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International Good Practice in Affordable Housing

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1.1 INCLUSIONARY ZONING – USA, MONTREAL, FRANCE

Urbanization poses significant challenges in terms of environment preservation, economical equity and social inclusion. In this context, urban planning and housing competences of local governments constitutes important powers that can help resolve those major international challenges. Thus, in the area of housing rights, the New Urban Agenda puts the spotlight on the role of local governments in achieving this goal.

With inclusionary zoning (IZ) a developer is legally required to include some number of units (or a percentage share) of housing in new residential developments as "affordable housing". This happens in large new development areas where a re-zoning is required and needs approval of the municipal authorities. With a change of zoning and use, or with higher densities, the value of the land increases and enables higher profits to the developer ("public gain"). IZ is a way of sharing the publicly created benefit.

There are many examples of IZ in the US, especially in the coastal states California, New Jersey and Massachusetts. Usually the "affordability" requirement is limited-term, with around 30 years the most common time frame. Key legal mechanisms need to be implemented to help jurisdictions stay notified of illegal sales, improper refinancing, over-encumbrance with second loans, and defaults that could jeopardize the continued availability of inclusionary units. In the US experience, third-party partnerships with non-profit organizations, such as community land trusts, for-profit administrative agents, local housing authorities, and non-profit housing developers enable many inclusionary housing programs to improve their stewardship and oversight of for-sale and rental inclusionary units.

In Canada, until 2017 there was no federal housing strategy. Therefore, the provinces and municipalities have become active in affordable housing policy. Provinces enable their municipalities to adopt bylaws to establish inclusionary zoning policies. While many municipalities have discussed the concept in Canada, and advocates have encouraged adoption, the actual experience to date is very limited. One example is the City of Montréal in Canada which set up an *Affordable Housing Inclusion Strategy* that requires incorporating 30% of affordable and social housing in new major residential projects. This type of housing policy helps to develop a diversified residential offer that promotes social inclusion, particularly in central sectors in redevelopment with access to public infrastructures. Construction depends on the availability of provincial affordable housing programs to fund the cost of the development. Developers do not have to absorb the cost; they do however have an opportunity cost in not generating the full market value for the affordable units. Montreal's policy includes both social rents where the social housing partner manages and administers traditional subsidies for social rents (with rents set at a percentage of incomes) as well as affordable ownership. The Strategy has been successful in that it has resulted in the negotiation of 8,000 social, community and private affordable inclusionary units in 31 projects.

Inclusionary zoning is nowadays heavily used in many other European states and cities, e.g. since a few years by the municipality of Vienna, albeit by contracts in private and not public law ("Städtebauliche Verträge"). An internationally important lesson from inclusionary zoning approaches is that programs must include a clear definition of what is "affordable" housing (rent/price, duration, allocation) and controls if these requirements are met throughout the social obligation period.

1.2 OBLIGATORY SOCIAL HOUSING SHARE FRANCE

In France, the main aim of inclusionary zoning is to foster social mix. In 2000, France passed the *Loi relative à la solidarité et au renouvellement urbains* (SRU), whose main goal is to combat segregation in housing and to strengthen solidarity among its citizens. The law includes a strategy for the distribution of social housing to prevent ghettoization and the concentration of risk groups: By striving for mixed neighbourhoods, the French government hopes to increase social cohesion and counterbalance the uneven geographical distribution of social rental dwellings.

The SRU sets the obligation to have at least 20% of social housing in every municipality over a certain number of inhabitants. Then it is up to the municipality to decide how to implement this percentage and to set the rules in its urban plan. The Department of Housing is monitoring the implementation of this program and will fine communes for not taking the appropriate measures to fulfil their obligations. A first evaluation of these requirements shows that more than one-third of communes have met their obligations in full, and a substantial number have come close. This is a particularly impressive fact in light of the complex political and fiscal realities facing local governments. Yet, small communes in particular face substantial difficulties, as they are equipped with severely limited technical and financial resources in attempting to comply with the law.

2 GOOD PRACTICE IN THIRD SECTOR PROVIDERS

2.1 LIMITED PROFIT HOUSING ASSOCIATIONS IN AUSTRIA

Limited-Profit Housing Associations in Austria date back to the early twentieth century with origins in the cooperative sector and continuously gained importance since the 1950s. The foundation of the first housing associations is closely linked both to the housing question and the social question. The main idea today is setting up a long-term social housing stock at below-market cost-rents directed at large parts of the population (Matznetter, 2002; Ludl 2007; Amann *et al.* 2009; Lawson *et al.* 2010; Mundt & Amann, 2010; Reinprecht, 2014; Kadi, 2015; Mundt, 2019). Notably, social housing in Austria is rooted in an ideological background which stems both from the socialist idea of solidarity and the catholic social doctrine.

For a long time, the LPHA sector was mainly driven by the two then dominant parties, the People's Party and the Social democratic Party. Today it is basically supported by all parties represented in Parliament, even the right-wing populist Freedom Party.

2.1.1 MAIN CHARACTERISTICS OF THE BUSINESS CASE

The LPHA business case is defined in detail in the Limited-Profit Housing Act (*WGG, Wohnungsgemeinnützigkeitsgesetz*, BGBl. Nr. 139/1979), which is a federal state responsibility, and a number of directives, issued by the Ministry of Economy as ministry in charge for this sector.

<u>Legal definition</u>

The LPH Act describes LPHAs as enterprises whose activities are directly geared towards the fulfilment of the common good in the field of housing and residential matters, whose assets are dedicated to the fulfilment of such tasks and whose business operations can be regularly reviewed and monitored. However, regardless of this orientation towards the common good, limited-profit housing associations are nevertheless part of the private sector.

Cooperatives and companies are allowed to act as such, if they are recognized as LPHA and become subject to this law. Rescission of this status is hence the most serious sanction in the case of misbehavior, including grave economic consequences.

