

# IMPACT OF THE CRISIS AND AUSTERITY MEASURES ON THE SOCIAL HOUSING SECTOR



## CECODHAS Housing Europe's Observatory RESEARCH BRIEFING

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# IMPACT OF THE CRISIS AND AUSTERITY MEASURES ON THE SOCIAL HOUSING SECTOR

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## Introduction

Social housing is currently faced with a double challenge: on the one hand it is called upon to respond to increasing housing needs which are not satisfied by the market, on the other hand resources which have typically been used to finance the sector are decreasing, and in some cases they have undergone a dramatic cut over the past year. Social housing providers' capacity to intervene in the market is challenged by these phenomena, and the sustainability of social housing provision in many countries is at risk of being deeply affected by this double crisis.

In this briefing we present a snapshot of the situation of the social housing sector, drawing on information exchanged during two meetings with CECODHAS Housing Europe member organisations, held at the end of 2011. We also present a more detailed description of the current situation in six countries (namely England, France, Greece, Ireland, Italy and Spain), selected on the basis of the availability of recent statistics and information.

## 1. Summary of key findings

### *1.1 Housing exclusion*

**The deep economic downturn and austerity measures have led to the increase of the levels of poverty and housing exclusion across Europe.** The effects on homelessness and poverty seem to be worse in 2011 than in previous years, since the impact of the crisis and the austerity measures seem to have a strong time lag effect<sup>1</sup>. According to the Report on the Social Impact of Fiscal Consolidation from 2011, housing and related services emerge as one area which has been particularly adversely affected by the economic and financial crisis<sup>2</sup>. This is often reflected in rent/mortgage arrears, increases in evictions, homelessness, growth in waiting lists for social housing, demand for homeless services and increased indebtedness in relation to key utilities such as heat and water<sup>3</sup>. The demand for preventive services like counselling on mortgage and debt management as well as tenancy support as also increased in recent years<sup>4</sup>.

### *1.2 Increase in demand for social housing*

**The number of people on waiting lists for social housing is increasing rapidly in many countries.** In England for instance social housing waiting lists increased constantly from about 1 021 000 in 1997, to over 1.8 million households in 2011. In France, 1.2 million applicants are registered on waiting lists for social housing and 630 000 in Italy. This trend is exacerbated by the current economic downturn. For instance, the number of those in need of local authority housing in Ireland has increased by 75% since 2008, from 56 000 applicants to 98 000. A new category of population at the risk of housing exclusion are middle class families from whom a growing demand for social housing has been reported.

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<sup>1</sup> FEANTSA (2011)

<sup>2</sup> Frazer and Marlier (2011).

<sup>3</sup> See CECODHAS Housing Europe Observatory (2012)

<sup>4</sup> FEANTSA (2011)

### *1.3 Decrease in public budget allocated to social housing*

Despite increasing demand for affordable rental housing, the social housing sector was not immune to recent cuts in public expenditure. Indeed, after an initial phase when in many countries there was significant investment in social housing both as a 'social shock absorber' and a way to foster the construction sector, **today the budget dedicated to housing policies is significantly reduced in a number of countries.** In England for instance development budget for housing associations was recently cut by 63%. Similarly in Scotland there has been a reduction by 40% of direct aid to social housing and the Scottish Government has slashed the subsidy rate per unit by the about the same amount. In Portugal, public funding is being reduced to the point that many projects cannot be implemented, and those which were previously approved are still on hold. Municipalities are mainly responsible for financing social housing provision, but as there is a huge lack of resources in the local budgets and they cannot exceed a certain limit of credit from banks, it is not possible to make housing investments. In Poland, the National Housing Fund which financed social housing provision up to 40% of project cost was dismantled last year. In Austria, there have been cuts in the last year of about 20% in respect of public subsidies for new construction, accompanied by an increase in housing allowances to households (+30% in two years). In Greece, the most dramatic situation, the package of austerity measures passed by the Parliament on 12 February 2012 includes the dissolution of the public organisation delivering low-cost housing to employees and workers which represented the only form of social housing in the country. Contrary to this trend, the Belgian regions of Flanders, Wallonia and Brussels-Capital represent an exception in that the social housing sector can count on a stable, if not increased, allocation of the public budget for the year 2012, to keep up with increasing demand.

