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

TECHNICAL BRIEF

SOCIAL AND AFFORDABLE HOUSING PROVIDED BY NON-PROFIT PRIVATE ORGANISATIONS IN EUROPE



September 2019

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), which 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 technical brief was prepared by Samir Kulenovic (Technical Advisor) and Kristina Maslauskaite (CEB Economist). The work was supervised by Monica Brezzi (Director, Technical Assessment & Monitoring Directorate) and reviewed by Yael Duthilleul (Technical Advisor). Rayan Chebbi-Giovanetti (Trainee, Technical Assessment & Monitoring Directorate) contributed to the data analysis and the preparation of this note. Comments from the Loans & Social Development Directorate, the Office of Evaluation and the European Cooperation & Strategy Directorate are kindly acknowledged. We are grateful to Jozsef Hegedüs (Managing Director of the Metropolitan Research Institute in Budapest), Michelle Norris (Professor of social policy at University College Dublin) and Jean-Pierre Schaefer (Housing expert) for their inputs. We also thank all participants of the 4th meeting of the Ad Hoc Working Group in support of countries with housing systems in transition that took place on 16 April 2019 in Tallinn, Estonia.

Cover © Wavebreakmedia

Table of Contents

Executive Summary **1**

1. Introduction 2

2. Social and affordable housing in Europe **3**

2.1 The current crisis of housing affordability 3
2.2 Main features of the social and affordable housing sector 5

3. Selected models of non-profit private sector involvement **7**

3.1 Housing Associations 7
3.2 Cooperatives 9
3.3 Social Rental Agencies 11
3.4 Semi-public companies 12

4. Conclusion **14**

References **16**

Executive summary

Europe is facing a housing affordability crisis, which is aggravating the urban paradox of social inequalities within the most flourishing European agglomerations. The urban housing crunch is continent-wide, but the Eastern European countries are even more challenged as they tend to have more limited means with which to respond to the emerging housing needs.

This technical brief provides an overview of the role of not-for-profit private sector in the provision of social and affordable rental housing in different European countries. It argues that, with already a long history in Europe, not-for-profit private actors could be a part of the fully-fledged solution to provide adequate housing to various social groups in their housing needs.

The technical brief discusses four distinctive models of private non-profit sector participation in the provision of social and affordable rental housing that could inform Eastern European countries wishing to support the development of new organisations to supply social and affordable rental housing.

- Housing associations are private non-profit organisations with a public task to provide decent and affordable housing to variety of social groups. They give priority to low income and the most vulnerable households. In the medium to long term, housing associations can become financially self-sufficient, although initial government subsidies to accumulate sufficient capital are necessary, as are state guarantees.
- Housing cooperatives form an advanced system of shared ownership with tenure achieved through membership and the purchase of cooperative shares. In the context of social and affordable housing, cooperative solutions offer many advantages, especially with regards to long-term affordability and better social integration. However, the state needs to play an active role to ensure better access to more vulnerable groups which may not be able to afford cooperative housing by themselves, notably by facilitating land acquisition, granting subsidies and adopting affirmative regulatory measures.
- Social Rental Agencies act as intermediaries between owners and tenants by reducing the risks for the former and increasing access for the latter. This model facilitates the involvement of private landlords, helps formalise the shadow economy and is easy to scale up. The model can be very effective in addressing the affordability challenges of (lower) middle classes, but significant public support in terms of generous housing allowances is needed to facilitate access by the most vulnerable groups.
- Semi-public (SEMs) companies constitute a public and private partnership between municipalities and private entities. They are largely controlled by local authorities, but are designed to attract limited capital from private investors who can also bring their management practices and innovative ideas to the sector. Significant involvement of local authorities and sufficient public financing is needed for SEMs to function well.

Whichever model is chosen, the role of local and central governments remains key to ensuring the adequate provision of social and affordable housing, especially for the most vulnerable households. In particular, governments must ensure that an efficient legal and regulatory framework is in place and provide sufficient financial incentives, such as tax breaks, to help private actors set up and scale up their solutions. Close cooperation between public and private institutions could ensure a home for every family in Europe.

1. Introduction

Access to housing, or the lack thereof, has become a pressing issue in Europe today. Populations continue to gravitate to bigger cities in search of better economic opportunities and, with housing in limited supply, prices are rising, hindering access to adequate accommodation. It is the most vulnerable social groups, such as people with precarious employment, low or no education, or weak social ties who are the worst affected, thus aggravating the urban paradox of social inequalities within the most flourishing European agglomerations. In addition, increasing numbers of lower middle classes, young people with unstable job contracts and the working poor get priced out of the housing market and are forced to live in substandard, overcrowded or sometimes even dangerous conditions. Significant spikes in housing prices coupled with increasing interpersonal and interregional inequalities go against the European values of solidarity and social justice.

These trends are observed across the European continent, within and outside of the European Union, but have even more profound consequences in the Eastern European countries[1] because of the specific features related to their housing market. On the one hand, public provision of social and affordable housing and government support in the form of housing allowances remain very limited in these countries when compared to housing policies in the Western European states. The social housing units that are available typically suffer from severe underinvestment and are of very poor quality. The lack of policy support has limited the development of organisations with the ability to help public sector deliver housing solutions. In order to fully respond to the emerging needs, the public stock of housing would have to be increased dramatically, notwithstanding the financial constraints of national and local governments in terms of housing investments. On the other hand, the volume of the rental housing market at any price point in Eastern Europe remains very low for historical reasons, making it difficult for large proportions of populations – even those with stable income, but who cannot (yet) afford to buy – to access acceptable accommodation. This is not only penalising for the young generation with limited savings and collateral, but is also an obstacle to economic mobility within countries.

Public provision of social and affordable housing is not always the best solution as, among other reasons, public spending can be sensitive to economic cycles and get cut at downturns when social housing investments are needed the most. In the current context of strained public budgets and ever-increasing housing needs, the role of non-state actors is key for complementing governmental policies, ensuring efficient operations and, when possible, financial self-sufficiency. Private actors that provide social and affordable rental housing can take different legal forms, but they generally act as non-profits with a strong social mission, carried out in collaboration with the public sector. The examples presented in this technical brief include projects supported by the Council of Europe Development Bank (CEB) in its long tradition of social housing investment (Box 1), and cases discussed at the meeting of the Housing Europe Working Group "Supporting countries with housing systems in transition", which took place in Tallinn on 16 April 2019[2]. The models presented can provide ideas for Eastern European countries with housing systems in transition wishing to support the development of non-profit private organisations to help respond to the increasing demands for social and affordable housing.