The LPH Act defines a number of principles for the business case, with the most important ones as follows:

<u>Limited filed of action</u>

The housing associations must focus on housing construction (incl. homes for students or elderly people), refurbishment and housing management. Other activities are possible but require the explicit consent of the *Länder* governments as supervisory body. This concerns e.g. social infrastructure for municipalities.

<u>Cost coverage principle</u>

The system employs a cost coverage principle, both for rental and for owner-occupied housing. This even applies to LPHA activities without subsidies. Cost coverage is calculated on estate-level, and there is no rent-pooling at LPHA level.

One might suggest that a cost coverage principle leads to higher production costs. In effect, the contrary is the case, as described below (chap. 2.1.3c), p. 10).

Rents and purchase prices must not be above own costs of the LPHA, but neither below, i.e. it is legally prohibited to make losses in given projects or cross-subsidize activities. Allowed costs are legally defined and include a few components for which the LPHA may generate profits (e.g. a construction supervisory fee, lump-sum fees for planning services or for housing management). For investment of own equity in a housing project the LPHA may charge an interest of up to 3.5% (today in practice mostly much less). The most important revenue comes from amortized dwellings, for which an exemption to the cost coverage principle is stipulated (details see chap. 2.1.3b).

The components of revenues are designed as incentives to act in an economically rational manner (Ludl, 2007; Lawson et al., 2010). For this purpose, they have been adjusted in an iterative process with every reform of the LPH Act. The principle is also linked to a special mark-up for periodic renovation and maintenance works (*Erhaltungs- und Verbesserungsbeitrag* EVB, see chap. 2.1.7, p. 12).

<u>Limitation of profit – obligation to reinvest in housing</u>
The legally defined revenues of LPHAs are meant to strengthen their equity base, to support their financial maturity and their market power towards the construction and finance industries (see chap. 2.1.3b), p. 10). For this reason, profits have to be reinvested in assets connected with housing, e.g. construction financing, early repayment of (subsidized) loans, refurbishment, purchase of land (since recently also land not yet zoned for housing). Thus, many LPHA were successful to build up substantial reserves of building land. As big players on the land market, they are able to purchase large plots at discounted prices. For big deals, groups of LPHAs and commercial developers often cooperate.

A tightly limited part of the profit may be divided to the owners or shareholders. It is defined with 3.5% of originally invested capital. As this is a historic value which is not upgraded over time, in many cases only a negligible amount goes to the LPHA shareholders. Though, private investment in LPHAs is attractive, as described in chap. 2.1.2e) (p. 9).

<u>Obligation to build</u>
The obligation to build is a driving force to keep the sector busy, because for an LPHA with a sufficient number of amortized dwellings, it may be easier to stop building and only manage the stock. With the latest reform of the LPH Act in 2019, deep renovation has been defined as equal to new construction. This intends to relieve the situation of small LPHAs in terms of the obligation to build.

<u>Tie-up of assets</u>
The LPH Act stipulates that in the case of merger and acquisition of LPHAs, the seller will get no more than the originally invested capital (appropriate interest is usually disbursed on yearly basis on the way of limited profit distribution). Hence, any possibility to cash-out dormant assets of an LPHA are prevented. This is a critical rule of the LPHA scheme, as the real value often surpasses the nominal value of assets of LPHA by a factor of 20 or more. Stricter protection of LPHAs from cashing out has been one of the main issues of the latest reform of the LPH Act (see chap. 2.1.9, p. 13).

<u>Rent-to-buy</u>
Since 1994, the LPH Act contains a right-to-buy for tenants who contribute a certain amount of their own funds to co-finance the costs of land or/and construction when they move in (currently around 70 €/m² upfront payment). After a period of 5 years (since recently, before 10 years), tenants of these new-built apartments have a right-to-buy. This new form of tenure was introduced as a compromise between lob-

bies in favor of a growing share of owner-occupation and those supporting the social rental sector. However, even though the majority of LPHA new construction can be attributed to this form of tenure (see Figure 1, p. 11), only a relatively small part of tenants of below 30% decide to buy. The ratio is higher for row houses, dwellings in the attic and altogether in urban areas, but lower for all others.

The main reasons for tenants to decide for rent instead of buying are the following: Rent tenure in Austria is very secure and in the LPHA sector usually offers unlimited-term contracts. Adult children and spouses have a right to step into the contract. LPHA rents are moderate. According to the cost rent scheme, after the refinancing period rents will decrease since financing costs are lower. Finally, LPHA have proved to act highly professional in housing management. This contributes to a slightly growing rental share in Austria as opposed to owner-occupation.

2.1.2 Institutional setting

a) Ownership structure

Today, 185 LPHAs are active in Austria, roughly half as co-operatives, others as limited-liability companies or stock corporations, but within a common legal scheme and supervisory structure. Cooperatives are owned jointly by their members while the capital companies are owned by local or regional public authorities, charity organizations, parties, unions, companies, the financing industry, foundations or private persons (Ludl, 2007).

b) Market failures addressed

The main benefits of the LPHA scheme unfold by comparison with housing policy systems in other countries all over the world. On the lower end of the income strata, municipal or public or social housing serve the needs of households in need. For better-off households, markets seem to provide sufficient and appropriate supply. But all over the world, market prices have increased stronger than incomes recently. There is a growing gap for moderate-income households that do not qualify for social housing, but cannot afford market housing. The Austrian LPH-model seems to be an appropriate answer to this market failure. LPHAs offer affordable housing supply in market segments and regions, where commercial housing providers would not be active. In this respect, the LPH sector relieves pressure on the commercial sector. This makes explains why the commercial real estate sector in Austria hardly opposes the LPH scheme.

