cyclical. They occur amidst longer-term demographic and environmental trends, such as decreasing household size, changing family patterns, population ageing, increasing migration and rising greenhouse gas emissions. These factors and the ways in which they re-define housing demand in CEB member countries will be analysed in this section, paving the way for the identification of emerging financing models (in Chapter 4) and the CEB's value as a social development bank in this new landscape (in Concluding Remarks).

### ▪ Housing in CEB member countries: availability and tenures

Housing provision in CEB member countries varies considerably (see Figure 3.1). The housing stock per 1,000 inhabitants – an indicator of housing availability – across the EU averages 483 dwellings, with a low of 388 units in South-eastern Europe (SEE)[3] and 382 units in Central and Eastern Europe (CEE)[4]. Housing provision in several CEE countries, such as Bulgaria and Hungary, has statistically improved because of decreasing population. In a few countries, such as Croatia, the housing stock is large because of the number of holiday homes.[5]

**Figure 3.1: Housing stock in CEB member countries**




Sources: CEB graph based on (1) Housing Europe (2015), The State of Housing in the Union – 2015 Report; (2) Habitat for Humanity (2013), Housing Review 2013 on 23 Countries in the Europe and Central Asia Region and (3) http://www.helgilibrary.com/ accessed on 21 April 2015. Data not available for Bosnia and Herzegovina, Georgia, Holy See, Kosovo, Liechtenstein, San Marino and Switzerland. Data is mostly from 2011, with some figures from 2014 or 2015 such as for Denmark, Estonia, Finland, Hungary, the Netherlands, Poland, Romania, the Slovak Republic and Slovenia.

[3] SEE refers to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, "the former Yugoslav Republic of Macedonia", Romania and Serbia.
[4] CEE refers to the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia.
[5] Habitat for Humanity (2013), Housing Review 2013 on 23 Countries in the Europe and Central Asia Region.

A general characteristic of housing provision across CEB countries is the persistence of regional imbalances, with housing shortages observed in areas of strong economic activity regardless of whether the national housing balance is in surplus. This is the case, for example, in the Czech Republic, Finland, Greece and Romania[6]. Such shortfalls are mainly due to rural-urban migration, refugee movement and migration resulting from conflicts. Capital and large cities are particularly affected by this excess housing demand.

Another feature of housing provision in Europe is the high share of owner-occupancy in most EU member states (see Figure 3.2 for the housing tenure spectrum), especially in most Central and Eastern European countries, where the fall of communism was followed by mass privatisation of the housing stock. While in the EU-28 average homeownership stood at 70% (in 2013, see Figure 3.3), ownership reached 82% in CEE countries and 92% in SEE countries (in 2011)[7]. The general trend is that of increasing homeownership rates in most EU countries, reflecting both policies encouraging homeownership and demographic and socio-economic developments, such as an ageing population with increased capital accumulation.

**Figure 3.2: Types of tenure status across European countries**

| **Sub-Market Provision (based on need)** | | **Market Provision (based on ability to pay)** | |
|---|---|---|---|
| Emergency Shelter & Transitional Housing | Social and Affordable Housing:<br>1. Social Rental (dominant form)<br>2. Low-Cost Ownership<br>3. Shared-Ownership | (Private) Rental Housing | Owner-Occupied Housing |

Source: CEB diagram mainly based on definitions from the UN-HABITAT "Financing Affordable Social Housing in Europe" (2009) and CECODHAS "2012 Housing Europe Review. The Nuts and Bolts of European Social Housing System" (2011).

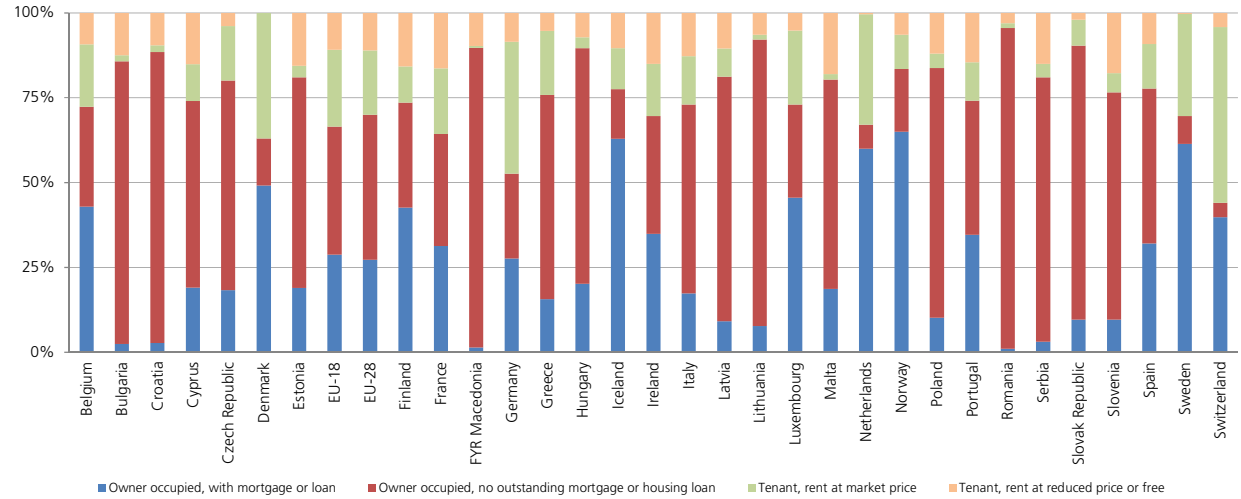
The diagram reflects key types of housing in Europe, which may not necessarily include other types observed in certain countries such as sub-tenancy, free housing, vacant or unknown dwellings. The diagram also does not classify co-operatives as in some countries they are part of the home-ownership sector, while in others they are regarded as part of the social housing sector or as a separate category.

On the rental side of the housing tenure spectrum, the situation varies significantly. While tenants represent a smaller share in Eastern Europe and some Southern European countries, such as Spain, Greece and Italy, they are preponderant in Western European countries, such as Denmark, Switzerland and Germany. In Switzerland, people living in rented dwellings (56%) outnumbered those living in owner-occupied housing (44%) (see Figure 3.3).

Within the rental sector, the importance of private and social rental housing also varies considerably. In 2013, in Denmark, Germany, Sweden and the Netherlands, more than one quarter of the population lived in rented dwellings with a market price rent. In Switzerland, this share rose to slightly more than half. In these countries, the share of the population living in a dwelling with a reduced price rent or occupying a dwelling free of charge ranged from 0% in Denmark to 9% in Germany. In all EU member states, the share of this population was less than 20%. In Finland and in many Central and South-eastern European countries, on the other hand, this group represented more than half of total tenants (see Figure 3.3).

[6] CECODHAS (2011), 2012 Housing Europe Review. The Nuts and Bolts of European Social Housing Systems.
[7] Habitat for Humanity (2013), Housing Review 2013 on 23 Countries in the Europe and Central Asia Region.

**Figure 3.3: Distribution of population by tenure status in selected CEB member countries, 2013 (% of population)**

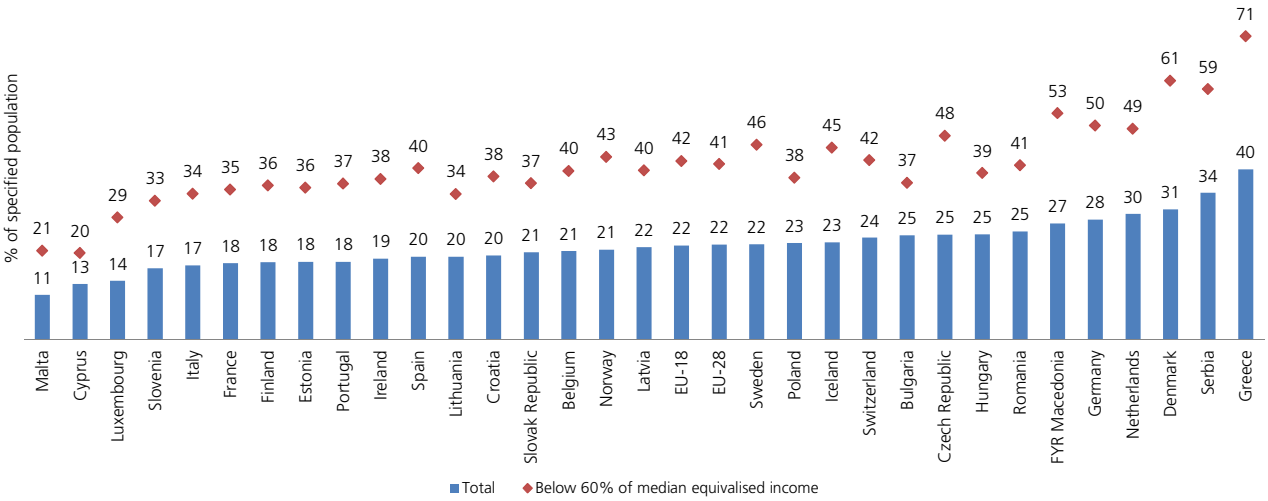



Source: CEB graph based on EUROSTAT data updated on 14 January 2015, extracted on 13 February 2015 (ilc_lvho02).
Note: Data for Ireland and "the former Yugoslav Republic of Macedonia" is for 2012.

## ▪ The crisis and housing (un)affordability

On average, Europeans spend over a fifth of their income on housing. Those at risk of poverty are hit even harder by housing costs, which represent 41% of their disposable income (see Figure 3.4).

**Figure 3.4: Share of housing costs in disposable income in selected CEB member countries, 2013**




Source: CEB graph based on EUROSTAT data updated on 14 January 2015, extracted on 16 February 2015 (ilc_mded01).
Note: Data for Ireland and "the former Yugoslav Republic of Macedonia" is for 2012.

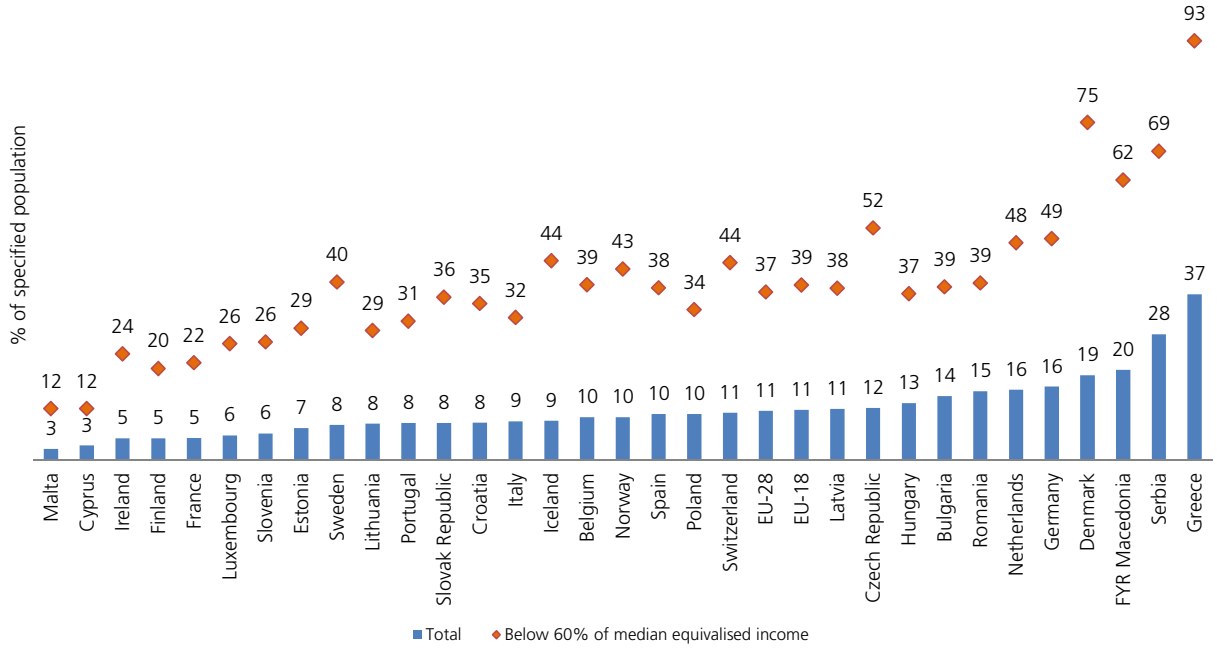
According to the Report on the Social Impact of Fiscal Consolidation[8], as the crisis reduced the level of disposable income of households, their capacity to meet financial obligations decreased. Frazer and Marlier (2011)[9] reported increasing difficulty in paying bills and a rise in indebtedness in many countries, such as the Czech Republic, Greece, Spain, France, Hungary, Ireland, Portugal and Romania, especially with regard to repaying housing loans.