### *1.4 Changes in the fiscal regime*

**Among other fiscal measures, the reduced VAT rate which in many countries is applied to social housing was reviewed in a number of cases.** In Italy for instance the special regime for social housing has been abolished, with now VAT being charged at 21%. Furthermore, municipalities can now establish that public housing companies must pay property tax, with an expected impact of about €150 million for the public housing sector. In France, an increase in the VAT rate applied to social housing providers from 5 to 7% will translate into an estimated loss of over €200 million for the Hlm sector. In the Netherlands, the government wants to introduce a new tax on the value of the stock for all landlords, which is expected to raise an estimated €800 million a year, to be used to pay for housing benefits. In Spain, as a temporary measure to re-launch the construction sector, a reduced VAT rate of 4% is currently applied on housing transactions, but it is expected that this measure will be discontinued in 2012.

### *1.5 Reduced access to credit from banks*

**The issue with access to credit from banks is twofold: on the one hand social housing providers are having problems in raising credit to finance new projects, and on the other the fact that access to mortgage credit for homebuyers is restricted has an indirect impact in countries where social housing providers sell dwellings as a way to cross-finance production of affordable rental housing.** For instance, the Dutch housing corporations used the revenues from selling dwellings to finance new provision of affordable rental housing, but currently restrictions on mortgage availability means a drastic drop in home buying. Also the housing corporations themselves have now more problems in accessing credit to finance new construction. Some housing corporations are now trying to get money directly on the capital markets. There is a similar case for housing associations in the UK.

### *1.6 Failure of systems linking social housing to private development*

Social housing provision is often linked with urban planning and policies. This is the case for instance in England under Section 106 of the Town and Country Planning Act 1990, which in recent years has provided support worth billions of pounds a year for new affordable homes, as well as crucial access to sites for developing housing associations, especially important in London and other high-value areas. Similarly in Ireland, Part V of the Planning and Development Acts requires that up to 20% of the sites or units in a new private housing development be also made available to the local authority for social rented and affordable ownership dwellings planning permissions. Measures of this type imply that affordable housing provision is tied to construction by commercial developers. **In the context of the current private sector housing market downturn this type of mechanism is failing to deliver the expected results in terms of social housing output.**

### *1.7 Arrears on mortgages and rents*

**The crisis has brought about an increase in arrears on mortgage (and as a consequence in the number of housing repossessions) as well as rent payments. Also social housing providers in some countries are starting to experience a decline in revenues from rents.** In Portugal, there is a significant increase in rent arrears and in the number of houses that are repossessed by the banks because people can no longer repay the loans. In Italy the phenomenon is also widespread, along with an increase in rent arrears (including in the social housing sector). In England there is also an increase in rent arrears (in particular in the shared ownership payments) as well as in Belgium to a lesser extent. In Ireland, 196 000 borrowers were in negative equity in 2010. In Spain, 150 000 families have already lost their homes since 2008 and are left with high debts due to arrears on mortgage repayment and negative equity, and the number is expected to rise to 500 000 households by 2015.

### *1.8 Restructuring of social housing providers*

**These developments are speeding up the process of restructuring of the social housing sector.** In Greece, as mentioned above, the public organisation in charge of providing affordable housing was dismantled altogether. In Spain, there is a 30% reduction in the number of public housing companies. In Portugal there will be some **mergers** and some municipal companies will be integrated in the municipality structure, while in Italy there is an on-going concentration of small municipalities and public housing agencies at the regional level. An increase in mergers has been pointed out also in England, Scotland, Ireland and Poland. It should be noted though that in some countries the process of merging of social housing providers had already started before the crisis, as a way to reduce costs and increase efficiency in the sector (Netherlands, France and Belgium). **Salaries and/or number of staff of social housing organisations are also being reduced** in many cases such as in Spain, Portugal, Italy and the UK.

### *1.9 Sale of housing stock*

**In some cases social housing organisations are recurring to selling part of their rental housing stock to raise capital.** In the Netherlands, the government would like to sell one million of social housing to sitting tenants. In England the right to buy will be also strengthened in the context of the on-going reforms of the social housing sector. In Germany, many cities in financial trouble have already sold their municipal housing companies to international investment funds, mainly American and Japanese. The Annington Fund has become the first landlord of Germany with 150 000 units in its portfolio. Poland is not immune to this process with the adoption of a law on sales of social housing stock of TBS non-profit housing companies. In Spain as well as in Italy the rescue of social housing organizations in difficulty also involves the sale of rental housing stock.