Some risks are seen to threaten the societal consensus: LPHAs increasingly engage in non-subsidized housing, both rental and owner-occupied, and thus directly compete with the commercial sector. Particularly in Vienna, the LPH sector primarily serves middle class households. Low income and vulnerable households mostly depend on the municipal housing stock. Deficient social targeting requires new orientation in the allocation of dwellings, particularly the amortized, and therefore cheap, units.

c) Audit and control

LPHAs have to be registered and are strongly supervised. There is a very tight system of control over LPHA activities and expenses: LPHA are both self-auditing and publicly regulated. The regional governments are auditing authorities for the LPHA active on their territory. But the LPH sector itself conducts the auditing procedures.

All LPHA have to join the common Audit Association (*Revisionsverband*), which is organized jointly with the lobbying organization of the Sector (*Verband der gemeinnützigen Bauvereinigungen, GBV*). The LPHA audit goes much deeper than a usual year-end audit of capital companies. It also includes detailed assessments of accordance of business conduct with all legal provisions, including purchase of building land, rent setting, tie-up of property and remuneration of the management.

The LPHA supervisory scheme has its origins in the cooperative sector. But recent reforms show a growing proximity to banking supervision, particularly regarding fit & proper-regulations. The LPHA audit also functions as a form of economic supervision and is used to offer the member enterprises qualified information and assistance to improve productivity and competitiveness.

In the case of detected aberration, the regional government has an array of measures to enforce correction, starting with a notification to correct, then a threat of exclusion of new subsidies for a period of time and finally a threat of rescission of the LPHA status. The latter implies that the LPHA shareholders would be compensated only with the originally invested capital and all dormant assets would be transferred to another non-profit organization.

This arrangement has proved to be an effective tool to avoid misconduct. The tight operational framework given by the LPH Act, the supervision through the regional authorities, and the fact that many housing associations are owned by semi-public bodies have as a result that housing associations are regarded as the "lengthened arm of housing policy".

d) Representation of interest

A parallel organisation to the Audit Association (Revisionsverband) is the LPHA representation of interest (*GBV Verband*). It is not only successful in positioning of the sector in public opinion, but is also well equipped with legal experts, who, together with responsible civil servants at the Ministry of Economy, take substantial influence in reforms of the LPH Act.

Due to historic reasons, all LPHAs are attached to one of the two party-related, political interest groups, the *Arge Eigenheim* (proximity to People's Party) or *Verein für Wohnbauförderung* (proximity to Social democratic Party).

e) Shareholder's interests – trading of LPHA shares

A common question touches on the interest of private investors to take stakes in the LPH sector. As a matter of fact, demand of private investment in the sector is vivid, even though the sector is extremely illiquid. Trade of LPHA shares is encumbered not only due to price regulations (only nominal value), but also because it would actuate real estate transfer tax for the entire housing stock of a company.

LPHA shareholders benefit from their stakes for different reasons: they can serve their clientele with affordable housing (e.g. trade unions), there are hardly any downward risks, there are several opportunities for side businesses (e.g. for the financing industry). In any case, most LPHA are solid enterprises with a substantial economic and societal impact. They have everything that makes an investment valuable, except fungibility. It is not possible to exchange LPHA housing into fancy cars.

The question of up-valuation of LPHA shares is currently under intensive discussion. Shareholders mainly from the financing industry argue that they cannot justify their investment with no upward opportunities. Opponents to this position argue that any further benefit to current or future shareholders of LPHAs would sooner or later end in rent increases. Recent reforms of the LPH Act tend to support the position of these opponents.

2.1.3 ECONOMIC SIGNIFICANCE

a) Key data

The managed housing stock of more than 630,000 rental dwellings and almost 320,000 owner-occupied apartments, together around 950,000 units (2019, GBV data, IIBW forecast) represents 24% of the total housing stock in Austria and almost 40% of all multi-apartment dwellings (principal residences).

The sector has altogether more than 9,000 employees. The 98 cooperatives have around 550,000 members. Total assets of all LPHA amount to far above 50 bn. EUR (Amann & Struber, 2019). But the real value of assets is two to three times as high (IIBW estimate).

b) Economic maturity

Despite the cost rent principle, the LPH Act defines a number of activities which allow profits to be made by LPHA. This is e.g. fees for organizing building or refurbishment projects, lump sum fees for housing management, interests on invested own equity or rents of fully amortized buildings. These components provide stable and predictable incomes. Nevertheless, the equity ratio differs substantially over the sector. A number of LPHA with older and hence amortized rental housing stocks, today are economically quite mature with equity ratios of up to 50%. On the other hand, there are younger housing associations with a focus on owner-occupied housing or more rural markets, which show a much poorer performance (Amann & Wieser, 2015). Yet, very rarely LPHA went bankrupt; and for decades no single buyer or tenant lost money for this reason. With the latest reform of the LPH Act the framework to build up own equity have further improved.

c) Economy of costs

Due to a number of measures on the side of the LPH Act and the subsidy systems, costs are altogether significantly lower than in the commercial sector. Another important aspect is the system of audit and control (see chap. 2.1.2c), p. 8), which assesses all levels of business conduct regarding appropriateness and economy of business, using a set of performance indicators. Finally, LPHAs enjoy extremely good financing conditions, resulting from a default rate close to zero and an implicit state guarantee covering the sector.

2.1.4 OUTPUT AS HOUSING DEVELOPERS

a) New construction with subsidies

In the past century, the LPHA-sector has realized more than 1 mill. housing units altogether. The output is around 15,000 dwellings per year on a rather stable level (see Figure 1). This accounts for 23% of total new construction today (completed housing units), i.e. 41% of multi-apartment units. The LPHA share in total new construction was even much higher in times of slumps in the construction industry in the 2000s. The current boom in housing construction is hardly reflected in the output of the LPH sector. One reason is the austerity policy of the *Länder*, another one is scarcity of affordable building land in areas of high demand.