[8] EC, DG EMPLOI (2012), The social impact of the economic crisis and on-going fiscal consolidation, Third report of the Social Protection Committee (2011).

[9] Frazer, H. and Marlier, E., 2011 assessment of social inclusion policy developments in the EU – Synthesis report, EU Network of Independent Experts on Social Inclusion, 2011.

Overall, 11% of European households and 37% of those at risk of poverty spend more than 40% of disposable income on rents, mortgages, maintenance and energy, and are thus considered "overburdened"[10] by housing costs, i.e. what they have to pay for housing is too much compared with what they can afford. Across CEB countries, the total housing cost overburden rate ranged from 3% in Malta and Cyprus to 37% in Greece. In Latvia, the Czech Republic, Hungary, Bulgaria, Romania, the Netherlands, Germany, Denmark, "the former Yugoslav Republic of Macedonia", Serbia and Greece, this overburden rate exceeded the EU-28 average (see Figure 3.5).

**Figure 3.5: Housing cost overburden rate by poverty status in selected CEB member countries, 2013**




Source: CEB graph based on EUROSTAT data updated on 12 February 2015, extracted on 16 February 2015 (ilc_lvho07a).
Note: Data for "the former Yugoslav Republic of Macedonia" is for 2012.

European citizens are thus increasingly faced with a "scissor effect": they spend more and more on housing, with a disproportionate burden for the people at risk of poverty while given fiscal consolidation, governments generally are struggling to support the affordable housing sector despite a growing demand[11].

The impact on homelessness and poverty seems to be greater now than in previous years, since the crisis and austerity measures taken have a strong time-lag effect. When it comes to affordability and access to adequate housing, the EU defines the following most disadvantaged groups (listed in descending order): (1) unemployed or otherwise economically inactive people and families; (2) single parents with young children; (3) young people living alone; (4) retired people, especially if living alone; (5) households with three or more children; and (6) single parents with one child. The Council of Europe views the following groups as vulnerable: (1) marginalized homeless, substance abusers and battered women; (2) immigrants and refugees; (3) one-earner income, unemployed and non-worker families; (4) single-parent households; (5) young people in their first-time employment and first independent housing; and (6) elderly low-income households in old housing. The scope of these lists shows how the concept of affordability and decent housing are affecting more and more population groups, aggravating existing inequalities.

[10] The housing cost overburden rate is the percentage of the population living in households where the total housing costs (net of housing allowances) represent more than 40% of disposable income (net of housing allowances).
[11] CECODHAS (2013), Rethinking Investment in Homes, Spring 2013.

### The specific segment of social housing

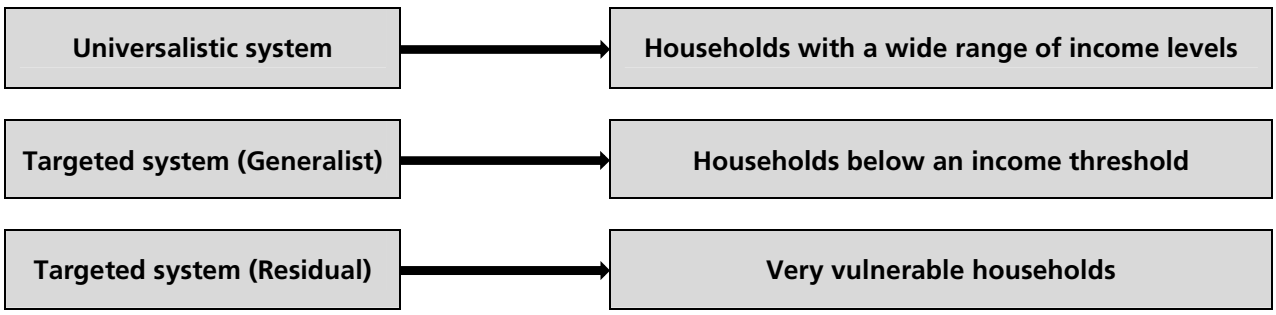
Social housing is understood to be housing provided for those with limited means, including many socially excluded households. Most countries have no official definition of social housing, resulting in the wide diversity of national housing situations, conceptions and policies.

Across the EU, there are several core common elements of what qualifies as social housing[12]:

- Affordability either through subsidies or by improving accessibility to mortgage loans.
- Allocation (see Figure 3.6) by administrative means rather than market mechanisms (see Appendix 1 for criteria determining access to social housing in the EU-27 countries).

  Although there are some countries with few restrictions on housing allocation (Denmark, Finland or Sweden), the most common eligibility criterion is means-tested income thresholds. Criteria of need, such as housing conditions at the time of application (homelessness, over-occupation, forced cohabitation, unhealthy accommodation), and criteria relating to beneficiaries and priority target groups, such as youths, elderly or disabled, are also implemented. Further priority criteria applied to registered applicants usually vary according to the needs and gaps in the local housing markets.
- Strong link with public policies at the local level.
- Security of tenure as opposed to short-term tenancy contracts.
- High quality standards demanded from social housing providers, i.e. local authorities and public companies often coexisting with a growing private sector, mainly consisting of non-profit or limited-profit associations and companies, cooperatives and, in some cases, private for-profit developers and investors.
- Strong involvement of the benefiting households in the management of the service and the functioning of the company providing the service.

**Figure 3.6: Social housing allocation systems**




Source: UN-HABITAT (2009), Financing Affordable Social housing in Europe

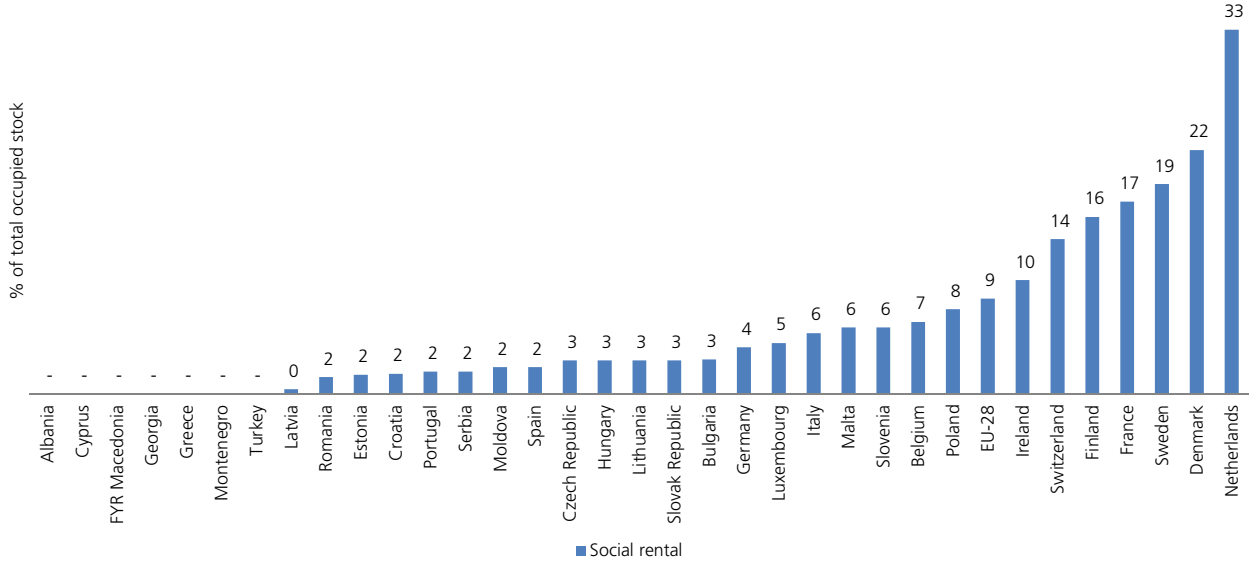
In Europe, social housing is generally equated with social rental housing, although it can also comprise the provision of affordable dwellings for sale to households for ownership. However, for statistical purposes, the relative size of the sector is usually illustrated by data on social rental stock (see Figure 3.7). Across the EU, the share of social rental housing within the total occupied housing stock averages 9%. The Netherlands is the country with the highest share of social housing in Europe (33%), followed by Denmark (22%), Sweden (19%) and France (17%).

[12] CECODHAS (2011), 2012 Housing Europe Review. The Nuts and Bolts of European Social Housing Systems.

On the opposite end of this spectrum, most Central and Eastern European countries have extremely low shares of social rental housing of below 5%, with the exception of Poland (8%), where a larger share of the stock is publicly owned even after the transition to a free market economy. In some countries, such as the Czech Republic, municipal or public housing does not correspond to social housing, thus explaining the low share of reported social housing in Figure 3.7. In reality, in the Czech Republic, about 8% of stock is public housing[13], reflecting a similar situation to that in Poland.

At the time of writing, the latest Housing Europe report (2015) identified a number of countries characterised by a small social housing sector, including in Central, Eastern and Southern Europe, that have started developing new social housing programmes, such as Bulgaria, the Czech Republic, Luxembourg, Lithuania, Portugal and the Slovak Republic. Belgium, Italy and Spain had an on-going process of restructuring the social housing sector, while in the Netherlands, measures adopted, such as an income ceiling and a levy on housing corporations, were leading to a decrease in the production of new social dwellings.

**Figure 3.7: Social housing stock in selected CEB member countries**




Sources: CEB graph based on (1) Housing Europe (2015), The State of Housing in the Union – 2015 Report and (2) Rosenfeld, O. (2015) Social Housing in the UNECE Region: Models, Trends and Challenges. New York and Geneva: United Nations, Economic Commission for Europe (in press). The earliest data is from 2011, with some figures from 2014 or 2015 such as for Estonia, Finland, Hungary, Lithuania, Malta, the Netherlands, Poland, Romania, the Slovak Republic and Slovenia. Note: (1) This data may be different from the figures in the EUROSTAT/EU-SILC database presented in Figure 3.3, given the differences in questionnaires. In the Netherlands, for example, where housing associations own and manage a majority of the rental stock and it is (or at least used to be) very common for all sorts of households to live in housing association property, respondents may not perceive may not realise they are paying a "reduced" rent, explaining the low share of social rent reported in Figure 3.3. Source: email communication on 17 February 2015 with Ms Alice Pittini, Research Coordinator at Housing Europe. (2) In the Czech Republic, public housing does not correspond to social housing and is thus, not reported as such in this figure.

According to CECODHAS[14], the social housing sector in the aftermath of the crisis is faced with a dual challenge. On the one hand, the sector is becoming more "residualised" as it is called upon to respond to increasing housing needs which may not be satisfied by the market, forcing reliance on more affordable houses provided by housing associations. On the other hand, public resources typically used to finance the sector are decreasing. This translates into a growing affordability gap, reflected in rent/mortgage arrears, increases in evictions and homelessness, longer waiting lists for social housing, greater demand for homeless services and increased indebtedness in relation to key utilities such as heat and water.

[13] Rough estimate. Source: RICS Research (2014), Social Housing in Europe. Edited by Scanlon, K., Whitehead, C. and Fernandez Arrigoitia, M.

[14] CECODHAS (2012), Research Briefing, Impact of the Crisis and Austerity Measures on the Social Housing Sector, Year 5 / Number 2, February 2012. Note: CECODHAS is the former name of Housing Europe (as of end-2014).

The demand for affordable housing has increased as more population groups face the risk of housing deprivation or exclusion, indicating the need in many countries to re-define the concept of vulnerable groups. For example, in addition to increases in homelessness levels, new categories of population at risk have emerged. These include middle-class families in the context of high levels of unemployment and decreasing benefits as well as the working poor and those working on precarious contracts or without employment contracts, limiting their access to stable tenancy.