## 2. Country examples

### 2.1 England

Impact of the crisis on housing markets: recent developments in the housing market in England saw a shift in tenure structure. Demand for owner-occupied housing is currently extremely low, both because of the lack of mortgage funding and the lack of confidence. This is driven by high house prices<sup>5</sup> and the restrictive lending environment which together have created the need for prohibitively high deposits. Those struggling to buy their first home have been particularly badly affected by recent changes in the housing market: the average age of a first-time buyer without extra financial support could soon rise to 43. Furthermore, private rents continue to rise reflecting the growing demand for rented accommodation prompted by a shortage of social housing and the inability of growing numbers of people to afford to buy. Research carried out by the Chartered Institute of Housing in June 2011 showed that 31% of people renting privately felt they were spending more on housing costs than they could afford<sup>6</sup>.

Production of social housing: the number of affordable homes built annually rose from 52,969 in 2009/10 to 55,856 in 2010/11. However, this still falls well short of the 97 000 affordable homes that are required annually, according to estimates by the charity Shelter. The overall number of people claiming housing benefit in both the private and social rented sectors has also been increasing steadily for some years, and now stands at 4 850 000<sup>7</sup>.

Demand for social housing: The number of people registered on local authorities' waiting lists for social housing has increased constantly over the years to over 1.8 million households in 2011<sup>8</sup>. The number of households accepted by a local authority in England as 'homeless and in priority need' increased by 10% to 44 160 in 2010/11, reversing a five-year trend of falling homelessness<sup>9</sup>.

Changes in funding/financial sustainability of social housing: The government has cut capital funding for housing associations by 60%, requiring them to borrow more from private sources, and forcing them to set affordable rents for new-build properties at 80% of local market rental value. At the same time, housing benefits are also undergoing cuts, which will have an impact on housing associations, as 70% of their tenants receive this type of benefit. Irrespective of local rents, there will be caps on the total amount of rent that can be claimed under local housing allowance and rents will be capped at the 4-bedroom rate. Housing associations say the cap will work against the new investment model for affordable housing. According to the National Housing Federation, for instance, paying an "affordable rent" in a high-value area, such as London, would push a family receiving benefits over the £500-a-week cap. This will make the building of family-sized social homes in London and parts of the south-east less viable. The Government's new delivery model, comprising £4.5bn of capital funding plus increased rents over four years to deliver 170 000 new affordable homes,

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<sup>5</sup> According to recent figures, house prices are more than seven times the value of median earnings – and lenders are generally approving mortgages worth only three times annual earnings.

<sup>6</sup> CIH, NHF and Shelter (2011)

<sup>7</sup> Idem

<sup>8</sup> Department of Communities and Local Government

<sup>9</sup> CIH, NHF and Shelter (2011)

compared with the previous Government's £8.4bn over three years to deliver 150 000, is transferring both cost and risk to providers and tenants<sup>10</sup>.

## 2.2 France

Impact of the crisis on housing markets: According to RICS, the recession was relatively moderate in France compared to most other European countries and the financial system has weathered the crisis well. Previously high rates of housebuilding were clipped by the onset of the recession but have partly recovered. Furthermore, the stimulus measures offered in the housing market during the recession were substantial and had considerable impact. They include a major social homes building programme during 2009 and 2010<sup>11</sup>. A major issue with regard to housing in France nowadays is that of affordability and risk of housing exclusion. Average housing expenditures currently represent about a quarter of households' budget (against 18% in 1984), and the amount is higher for tenants<sup>12</sup>. The foundation Abbe Pierre estimates that currently 3.6 million people in France are inadequately housed, and the housing crisis is increasingly affecting also middle income people<sup>13</sup>.

Production of social housing: The social housing or 'HLM' sector in France owns and manages 4.2 million dwellings and houses over 10 million people. In general, throughout the sector there has been no reduction of activities or staff. On average over the past two years 100 000 new dwellings were been built per year and 70 000 renovated. Furthermore, about 15 000 dwellings are built per year by social housing organisations to be sold as affordable housing for home ownership.