LPHAs nowadays mainly build rental apartments, roughly half of it with a right-to-buy. Affordable owner-occupied housing used to be a predominant product of the sector until the early 1990s. But with the introduction of the rent-to-buy scheme this product lost its significance almost entirely. The new federal government has set a focus on house ownership. Also, some *Länder* governments go in this direction. Hence, it can be expected that affordable owner-occupied housing will soon gain importance.

LPHAs, on the other hand, have understood that in a long-term economic perspective, rental housing generates much higher returns than owner-occupied or rent-to-buy housing. For this reason, many of them use the very good capital market situation to rearrange financing schemes in a way that a right-to-buy is avoided, i.e. they decrease tenant contributions below the limit of 70 €/m² to circumvent the obligatory right-to-buy.

b) New construction without subsidies

In urban regions, particularly in Vienna, some LPHAs nowadays also build without subsidies but with market finance. If these activities are performed by the LPHA itself, cost-rents apply nevertheless. In some cases, LPHA have formed commercial daughter companies, which may act outside the cost-rent regime (Pech, 2014).

c) Special development services

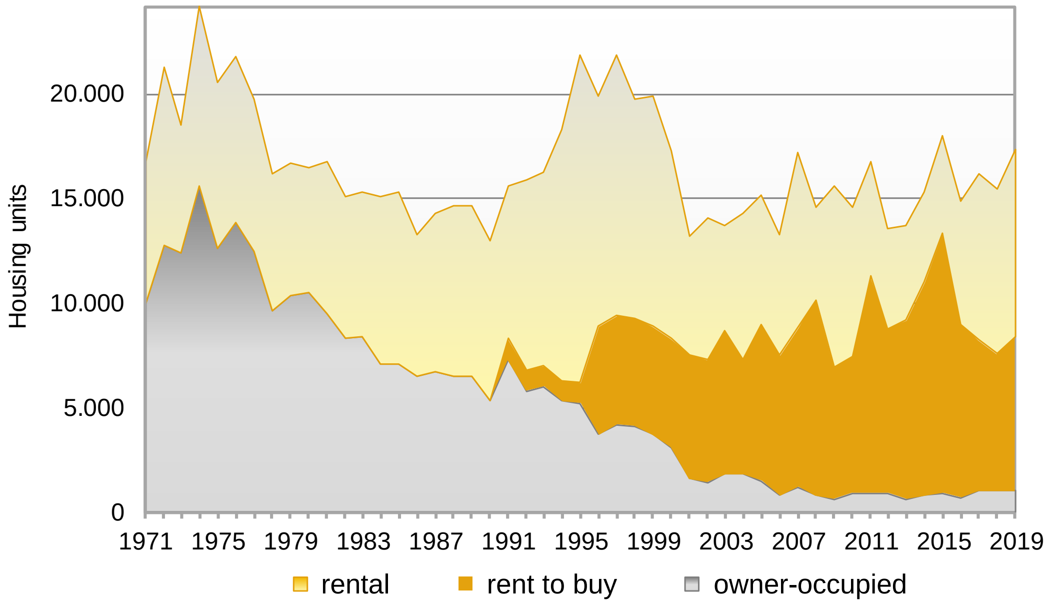
There are few LPHAs specialized in student housing. Many LPHAs realize elderly housing and assisted living (*Betreutes Wohnen*). Of growing significance are services for municipalities connected to social and municipal infrastructure.

2.1.5 Access parameters

As private sector enterprises, LPHAs do not apply income limits during the allocation of their dwellings. Such income limits only derive from subsidy regulations and hence only for the period the subsidy is active. This is mostly for 25 to 40 years.

The reform of the LPH Act 2019 (BGBl. I Nr. 85/2019) brought a clarification regarding social targeting of housing allocation, as such has to consider urgency of housing demand, incomes and household composition (§ 8 (3) WGG). Many LPHAs have internal regulations on the allocation of dwellings in place,

Figure 1: Completed apartments by LPHA



Re. 2019 IIBW estimate.
Source: Amann & Struber, 2019; GBV data.

following social criteria. Another novelty is the prioritisation of victims of violence and preference of Austrian and EU citizens (and coequal) over migrants from third countries.

Net rents in amortized LPHA dwellings fall to a level of around 1.8 €/m² (*WGG Grundmiete*). For a part of this stock of amortized dwellings, a special regulation allows the *Länder* to define criteria of re-allocation. A new regulation is being discussed on how those very affordable dwellings may be allocated in a socially better targeted way.

LPHA rental contracts are usually of unlimited term. Only in Vorarlberg, subsidy regulations stipulate limited term lease contracts. Altogether, tenants in Austria have extensive rights regarding security of tenancy, eviction and succession of the rent contract to spouses and children.

2.1.6 Performance as housing managers

All LPHA manage their stocks (950,000 units altogether) by themselves or do it jointly. Many municipalities have entrusted LPHAs to manage their public housing stocks. Thus, some of them have developed into very large housing management enterprises. Some of the larger ones have become highly professional service providers building on advanced IT tools.

The LPH Audit Association assesses economic efficiency and appropriateness of housing management and gives feedbacks, based on sector benchmarks. The legal provision to manage the housing units the LPHAs built by themselves, is a strong incentive for high construction quality and social balance in their buildings.

2.1.7 Housing maintenance schemes

While in many European countries the social housing stock suffers from a substantial backlog in refurbishment, the Austrian LPH-stock is often of better construction quality and better maintained than the commercial rental stock or the stock of owner-occupied housing.

The entire sector has a refurbishment volume of almost 1 bn. EUR per year (GBV data; Amann & Struber 2019). This covers deep renovation of recently around 8,000 housing units (2018; some years ago it was up to 14,000) and plenty of smaller maintenance activities. Even though the LPHA housing stock is younger than all other housing sectors, the refurbishment rate is over-average.