The brief is structured as follows: Section 2 presents the context of the housing affordability crisis in Europe in general, and in the Eastern European countries in particular, and argues that private not-for-profit sector involvement in the provision of affordable housing could be part of the solution. Section 3 discusses four models of non-profit private sector involvement and their relevance for the Eastern European countries. Finally, Section 4 provides a number of concluding remarks.

[1] In this technical brief, Eastern European countries are defined as post-communist European states that are members of the Council of Europe Development Bank (all of them are CEB target group countries).
[2] More information on the Group can be accessed at: http://www.housingeurope.eu/event-1111/ad-hoc-working-group-in-support-of-countries-with-housing-systems-in-transition

Box 1: The CEB and Social Housing

The CEB loans often finance sustainable and affordable housing for vulnerable populations (low-income families, displaced persons, migrants and refugees, persons with disabilities or other groups, as defined by national authorities) that have difficulty accessing housing or can only do so under extreme hardship. For the CEB, the financing of housing is one of its priority areas of operation across its member countries.

The CEB was created in 1956 and that same year it provided financing for its first housing project aimed at promoting home ownership for refugees in Greece. Since then, the CEB has provided loan financing worth €47.7 billion for a wide array of social projects, 20% of which has gone to social and affordable housing. During the period 2010 to 2017, the Bank financed 13 projects with an objective to supply adequate housing to 30 000 families in its target group countries* for a total of €700 million.

The CEB is also involved in financing housing for the most vulnerable beneficiaries through grant operations. Since 2013, the CEB has been managing the Regional Housing Programme, financed by the European Union and the international donor community, which has to date provided homes for close to 15 000 refugees and internally displaced persons in Bosnia and Herzegovina, Croatia, Montenegro and Serbia. In addition to this, through the Migrant and Refugee Fund established in October 2015, the CEB supports its member states in accommodating migrants and refugees who arrive on their territories.

*As a sign of solidarity among CEB member states, the Bank aims to provide increased support to a group of 22 "target group countries" in Central, Eastern and South-Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Malta, Moldova (Republic of), Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic, Slovenia, and Turkey.

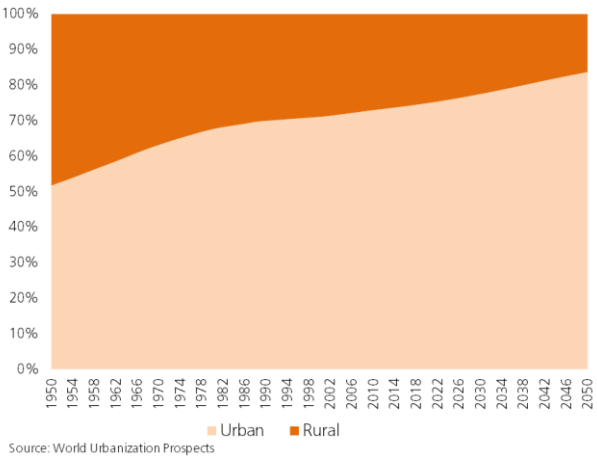
2. Social and affordable housing in Europe

2.1 The current crisis of housing affordability

The crisis of housing affordability is a result of several concurring trends, including increasing income inequalities, less stable job contracts, atomisation of households, flourishing business of short term rentals to tourists, low rates of new constructions and, most importantly, migration towards big cities. Europe has been urbanising at a rapid pace: over 70% of Europeans live in cities today and more will join them in the coming decades (Figure 1). Metropolitan areas with more than one million inhabitants are the engines of economic activity, accounting for 39% of the EU population, 41% of jobs and 47% of wealth in terms of GDP (Eurostat 2016). Because of unequal territorial development, increasing numbers of workers are attracted to large cities in search of better economic opportunities.

The relative economic weight of these – usually capital – cities is particularly high in the Eastern European countries. For example in Bulgaria, the region of Sofia houses only 23% of the country's population, but accounts for 43% of the national GDP (Eurostat, 2016), and in all Eastern EU member states with the exception of Slovenia, employment rates in cities are higher than those in rural areas. The most significant population moves towards capital areas in Europe have been recorded in Estonia, Latvia, Lithuania, Bulgaria and Hungary in recent years. The lack of affordable housing makes it difficult to balance regional development inside Europe and inside the individual countries.

Figure 1. Share of urban and rural population in Europe, 1950-2050 (% of total population)



Rapid urbanisation in general, and concentrated urbanisation in a limited number of big cities in particular, has resulted in an urban paradox: the cohabitation of the richest and the poorest segments of national populations in a very close proximity. Social and economic polarisation within cities is typically higher than that observed at national level, and access to decent housing has become the main expression of these growing inequalities. In 21 EU capitals, only up to one third of inhabitants find it easy to obtain good housing at a reasonable price (European Commission 2015). Housing is more affordable in the less economically developed regions with scarce economic opportunities and lower living standards.

Indeed, housing prices, both sale and rental, have been on the rise in many European countries, particularly in large metropolitan areas. The house price index[3], which captures transaction prices for residential properties, has been growing every year since 2013, with, on average, more pronounced growth in Eastern European countries than in EU15 (Figure 2). Rental prices have also been following an upward trend: for example, in just one year (2017 to 2018), average rents for flats and houses rose respectively by 12% and 14% in Prague, 9% and 14% in Vilnius, 7% and 15% in Belgrade and 9% for both in Ankara (Eurostat 2018). In some Eastern European countries, poor households have experienced significant spikes in housing costs, ranging from over 25% in Lithuania and the Czech Republic to 66% in Bulgaria (Figure 3).

Figure 2. House Price Index, 2009-2018

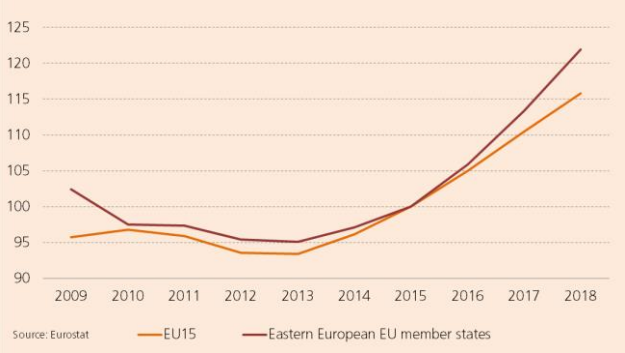
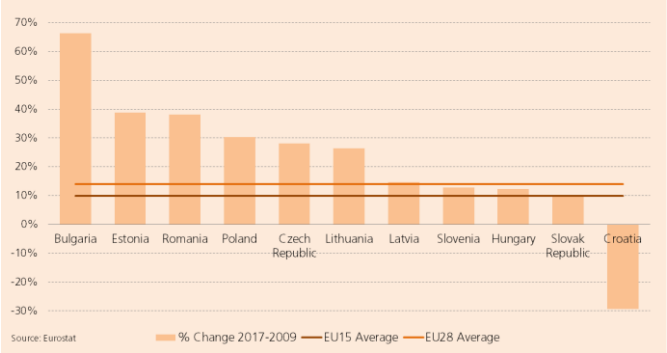