Demand for social housing: Every year about 450 000 households find accommodation in the HLM sector. Nevertheless, 1.2 million households are on social housing waiting lists, out of which 550 000 are tenants in social housing looking for an alternative accommodation<sup>14</sup>.

Changes in funding/financial sustainability of social housing: Most of the funding for new construction comes from finance loans, where the main lender is the Caisse des Dépôts et Consignations (CDC) which provides funds from the 'Livret A' accounts, a savings fund with regulated interest rate and not subject to tax. Other sources of financing include employers' grants and discounted loans (the so called '1% Logement'), and guarantees from local authorities or the HLM guarantee fund (CGLLS). This system of indirect aid (Livret A, and 1% logement) has so far meant that the sector could benefit from a constant flow of resources outside the financial market, allowing for a sustained level of social housing production over the years<sup>15</sup>. Yet, there have been some recent changes affecting negatively the sector. First of all, in the budget for 2012 there is a significant reduction of direct public aid to new social housing construction from the state, although this represents a relatively small share of the financing sources. Secondly, the reduced rate of VAT applied to social housing was increased from 5.5% to 7%. It has been calculated that this will cost the sector €225 million per year. Finally, a 1% cap has been established on the increase in social benefits (including housing allowances), while the rent index for this year is 1.9%. This means it will be more difficult for the most vulnerable to sustain their housing expenditures.

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<sup>10</sup> Idem

<sup>11</sup> RICS 2011

<sup>12</sup> L'Union Sociale pour l'Habitat (2011, A)

<sup>13</sup> Fondation Abbe Pierre (2012)

<sup>14</sup> L'Union Sociale pour l'Habitat (2011, B)

<sup>15</sup> CECODHAS Housing Europe Observatory (2011)

Other recent developments in social housing sector: there is a tendency towards impoverishment of social housing tenants. In 1973, 12% of households in social housing were in the lowest income quartile. In 2006, they are 40%. This phenomenon is accelerating, as households leaving the sector are systematically being replaced by increasingly poor households<sup>16</sup>.

### *2.3 Greece*

Impact of the crisis: The situation in Greece is particularly alarming. Unemployment has exceeded 20% and the number of homeless has increased dramatically, with a 20% increase in demand for homeless services. Furthermore, FEANTSA members report high levels of "hidden homelessness" among young people who are unable secure independent living situation and are staying with their families or friends often in overcrowded conditions<sup>17</sup>.

Production of social housing: Unlike the rest of EU countries, Greece has no social rental sector. The social housing sector in the country consists of dwellings for home ownership provided at low cost to workers and employees by the Workers Housing Organisation (OEK). OEK is a tri-party organisation operating under the auspices of the Ministry of Labour and Social Security, with its own financial resources. Its activities are financed through contributions by workers and employees of the private sector (1% on salaries) and by their employers (0.75% of their wage bill).

Dwellings built by OEK are sold to beneficiaries (workers and employees in the private or public sectors who are insured for wage in a main social security organisation and who make contributions into OEK, as well as pensioners of all these categories) at cost, which represents approximately 50% of their commercial value in the free market.

OEK also provides various forms of housing assistance, such as grants in settlements, loans for purchase, construction, repair, enlargement and completion, rent subsidies, special and pilot programmes for the housing of vulnerable social groups. About 1 500 housing units on average were delivered annually by OEK up to 2009, accounting for about 95% of the total annual building activity of the public sector<sup>18</sup>.

#### Recent developments:

Unfortunately, after two years of discussion on the restructuring of the organisation, the new memorandum signed by the Greek Parliament on the 12<sup>th</sup> of February 2012 removes OEK, describing it as an "entity providing social benefits that are not of first priority". The memorandum establishes that OEK should be closed down within six months after the adoption of necessary legislation.

This act ends the social housing sector in Greece, because OEK was the only organization with a meaningful activity in the field of affordable housing provision. The organisation is trying to propose alternative solutions to the Minister of Labour so as to ensure at least minimal housing assistance for workers who are increasingly poorly paid and poorly housed.