The corner stone of the successful maintenance regime in the LPH sector is a special mark-up for periodic renovation and maintenance (*Erhaltungs- und Verbesserungsbeitrag, EVB*). It is mandatory and increases with the age of the building from 0.5 to 2.0 €/m². Neither in the private rental stock nor in owner-occupied housing, there is such a mandatory reserve fund of this volume.

The LPH Act is more advanced than legal regulations on other housing sectors not only concerning mandatory maintenance fees. Opposed to other sectors, the LPH Act also provides regulations on how to use reduced heating costs for financing deep renovations. It provides incentives to LPHAs to invest own equity for this purpose, and lays out simplified procedures to increase rents.

Some large LPHAs have established specialized daughter companies for the maintenance of their buildings and facility management.

2.1.8 Procurement approach

LPHA are regarded as private sector companies, even if they are owned by public authorities. The main reason for this point of view is their full economic independence and takeover of all risks from business and construction. Conflict of interest is avoided as the construction industry must not have a dominant share in any LPHA and hence cannot have a dominant influence. Conflict of interest is furthermore avoided by strict audit and control of all LPHAs. There are no limitations regarding stakes held by the financing industry.

2.1.9 Recent changes

In the past, the LPH Act was reformed much more dynamically than other housing legislation. For this reason, the legal framework of the LPH sector is much more "modern" and effective than in other housing sectors. The latest amendment to the Law from 9/2019 (BGBl. I Nr. 85/2019) had, amongst others, the following key aspects:

a) Easier access for tenants to own property with a reform of the rent-to-buy scheme (first opportunity already after five years, two more opportunities).
b) Change in the LPHAs limited field of action (see chap. 0 to easier execute social and municipal infrastructure for municipalities.
c) Changes of allocation rules to benefit Austrian (and EU and coequal) citizens, as a reference to the political focus of the right wing populist Freedom Party which was in power prior to the enforcement of the law.
d) Strengthening of the supervisory power of the auditing association and other rules to avoid cashing out of LPHA assets. This was a reaction to the lengthy debate about "privatisation" of the medium-sized LPHA "GÖD". It seems that this deal will have to be unwind, even though parts of it reach back for almost one decade.
e) Improved regulations on decarbonisation of the LPHA housing stock, including better financing schemes, more decision-making authority for the LPHAs and an exemption to the obligation to build for small LPHAs if they execute deep renovations. Now it will be easier to replace fossil heating devices, to install PV and charging infrastructure for E-mobility and to perform deep renovations of existing buildings.
f) New regulation of incomes of LPHA managers and measures to improve transparency and compliance both of the management and the supervisory boards (fit&proper).

3 GOOD PRACTICES IN PUBLIC RENTAL HOUSING

3.1 SWEDEN MUNICIPAL HOUSING COMPANIES

Public housing plays an important role in Sweden but it is not called social housing there as it is open to all. In Sweden, 30% live in rental apartments. Roughly half of those are owned by private landlords and the other half are owned by municipal housing companies (MHC). In Sweden, flats provided by these companies are called public housing. There are over 300 municipal housing companies in Sweden. They are owned by the municipalities and managed as limited-liability companies. The Swedish Association of Public Housing Companies (SABO) is an industry and interest organisation for all MHC in Sweden, managing some 802.000 dwellings all together.

The origin of MHC dates back to the end of the Second World War. In 1946 the Swedish Parliament passed a bill outlining the housing policy for years to come, which focused on an extensive new building programme to address the shortage of dwellings and also raise the standard of living. This was a time of economic growth and labour immigration. The aim was to deal with the shortage through new production and redevelopment. The Government financed the building programme with subsidized loans and by establishing new non-profit companies, owned and managed by the municipalities.

In addition to providing high-quality buildings, MHC construction also introduced tenants the possibility of co-determination, offered leisure activities for children, created safe environments, provided assistance for jobs, developed new technologies to save energy and also promoted integration. The public housing companies became the municipalities' – and indeed Sweden's – tool to overcome challenges extending well beyond the function of housing supply.

A peculiar feature in the Swedish housing system is the regulation of rents which is common to the private and public housing segment. The Swedish Union of Tenants (SUT), with more than half a million households in membership, negotiates rent increases each year with the representatives of the MHCs and – since 2011 – the private landlords, too. Negotiations are conducted at the level of municipalities and are binding to both the private and MHC landlords.

Negotiations generally have two points of departure: the *utility value* of the apartments and changes to the cost of building and managing the housing. The utility value is based on how tenants generally value various characteristics such as the nature of the apartment, benefits, location, environment, quality of property management et cetera. As an outcome, rents are based on costs, even if there are no longer formal rules requiring this. There usually is no cross-subsidization from rents in the old MHC stock to finance new construction.

The MHC provide housing for all, regardless of age, ethnicity and income. Apartments are typically allocated according to time spent on the waiting list, with everyone being able to queue for an apartment. In practice, the usual tenants are not wealthy people, but there are a lot of middle-income households living in buildings owned by MHCs.

SABO has developed a series of models for construction with a more diversified quality. Models of more industrialised and/or standardized low-cost housing provide more basic apartments (Kombohus). The demand from higher-income groups can be expected to be relatively low and this means that these apartments, especially in suburban locations, would be available for lower-income groups even if there are no formal income limits. The current problems focus on a shortage of housing in urban centres, and the difficulty to build at low costs, also because of the availability of building land. Legislative changes mean that the public housing companies have to combine their social responsibility with a business-like approach.

3.2 VIENNA MUNICIPAL HOUSING

Not on a national level but focused on a municipality, the capital of Austria, Vienna, has a large municipal housing stock that still provides rental housing units at below market prices. The city of Vienna still owns some 210,000 units of such rental apartments, 25% of the Viennese population live in such apartments. Other than in Sweden, there are no special municipal housing companies, but municipal apartments are owned by the city directly. An agency linked to the city administrates them and allocates apartments. The municipal housing stock has its origins in the 1920's and the social movement of Red Vienna. After the Second World War the city built apartment blocks that increased the available housing stock. The construction was financed out of a special tax first levied on the municipal level than integrated into the federal tax system. Building plots provided by the city were an important cornerstone.