Figure 3. Variation in housing costs for poor households (change 2009 to 2017)



It may be argued that the significant income growth of the past two decades in Eastern Europe may have compensated for increasing housing prices. However, widening income inequalities due to wealth concentration among a few and typically weak redistribution systems have resulted in a real housing affordability crisis. While overburdened households (where housing expenses amount to more than 40% of total household revenue) represent approximately 10% of all households in Europe (2017), the proportion is much higher in a number of Eastern European countries such as Serbia (33.6%), Bulgaria (19%) or Romania (12.5%) (Eurostat 2018).

[3] The house price index captures price changes for all residential properties purchased by households (flats, detached houses, terraced houses, etc.), both new and existing, independently of their final use and their previous owners. Only market prices are considered, self-build dwellings are therefore excluded.

In addition, while in Western Europe housing affordability presents a major challenge for more vulnerable and empoverished social groups such as people with limited or no education, single parents, or recent immigrants, in Eastern Europe (and in many CEB target group countries) it is the "new housing poor", consisting of the (lower) middle classes, that can no longer access adequate accommodation. Hegedüs et al. (2017) estimate that in Eastern European countries housing affordability is a pressing issue for 40% to 60% of all populations, with the poorest half of this group having no chance at all to access standard housing. The problem is particularly acute for the young people. In the EU, 27% of young people live in overcrowded homes, but the proportion is over 50% in Hungary, Croatia, Poland, Latvia and Slovak Republic, and over 60% in Romania and Bulgaria (Eurostat 2018). These numbers point to the real extent of unmet housing needs that are not reflected in the statistics of housing affordability (such as the aforementioned cost overburden rates) or actual homelessness.

Finally, housing quality is another pressing issue that affects both living conditions and social cohesion in European cities. While only 6% of Europeans live in severe housing deprivation – overcrowded homes with either leaking roofs, no sanitation, or insufficient light –, the situation is much worse in the Eastern European countries. For example, 18% of Bulgarians, 19% of Latvians, 21% of Hungarians and 24% of Romanians live in inadequate houses. In addition, a large part of the housing stock in these countries, – sometimes over 50% – was built during the Soviet period and suffers from poor energy performance, which is a pressing issue especially during harsh winter months. The average dwelling size is also lowest in Eastern Europe, with an average of less than 60 m² per dwelling, whereas, for example, it reaches more than 100 m² in Belgium and Portugal.

2.2 Main features of the social and affordable housing sector

Following the industrialisation and urbanisation of European societies in the 19th and early 20th centuries, housing shortages were typically met by private actors, notably philanthropic organisations or employers who sometimes built entire districts to house their workers. In the interwar period, and especially after the baby-boom following World War II, many governments adopted social housing policies and, to varying degrees, embarked on building publicly-owned dwellings to rent to low-income and vulnerable groups at subsidised rates.

Social rental housing is meant for individuals living on low, sporadic incomes and who are on the brink of homelessness. In Europe, these people are typically eligible for welfare support to meet their basic living costs. Today, the landscape of social rental housing in Western Europe is very diverse, and its share in the total housing stock varies from over 34% in the Netherlands to less than 5% in Germany and Norway (OECD).

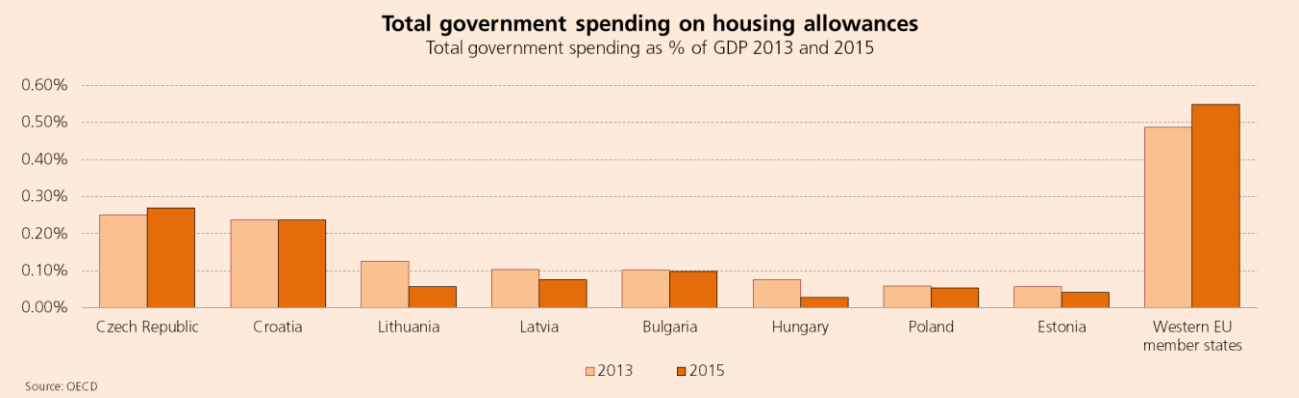
The proportion of social renting in Eastern Europe is very low: for example, 0.5% in the Czech Republic and 0.2% in Latvia. During the period of privatisation, municipalities kept the housing units that were in the worst condition, thus difficult to sell off, and rented them out to the most vulnerable households. Because of the lack of political incentives and insufficient funding in the past decades, the condition of these dwellings has generally not improved or has even deteriorated. The provision of social rental housing has become a financial and organisational burden to many municipalities, which have neither the incentives nor the capacity to expand the sector in order to meet the growing demand (Hegedüs et al. 2017).

The responsibility over social renting is also very diverse across Europe. While social rental housing in Eastern Europe is mostly provided by the public sector at regional or municipal level, in some Western countries, such as France, Germany, the Netherlands and Norway, private non-profit and for-profit actors also play a major (or indeed the main) role.

In general, the social rental sector is not financially sustainable on the market, as social rents are insufficient to cover all the costs and risks inherent in housing provision, especially for vulnerable groups with income uncertainty. Housing allowances to vulnerable households are key to bridge this gap, but they remain much lower in Eastern European countries than in Western Europe (Figure 4). While many

Western European countries with well-developed social rental housing systems have benefited from significant public support in terms of financing, land acquisition or fiscal measures over the past decades, others need to find effective and resource-efficient solutions to address the need for adequate housing in their cities. In the Eastern European countries, solutions need to be adapted to the local context, for example by introducing measures to formalise the significant shadow economy where the majority of house rentals are undeclared, leaving tenants with very weak rights.