As an initial response to the crisis, many governments invested in social housing as part of recovery programmes, both as a "social shock absorber" and a way to foster the construction sector. However, since 2011, the public budget dedicated to housing policies has been significantly reduced in many countries as part of wider fiscal consolidation programmes. Moreover, in some countries (Italy, the Netherlands, Germany, Poland and Spain), social housing organisations have been selling part of their rental stock to raise capital[15]. Within this context, existing social housing financing models are being challenged.

- **Housing and changing demographics**

Along with the impact of the crisis on affordability, the demand for housing is also being shaped by changing demographic, social and family patterns across Europe. Although the population in Europe is growing slowly compared to other continents, the demand for housing is not determined by population numbers, but by the new profile of inhabitants, characterised by the following factors:

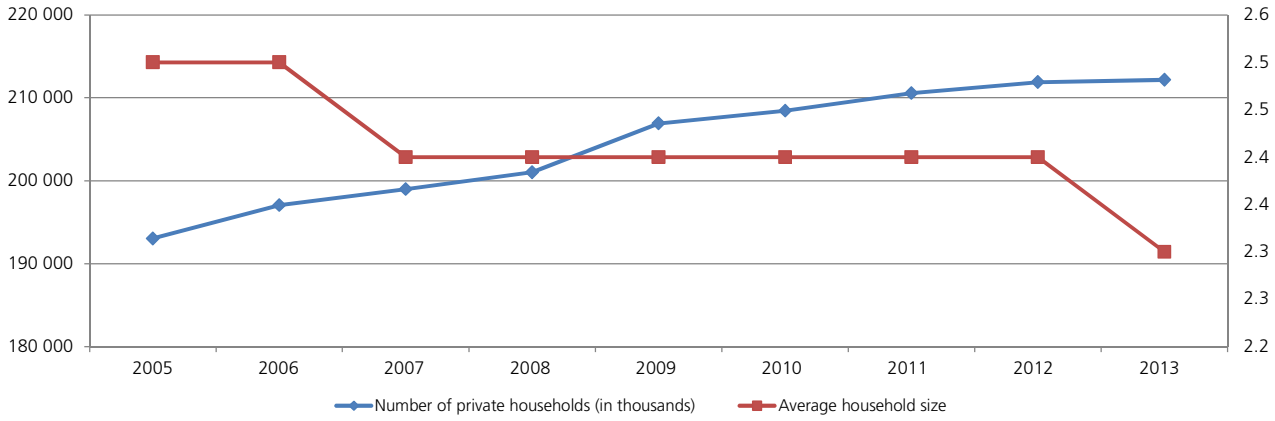
- a higher number of households, arising from a decrease in household size (see Figure 3.8), linked to life expectancy, fertility rates and divorce and separation rates
- a large and/or increasing proportion of single-person households and couples without children, on the one hand, and an increasing share of "blended" families on the other
- an ageing population with specific needs and requirements for housing adaptations
- large families of immigrants and ethnic minorities with their stronger presence in social housing, leading to social segregation and ghettoization

### More households

Across the EU, between 2005 and 2013, the average household size went down from 2.5 to 2.3 members, and the number of private households went up from 195 million to 214 million (see Figure 3.8). In 2013, the largest households were recorded in Central and South-eastern European countries, with the exception of Estonia, while the smallest households were observed in Germany, France, the Netherlands and the Nordic countries (see Figure 3.9). At the EU level, the largest increases in the number of households, registering a rise of above 10%, were in Luxembourg (+22%), Malta (+21%), Cyprus (+19%), Slovenia and Spain (+14%), the Czech Republic (+11%) and Lithuania (+10%).

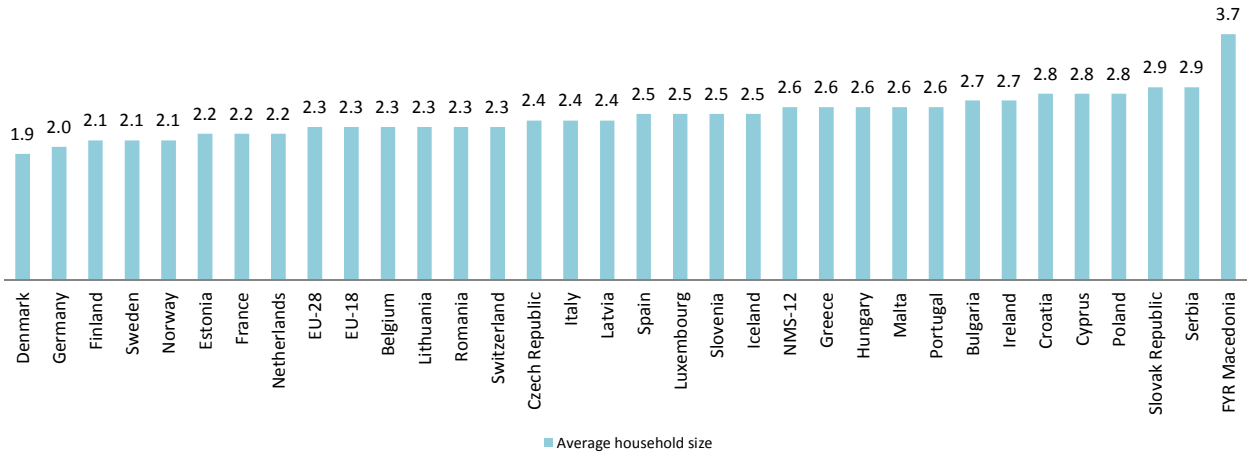
[15] European Parliament's Committee on Employment and Social Affairs, Directorate General for Internal Policies, Social Housing in the EU (2013). Note: In Greece, the austerity plans determined the end of public intervention in the housing sector, with the dissolution in 2012 of the only public body in charge of providing affordable housing to low income workers.

**Figure 3.8: Number of private households and average household size in the EU-27, 2005-2013**




Source: CEB graph based on EUROSTAT data updated on 29 April 2014, extracted on 18 February 2015 (lfst_hhnhtych).

**Figure 3.9: Average household size in selected CEB member countries, 2013**




Source: CEB graph based on EUROSTAT data updated on 16 February 2015, extracted on 17 February 2015 (ilc_lvph01).
Note: (1) Data for Ireland and "the former Yugoslav Republic of Macedonia" is for 2012. (2) NMS stands for EU new member states (see Abbreviations and Acronyms).

## Many single adults and couples without children

In 2013, the most common household types in the EU-28 were the "two adults with children" (35%) and the "two adults without dependent children" (25%). These were followed by "single person" living alone (14%). Couples without children and single adults are the two categories with a great share of young and elderly people, generally more affected by economic instability and precarious situations. They usually need adequate housing solutions in terms of affordability and quality standards. The highest share of couples without children was recorded in Finland (32%), Germany and Switzerland (31%), Sweden (29%), the Netherlands (28%), France and Denmark (27%) and Norway (26%). The highest share of single-person households was registered in Denmark (24%), Germany, Norway and Finland (20%), Sweden (19%), Netherlands (17%), Estonia, Lithuania and France (16%) and Belgium (15%) (see Table 3.1).

**Table 3.1: Household composition in selected CEB member countries, 2013**

| | Single person | | Two adults | | Three or more adults | |
|---|---|---|---|---|---|---|
| | with children | without children | with children | without children | with children | without children |
| EU-28 | 4.6 | 13.8 | 34.9 | 24.9 | 10.4 | 11.3 |
| EU-18 | 4.6 | 15.0 | 36.0 | 25.6 | 8.1 | 10.7 |
| NMS-12 | 2.7 | 9.2 | 31.3 | 19.3 | 21.9 | 15.7 |
| Belgium | 6.7 | 15.1 | 39.2 | 24.4 | 6.9 | 7.6 |
| Bulgaria | 2.8 | 8.5 | 25.0 | 19.9 | 24.1 | 19.8 |
| Croatia | 1.7 | 8.8 | 28.2 | 17.6 | 24.4 | 19.2 |
| Cyprus | 2.9 | 7.5 | 37.1 | 20.9 | 17.1 | 14.5 |
| Czech Republic | 4.0 | 11.6 | 37.3 | 24.8 | 9.7 | 12.7 |
| Denmark | 6.6 | 24.4 | 36.6 | 26.7 | 3.3 | 2.3 |
| Estonia | 5.0 | 16.1 | 34.9 | 23.7 | 11.1 | 9.2 |
| Finland | 5.0 | 19.6 | 37.9 | 31.7 | 3.0 | 3.0 |
| France | 6.3 | 15.9 | 41.1 | 27.1 | 4.7 | 4.9 |
| Germany | 5.4 | 19.9 | 32.9 | 31.0 | 4.3 | 6.5 |
| Greece | 1.5 | 10.0 | 33.8 | 22.3 | 11.6 | 20.7 |
| Hungary | 3.7 | 9.1 | 32.2 | 23.6 | 16.8 | 14.7 |
| Iceland | 7.7 | 11.9 | 43.3 | 21.6 | 9.2 | 6.2 |
| Ireland | 8.3 | 8.1 | 43.7 | 19.3 | 10.0 | 10.6 |
| Italy | 3.5 | 13.6 | 34.8 | 20.6 | 11.1 | 16.3 |
| Latvia | 5.6 | 12.7 | 28.1 | 23.0 | 17.0 | 13.7 |
| Lithuania | 6.4 | 16.1 | 34.0 | 19.9 | 12.7 | 10.8 |
| Luxembourg | 5.0 | 13.4 | 41.7 | 19.8 | 11.8 | 8.3 |
| Malta | 3.7 | 8.6 | 32.7 | 19.4 | 16.4 | 19.3 |
| Netherlands | 4.5 | 16.8 | 40.0 | 27.5 | 5.3 | 5.9 |
| Norway | 7.4 | 19.8 | 40.8 | 26.2 | 3.1 | 2.6 |
| Poland | 1.9 | 8.7 | 28.6 | 17.9 | 26.9 | 16.0 |
| Portugal | 3.9 | 7.7 | 32.8 | 22.5 | 15.1 | 18.0 |
| Romania | 1.7 | 7.3 | 32.4 | 17.6 | 24.5 | 16.4 |
| Serbia | 2.5 | 7.7 | 24.5 | 16.7 | 29.1 | 19.4 |
| Slovak Republic | 2.4 | 8.1 | 33.6 | 13.3 | 24.2 | 18.4 |
| Slovenia | 3.5 | 11.9 | 39.8 | 19.0 | 12.1 | 13.7 |
| Spain | 2.7 | 9.2 | 36.0 | 22.7 | 12.4 | 16.9 |
| Sweden | 6.4 | 18.9 | 38.8 | 28.8 | 3.9 | 3.2 |
| Switzerland | 3.2 | 13.9 | 35.4 | 30.8 | 8.7 | 8.0 |
| "the former Yugoslav Republic of Macedonia" | 0.9 | 2.6 | 24.3 | 10.0 | 42.7 | 19.6 |

Source: CEB table based on EUROSTAT data updated on 16 February 2015, extracted on 17 February 2015 (ilc_lvps02)
Note: Data for Ireland and "the former Yugoslav Republic of Macedonia" is for 2012

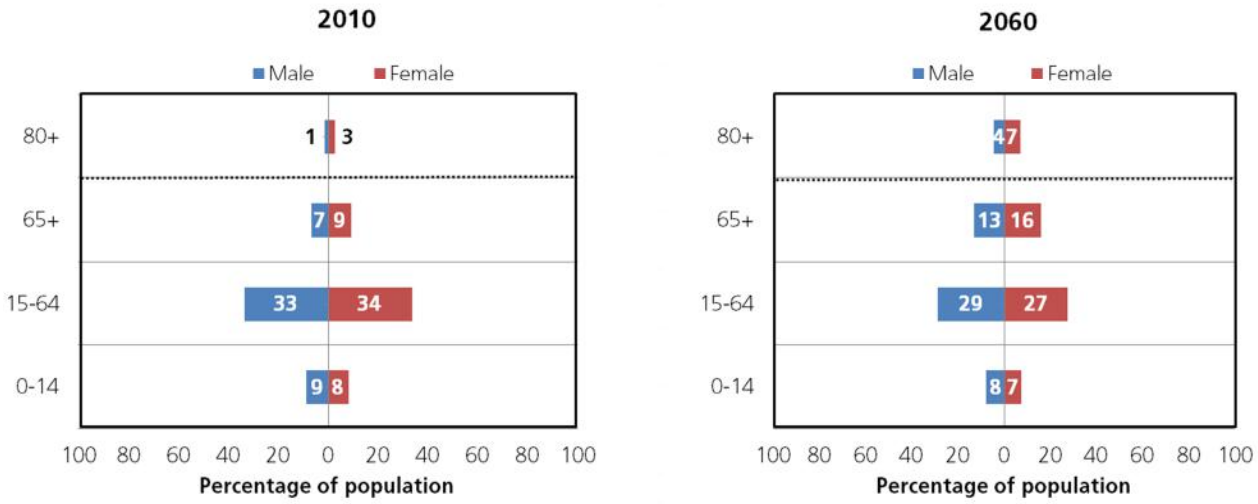
CEB member countries with a relatively high share of young people aged 15-24 are also likely to see an increased demand for student housing and/or for (first) independent living. This translates into a higher demand for smaller dwellings and affordable rentals. According to Housing Europe (2015), young people, particularly in Central, Eastern and Southern Europe, have more difficulties accessing housing compared to the former generation and are thus faced with a generational gap. Countries such as Turkey (17%), the Republic of Moldova (16%), Cyprus, Iceland and "the former Yugoslav Republic of Macedonia" (15%) have a high share of such young populations (2013). As far as the rest of Europe is concerned, Denmark, Luxembourg, Norway, Sweden, Switzerland and the Netherlands are the only EU member countries which have seen an increase in the share of their population aged 15-24 over the past decade, to represent 12-13% of total population in 2013[16].