Municipal rental apartments are also allocated due to waiting lists, but certain requirements have to be fulfilled. Urgent housing need has to be proven and specific, although fairly high, income limits have to be observed when an apartment is allocated.

Throughout its history there was no privatization of municipal housing. Vienna has maintained a special position among European urban housing markets due to the continuous and strong commitment of the (continuously social-democratic) city government to social housing and the resistance to privatisations.

4 Good practice in Employment of the private sector

4.1 LIHTC – Low-income Housing Tax Credit in the US

4.1.1 Sources

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4.1.2 Origins and role

In 2016 an intricate system of private rental housing provision for low-income earners in the USA celebrates its 30th university. The System of Low-Income Housing Tax Credit (LIHTC) was established in 1986. It has provided such a large volume of affordable housing units that it must be seen as the most effective social housing program in the USA so far. The main idea is the inclusion of institutional investors as medium-term providers of affordable housing through tradable tax incentives (Schwartz, 2015; Blessing & Gilmour, 2011; Blessing & Mullins, 2016; Blessing, 2018). With equity from sale of the tax credits, developers are able to build affordable housing.

By now, the LIHTC system is the most important element in the provision of affordable housing and more important than the direct provision of public housing (Khadduri et al., 2012). Around 90% of all yearly new provisions of affordable housing are put un the market through LIHTC. Around $ 8 bio are invested every year. All together some 2.97 mio dwellings have been provided through the scheme so far (Blessing & Mullins, 2016, p. 5; Blessing, forthcoming).

4.1.3 Functioning

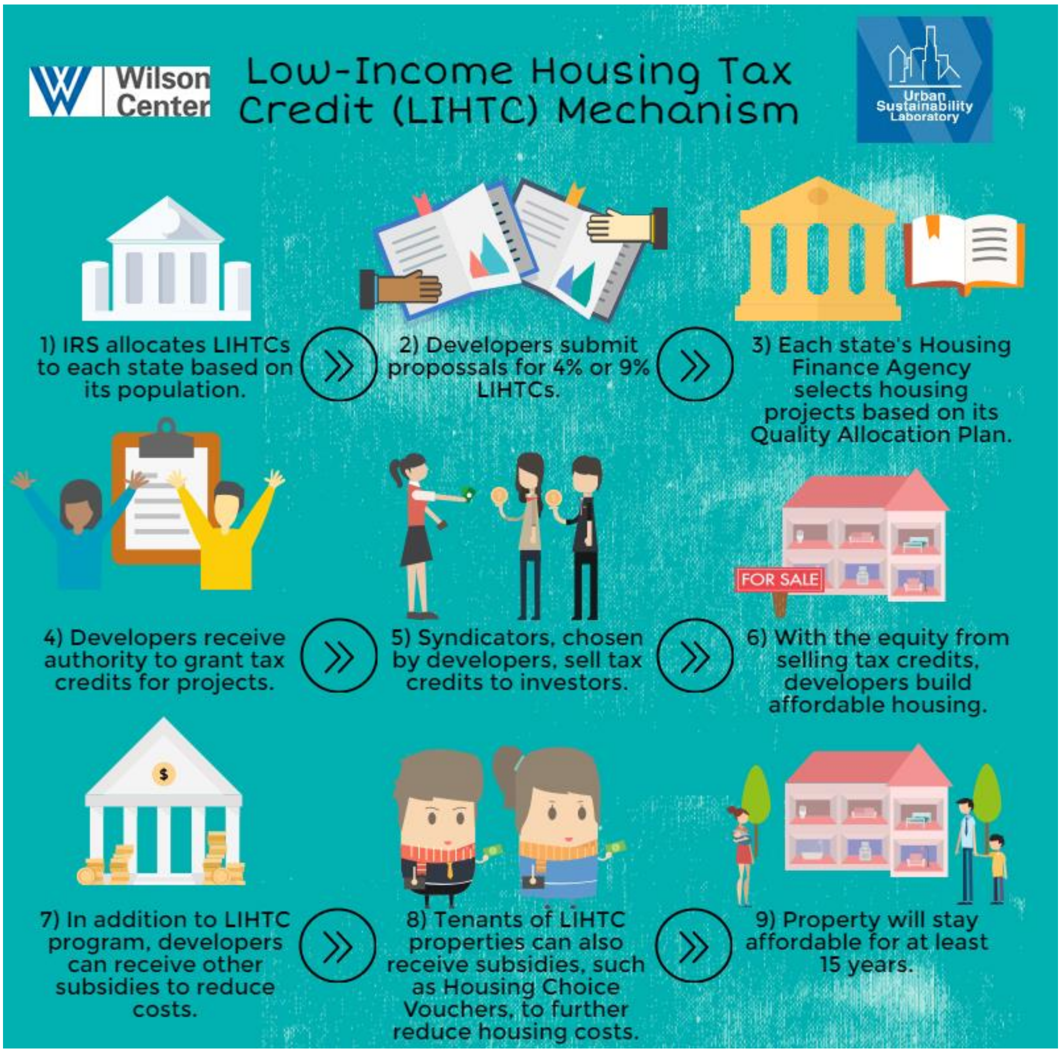
In short, these are the basic principles of the scheme:

- Even though the system is based on tax benefits, it is not universally available to all investors. In a first step, the federal government allocates shares of the program to the states according to a quota based on population. In a second step, specific state agencies (housing finance agencies HFAs) decide on the projects that will receive public support. The decisions are based on competitive tenders.
- The tax benefit attributed to a specific project depends on the number of “affordable” units and the degree of targeting the allocation to low-income and poor households. For example, a certain share of all dwellings have to be allocated to households below 60% of median family income for the respective metropolitan area (called Area Median Income, AMI).
- Most projects are realized by specific social housing providers but also commercial developers can apply for LIHTC if they adhere to the stipulations of the tender, especially concerning the social allocation of dwellings. Many developers are Neighbourhood Development Corporations.
- The developers usually do not use the tax credit themselves but trade them with investors who in exchange provide own equity for building activities. These invesotrs can use the tax credit every year

up to 10 years. After 15 years the dwellings will pass from the social to the market housing segment, which is an important motivating factor for institutional investors to participate in the scheme.