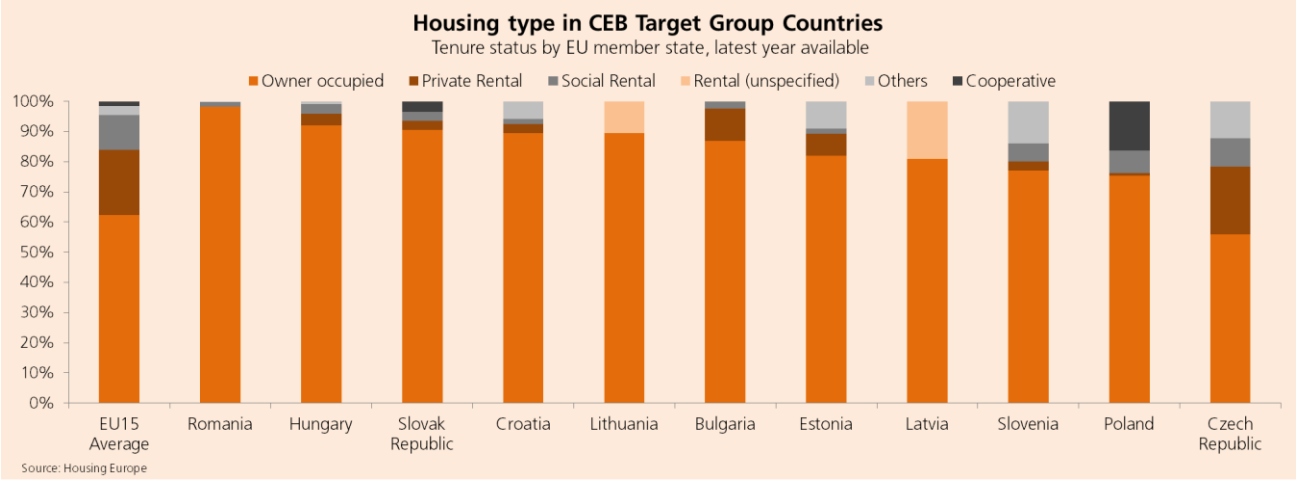
Figure 4. Total government spending on housing allowances



The concept of affordable housing has emerged more recently as a policy response to exposing real estate prices in many European agglomerations leaving numerous working families no longer able to afford acceptable quality housing in relative proximity to their jobs. With rents set at a discount of the market rent, affordable housing is typically proposed to a broader range of households than social rental housing. Affordable rental housing is more difficult to measure and to compare across countries as there is no exact definition and data.

The lack of affordable rental housing in Eastern Europe is exacerbated by the very limited total rental sector, which is a pressing issue for young families who cannot obtain a mortgage due to financial reasons, lack of savings or because of their unstable employment contracts. In the mid-20th century, in many of the Eastern European countries, socialist authorities embarked on large infrastructure projects, building entire districts, and sometimes even towns, to house workers who would register on a waiting list to obtain occupancy or property rights for their dwellings at very low prices. After the fall of communism, transformation from housing occupancy to ownership was achieved through massive privatisation schemes that resulted in very high home ownership rates in the region. Today, in the EU15 just over 60% of the population own their home, but the rate approaches or surpasses 90% in many Eastern European countries with a caveat that young adults cohabiting with their parents are also counted as "homeowners" (Figure 4).

Figure 5. Housing types in EU member states



The shortage of rental accommodation in general impedes residential mobility and labour market flexibility. While over 20% of European city dwellers have moved house within five years (2010-2015), only 5% of Romanians and Bulgarians have done so (European Commission 2016). In addition, the absence of a thick rental market may also increase homelessness or deteriorate living conditions, especially as homeownership is a limited option for the low and middle classes. Indeed, homeownership has been decreasing in many countries, especially for the relatively poor (below 60% of median income): -14% in Slovenia, -9% in Lithuania, -8% in the Czech Republic, -5% in Hungary and -53% in Ireland, -13% in Germany and -7% in France (between 2010 and 2017; Eurostat 2018).

3. Selected models of non-profit private sector involvement

In Europe alone, there are many different models of private non-profit sector involvement in providing social and affordable rental housing to people struggling with the crisis of housing affordability. Based on the CEB's experience in the field and discussions with European housing experts, the following section presents four models that could provide effective solutions, especially in the most affected Eastern European countries. Three of these models – housing associations, cooperatives and semi-private companies – have a long history in Europe whereas one model, the social rental agencies, provides an innovative approach.

3.1 Housing Associations

In several European countries, social and affordable housing rental services are provided by non-profit private housing associations with a public benefit purpose. Contemporary housing associations originated in the UK and the Netherlands and date back to the 19th century when they emerged as private initiatives. The Dutch example provides an interesting case study as the housing associations have grown significantly during the past decades to become the main partners of the state to meet the housing needs of more vulnerable groups.

In the Netherlands, where housing and urbanisation policies became a government priority during the last century, housing associations came under municipal control as "implementing bodies of the central government" (Hoekstra 2017). Housing associations managed massive public investments in the sector: between 1950 and 1990, the social rental sector increased from 10% to over 40% (Haffner et al. 2009). In their quest for more decentralisation, deregulation and better financial sustainability, housing associations regained their independence following the global economic recession of 1980s. Today, over 300 Dutch housing associations own and manage 32% of the total housing stock and some 72% of the rental stock in the country. They typically rent apartments at different prices to different social groups, but are under legal obligation to give priority to households with lower incomes.
The main advantages of the housing associations model are the following:

- Housing associations can achieve financial sustainability, usually by cross-subsidising: most of the stock is rented to vulnerable tenants selected by public authorities, but a part of the stock is commercialised and rented at market rents (around 20% of the stock in the Netherlands). Dutch housing associations also sell off some of their properties on the market to raise additional funds for further investment projects. All profit earned is reinvested back into the housing stock and services.
- Besides financial benefits, such a system contributes to a better diversity within social housing as it "creates mixed tenure and mixed-income communities" (Aalbers et al. 2017). As such, housing associations can serve all social and affordable housing segments.
- Housing associations do not depend on public spending for their investment projects as they raise capital at favourable interest rates from the public banks using a double guarantee mechanism: in the Netherlands, housing associations pay into a mutual guarantee fund that acts as a first safeguard for unexpected losses and, in the case of a systemic shock, the state acts as a guarantor of last resort. An independent public body, the Central Fund for Housing,

financed through a membership fee paid by all housing associations, supervises the financial affairs and provides assistance when financial restructuring is needed (Box 2).