[16] EUROSTAT data updated on 13 August 2014, accessed on 18 February 2015 (demo_pjanind).

## An ageing population

Europe is the oldest continent, with 18% of the population aged 65+ (2013, European Commission). In fifty years' time, according to the United Nations population projections (2012), in CEB member countries those over 65 years old will represent a much larger share of the population (rising from 16% in 2010 to 29% in 2060) and those aged 80+ (rising from 4% to 11%) will be almost as numerous as the young population (see Figure 3.10).

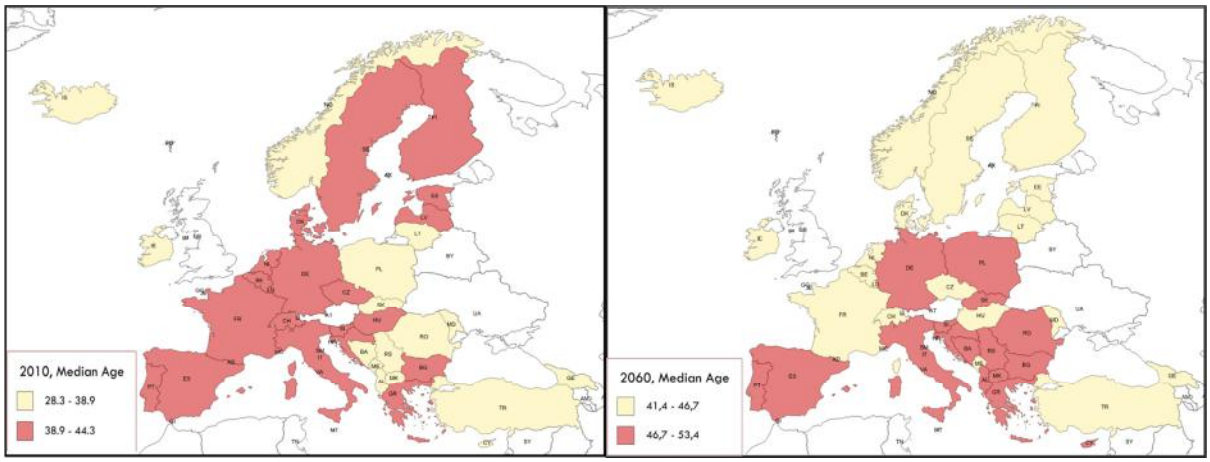
**Figure 3.10: Population pyramids in CEB member countries, 2010 and 2060**




Source: CEB (2014), Ageing Populations in Europe: Challenges and Opportunities for the CEB.

This phenomenon of an ageing population is increasing the demand for adapting (mostly existing) dwellings to the needs of the elderly as well as providing a range of home care services, enabling active ageing. The CEB's study on ageing populations in Europe (2014) elaborates on this issue, which is of particular importance in Central and Eastern European countries, where, older people are much more likely than their Western European counterparts to report poorer housing conditions. The CEB's study also describes how the ageing phenomenon is expected to shift eastwards, with most Southern and Central-Eastern European countries projected to be above the average median age by 2060 (see Figure 3.11)[17].

**Figure 3.11: CEB member countries above or below the average median age, 2010 and 2060**




Source: CEB (2014), Ageing Populations in Europe: Challenges and Opportunities for the CEB.

[17] CEB (2014), Ageing populations in Europe: Challenges and Opportunities for the CEB, January 2014

However, these Southern and Central-Eastern European countries are lagging behind Northern and Western European countries, where recent years have seen a drive to promote barrier-free environments and accessible buildings for people with functional limitations. While on average the housing stock in Europe comprises not more than 1% of dwellings adapted to the needs of elderly people, this proportion is higher in the Western region. In the Netherlands, for example, 5% of the housing stock is adapted, and 50% of new dwellings are designed and constructed with the aim of allowing for further adaptation, at reasonable cost, to the needs of dependent or disabled people. Belgium, with 2% of its stock similarly adaptable, is also particularly progressive among such housing models[18].

### Larger population movements across borders and within countries

Another key demographic and social trend in Europe is migration. The European Commission's 2015 Ageing Report predicts a total of 55 million of cumulated net migration into the EU up to 2060, with 40 million people concentrated in the euro area. Almost 70% of migrants will go to four countries: 15.5 million to Italy, 9.2 million to the UK, 7 million to Germany and 6.5 million to Spain. The change of Spain and Italy from countries of origin in the past to destination countries now is likely to be confirmed in the coming decades. For countries currently experiencing a net outflow (Bulgaria, Czech Republic, Estonia, Ireland, Greece, Spain, Croatia, Cyprus, Latvia, Lithuania, Poland, Portugal and Romania), the trend is projected to taper off or reverse in the coming decades[19].

The economic crisis in the EU has affected population movements, with countries that have performed better, attracting more migrants. In addition, global geopolitical events have caused a significant churn in migrant population (churn is the outcome of mobility of all types and measures the net effects of all types of move).

Such population movements will lead to an increase in housing demand, even if the quantified impact is uncertain. Mainly constituted by people of working/reproductive age, the migrant population is projected to contribute to the increase in the number of households. Immigrants tend to have higher residential mobility and larger households and generally prefer rental housing to ownership. As a group, immigrants tend to have greater difficulties accessing the housing market and may be a priority group for social housing. In these cases, there is a need for social mix[20] to be addressed in social housing policies, with the aim of combatting or preventing segregation and promoting more socially diverse populations, particularly in areas at risk of ghettoization and social exclusion.

Internal migration in many target countries, such as Bulgaria, Romania and the Republic of Moldova, often leaves rural communities depopulated and in destitution. Cities, on the other hand, offering more educational and employment opportunities, are more likely to attract men, younger workers, single or separated/widowed workers and those who are relatively better educated[21]. Although this rural-urban migration may later lead to emigration, it still exerts significant pressure on housing and infrastructure capacities in and around cities, generally increasing the demand for rentals.

[18] BFW and UEPC (2007), Housing for Senior Citizens. A Future Task for the European Developers, 2007.
[19] European Commission (2014), The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies, European Economy, 8/2014.
[20] The term "social mix" can refer to mixing people in a given space (country, region, city, neighborhood, housing estate) on the basis of diverse or different (1) social classes or socioeconomic statuses; (2) social categories, (ethnicity, disability); (3) stages in their life cycles (younger, older); or (4) household or family types. Source: CECODHAS (2014).
[21] European Commission, DG Employment, Social Affairs and Inclusion (2012), Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe (VT/2010/001), June 2012.

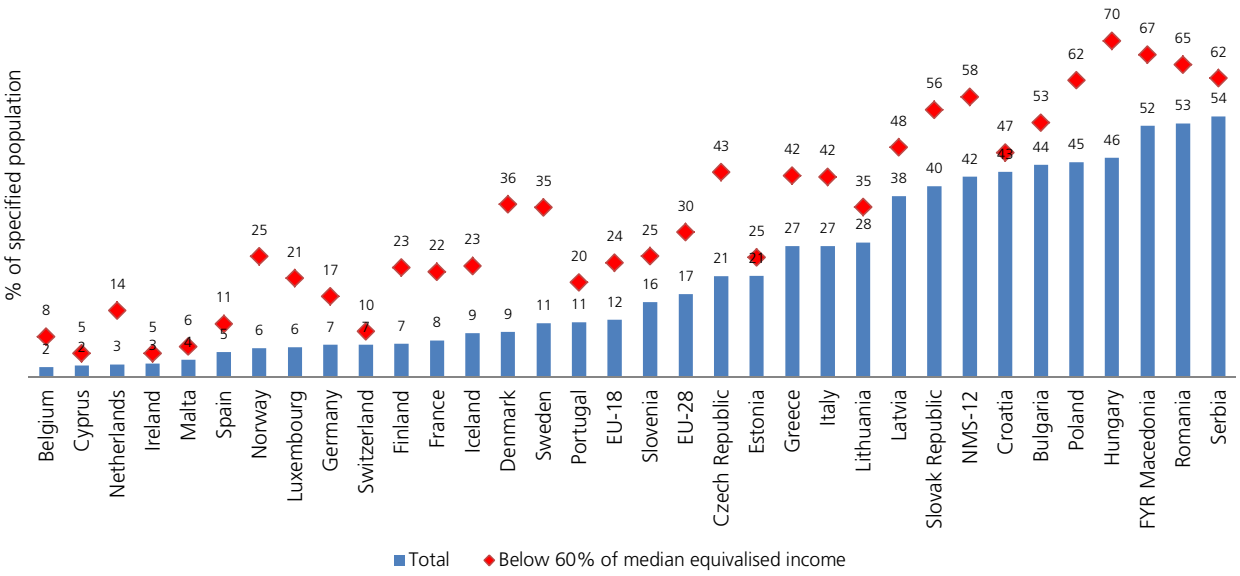
## ▪ Overcrowding, deprivation and other housing quality issues

### Housing quality dimensions across CEE and SEE countries

Across CEB countries, there is a considerable contrast between the EU average and CEE and SEE countries in terms of housing quality – a contrast which is more pronounced than in the case of housing provision. This translates into the need for housing modernisation, particularly of the existing stock.

One of the key elements of housing quality is the availability of sufficient space in the dwelling. Space issues can be analysed through the overcrowding rate[22]. Across CEB member countries, the highest rates were registered in Central and Eastern European countries, particularly in Serbia, Romania and "the former Yugoslav Republic of Macedonia", where more than half of the population lived in an overcrowded dwelling. As a comparison, this figure was 17% across the EU-28. The overcrowding rate is higher for those at risk of poverty. The largest differences between the two rates are in Hungary (24 pps), where the spread reaches 70% of the population at risk of poverty, and in the Czech Republic (22 pps) (see Figure 3.12).