### *2.4 Ireland*

Impact of the crisis on housing markets: compared to the rest of Europe, the financial crisis had the most immediate and strongest impact on the housing market in Ireland (together

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<sup>16</sup> L'Union Sociale pour l'Habitat (2011, A)

<sup>17</sup> FEANTSA (2011)

<sup>18</sup> CECODHAS Housing Europe Observatory (2011)

with Spain), causing the bursting of the 'housing bubble'. Ireland stands out as the country in Europe with the most sustained house price falls, after many years of dramatic increases during its earlier property boom (a reduction of 38% since their peak at the end of 2006). According to RICS, the late 2010 bailout of the country, the continuing economic problems, and the substantial overhang of newly built properties mean that the end of the downturn in housing markets is unlikely to be in sight quite yet<sup>19</sup>. Currently there are a number of unsold properties, ranging from around 35 000 dwellings to 170 000 at the upper end<sup>20</sup>. There is also an issue with 'Ghost Estates' or unfinished housing developments, which brings along problems in anti-social behaviour as well as health and safety concerns. Furthermore, considerable attention has been drawn to the issue of arrears and negative equity. In the first quarter of 2010, 32 300 mortgages were in arrears over 91 days (4% of all mortgages). It is estimated that 116 000 borrowers were in negative equity at the end of 2009, rising to 196 000 by end 2010<sup>21</sup>.

Production of social housing: social housing production by housing associations and cooperatives fell from 2011 new homes in 2009 to less than 700 in 2010. Output of dwellings provided under Part V of the Planning and Development Acts 2000 – 2008 (which establishes the provision of a certain percentage of social housing units in new real estate developments) dropped: 1 914 units of social and affordable housing were provided in 2009, down 58% on the same period in 2008 reflecting the fall-off in wider output<sup>22</sup>. Yet, the number of Part V completed housing projects in 2008 and 2009 initially masked the extent of the drop in output indicating because projects on site, in development and nearing completion contractually had to be paid for and were not stopped. New build construction has only been replaced to a small level with homes that are provided through leasing. As for production of social housing by local authorities, the figures for 2010 are not available but output dropped by 32% already between 2008 and 2009.

Demand for social housing: Demand for social housing in Ireland has increased dramatically since the start of the crisis, from 56 000 households in need in 2008 to 98 000 households in need in 2011.

Changes in funding/financial sustainability of social housing: There have been significant changes in public funding for social housing. The Capital Loan and Subsidy Scheme – which had provided 100% finance for new projects – has been cancelled. The replacement Capital Advance and Leasing Facility (a medium term capital programme launched in 2011) offers only a percentage of scheme costs (which has to be significant enough to leverage in private finance) with the remainder to be raised by loan finance from the newly created Housing Finance Agency, or by private finance institutions. Capital funding for social housing will by 2016 have fallen by over 70% from its peak. The key issue will be that there is the required level of revenue funding by the government to assist housing associations meet loan finance commitments in developing new projects funded in a large part through financial institutions.

There is also a programme to release 2000 vacant properties through the agreement of NAMA the National Asset Management Agency in 2012 and to be used for social housing by housing associations. It is indicated that these properties will likely be provided through leasing as the sale of the properties to housing associations will be dependent of the sale price and if there is insistence of vacant properties being released at 2009 prices then few properties will be sold.

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<sup>19</sup> RICS (2011)

<sup>20</sup> Ministry of Environment, Heritage and Local Government (2010, A)

<sup>21</sup> Ministry of Environment, Heritage and Local Government (2010, A)

<sup>22</sup> Ministry of Environment, Heritage and Local Government (2010, B)



Other recent developments in SH sector: From the point of view of regulation, the Government is introducing a new regulatory framework for approved housing bodies which is currently in progress. Smaller housing associations are being encouraged to merge or procure services together in order to secure efficiencies. The new framework will also require a greater degree of professionalism. There are also plans by the Government to provide enhanced landlord tenant regulation.

## *2.5 Italy*

Impact of the crisis on housing markets: The impact of the credit crunch on the market was more related to the macroeconomic performance of the country than to any “housing bubble”. This impact has translated less in falling prices than in a fall on the transactions side. The number of purchases and sales has been facing a decline since 2007 all over Italy. Demand is being constrained by soaring unemployment, especially among younger people, as well as recent budget cuts affecting low-income homebuyers. The median income of the population is decreasing, and while in 2008 it was calculated that households spent 32.2% of their disposable income on housing, by 2009 the percentage increased to 33.5%. The most vulnerable part of the population such as the unemployed, recent immigrants, and the elderly continue to suffer the problems of living in uncomfortable and inconvenient built-up zones. There is also an issue with homebuyers who can no longer afford to pay their mortgage. Together with a restriction of mortgage credit by banks, this phenomenon is likely to lead to an increase in the demand for social housing.