- The debt of housing associations is off the government's balance sheet, which makes it easier for housing associations to borrow for new constructions.
- As housing associations grow at regional and even national level, competition and economies of scale drive the costs of housing investments and operation down.
- In the context of the Eastern European countries with housing systems in transition, private management of housing associations can help reap efficiency gains.
- Housing associations may also provide some specialised social services in an efficient and personalised way due to their proximity to the clients.

Box 2: Support to housing associations in the Netherlands

The CEB provided a €300 million loan to the Dutch public bank, BNG Bank, for public investments to improve living conditions for the inhabitants of urban and rural areas across the country. The CEB funds were used to build new social, affordable and student rental housing and ensured a good social mix within the buildings. The funds were on-lent to housing associations with the objective of supplying high quality affordable and energy-efficient social housing units in a short space of time.

Typically, the implementation of social and affordable housing project at the CEB can take up to 10 years in the least optimistic cases. BNG Bank implemented the project in 2 years, which indicated that the sub-projects were very mature and well prepared. It also further demonstrated BNG Bank's and housing associations' capacity to implement housing projects efficiently. This is a direct consequence of their financial solidity and organisational independence, which enable them to attract different types of funds for housing investments for social purposes. The cooperation between the BNG Bank and housing associations enabled the construction of excellent quality housing with effective energy-efficiency measures in both renovated and newly-built buildings.

The loan guarantee, based on a well-developed mutualised guarantee system, was of prime importance for this project. In effect, the existence of this type of guarantee secures the loan and encourages housing associations to provide sustainable social housing investments. The guarantee is reinforced by a comprehensive governance structure, in which the supervisory authority has oversight of the housing associations and of the guarantee system, which is supported by the local authorities and central government. The public authorities therefore support the operations of housing associations while not financing them directly, which leads to a sustainable model of social housing provision.

The role of the government remains critical to the functioning of the social housing system in the presence of private housing associations. First of all, public authorities must create adequate incentives to ensure the financial sustainability of housing associations. In the Netherlands, local governments often provide land at reduced prices to housing associations for new constructions. Generous means-based housing allowances are also available for vulnerable groups to help cover rents. In addition, the vast majority of all Dutch rental housing is subject to rent price regulation (around 95% of all rental stock) (Heffner et al. 2009). Finally, even though Dutch housing associations no longer receive direct public subsidies for their investment projects, they benefit from high levels of accumulated capital which was paid by the government in the past. This makes it easier to access cheap capital, create mutual guarantees and benefit from economies of scale. In particular, state or municipal support is

crucial for the set-up and scale up stages of housing associations, which can later become (more) financially independent.

Furthermore, the government needs to ensure efficient supervision and regulation of the housing associations. Before the global financial crisis of 2008, housing associations in the Netherlands were poorly regulated, which in some cases resulted in significant "financialisation" of their assets and a build-up of an extensive financial derivative portfolio. After the sub-prime crisis broke, the survival of the whole cross-guaranteed social rental housing system was threatened and, as a result, the biggest housing association had to be bailed out by the government (Aalbers et al. 2017).

Finally, it is also important that housing associations separate their social activities from their profit-making commercial activities and ensure fair competition. The European Commission has raised a concern that some Dutch housing associations engage in unfair competition by using state support to offer low rents to higher-income households that could otherwise be served by for-profit housing providers. Policy makers must therefore find an acceptable balance in order to help housing associations sustain their financial equilibrium and ensure level playing field for all housing providers.

3.2 Cooperatives

In many European countries, cooperative housing dates back to the 19th and early 20th centuries as an alternative to buying a home. In most cases, cooperative housing is not strictly rental as are the other models discussed in this brief. Instead of owning or renting a property, cooperative members buy shares – sometimes contributing through sweat equity – giving them the right to security of tenure through a perpetual lease. Today approximately 10% of all Europeans live in housing cooperatives (CECODHAS Housing Europe 2012). Cooperative members form governing bodies to manage the property and pay monthly fees for utilities, maintenance and other bills. Members often have the benefit of significant shared spaces and make a commitment to contribute their time to the wellbeing of the cooperative community. There are three main types of cooperatives: rental, market-equity whereby shareholders can sell their shares at the prevailing market price, and limited equity where shares are sold at a controlled price.

Germany is an example of a country where cooperative housing has deep traditions dating back to the 19th century. All German cooperatives are non-profit organisations, either very large in scale or small community-based operations. In total, 5 million people in Germany live in cooperative housing, comprising 10% of the total housing stock (Reynolds 2018). Some housing co-operatives have developed wider social services such as kindergartens, services for the elderly and collaborative exchanges between cooperative members (childcare, knowledge transfer, etc.). Housing cooperatives are mostly financed through member contributions and mortgages, with some public support in the form of corporate tax relief and low-interest loans, provided mostly by state-owned development and promotional banks. Some large housing cooperatives have evolved into savings institutions, which gives them more financial independence (see Box 4 for an example).

The main advantages of housing cooperatives are the following:

- As the resale price is typically restricted, cooperative housing is much less prone to suffering from housing market boom and bust cycles. Limited equity cooperatives preserve affordability for low- and moderate-income households in the long term, regardless of real estate market developments.
- Since all cooperative members are often directly involved in the maintenance – and because of the sense of ownership – the buildings and surrounding environment tend to remain in a better condition and of better quality than other types of rentals in the social and affordable housing sector.

- Housing cooperatives contribute to the social integration of their residents. In particular, they provide an integrated setting where diverse social groups live together and have a chance to meet up and cooperate in shared mixed-function living areas.
- Many cooperatives invest in abandoned or worn-out public building stock, thus contributing to urban rehabilitation and renovation.
- The housing cooperative model opens up access to ownership for otherwise financially underserved groups (Reynolds 2018). In the limited ownership cooperative models, inhabitants can, at least to some extent, accumulate savings and reap capital gains from their apartments.

Box 3: An example of a German cooperative: Spar- und Bauverein Dortmund

In Germany, some 50 (out of 1 800) housing cooperatives own their savings institutions (typically, housing cooperatives and savings institutions are separate entities because of the very rigid regulations related to merging the two entities). Housing cooperative members place their individual savings in their savings institution as middle and long-term investments with an interest rate that is marginally higher than that offered by commercial banks. The members get back the interest earned at the end of their investment contracts. This arrangement provides working capital for the housing co-operative that can be used for building, modernising and maintaining the housing stock. These housing co-operatives tend to be successful and financially sound. All professional banking rules apply to such cooperatives and they are run by professional bankers with housing management knowledge. The average amount of savings in these institutions is approximately €5 000 per client.