**Figure 3.12: Overcrowding rates by poverty status in selected CEB member countries, 2013**



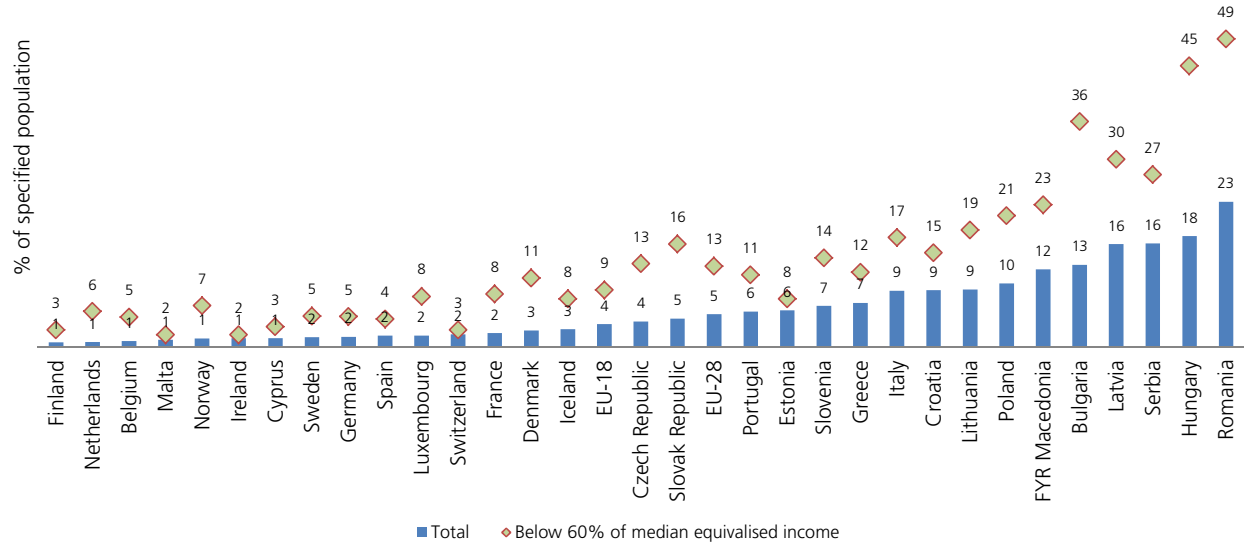

Source: CEB graph based on EUROSTAT data updated on 16 February 2015, extracted on 18 February 2015 (ilc_lvho05a).
Note: Data for "the former Yugoslav Republic of Macedonia" is for 2012.

Housing quality can also be analysed by observing other deficiencies in amenities, such as lack of basic sanitary facilities, measured by severe housing deprivation rates[23]. On average, 5% of the European population suffered from severe housing deprivation, with large variations across member states. The most affected countries are Romania (23%), Hungary (18%), Serbia and Latvia (16%) and Bulgaria (13%), exceeding the EU new member states (NMS-12) average of 12.7%. People at risk of poverty suffer more from insufficient space and poor amenities: in Romania and Bulgaria almost half of this population group faced severe housing deprivation (see Figure 3.13).

[22] The overcrowding rate describes the proportion of people living in an overcrowded dwelling, as defined by the number of rooms available to the household, the household's size, as well as its members' ages and their family situation.

[23] The severe housing deprivation rate is the share of the population living in a dwelling which is considered overcrowded while also exhibiting at least one of the following housing deprivation measures: leaking roof, neither a bath nor a shower nor an indoor flushing toilet, or a dwelling considered too dark.

**Figure 3.13: Severe deprivation rates by poverty status in selected CEB member countries, 2013**




Source: CEB graph based on EUROSTAT data updated on 12 February 2015, extracted on 16 February 2015 (ilc_mdho06a).
Note: Data for "the former Yugoslav Republic of Macedonia" is for 2012.

In addition, the following quality gaps in housing conditions can be distinguished in CEE and SEE regions[24]:

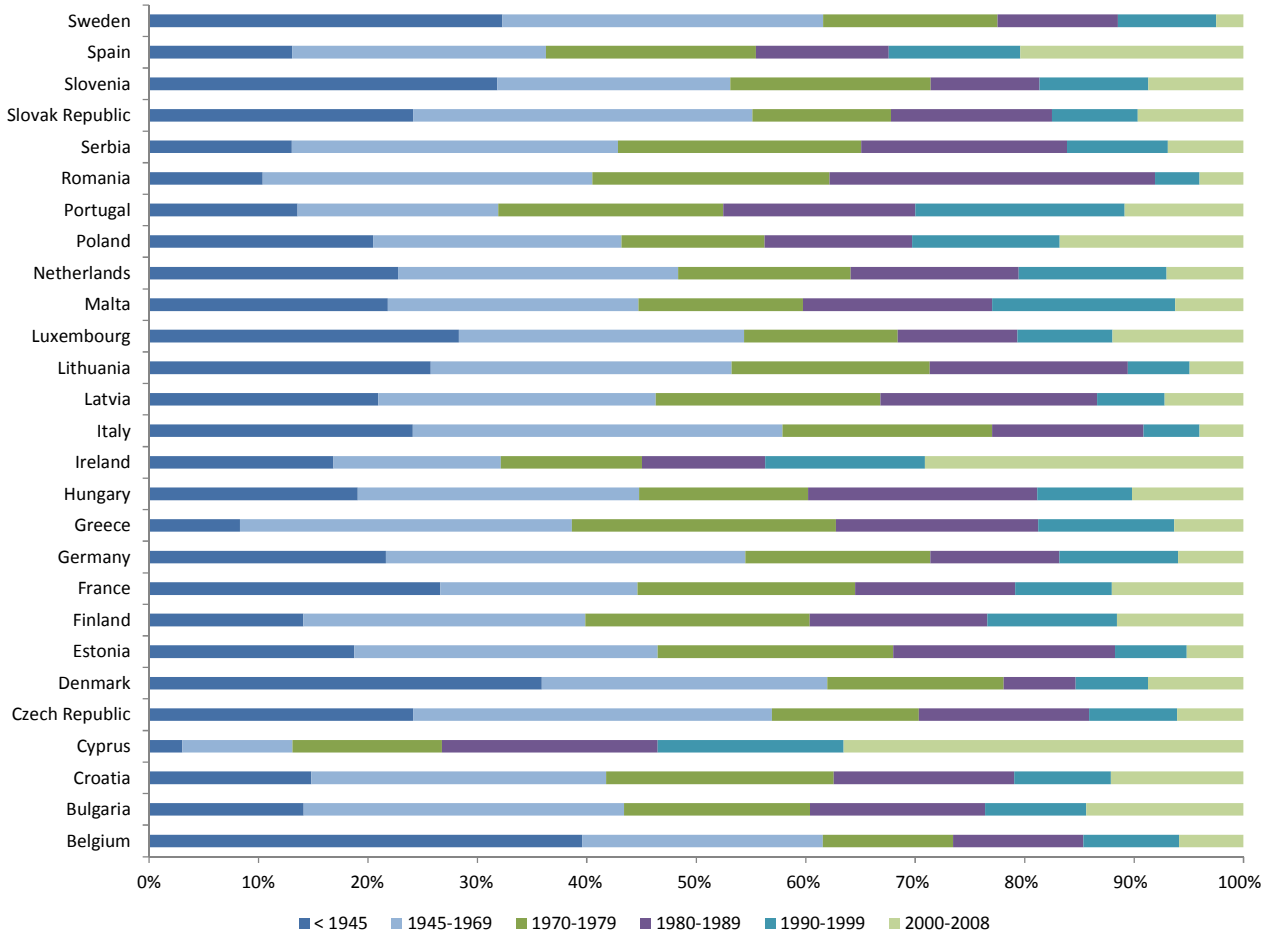
- Much of the housing stock was built in the three decades preceding transition, rendering it relatively new. However, the majority of the apartment blocks were built from low-quality prefabricated materials, with, in some cases, a lifespan of only 30 years – which has already expired. The quality gap is becoming more pronounced between new constructions, which generally follow quality standards close to those of Western Europe, and such prefabricated building blocks.
- Since the early 1990s, there has been rapid growth in the number of informal settlements, ranging from slums to luxury residences, from centrally located areas to suburbs, and from several small units to large settlements.

### "Greening" needs in residential areas across Europe

Throughout Europe, the general challenge to be addressed is the energy efficient refurbishment and retrofitting, the so-called "greening", of existing buildings. The emphasis on the existing stock is essential as new buildings account for only a limited share of the total housing stock (see Figure 3.14).

[24] Habitat for Humanity (2013), Housing Review 2013 on 23 Countries in the Europe and Central Asia Region.

**Figure 3.14: The stock of residential buildings by age in selected CEB member countries, 2008**




Source: http://www.entranze.enerdata.eu/

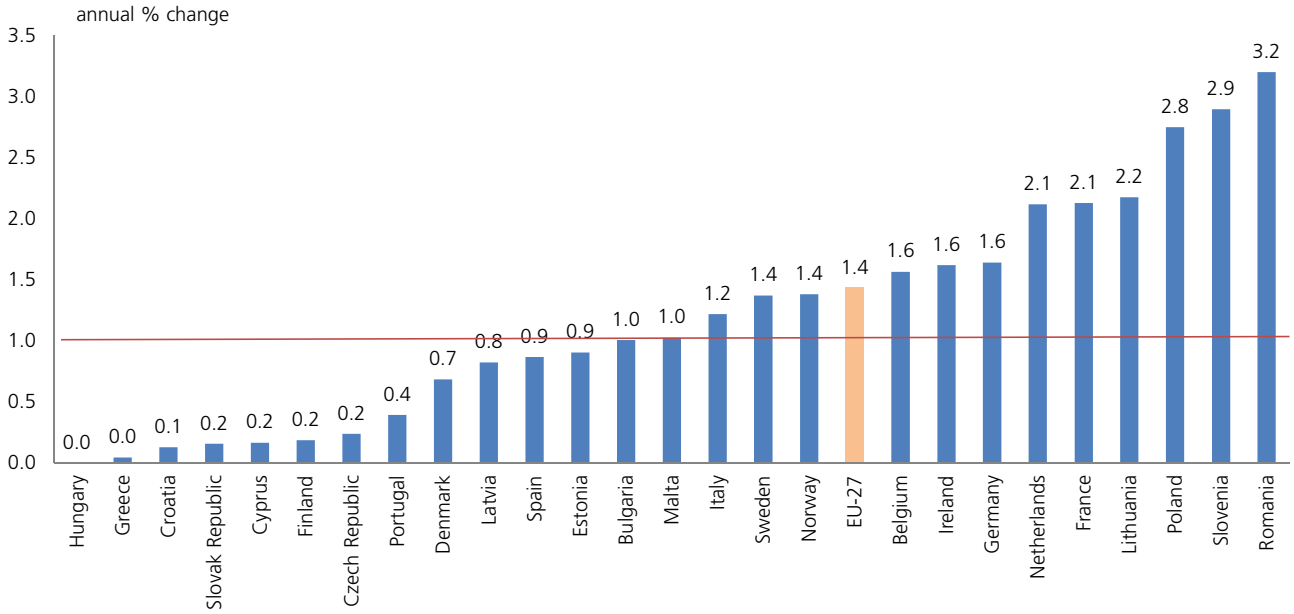
The CEB's study on environmental challenges and their social implications in Europe (2015)[25] showed that in Europe, buildings offer the largest opportunity for savings as they represent the largest energy-consuming sector, being responsible for over a third of total final energy consumption. The residential sector, which comprises around 75% of the total building stock in Europe, represents on average 20% to 40% of the total final energy consumption and 40% of $CO_2$ emissions. Up to 90% of the total energy used during the life of a building is consumed during its operation, while the rest concerns the construction and demolition phases. Most energy consumption is used for space and water heating[26]. The study describes demographic, economic, environmental and social changes that are expected to further increase energy consumption. Yet, it is in the residential sector where some of the greatest energy savings can be achieved, particularly important in the context of combatting energy poverty and mitigating climate change in Europe.

Energy savings and efficiency in buildings represents an evolving market and despite the cost-effectiveness of most measures, the transaction costs can be high, and pay-back periods are not always attractive for the private residential sector. This may also raise issues of equity, as certain measures will arguably not be affordable for poorer households.

[25] CEB (2015), Addressing Environmental Challenges and their Social Implications in Europe, 2015.
[26] European Environment Agency (EEA), Sustainable Consumption and Production in South Eastern Europe and Eastern Europe, Caucasus and Central Asia, October 2007.

In terms of progress in tackling energy efficiency, Figure 3.15 shows that over the period 2000-2009 significant progress has been made by Romania, Slovenia, Poland, Lithuania, France, the Netherlands, Germany, Ireland and Belgium, all above the EU-27 average level. At the EU-level, the energy efficiency improvement has been higher than the 1% yearly target set under the EU's Energy Services Directive (ESD), with most countries exceeding this requirement.