- Rents are regulated for 15 years. The rent level is usually set in reference to the average family income in the respective metropolitan area (usually at 30% or 50% of this value). Therefore, households with an income at 50% the average income will end up with housing cost burdens of 30% of income.
- The trade of LIHTC is usually organized by specialized agencies (syndicators). These syndicators mediate between financial investors as capital providers and accredited housing developers. Investments are typically bundled from several investors and invested into a bundle of several projects. Through this procedure, the process becomes much more complex and less transparent, but the risk of investing in a single project is reduced considerably and investments can have smaller volumes. In such a way, investments become a tradable good much like bonds (Blessing & Gilmour, 2011). Figure ## summarizes how the process works.
- More than just connecting the two agents financially, syndicators have become important intermediaries in the affordable rental housing industry. They are usually non-for-profit institutions that provide expert knowledge, but also undertake research and develop indicators to promote green, healthy, and sustainable urban development (Blessing, 2018).

Figure 2: Wilson Center: Pictochart of LIHTC



Source: National Housing Law Project
https://www.wilsoncenter.org/article/infographic-the-low-income-housing-tax-credit-program-how-does-it-work

- The investor is not involved in the development process or the ongoing management of the rented project and is not permitted to withdraw from the partnership until the end of the compliance period, during which units produced must be made available at affordable rents (Blessing, 2018).
- Own equity contributions by investors, who are motivated to participate by LIHTC, are not the only financing component with affordable housing projects. They also receive state or municipal loans or low-interest bank mortgages.

Dwellings provided by the LIHTC scheme target low-income households but not the poorest. Destitute households and vulnerable groups rather depend on the public housing stock, which is only 1% of the stock on a national basis and hardly increases by new construction. Compared to more universalistic systems as in Scandinavia and Austria, targeting of LIHTC is still high, but typically beneficiaries are working, yet low-income households. When moving in, these households usually have to have an income at 50% or 60% average family income for the respective metropolitan area. Often these income limits hold for all of the dwellings within a LIHTC-bloc which has negative repercussions on social mix (Schwartz, 2015).

In their analysis, Blessing and Mullins (2016) show that the LIHTC system is not just a tax-based incentive structure for institutional investors. Rather, there are additional elements to it. Especially the legal framework is important, with the "community reinvestment act (CRA)" from 1977 playing a lead role. This act commits banks to make social and infrastructure investments in the same spatial areas where they collect savings. CRA-regulated financial institutions are required to demonstrate adequate reinvestment within lending, community development, and 'service' which relates to providing bank branches in low-income neighbourhoods (Blessing & Mullins, 2016, p. 7). There is a legal basis to invest also into such deprived neighbourhoods and banks can fulfil this obligation by investing into tradable LIHTC. In addition, banks are ranked according to their CRA-activity by an independent agency. This ranking is an important indicator for bank customers. The success of the LIHTC system is thus based on the combination of a "carrot" (tax credit) with a "stick" (obligatory social investment through CRA) (Blessing, 2018).

As a consequence, mainly banks and funds invest in the LIHTC system. Fannie Mae and Freddie Mac also were important institutions investing in LIHTC, before they were nationalized during the Global Financial Crisis. The current US Federal Administration's enthusiasm for corporate tax cuts has negatively impacted LIHTC yields. However, the system has widespread support and in 2017, a bill of bipartisan support was passed (Blessing, 2018).

The LIHTC-CRA system has been very successful to streamline the financial involvement of private investors into affordable housing provision. Therefore, the approach has attracted considerable international attention, e.g. from Australia (Blessing & Mullins, 2016).

4.1.4 Critical elements

- Schwartz (2015, p. 149) stresses the fact that the system is highly complex and bureaucratic. As such, it is also costly, possibly more costly than direct public loans would be. The complexity of the system might also scare off certain investors or developers.
- The stability of the system in uncertain. For instance, during the Global Financial Crisis, the demand for LIHTC investments dropped suddenly which jeopardized already initiated LIHTC projects. Investors were struggling with their own survival and reduced their financial involvement into affordable housing to cero.

- Social obligations are limited to 15 years. After that period the limit to rents and the social obligations concerning allocations end (Khadduri et al., 2012). Even in ongoing contracts, rents can be lifted to market levels and dwellings can be offered on the open market. This system of limited-term social obligations is similar to the German approach to social housing and has triggered problems of displacements of sitting tenants, residualisation and the necessity to continuously invest in new affordable housing construction.
- However, as Schwarz & Meléndez (2008) find, the main threat to the system stems less from the expiration of income and/or rent restrictions and more from the need for major capital improvements. A relatively small segment of the inventory is likely to convert to market-rate occupancy. Far more of this housing will continue to serve low-income households but will need assistance to pay for essential renovations.
- Some interest groups campaign for a stronger targeting of LIHTC-unit allocation, e.g. proposing that the units be allocated to households with incomes below 80% AMI, instead of the currently used 60%.

5 GOOD PRACTICE IN AFFORDABLE OWNER-OCCUPIED HOUSING

5.1 FINNISH HOUSING COMPANIES

5.1.1 DESCRIPTION

Finland has established an internationally unique system of shareholders' housing companies. This tenure form is close to condominium ownership models that can be found worldwide. The peculiarity is that housing rights for the individual housing unit in a multi-storey apartment building are tradable in the form of shares. The Finish housing companies are limited-liability companies whose organizational form is similar to other joint-stock companies.