Established in 1893, Spar- und Bauverein Dortmund is a cooperative with a savings institution that has 20 000 members, 120 staff and owns 11 700 dwellings. There are more members in the cooperative than housing units because some members use only the banking services. The basic idea is to save money first and build dwellings afterwards. The cooperative builds houses exclusively for rental below the market price; sale is not possible. Only cooperative members can use banking and housing services after purchasing cooperative shares worth €1 300. The volume of savings is over €93 million annually. With annual income from social rental of around €50 million, the cooperative can make significant investments in construction, modernisation, maintenance and repairs, with particular emphasis on energy efficiency. The savings institution allows the cooperative to be independent from commercial banks by using members' savings to add or replace capital for new constructions, housing renovations and maintenance.

However, housing cooperatives mostly function as providers of affordable housing and serve moderate- and middle-income residents because significant personal savings are still needed for the initial investment. Government support in terms of low-interest loans, subsidies and housing allowances (needed for monthly loan repayments) is crucial to facilitating access by lower-income households. In some cases, existing residents of housing cooperatives select future residents based on their own selection criteria. Therefore, to ensure social diversity, minimum quotas for the most vulnerable groups could be required by the government.

In the Eastern European countries, establishing and scaling up the cooperative model may require a change in public perception. Cooperatives are still often perceived as relicts of the socialist era when they were centralised and used to diffuse a "socialist way of life" (Coudroy de Lille 2015). At the time, cooperative housing consisted of low-quality concrete structures outside city centres, often distributed to families in non-transparent ways. However, in many countries, cooperatives are becoming an attractive idea again, especially among the younger generations who did not experience the former system and who consider cooperatives as a solution for secured tenure in a tense housing market.

3.3 Social Rental Agencies

Social Rental Agencies (SRAs) first emerged as grassroots organisations in Belgium in the 1980s and then spread to France, Germany and other European countries. SRAs act as intermediaries between private landlords and vulnerable populations in need of affordable housing. Typically, SRAs provide property management and maintenance services as well as guarantees for timely monthly payment during letting agreement (even when the property is not occupied) and restitution of the property to the owner in a comparable state at the end of the contract. In exchange, landlords are asked to accept below market rents, ensure acceptable quality standards, sign long-term letting agreements (9 years in Belgium) and agree to admit any tenants chosen by the SRA. SRAs also maintain close relationships with public authorities and, in some cases, provide a wide range of social services to tenants. Regional or municipal authorities define the tenant selection criteria based on the local context and criteria.

The main advantages of the SRA model are the following:

- The SRA model is designed to simultaneously ensure more availability of affordable housing for the benefit of lower middle classes, higher quality standards, lower rents and better access to social services (De Decker 2012).
- From the policy perspective, the main advantage is the absence of high upfront capital costs needed to build additional housing units.
- Existing housing stock owned by the private sector is put to social use by addressing market failure related to rent default risks, property damage and discrimination, which otherwise result in the underutilisation of national assets (Hegedüs et al. 2014). The share of unoccupied dwelling is high in many Eastern European countries (for example, 20% in Latvia and 16% in Hungary).
- In a context of pervasive undeclared rental income, SRAs can provide an incentive to formalise a previously informal rental market.

Box 4: An example of SRA: HomeLab

Launched in 2016, HomeLab (Integrated Housing and Labour Services in the Social Enterprise Model) is a project supported by a European Union grant to promote the social and labour market integration of vulnerable groups (such as Roma, the homeless and highly indebted persons) through individualised case handling and horizontal integration of employment, housing and social support. HomeLab is carrying out five pilot projects in the Visegrád countries (Hungary, Poland, Czech Republic and Slovak Republic). Each pilot project is adapted to the local system of social provision, institutional environment, housing system and labour market conditions. HomeLab strives to create partnerships with local and national stakeholders to provide a full range of integrated services and pave the way to successful advocacy for institutionalising the model.

HomeLab supports the establishment of a Social Rental Entreprise (SRE) which develops the SRA concept further under the assumption that it is necessary to enable tenants to support themselves in order to ensure their social integration. SREs tackle housing and unemployment simultaneously and supplement the housing market services with labour and social services. To ensure full cooperation, each tenant has to go through a lengthy selection process and sign a contract of cooperation containing a personalised development plan. Participant numbers in each pilot project are quite low (in total 225 people across all projects), but the projects have the potential for scaling up. The initial results of the programme are encouraging, but the full picture will emerge at the end of the grant period (end 2019). Financial and policy support at national and local level will be crucial to continuing and scaling up the pilot projects.

Just like in other social and affordable rental provision models, the SRA also requires government involvement. In particular, some public financing is needed to set up a guarantee fund and to cover part of the SRA set-up and operating costs. In addition, even though the rents offered by SRAs are lower than those available on the market, they are still higher than average social rents. For the lower middle classes such a price reduction may be sufficient to improve their quality of life, but the most vulnerable populations could still remain excluded. The affordability gap is most acute in the bigger cities, where the housing market is competitive (and owners face a higher opportunity cost by reducing rental rates). In Belgium, income-based rental subsidies fill this affordability gap, thus ensuring the social objectives of the model. Hegedüs et al. (2014b) estimate that, in Hungary, the average housing allowance would be around 25-30 percent of the rent if housing were provided to different low-income groups at a maximum of 40 percent of household income.

The SRA model is a promising avenue for the socialisation of the private rental sector, with particular relevance for the Eastern European countries suffering from a low supply of public or non-profit operated social housing, low supply side investments and limited institutional capacity (De Decker et al. 2018). Yet fully-fledged national and local policy support is crucial for scaling up. Due to relatively high associated costs, this model is unlikely to become the main instrument of social and affordable housing policies, but could serve as a complement or as a transitory instrument to a more efficient housing system.

3.4 Semi-public companies

The last model discussed in this technical brief is the semi-public or mixed ownership company. In France, these companies, called *sociétés d'économie mixte* (SEM), have been active in the social rental sector since 1972 (Menu 2018). The French social rental sector is very large, with a stock of 4.5 million housing units (half of the total national rental market) and 100 000 new units built per year, mostly managed by local authorities (*Offices publics de l'habitat*), non-profit social housing enterprises (*Entreprises sociales pour l'habitat*) that operate in a similar way to Dutch housing associations, cooperatives and, more recently, SEMs. The social rental housing sector has grown by half a million units in 10 years, which is unique when compared with other countries (Whitehead 2017).