**Figure 3.15: Changes in the energy efficiency index for households[27] in selected CEB member countries, 2000-2009**




Source: http://www.eea.europa.eu/data-and-maps/figures/energy-efficiency-odex-by-country-2
Note: The line represents the 1% energy efficiency target under the EU's Energy Services Directive. The target is defined as energy efficiency improvements resulting from energy efficiency measures specified in the text.

Although progress has been made, the existing situation in CEB member countries leaves much room for improvement. Figure 3.15 shows that some countries, such as Croatia, Greece and Hungary, have not improved their energy efficiency. Moreover, even those countries in Western and Northern Europe considered to have advanced building standards in place are far from fully realising the potential for the sector. Western EU countries have set target refurbishment rates of 2.5-3% of the total housing stock per year, but the current prevailing renovation rate across Europe is 1%. Central, Eastern and South Eastern European countries in particular have the greatest untapped potential for energy efficient buildings[28].

[27] For households, the index assessment (ODEX) is carried out at the level of three end-uses (space heating, water heating, cooking) and five large appliances (refrigerators, freezers, washing machines, dishwashers and TVs).
[28] UNECE (2012), Committee on Housing and Land Management, Green Homes: Towards Energy-Efficient Housing in the UNECE Region, 2012.

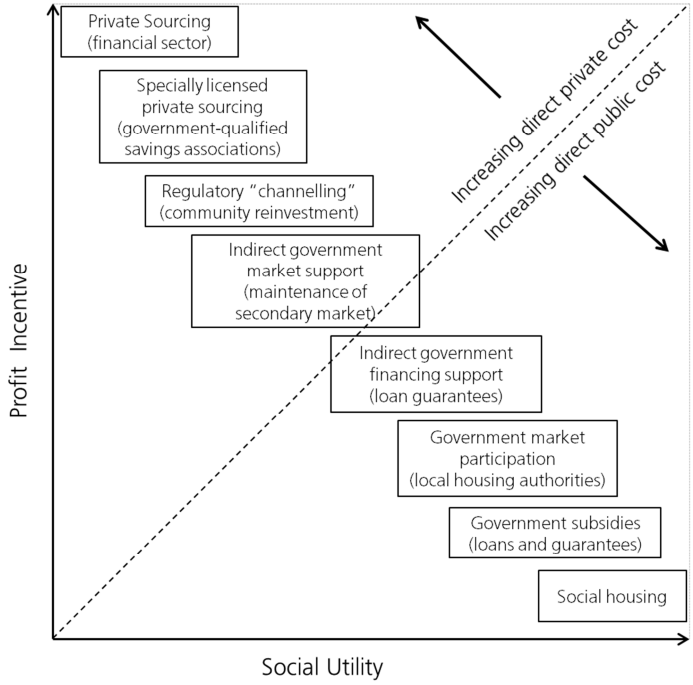
# Chapter 4: The profile of new actors in housing financing schemes

Limited fiscal space on the one hand and the increased demand for affordable housing on the other are changing the context for social and affordable housing finance. Trends such as decentralisation, involvement of private sector bodies and the development of innovative schemes for tapping private markets and encouraging private finance can be observed across CEB member countries. This section will describe these models and the emerging actors behind them.

## ▪ Private sector and local authorities

The key housing cost is the capital finance for constructing, improving or acquiring housing. This cost can be financed through various alternatives ranging from purely market-driven approaches, through a variety of hybrids involving increasing government participation, to direct government intervention (see Figure 4.1). Contrarily, revenue finance for on-going periodic costs, such as maintenance or operation, is mainly covered by tenants and by any on-going revenue grants from the public sector, in particular for social housing.

**Figure 4.1: New sources of housing finance**




Source: Malloy, M., Housing Policy and the Core Principles for Effective Banking Supervision.

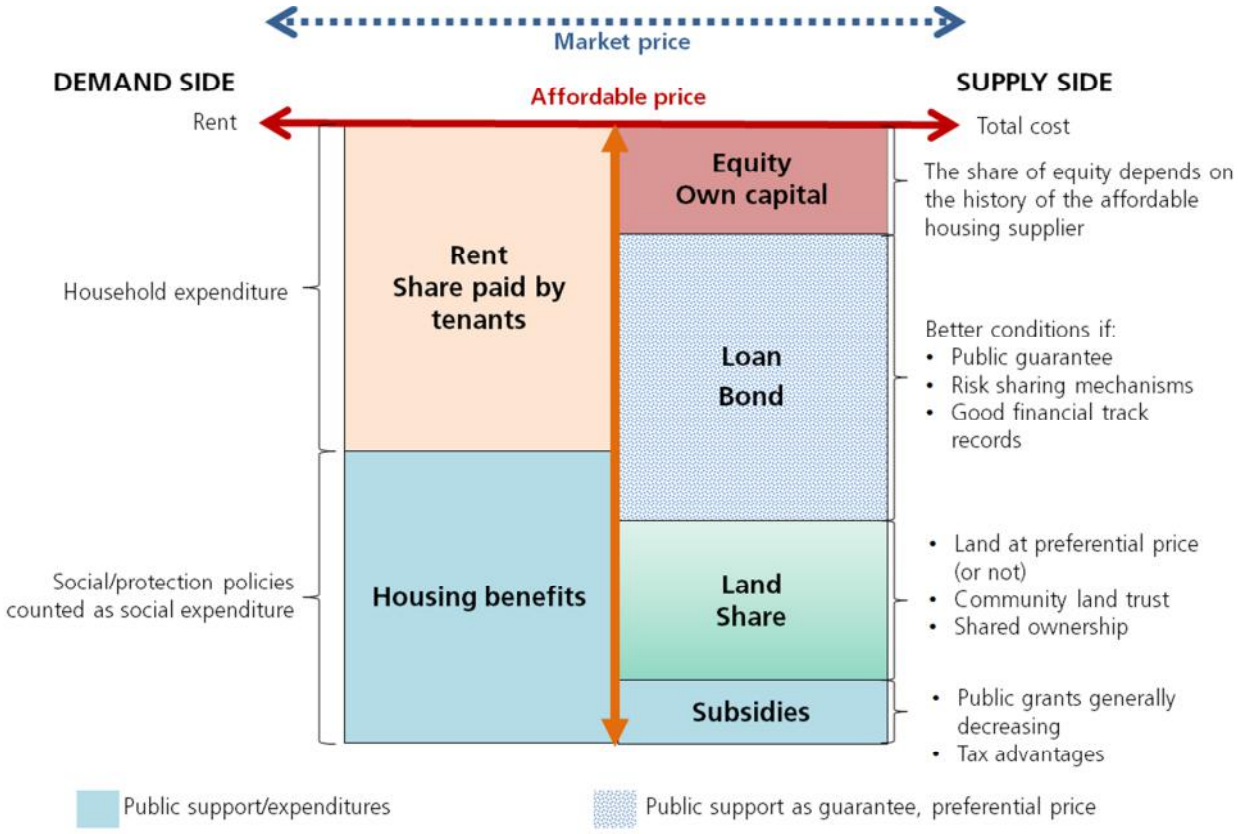
Availability of long-term financing for new construction or conversion or retrofitting current stock is essential for the provision of decent and affordable housing. However, in the context of recent debt reduction strategies, governments face escalating challenges securing funding and finance. In Europe, public expenditure on housing has generally stagnated at around 0.5% of GDP in recent years, well below the long-term averages of 4%-6% of GDP[29].

Under these fiscal constraints, there is an almost universal trend away from the traditional direct public funding towards finance mechanisms that manage alternative sources of provider income streams (real estate investment trusts, sale and leaseback vehicles and tax credit models), blend different subsidies, shifting from supply-side to income-related subsidies, foster payments in kind, mostly in the form of public land at below-market prices, and encourage solidarity-based cooperation among housing providers, including landowners[30,31].

[29] CECODHAS (2013), Rethinking Investment in Homes, Spring 2013.
[30] Joseph Rowntree Foundation (2013), Innovative Financing of Affordable Housing, March 2013.

An increasing role in public housing finance is played by private debt, with government-secured investment or state guarantees (see Figure 4.2). Research shows that private finance is also likely to grow in importance through the use of tenants' equity as they (part-)purchase their home, through public-private partnerships that implement regeneration and new investment programmes, and through private-equity involvement in the ownership of the existing stock[31].

**Figure 4.2: Financing social housing**




Source: CECODHAS (2014), Presentation, Madrid, 13 June 2014

"Localism in the government of housing" is another evident trend, with a general decentralisation of debt services, including foreign exchange, from central governments to local authorities. This "localism" allows for a more discretionary and flexible use of subsidies to provide more tailored solutions to local housing needs.

- **New focus on affordable rather than purely social housing**

Social housing generally implies complex financial schemes, involving public loans, local authority grants, subsidised lending from international organisations and other funding (see Figures 4.2 and 4.3). The financial crisis and its ramifications have led to a fundamental reassessment of social housing in many European countries as support from the public sector has become limited while the need has escalated. The general shift is to supply shallower subsidy and affordable rather than social housing in order to encourage new investment and maximise the number of units funded, given the shallower subsidy per unit[32]. In this sense, social housing addresses the affordability gap rather than merely providing a safety net.

[31] RICS Research (2014), Social Housing in Europe. Edited by Scanlon, K., Whitehead, C. and Fernandez Arrigoitia, M.
[32] Joseph Rowntree Foundation (2013), Innovative Financing of Affordable Housing, March 2013.

**Figure 4.3: Funding sources for social housing in general and in selected CEB member countries**

| | | PUBLIC | | | PRIVATE | | |
|---|---|---|---|---|---|---|---|
| | | Grants | Tax concessions | Loans | Grants | Commercial loans | Supported loans |
| Housing providers | | | | | | | |
| Tenants | | | | | | | |
| Government and governmental agencies | | ● | ● | ● | | | |
| Private sector | Financial Institutions | | | | | ● | ● |
| | Developers /land owners | | | | ● | | |
| | Employers | | | | ● | ● | |

Source: UN-HABITAT (2009), Financing Affordable Social housing in Europe.
Note: "Supported loans" refers to loans supported by central governments through the underwriting of such loans.

| | the Netherlands (average) | Germany (Bremen) | Finland (Helsinki) | France (average) |
|---|---|---|---|---|
| Own funds of housing provider | 20%-30% | 38% | - | 15% |
| Bank Loans | 70%-80% | 37% | 95% | 75% |
| - With interest rate subsidies | - | - | Yes | Yes, indirectly |
| - With guarantee | Yes, partly | - | Yes | - |
| Public loans | - | 25% | 5% | - |
| Public grants | - | - | - | 10% |

Source: CECODHAS (2013), Study on Financing of Social Housing in 6 European Countries, July 2013.

According to the CECODHAS research on six countries (2013), upfront, non-repayable public grants are less and less used to finance social and affordable housing. Loans at low interest rates through loans extended directly by public authorities or through interest rate subsidisation represent the most common way for public authorities to support social housing provision (see Figure 4.3), with the level of discount and subsidisation varying at the regional level.[33] Particular examples are the Netherlands, where housing associations have not received direct supply-side subsidies for almost twenty years, and Sweden, where housing makes a net contribution to the public budget[34].

Affordable housing policy is subject to innovations to stretch limited public subsidy and, at the same time, increase private contributions. Private sector involvement takes place through various financial mechanisms such as private loans, bond finance, government secured private investment or state guarantees and equity finance. Loans provided by development banks are also relied on to finance affordable and social housing projects.

[33] Austria, Finland, France, Germany, the Netherlands and the UK. Source: CECODHAS (2013), Study on Financing of Social Housing in 6 European Countries, July 2013.
[34] RICS Research (2014), Social Housing in Europe. Edited by Scanlon, K., Whitehead, C. and Fernandez Arrigoitia, M.

