

Abstract Research Project

AGENTS OF SUPPLY-SIDE SUBSIDIES IN THE RENTAL HOUSING SECTOR

Aim

The aim of the present research project was the description and analysis of various agents related with supply-side subsidies for rental housing, provided in Austria and in other EU countries. In particular, operation and interests of these agents were to be studied.

State

Direct operation of rental housing stocks imposes upon the state a double role as a legislator on national housing policy and as a landlord. This diffuse situation might lead to unrealistic rent regulation and hence to considerable operating deficits.

Municipalities

In this regard, local authorities find themselves in a better position, particularly if they follow transparent state-defined operating guidelines. However, municipal management of rental housing remains potentially exposed to self-indulgent politics favouring the locally governing political party and/or to unfounded criticism by the opposition.

As a remarkable example of local authority housing, during the 1920s and early 1930s, the City of Vienna accomplished an ambitious programme of mass rental housing construction, based on financing via a special housing tax on existing dwellings.

Similar programmes but based on state funding were designed in many major cities in Great Britain after the Second World War, when the importance of private rental housing decreased, while council housing acquired a leading role. Only from the 1980s, a shift in housing policy led to massive sales from council housing stock, canceling of new local authority housing production and more reinvestment in existing estates.

On the other hand, large stocks of previously state-owned rental housing in Central Eastern European countries were partly privatised and partly devolved to municipalities following political transformation in 1989/90. In countries where privatisation terms were particularly favourable, such as Hungary, municipal housing stocks were reduced to such low levels that, in later years, very advantageous (and hence costly) subsidisation schemes had to be implemented for new local authority housing production.

Municipal Housing Companies

Municipal Housing Companies / MHCs are either owned or controlled by the local authority. As they do not form part of general local administration, they are politically less exposed and operate according to normal company regulation, mostly without ongoing arm twisting by local government. This offers a better chance to rational allocation of available dwellings.

MHCs have been particularly common and successful in Sweden, where they have played a role as market leader in rental housing. There, rents negotiated between public landlord and tenant federations serve as reference rents for private rental housing as well. Some problems remain, though, in areas with declining population causing vacancies and in areas of high demand, where political pressure allows attractive older MHC housing stock to be sold to sitting tenants at very attractive prices.

In Germany, local authorities have also established MHCs that operate on the basis of locally defined guidelines since non-profit housing law was abolished in 1990. However, in recent years, some cities have opted for selling most or all of their MHC stock to private (equity) investors in order to settle often massive municipal debts. This has repeatedly been met with strong protest from concerned tenants.

Similar landlord structures have been established in Britain and in transformation countries.

New towns

During the 1960s and 1970s, programmes for planning and building of New (Satellite) Towns became popular in France and Britain but also in Eastern European countries. Based on state government decision, new entities took on responsibility for development and later for administration of these (large) new urban settlements. According to the legal character of individual developers of subsidised rental housing, completed dwellings were allocated to waiting households. However, on an international scale, such ambitious projects remained scarce.

Limited-profit housing companies

Limited-profit housing companies were generally founded by the state, regional or local entities, by unions and political federations as well as by finance institutions. They act as housing developers and intermediaries between the state as regulator and provider of subsidies and households with housing needs. In many European countries, they have played an important role in the rental housing sector, particularly where they enjoyed exclusive or at least preferential treatment in allocation of supply-side subsidies for new housing production.

Limited-profit housing companies generally enjoy various tax benefits. On the other hand, their dividends are limited by law. However, this does not impede generation of profit and accumulation of equity. In spite of often substantial equity, even total financing from equity at below-market interest would not allow lower-income households to obtain affordable rental housing. Therefore, an important function of limited-profit companies is to secure available public housing subsidies.

In the long run, the often vaguely defined role of limited-profit housing companies may lead to privatisation of public funds. As with all agent structures, there remains a risk of inefficiency and mismanagement (*principal-agent problem*). Particularly so, when housing demand greatly exceeds supply and inefficiencies remain overlooked or tolerated. Periodic controlling by institutions that at the same time act as lobbyists will not ensure full compliance with official regulation. Agents serving as trustees for public funds would require effective external control.

The issue of potential sales from limited-profit housing stock to sitting tenants and/or to third parties has caused heated discussion. Important questions refer to the selling price being close to

market price or (far) below, to the right of the state to impose sales from limited-profit housing stock and to entitlement to and distribution of the revenue generated from potential sales.