Demand for social housing: Recent surveys reveal that approximately one million social housing units need to be built. Today demand is not only increasing but also changing its composition, increasingly including middle class household who do not comply with income criteria to be allocated a social dwelling but cannot access housing at market price. A strong and unusual demand for a rental market also comes from university students living away from home, atypical workers with temporary contracts, young people between 25 and 35 years of age, and young couples with small children, categories often characterized by a precarious employment situation and a great deal of mobility within the national territory.

Production of social housing: Overall public housing stock amounts to about 800 000 dwellings. About 6900 public rental dwellings were produced in 2009, and another 12984 were renovated, but it is estimated that the sector has reduced its activities by 37%. Housing cooperatives, whose activities typically include affordable housing for sale and also (to a lesser extent) social rental housing, decreased their activities by 24.8% between 2000 and 2010.

Changes in funding/financial sustainability of social housing: In addition to the costs of both purchasing land and constructing buildings, the national budget deficit and the strong decline in public funds from regional to municipal level, means the increasing cost of managing and maintaining the existing social housing has barely been met, already for some years now. A serious consequence has been that public property has been sold off. Currently, even programmes for which funding was approved are not actually starting, there are huge delays. Furthermore, from this year demand-side subsidies (housing allowances) have almost disappeared, and there is an increase in rent arrears both in the social and private rental sector.

From the point of view of fiscal incentives, public housing providers no longer enjoy discounted VAT: the rate has been now increased to 21%. Furthermore, there used to be an exemption from local property tax but according to new legislation now municipalities can

introduce this tax for social housing providers. This is expected to cost public housing providers about €150 million, and decrease income from rents by 14%<sup>23</sup>.

Other recent developments in social housing sector: In terms of organisational structure, there is an on-going concentration of small municipalities and public housing agencies at the regional level. Salaries have been frozen in the public sector: this applies directly to those public providers which still have a public body statute (IACPs) and to the whole public housing sector following a voluntary decision.

## 2.6 Spain

Impact of the crisis on housing markets: The housing market downturn which started in the aftermath of the financial crisis continued during 2010, despite some evidence that the decline could be slowing. As the wider economy and financial markets still face substantial problems, it is by no means certain that the end of the housing market downturn has actually been reached yet. House building peaked at extraordinarily high levels in the final years of the boom. Since then, output has fallen sharply and starts were expected to be below 80,000 by year end 2010 and this may not yet be the bottom<sup>24</sup>. There has been a 15% price fall from the peak for existing housing and somewhat less for new. The scale of the price changes that have occurred and the risks of further downward adjustments vary across the country and by market segment. Taking account of general price inflation, this suggests a roughly 22% real decline in values for existing homes, which is one of the largest in Europe to date. Furthermore, there is substantial vacancy overhang (an estimate 750 000 to one million dwellings). Between 2008 and 2011, 150 000 families have lost their homes and are left with high debts, and it is estimated that overall 510 000 households might lose their home by 2015 as a consequence of the economic crisis<sup>25</sup>. To tackle this situation, the government is negotiating with banks to agree on recommendations - including a code of good banking practices - and legal measures to limit evictions. Proposals include, among others, lowering of the interest rates on mortgage payment arrears, and delaying eviction for two years in the case of families whose members are all unemployed and who have declared their inability to pay.

Production of social housing: Social housing in Spain is represented by the so-called *Vivienda de Proteccion Oficial* or VPO ('protected' housing), which mainly consists of subsidized dwellings sold at discounted prices to people on low income. A number of regulations and restrictions apply to the dwellings in terms for example of surface of the dwelling, income ceiling of buyer/beneficiary household, and it cannot be sold on the market for a given period of time. Social housing also includes a programme for social rental housing but its extent is very limited. Social housing production fell by 51.8% from 2008 to 2011, and the number of house sales decreased by 42.51% for market housing and by 32.68% for VPO. Over the same period (2008-2011) housing rehabilitation decreased by 36.45%. As for social rental housing, the production has dropped because the State financial support has been reduced by 40 %, and some public companies even had to sell part of their rental stock.