As a result of this restructuring and innovation, new actors such as private developers/land owners[35], private banks, private investment institutions and international development agencies are playing a part in social and affordable housing provision. In some cases, new structures, such as aggregator bonds and market intermediaries, are also solicited. Solidarity-based or collaborative structures on a local or specialist scale, such as community-based housing association clubs within a city-region, are also becoming effective structures in housing provision. Collaborative models, such as pooling and recycling surpluses and linked revolving funds (recycling original funds), operate alongside subsidy mechanisms[36]. Social housing, particularly in Germany and Eastern Europe, is thus increasingly moving out of public ownership and municipal involvement to (not-for-profit) housing associations with a social mission or even private landlords, with some exceptions such as France, where supply-side subsidies continue[34].

As access to private debt – either through borrowing from banks or directly from capital markets – is gaining importance, some providers are being rated by international rating agencies in order to facilitate their access to capital. Furthermore, various countries are implementing innovative ways of pooling risks[37].

[35] In Ireland and the Belgian region of Flanders, for example, to obtain a building permit, private developers agree to sell part of the dwellings to social housing providers at a discounted price upon project completion. Source: CECODHAS (2013), Study on Financing of Social Housing in 6 European Countries, July 2013.
[36] Joseph Rowntree Foundation (2013), Innovative Financing of Affordable Housing, March 2013.
[37] CECODHAS (2013), Study on Financing of Social Housing in 6 European Countries, July 2013.

# Concluding remarks

As a consequence of the crisis, housing is increasingly becoming unaffordable not only for the homeless or the very poor, but also for middle-income families, the working poor and people working on precarious contracts. Young populations, elderly people with low incomes living in old housing, migrants, ethnic minorities and refugees also have difficulties accessing decent housing at affordable prices. This housing unaffordability affects most European countries and is not limited to countries with emerging housing markets. More than one-tenth of Europeans and almost two-fifths of Europeans at risk of poverty spend at least 40% of their disposable income on rents, mortgages, maintenance and energy.

While housing needs have not only increased but also diversified, public funding and finance have become scarce. These changes are taking place in countries where (social) housing systems are already diverse, with different legislations and maturity levels. As a policy taker operating in a demand-driven context, the CEB follows these changes closely and analyses their operational implications as the Bank's social role grows increasingly important. The landscape is a challenging one as allocation mechanisms, quality standards, institutional capacities and housing markets differ from country to country and sometimes even across regions within the same country.

- **In the context of the renewed importance of the Bank's original mandate…**

CEB member countries are expected to witness larger population movements across and within their borders, as people continue to be in search of economic opportunities or flee conflicts. This churn in migrant population will create a new landscape of integration needs on the one hand, and a new impetus for the CEB to strengthen its historic role in addressing the socio-economic difficulties of migrants and refugees, on the other. These regional population movements, their implications across CEB member countries and the CEB's role in addressing migrant integration challenges, including access to decent and affordable housing, will be examined in detail in the upcoming technical study planned to be released in the Spring of 2016.

- **… the CEB will continue to provide financing for decent and affordable housing with a social purpose…**

The CEB's current eligibility criteria under the sector of action "housing for low-income persons" already encompass a broader concept than purely social housing, allowing for priority or vulnerable groups such as lower and middle-income persons to qualify for CEB financing in this sector (see Case Study 1, the "Overall Policy Framework for Loan and Project Financing" and the "Handbook for the preparation and monitoring of projects").

While maintaining its focus on bankable projects and taking into account recent developments in the sector, the CEB will be adapting its screening and eligibility criteria so that they are in line with housing needs and systems across member countries. While housing for low-income persons would remain a priority, the concept of affordable housing would become more explicit, with integrated project screening criteria further defined in terms of housing aspects such as regional shortages, quality and energy efficiency, affordability and a mix of social factors based on country conditions. The goal would be to enhance the Bank's relevance and social impact for the populations in need, which are increasing in number and profile.

- **… remaining focused on target countries.**

Housing needs in the CEB's target countries differ from those in the other CEB member states, with lower housing availability, higher homeownership rates and a striking contrast in terms of quality. These aspects are generally legacies of the past and of underinvestment. The CEB will continue its commitment to providing high social value in the target countries, where housing markets are still maturing and needs remain important.

The social housing systems in these countries are at different stages of maturity: while in NMS such systems were generally set-up in the late 1990s, in Georgia, for example, no social housing policy has yet been developed and in Serbia such a policy was established only in the 2000s. Quality – particularly environmental – standards are generally not well defined or adhered to, and the CEB's technical advisors make particular efforts when consulting on and monitoring projects in these countries. Regarding energy efficiency, while this component is integrated in all projects under the CEB's Environmental Policy, the Bank's awareness-raising of environmentally beneficial investments is of particular importance in the target countries. In the absence of satisfactory national regulations on social housing, the CEB has defined in-house eligibility criteria, qualifying relevant projects for its financing. To better address the diversity of housing systems and shortcomings in the CEB's target counties, there is a need to further examine these eligibility criteria and develop a more customised approach, with specific criteria related to, for example, sustainability, quality standards and energy efficiency. This will be all the more necessary in the countries with weak regulatory frameworks.

As the only development bank with an exclusively social vocation in Europe, the CEB will continue to contribute to the provision of decent and affordable housing for all, with a particular focus on its target countries; this it will do by diversifying its financial schemes and channels, and by following its cross-sector approach.

# Bibliography


BFW and UEPC (2007), Housing for Senior Citizens. A Future Task for the European Developers, 2007

CEB (2014), Ageing Populations in Europe: Challenges and Opportunities for the CEB, January 2014

CEB (2015), Addressing Environmental Challenges and their Social Implications in Europe, 2015

CECODHAS (2011), 2012 Housing Europe Review. The Nuts and Bolts of European Social Housing Systems

CECODHAS (2012), Research Briefing, Impact of the Crisis and Austerity Measures on the Social Housing Sector, Year 5 / Number 2, February 2012

CECODHAS (2013), Rethinking Investment in Homes, Spring 2013

CECODHAS (2013), Study on Financing of Social Housing in 6 European Countries, July 2013

CECODHAS (2014), Presentation, Madrid, 13 June 2014

Housing Europe [ex CECODHAS] (2015), The State of Housing in the Union – 2015 Report, May 2015

European Commission, DG Employment, Social Affairs and Inclusion (2012), Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe (VT/2010/001), June 2012

European Commission, DG Employment, Social Affairs and Inclusion (2012), The social impact of the economic crisis and on-going fiscal consolidation, Third report of the Social Protection Committee (2011)

European Commission, DG ENERGY (2014), Technical Guidance: Financing the energy renovation of buildings with Cohesion Policy funding, February 2014

European Commission (2014), The 2015 Ageing Report: Underlying Assumptions and Projection Methodologies, European Economy, 8/2014

European Environment Agency (EEA) (2007), Sustainable Consumption and Production in South Eastern Europe and Eastern Europe, Caucasus and Central Asia, October 2007

ENTRANZE, http://www.entranze.enerdata.eu/

European Environment Agency (EEA), http://www.eea.europa.eu/data-and-maps/figures/energy-efficiency-odex-by-country-2

European Parliament's Committee on Employment and Social Affairs, Directorate General for Internal Policies, Social Housing in the EU (2013)

EUROSTAT

Frazer, H. and Marlier, E., 2011 assessment of social inclusion policy developments in the EU – Synthesis report, EU Network of Independent Experts on Social Inclusion, 2011

Habitat for Humanity (2013), Housing Review 2013 on 23 Countries in the Europe and Central Asia Region

Joseph Rowntree Foundation (2013), Innovative Financing of Affordable Housing, March 2013

Malloy, M., Housing Policy and the Core Principles for Effective Banking Supervision

RICS Research (2014), Social Housing in Europe. Edited by Scanlon, K., Whitehead, C. and Fernandez Arrigoitia, M.

Rosenfeld, O. (2015), Social Housing in the UNECE Region: Models, Trends and Challenges, New York and Geneva: United Nations, Economic Commission for Europe (in press)

UNECE (2012), Committee on Housing and Land Management, Green Homes: Towards Energy-Efficient Housing in the UNECE Region, 2012

UN-HABITAT, Financing Affordable Social Housing in Europe, 2009

# APPENDIX 1:
# Criteria determining access to social housing in selected CEB member countries

| Country | Eligibility | Priority | + Right of pre-emption by public authorities (in case of non-public providers) |
|---|---|---|---|
| **Belgium** | Income ceilings and no housing property (combined with the household size) | Additional priority criteria based on urgency of needs | NA |
| **Bulgaria** | Low-income, no housing or other property, permanent residence in the municipality | Priority to special needs + tenants in restituted properties | NA |
| **Czech Republic** | Varying across different housing types/schemes | Usually priority to low-income people | NA |
| **Cyprus** | Displaced families and refugees + (new schemes) for low-income families, large families, disabled | NA | NA |
| **Denmark** | Registration on waiting list not absolutely restricted | Priority categories, based on local conditions | By municipalities |
| **Estonia** | People with low income and no means to solve their housing needs | Households most in need, such as elderly people or tenants of "restituted" homes, disabled persons. | NA |
| **Finland** | On the basis of social needs and urgency | | NA |
| **France** | Income ceilings | DALO established priority access for homeless people and others based on urgency of needs | By the Préfet |
| **Germany** | Income ceilings decided by each Lander. | Vulnerable households most in need | By municipalities |
| **Greece** | workers and employees + special programmes targeting vulnerable groups | NA | NA |
| **Hungary** | No central regulation, but usually income limits and no own housing property | No central regulations, but usually priority to families with children | NA |
| **Ireland** | Income ceilings | Social criteria determining vulnerability | NA |
| **Italy** | Income ceilings, occupational or residential link with the municipality, and nationality | Point system based on housing conditions and number of dependent children | By local authorities, the regions and the central government |
| **Latvia** | Low-income households | Priority to elderly | NA |
| **Lithuania** | vulnerable groups | NA | NA |
| **Luxembourg** | Income ceilings and no housing property | | |
| **Malta** | | | |
| **Netherlands** | Varying across regions and municipalities. Currently income ceilings apply [1] | Households on relatively lower incomes | By municipalities |
| **Poland** | Varying across municipalities, usually income brackets | Homeless, low-income families and families who were evicted | By municipalities, varying across different types of housing/schemes |
| **Portugal** | Varying according to the different programmes | NA | NA |
| **Romania** | Varying across municipalities, usually low-income households + (new schemes since 2009) young professionals and Roma families | Disadvantaged groups and tenants in restituted properties | NA |
| **Slovenia** | Income ceilings (low income but still able to afford rents) and poor housing conditions | Additional social criteria | NA |
| **Slovak Republic** | Varying across municipalities | Priority on the basis of need | NA |
| **Spain** | Income ceilings and no housing property. In addition, disabled people and dependent persons. | Other priority criteria are established by the Comunidades autonomas on the basis of local situation | NA |
| **Sweden** | Access to municipal housing is in principle open for all | NA | In case of serious shortage, the municipal housing company may organize a waiting list, sometimes covering dwellings provided by both private and public landlords |

Source: CECODHAS (2011), 2012 Housing Europe Review. The Nuts and Bolts of European Social Housing Systems.
Notes: (1) Following a recent ruling by the EC, the legal system on allocation of social housing in the Netherlands was changed in 2010. Before that, access was not absolutely restricted. (2) The lines on Austria and the UK were deleted from the original source.

# APPENDIX 2:
# The energy renovation of buildings under the EU's Multiannual Financial Framework 2014-2020 [38]

### ▪ Legislation

The EU has introduced several key pieces of legislation to help achieve its 20% energy efficiency target by 2020[39]. The following three Directives seek to focus resources on energy efficiency and renewable energy – terms used to designate sustainable energy – in buildings and to mobilise investment.

- The recast Energy Performance of Buildings Directive (EPBD) – sets out numerous requirements, including the roll-out of energy performance certification for buildings and inspection regimes for boilers and air conditioning plants. Under the EPBD, new public buildings are to be nearly zero-energy by 2019 and all new buildings by 2021. The EPBD also requires that EU member states set minimum energy performance requirements for new buildings and buildings undergoing renovation with a view to achieving cost-optimal levels.
- The new Energy Efficiency Directive (EED)[40] – contains a number of mandatory measures designed to deliver energy savings across all sectors and requires EU member states to establish a long-term strategy for mobilising investment in the renovation of residential and commercial buildings. The strategy must include an overview of the national building stock, identify cost-effective approaches to renovations, encompass policies and measures to stimulate cost-effective deep renovations of buildings and describe a forward-looking perspective to guide investment decisions.
- The Renewable Energy Directive (RED) – drives the deployment of renewable energy in buildings and their integration in local energy infrastructures.