In the Netherlands, both government and the European Commission repeatedly expressed their view, that the share of limited-profit housing in the total housing stock (formerly over 40%, now close to 35%) is excessive and should be reduced in favour of owner-occupied housing.

According to the European Commission, no supply-side subsidies should be provided to higher-income households and allocation of subsidised housing should be restricted to lower-income households.

Housing co-operatives

In German-speaking countries, housing co-operatives are perceived quite similar to limited-profit housing companies, whereas in Sweden, they serve as a substitute for condominiums, a legal form not provided for in Swedish law and in other countries they operate as developers for multi-family housing later registered as condominiums. In Denmark, housing co-operatives enable tenants of older private rental housing jointly to acquire their dwellings.

Individual housing co-operatives may comprise from a few dozen to several thousands of units. At the same time, their legal character may shift between rental housing and owner-occupied housing. Accordingly, chances for active participation in management may be ample or quite restricted. Even required participation capital (in the form of membership shares) varies greatly. As with limited-profit housing companies, one of the essential activities of housing co-operatives is lobbying for public subsidy funds.

An important – and hotly disputed – aspect regarding housing co-operatives is economic control of common assets and of capital gains usually accrued over time. In principle, each co-operative housing estate jointly belongs to all co-operative members, who paid for their membership share. However, regardless of the amount deposited, when deciding on matters of general interest, each member only has one vote.

Co-operative members wishing to return their dwelling originally were only entitled to get their share refunded. With gradually increasing individualism, in many countries, co-operative members have developed initiatives to secure economic participation in capital gains and to receive the current market value of their dwelling when leaving the co-operative. As long as such regulation does not exist, former members of housing co-operatives will, almost without fail, try to ensure direct take-over by a new member and to obtain cash compensation for the part of market value forgone.

Employers

Employers have taken on the role of landlords from the early 19th century, when some large enterprises, e.g. in Germany and Britain, established extensive housing compounds for their employees. With later social development of more flexible employment relations, linking workplace with housing has become less attractive and employers tend not to tie up equity in rather unprofitable employee housing. Consequently, existing company housing estates were generally sold to tenants or investors.

Similar developments occurred in Central Eastern European countries, where (state-owned) companies had often played an important role as landlords.

Charities

Before the establishment of modern welfare states, charities helped alleviate poverty. Following adoption of comprehensive social protection systems in Northern and Central European countries, charities have assumed a complementary role to state institutions and programmes.

In the field of housing, charities sometimes act as intermediary tenants of private rental dwellings, which are then offered to households in need of support, usually on a limited-time basis..

Legal and physical private persons

Supply-side subsidisation benefiting private developers of rental housing make sense only if tied to rent regulation, which ensures that subsidies actually reach target households.

However, determination of effective but not excessive subsidisation for private developers of rental housing proves difficult. Future economic development and specifically the inflation rate are hard to predict. Therefore, in hindsight, subsidies might appear insufficient or exaggerated, requiring ex-post adjustments.

Rental housing produced with supply-side subsidies cannot be considered “social housing” but during a limited period of time (i.e. until full loan repayment), as these dwellings become unrestricted property of their developers thereafter. With no strings attached any longer, they may be let at market conditions.

Target groups and housing allocation criteria

Allocation of (supply-side) subsidised rental housing usually involves application of household income limits. However, low income limits imply a danger of “ghettoisation” or social segregation of low-income households. Thus, certain rental housing estates might become stigmatised as “low-class housing”. However, for social policy reasons, an adequate social mix should be aimed for even in subsidised housing. Apart from households income, other aspects such as civil and employment status, nationality etc. are often considered in the allocation process.

Households interested in obtaining a subsidised dwelling are generally registered on “waiting lists” indicating civil status, household size, income and urgency of housing need. According to the number of weighted points, available dwellings are then allocated to individual households. Special emergency cases might be given preference, though.

However, households registered on waiting lists remain abstract “cases” without precise information on individual preferences. Therefore, Dutch housing authorities have introduced a system of demand-based allocation. In this, applicants may bid for specific available dwellings stating the number of points assigned to them at registering. This system produces a better match of demand and supply and, in general, receives good marks.

In addition to allocation criteria, landlords of subsidised housing have to respect certain limitations of property rights. Essentially, these consist in rent regulation and allocation rights for local authorities. Sometimes, subsidised dwellings have to be maintained as rental housing for certain periods and must not be sold. In other cases, tenants enjoy a purchasing option – often at quite attractive conditions.