Demand for social housing: While house prices in the market decreased by 14.44%, the price for VPO slightly increased (2.3%). As a consequence the gap between market and 'protected' prices decreased to 33.03% in 2011. Due to very strong regulation in the VPO sector, people today tend to choose to buy a dwelling at a little higher price but that has no requirements

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<sup>23</sup> FEDERCASA (2011)

<sup>24</sup> RICS (2011)

<sup>25</sup> Article appeared in ELMUNDO.es, 10/01/2012. Data by Asociación de Afectados por Embargos y Subastas (AFES)

to fulfil. Consequently, the demand for social housing for purchase has fallen. This is also due to other factors: economic instability of households and increase in unemployment; strong competition by credit institutions which want to sell their product; drop in the State direct financial support given to homebuyers. But this doesn't mean that there is no need for affordable housing in the country: despite the progressive decrease in housing prices and rents which followed the crisis, more than 43% of young people in Spain do not have a source of earned income which will allow them to form their own household.

Changes in funding/financial sustainability of social housing: The number of people employed by public housing companies has been reduced by a 30% approximately, as well as the salaries of employees. Funding is increasingly squeezed and public housing companies are facing serious economic difficulties: at the beginning of 2011 direct aid to homebuyers disappeared and public funding for the provision of rental housing dropped by 40%. At the same time, private credit institutions at the moment tend not to invest in the real estate sector, and the public credit institution Instituto de Crédito Oficial cannot cope with the demand for financing. Given the drop in the housing market and the large stock of empty housing stock, the Government approved a temporary measure to encourage the purchase of housing: from the 19<sup>th</sup> August until December 31<sup>st</sup> 2011, all the payments for housing purchase (in the subsidized and free market sector) were taxed at a reduced VAT rate of 4%. This measure has been put into question by the European Commission, as EU regulation only contemplates the possibility of applying a reduced rate to social housing and not for all types of housing. Therefore it is unclear whether this measure will be extended in 2012.

## Conclusions

It is difficult to fully grasp the effect the financial and economic crisis has had on the sector to date and to predict what the impact of recently adopted austerity measures will be in the coming years.

Already evident is growth in demand for affordable housing and housing allowances, vis-à-vis declining socio-economic conditions of an increasing share of the population. In the context of the current economic downturn, a number of trends point to increased difficulty in accessing and maintaining suitable accommodation such as an increase in rent and mortgage arrears, number of re-possession, people registered on social housing waiting lists as well as in levels of homelessness.

Within this context, social housing financing models are put into question by several issues: first of all, states can no longer sustain budget disequilibrium and accumulation of debt and in some member states cuts in public budget allocated to social housing policy implementation is dramatic. In the case of Greece, the most recently approved austerity plan basically determines the end of public intervention in the housing sector, with the dissolution of the only public body in charge of providing affordable housing to low income workers.

At the same time, in a majority of countries a restriction of lending to the sector has been recorded. Larger housing organisations with significant stock and resources which can be used as equity are still able to leverage access to credit from banks with favourable conditions, however the situation is increasingly difficult for smaller organisations.

The impact of these different factors varies according to the financing model for social housing provision, i.e. according to the respective weight of public funding, bank loans, and own resources of social housing providers used to finance new housing delivery.

Overall, it should be stressed that the existence of intermediary/dedicated sources of funding (such as, among country examples illustrated in this briefing, the case of 'Livret A' system in France) is proving particularly effective in shielding the social housing sector from the current turmoil.

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### List of contributions/national correspondents:

Unless otherwise indicated, information presented in this briefing was collected by our correspondents within CECODHAS Membership. More specifically we would like to thank the following correspondents for sending relevant information and participating to discussion:

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## CECODHAS Housing Europe's Observatory

The Observatory is the research branch of CECODHAS Housing Europe – the federation of public, cooperative and social housing. The main aim of the Observatory is to identify and analyse key trends and research needs in the field of housing and social housing at European level. The Observatory supports CECODHAS Housing Europe's policy work by providing strategic and evidence-based analysis in the field.

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