Today, there are 163 SEMs in France that manage 578 thousand housing units for 1.42 million inhabitants (Fédération des Epl 2019). SEMs own approximately 10% of all existing French social rental housing stock and continue to grow, accounting for 17% of all new social rental constructions. The sector is quite concentrated as the ten largest SEMs own 51% of all SEM housing stock (Fédération des Epl 2018).

Local authorities are often the main shareholders in these companies, but private involvement has to make up at least 15% of the total capital. In almost a half of SEMs, private investors hold at least one third of the total capital (Fédération des Epl 2019). Among others, these private investors can be composed of construction companies, commercial or public development banks and non-profit associations. All the shareholders are protected by private company law. However, local authorities always make up the majority of voting rights in SEM governance bodies to ensure and defend the public interest via rents and tenancy control and to define the criteria for the allocation of housing.

In addition to the provision of social rental housing, SEMs are allowed to engage in other related activities such as the provision of services to tenants, the construction of housing units for sale, land development activities or the building of local infrastructure. This measure helps SEMs generate additional income to balance out the budget, reinvest in social housing projects and improve the life environment for their tenants. In addition, SEMs may act as seed-funders for some infrastructure projects that are initially unattractive to private investors, but can be sold off once the market matures (Menu 2018). Approximately 90% of SEMs engage in other activities in addition to social rental housing, which accounts for nearly 10% of their total income (the remaining 90% of their income comes from rents).

France has found a way to raise private capital from individuals for social housing provision. Like other social rental housing providers in France, SEMs can access cheap, very long-term (30 to 60 years) funding from national promotional banks and a public sector financial institution, Caisse des dépôts et consignations (CDC). One interesting mechanism for involving private capital in social housing provision is through the *Livret A*, a regulated savings account with low but guaranteed tax-free annual returns, used by over 90% of French residents via their commercial banks. The deposits are capped at 22 950 euros per person and 60% of the total sums (400 billion euros at the end of 2017) are centralised in a single fund managed by CDC. Some 237 billion euros (end 2017) were deposited in the *Livret A* accounts with 90% of those funds allotted to financing social housing (Ministère chargé du Logement 2017). Around 75% of total costs of social rental housing constructions in France are financed with these loans.

The main advantages of the semi-public company model are the following:

- The involvement of private actors brings additional financing and efficient management practices. Almost two thirds of French SEMs show good or excellent financial health (Fédération des Epl 2018).
- SEMs perform multiple functions and activities, and can be used in the development of more complex urban renovation projects (Menu 2018). Since these companies operate at municipal level, they are able to better respond to local needs in a more flexible way.
- In the context of Eastern European countries, where the social housing sector is small and thus expertise limited, this kind of public-private undertaking could also foster common learning and the sharing of best practices between private and public actors.

Box 5: An example of a semi-public company in France: Adoma

Created in 1956, Adoma is an SEM specialised in providing accommodation to migrants and other vulnerable groups. In 2015, Adoma became part of what is now CDC Habitat, a social housing mixed-economy company owned by the CDC. Adoma is thus owned jointly by the state (42.4%), by CDC Habitat (56.4%), and Action Logement (1.1%), a private association. Adoma operates about 74 000 social housing units throughout France, and is financed through state subsidies, the rents it perceives from its tenants, and sold assets. In 2011, Adoma adopted a plan to reduce its operating costs: in 2017, its net operating income was €22.6 million (*Rapport annuel* 2017), compared with a net operating deficit of €26 million in 2010 (*Rapport annuel* 2011).

In 2012, Adoma approved a new Strategic Asset Plan (SAP) to respond to housing market needs by expanding and upgrading its housing stock. The plan covers the 2012-2026 period and amounts to €3.4 billion in investments (*Rapport annuel* 2017). Under this plan, Adoma's total housing stock should reach 86 000 units. It plans to improve the energy efficiency of its housing stock and to phase-out non-autonomous housing units (i.e. dwellings with shared facilities such as toilets, showers and kitchens). Adoma plans to invest €555 million for the refurbishment of its stock during the next 15 years.

The CEB has provided a €100 million loan to Adoma to support implementation of its SAP. The project has a high social value as the final beneficiaries are individuals from very vulnerable backgrounds such as retired immigrant workers, social welfare recipients, the unemployed, students and the homeless. The highlight of the Programme is an impressive holistic approach which, in addition to the provision of housing solutions, includes a strong focus on social mobilisation and social assistance as important elements for the sustainable long-term socio-economic integration of vulnerable beneficiaries into society.

As in all the other models discussed above, state support is crucial for the semi-public company model to function in an efficient and sustainable manner. The average difference between social and market rents in France is 40%, but it is largely compensated by public spending (Cour des Comptes 2017). Public housing aids to individuals and companies (such as subsidies and tax advantages) make up 2% of GDP, while housing allowances alone amount to 18 billion euros, 40% of which go to social tenants to cover one third of total social rents (Schaefer 2017). Any reduction in rent levels or housing allowances could have a profound negative impact on all types of social rental housing providers.

In addition, the provision of social housing is a policy priority in France with an enforceable right to be housed enshrined in national law. Municipalities have an obligation to develop a social rental housing stock amounting to at least 20% or even 25% of the total stock, depending on their size. If they fail to meet this obligation, local authorities have to pay fines to the central budget.

The SEMs in France remain limited in size and act as drivers to ease pressure in the most difficult housing markets (concentrated in Ile-de-France, the south of France regions and overseas territories), but they are not the main actors. This model requires heavy involvement by local authorities in terms of financing and human resources, while the role of private actors remains more limited than in the other models discussed in this brief.

4. Conclusion

Europe is facing a crisis of housing affordability, which is particularly acute in densely populated urban areas. The most vulnerable social groups are left with no choice but to live in substandard, overcrowded dwellings. The issue is exacerbated in the Eastern European countries, where the social and affordable rental options are very limited. New solutions are needed to fill the increasing demand gaps. A wider variety of social and affordable housing providers could help ensure a more resilient housing supply during periods of crisis.

Indeed, private non-profit sector involvement in the provision of social and affordable housing has a long history and precedes the introduction of public social rental policies. Private actors can take many different forms, but they generally act as non-profits with a strong social mission. Moreover, private sector involvement often comes in close collaboration with public authorities, which provide strategic direction and the legal framework for the development of social and affordable housing and, to a varying degree, participate in their governance, ownership, financing and guarantees.

This technical brief discusses four distinctive models of private sector participation in the provision of social and affordable rental housing that could inform Eastern European countries wishing to support the development of new housing organisations. The four models differ not only in terms of their structure, but also in terms of target beneficiaries, as well as type and degree of the state involvement. Their major characteristics and distinctive features are briefly summarised below.