### ▪ Funding

In the 2014-2020 programming period, the European Structural and Investment Funds (ESI Funds), specifically Cohesion Policy Funds[41], are expected to play a major role in the refurbishment and construction of buildings, with the allocation of a minimum of € 23 billion to sustainable energy – more than double than the amount assigned in the previous programming period. The scope of eligibility for investments in energy efficiency in buildings has been extended beyond the European Regional Development Fund to encourage investments from the Cohesion Fund (where the housing sector was previously excluded) and the European Social Fund (supporting the up-skilling of the labour force for green jobs)[42]. These funds are governed by the Common Provisions Regulation (CPR) and by fund-specific regulations.

---

[38] The Appendix comprises extracts and figures from European Commission, DG ENERGY (2014), Technical Guidance: Financing the energy renovation of buildings with Cohesion Policy funding, February 2014.

[39] In 2007, the EU member states committed themselves to achieving the following targets by 2020: (1) 20% reduction of GHG emissions compared with 1990 levels; (2) 20% share of renewables in EU energy consumption; and (3) 20% reduction in energy consumption by improving energy efficiency.

[40] Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/E.

[41] Cohesion Policy Funds comprise the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). The European Structural and Investment Funds (ESI Funds) refer to the three Cohesion Policy Funds, the European Agricultural and Development Fund (EARDF) and the European Maritime and Fisheries Fund (EMFF).

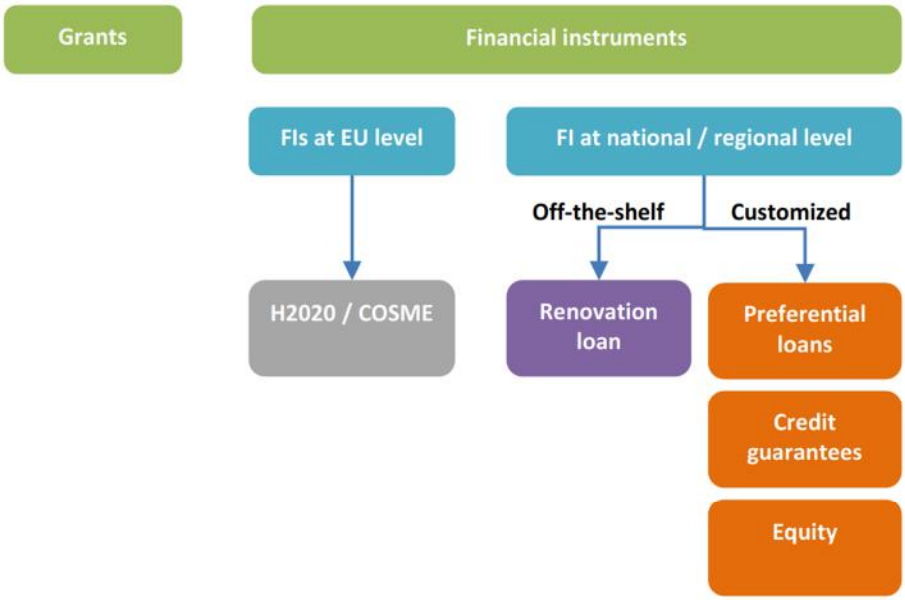
[42] Source: CECODHAS (2014), Presentation, Madrid, 13 June 2014.

Under the European Regional Development Fund (ERDF), a minimum share of funding will need to be allocated by EU member states to supporting the shift towards a low-carbon economy (Thematic Objective 4), including energy efficiency, renewable energies, smart distribution systems and sustainable urban mobility: 20% in the case of more developed regions, 15% for transition regions and 12% for less developed regions[43].

- **Financing mechanisms**

Financial instruments (equity or quasi-equity investments, loans or guarantees or other risk-sharing instruments) are intended to be widely used as an innovative delivery mode for Cohesion Policy Funds at national and/or regional level. Grants are expected to be used primarily to address market failures or to support innovative technologies and investments that go beyond minimum legal requirements for energy performance so that reductions in energy usage and greenhouse gas emissions are greater than the savings achieved through "business-as-usual". Financial instruments can be combined with grants, where appropriate, to achieve optimal results and outcomes. To benefit from ESI funds via financial instruments, managing authorities need to carry out an ex-ante assessment.

**Figure 1: Financial mechanisms for sustainable energy financing**

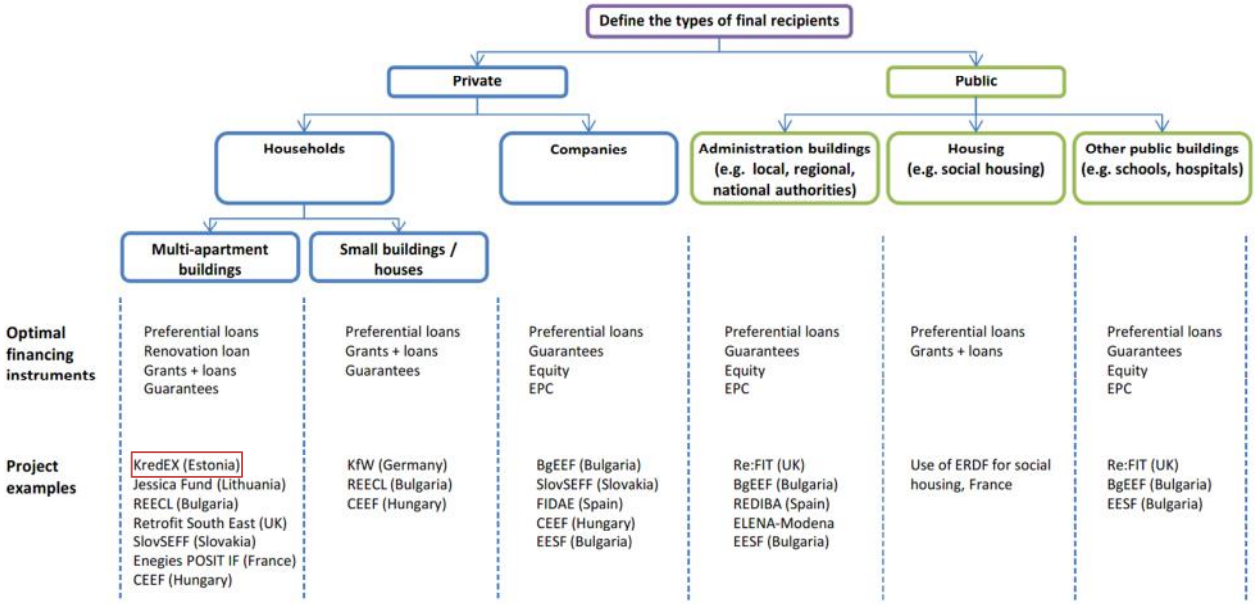



Note: The renovation loan or the loan for energy efficiency and renewable energies in the residential building sector is an off-the-shelf financial instrument developed by the EC to provide loans to building owners/private owners, with a particular focus on multi-apartment residential buildings and social housing, at preferential rates to support sustainable energy measures.

[43] "Cohesion Fund resources can be used by less developed regions to achieve the minimum fund allocation to Thematic Objective 4, in which case the minimum percentage of funding directed to this objective shall increase to 15% for these regions."

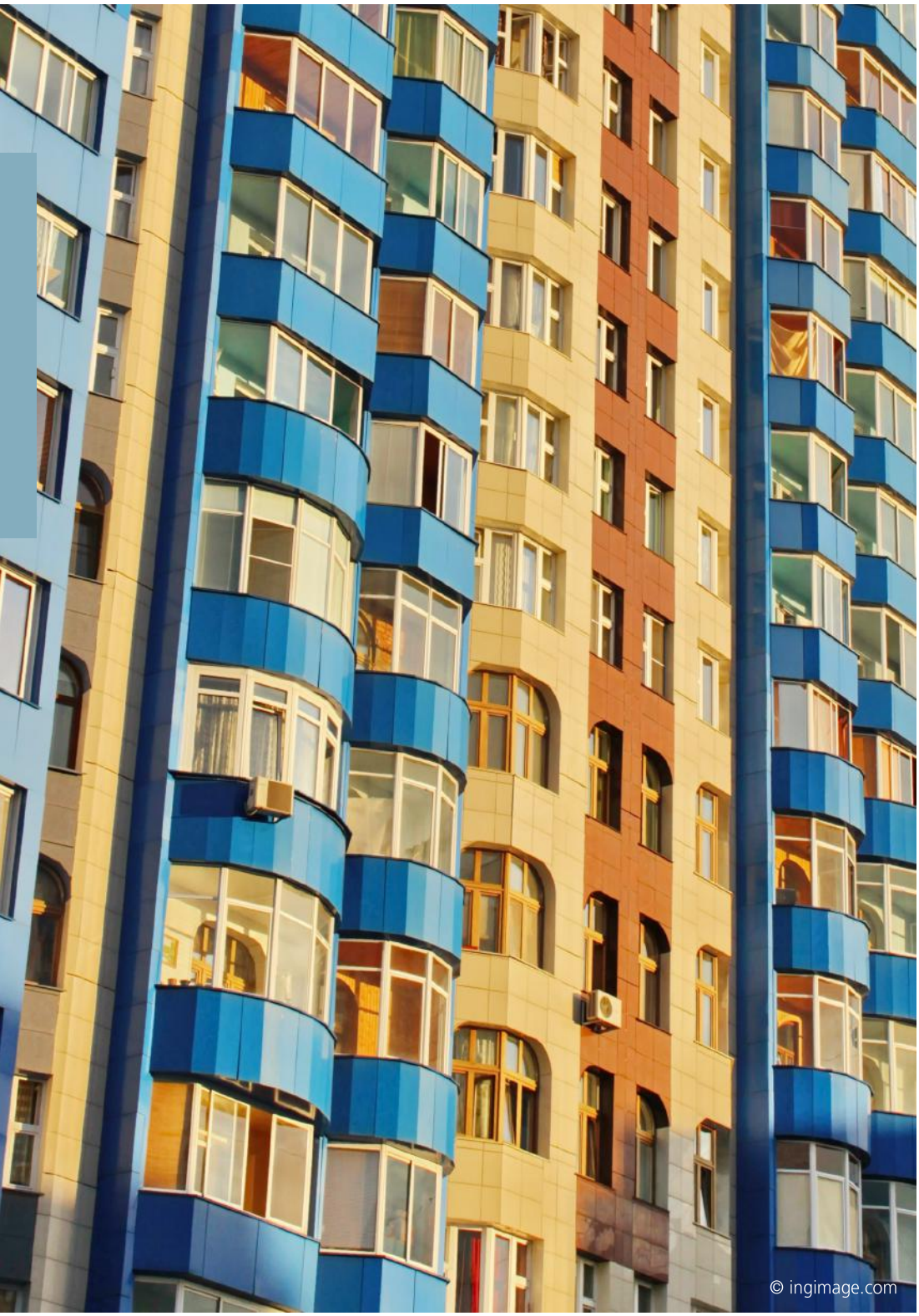
The following diagram illustrates where these financial mechanisms can be deployed to ensure efficient use of Cohesion Policy funding and optimal project and programme outcomes:

**Figure 2: Financing options available to managing authorities depending on the final recipient**




Note: An EPC or Energy Performance Contract is an arrangement in which a contracting partner, for example, an Energy Service Company (ESCO), enters into an integrated contract with the end-user and the financing institution to design and implement energy conservation measures with a guaranteed level of energy performance for the duration of the contract. The stream of income from energy savings yielded from the measures is used to repay the upfront investment costs, and payment is based on the achievement of energy efficiency improvements and on meeting other agreed performance criteria.

## Notes




CEB
COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

55, avenue Kléber
F-75116 PARIS, France
Tel: +33 (0)1 47 55 55 00
Fax: +33 (0)1 47 55 03 38
SWIFT: CEFPFRPP

www.coebank.org