- Housing associations are private non-profit organisations that own housing stock and make it available to a mix of beneficiaries from the most vulnerable to the middle classes to ensure cross-subsidising and financial sustainability. They have a long history in Europe, especially in the Netherlands. They can ultimately become financially independent from the state, but initial subsidies to accumulate sufficient capital are necessary, as are state guarantees. Housing associations may compete with the for-profit sector, especially in the provision of affordable housing to the lower middle classes, and appropriate safeguards are needed to ensure that commercial activity does not take precedence over social purpose.
- Housing cooperatives form an advanced system of shared ownership in which tenure is achieved through membership and the purchase of cooperative shares. They also have deep roots in Europe, in both capitalist and formerly socialist countries. Life in a cooperative can

help social integration as this form of ownership facilitates social interaction and the feeling of belonging. The cooperatives mostly cater for (lower) middle classes, but sufficient state support and regulation (such as quotas) may help obtain cooperative shares even for the most vulnerable groups. The state needs to get involved, notably in facilitating land acquisition, subsidies, and rent controls.

- Social Rental Agencies (SRA) constitute a new contemporary solution for solving the affordable housing crisis, especially in countries where the housing rental market is dominated by individual renters. SRA acts as an intermediary between the owner and the tenants by reducing the risks for the former and increasing access for the latter. This model facilitates the involvement of private landlords, helps formalise the shadow economy and is easy to scale up. However, the resulting rents may remain unaffordable for the most vulnerable social groups. As such and without significant housing allowances, this solution can constitute a complementary measure, but cannot solve the housing affordability crisis on its own.
- Semi-public companies (SEMs) are social rental housing providers that are largely controlled by local authorities, but do attract limited capital through private investments which also bring their management practices and innovative ideas to the sector. This model can be very useful in countries where private sector involvement in the provision of social and affordable housing is still limited as it permits the public and private sectors to cooperate and better understand each other's needs. Motivated local authorities and generous funding are crucial in ensuring the sound functioning and good management of the SEMs.

Each of these models is an example of a successful non-profit private provider in a given space and time. Whichever option is chosen, it should be adjusted to the local situation in terms of legal factors, institutions, norms, and political preferences because existing national housing systems are culturally specific, context-dependent and take different forms across Europe. Gradual approach with smaller scale pilot projects based on one or several of the discussed options would help to tailor the most effective solutions and adapt to changing circumstances related to the market and the public opinion.

The role of local and central governments in the provision of social and affordable housing by non-state actors remains key. This is especially true for the most vulnerable households who need most financial support and may be the least attractive clients to private undertakings seeking financial sustainability. In particular, governments must make sure there is an efficient legal and regulatory framework in place and provide some financial incentives to help private actors set up and scale up their solutions while ensuring equitable access to all social groups. Only close cooperation between public and private institutions can provide the prospect of more homes for all families across Europe.

References

Aalbers, M. B., Jannes Van Loon, and Rodrigo Fernandez. *The Financialization of a Social Housing Provider*. International Journal of Urban and Regional Research 41, *no* 4 (2017): 572–587.

Allen, K. *Dutch Home Rental Market Rocked to Foundation*. Financial Times (2014, November 30). Retrieved from http://www.ft.com.

CECODHAS Housing Europe and ICA Housing. *Profiles of a Movement: Co-operative Housing around the World*. Brussels: CECODHAS Housing Europe and ICA Housing, 2012.

Chambre Régionale et Territoriale des Comptes. *Le Logement Social Face au Défi de l'Accès des Publics Modestes et Défavorisés*. Paris : Cour des Comptes, 2017.

Coudroy de Lille, L. *Housing Cooperatives in Poland: The Origins of a Deadlock*. Urban Research and Practices 8, no 1 (2015): 17-31.

De Decker, P., Jana Verstraete, Isabelle Pannecoucke, and Ruth Owen. "Private Renting in Social Provision: Social Rental Agencies in Western Europe" in Hegedüs, J., Martin Lux, and Vera Horváth, *Private Rental Housing in Transition Countries: An Alternative to Owner Occupation?* London: Palgrave Macmillan, 2018.

Fédération des Entreprises Publiques Locales. *Observatoire des EPL Immobilières*. Paris: Fédération des Entreprises Publiques Locales, 2018.

Fédération des Entreprises Publiques Locales. *Sem Immobilières, Vrai ou Faux ?* Paris : Fédération des Entreprises Publiques Locales, 2019.

Haffner, M., Joris Hoekstra, Michael Oxley, and Harry van der Heijden. *Bridging the Gap between Social and Market Rented Housing in Six European Countries?* Amsterdam: IOS Press, Cop, 2009.

Hegedüs, J., Vera Horvat and Eszter Somogyi. *The Potential of Social Rental Agencies within Social Housing Provision in Post-Socialist Countries: The Case of Hungary*. European Journal of Homelessness 8, no 2 (2014): 41-67.

Hegedüs, J., Vera Horváth and Nora Tosics. *Economic and Legal Conflicts between Landlords and Tenants in the Hungarian Private Rental Sector*. International Journal of Housing Policy 14, no 2 (2014): 141-163.

Hegedüs, J., Martin Lux, and Vera Horvat. *Private Rental Housing in Transition Countries: An Alternative to Owner Occupation?* London: Palgrave Macmillan, 2018.

Hegedüs, J., Vera Horvat and Eszter Somogyi. Affordable Housing in Central and Eastern Europe: Identifying and Overcoming Constraints in New Member States. Budapest: Metropolitan Research Institute, 2017.

Hoekstra, J. *Reregulation and Residualization in Dutch Social Housing: A Critical Evaluation of New Policies*. Critical Housing Analysis 4, no 1 (2017): 31–39.

OCDC. *What Difference Do Cooperatives Make? Poland. A Pilot Study*. Washington: OCDC Research Group, 2018.

Menu, S. *Les Sem Immobilières ne sont pas des Bailleurs Sociaux Comme les Autres*. Servir le Public (2018, April 4th). Retrieved from http://www.servirlepublic.fr.

Ministère du Logement et de l'Habitat Durable. *Housing Aids and Subsidies in France*. Paris: Ministère du Logement et de l'Habitat Durable, 2017.

Reynolds, K. *Creating Permanent Housing Affordability: Lessons from German Cooperative Housing Models*. Cityscape 20, no 2 (2018): 263-276.

Schaefer, J.-P. *The French Social Housing Sector at the Crossroads of Budgetary Constraints and Social Missions*. Critical Housing Analysis 4, no 2 (2017): 29-38.

Whitehead, Christine. *Social Housing Models: Past and Future*. Critical Housing Analysis 4, no 1 (2017): 11-20.



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

www.coebank.org