They have reached a volume in the housing stock that is hardly rivalled by other states. Nowadays, housing companies represent around one third of all tenures. At first, it was entrepreneurs and companies that invested in this kind of housing for their own workforce. Nowadays, housing companies are run by the residents themselves and are not profit-seeking organizations. The Finnish term is *asunto-osakeyhtiö*, which literally means "dwelling joint-stock company". The ownership of housing company shares grants the right to use one particular apartment in multi-storey buildings.

- Property rights via share ownership enable easy transactions with high transparency
- The highest decision-making body is the General Meeting of shareowners, which is held at least once a year. Making decisions in the General Meeting is easy. In most cases, 50% majority suffices. The rights of the remaining minority are clearly legally defined, but a minority cannot block important decisions on issues of interest to all co-owners.
- In cooperatives the passing on of rights or ownership can be complicated. The form of housing companies enables a more organized succession of owners which guarantees a continuous income-stream to the housing company.
- Clear stipulations on decision-making and property rights have contributed to periodic renovations and an above-average energy efficiency of housing company buildings. It is common practice to collect funds for periodic renovations in advance on a long-term basis. Heating costs are also collected and distributed collectively.
- The housing company has far-reaching powers to motivate share owners to pay mandatory building charges. A non-paying co-owner can lose the right of usage to the dwelling until outstanding charges are paid. The sanction of having to vacate the apartment in question in order for the housing company to collect rental income on apartments is so strong that the owner would rather pay the monthly payment to the company

5.1.2 COMBINATION WITH SUBSIDIZATION IN THE FORM OF BUILDING PLOTS

In Finland, supply-side subsidies only benefit the social rental stock. Ownership tenures, such as the housing companies only receive certain local subsidies. For example, in the larger area of Helsinki the municipality provides privileged access to cheap building land. As an exchange for these cheaper plots, transaction prices are regulated by law and are set at below market prices. This so-called *Hitas-system* was already adopted in 1970 and profited from the fact that the municipality was the biggest landowner. It rents out its own building land for long-term housing provision. Hitas owner-occupied housing production is built on the city's leasehold plots. Some of the plots are assigned through separately organised quality or price tender competitions. The City also becomes a shareholder in larger housing companies built on these plots. The maximum prices of both new and old Hitas units are regulated and are based on real production costs. The Housing Division confirms the maximum price of Hitas homes for resale purposes. Changes of ownership are recorded in the register maintained by the City of Helsinki. The buyers of Hitas homes are chosen by casting lots in an open lottery; all natural persons who are interested and over the age of 18 can participate. The household cannot own any other shares of Hitas-projects.

The resale prices of housing units are controlled with an index. The Hitas-system is very popular with housing companies because in the capital city building land availability is an issue. This system also improves social and spatial mix. Multi-generational living is an important current trend with housing companies.

6 GOOD PRACTICE IN PUBLIC HOUSING FOR SALE

6.1 SINGAPORE

Singapore is an economically very successful city state that combines a population of around 5.6 mio on an area of only 720 km². Singapore is internationally known for its housing market which is strongly influenced by the state. The basic principle is a combination of a very far-reaching public influence on new construction and house price developments with the transfer of finished apartments into the hands of the population. Citizens are intended to profit from price developments and use them for their pension savings. Housing policy in Singapore benefits from a good international reputation and received the UN-Habitat Scoll of Honour in 2010. The public administration also pays special attention to neighbourhood development and affordability of housing in spite of harsh land restrictions.

What is called "public housing" in Singapore is a system of coordinated building activity by the state. It has its origins in the 1960s when after independence from Great Britain massive housing shortages had to be addressed quickly. The Housing Development Board (HDB) was established in 1961. Up to today it is the institution that is in charge of planning, building, allocation and partly the management of housing construction. The overarching aim is not a completely nationalized housing system, but the transfer of built units to individual households that can trade their dwelling on the secondary market and are intended to benefit from future price increases.

The Land Acquisition Act was passed in 1966 enabling the city administration to collect large land resources for the construction of apartment building. Nowadays, the city owns around 90% of the land. Building land is leased out for construction projects in the form of freehold building leases usually for 99 years.

Since 1960 the HDB realised more than 1.1 mio dwellings. Around 82% of the Singaporean population live in apartments built by the HDB, more than 90% of which belong to individual households (tradable property rights). While the ownership of the building land stays with the state at all time, the individual apartments are sold to households at subsidized prices. When apartments are allocated, the lottery system is used. Young couples are given priority. After a certain period (at present after 5 years), households can trade their apartment on the secondary market and can profit from capital gains. The main idea is the combination of a stately subsidized initial purchase price with the establishment of an open and transparent market for second-hand sales.

The HDB does not build on its own but organizes the construction process through competitive tenders amongst private, also international, developers. The individual sales of apartments are tightly regulated and follow a quota system. HDB provides credit for initial purchases and also second-hand purchases. It also functions as a mortgage insurer. There is high market transparency concerning waiting lists for newly built units as well as for secondary market prices. The administration documents and publishes small-scale price data.

HDB apartment blocks are tightly integrated in neighbourhood development. The individual blocks are grouped together into self-contained towns (precincts), designed to promote neighbourliness and interaction among residents. Every town is comprehensively planned with facilities within easy reach, amongst others, places of worship, neighbourhood shops, community centres etc.

The population benefits from house price gains, even though excessive wind fall profits are limited. It is the main aim to let the whole population benefit from the housing system. Most households “receive” a public housing unit throughout their lift time. There are measures to prevent speculative housing investments (limits to second homes, limits to commercial renting by individual households, taxes on capital gains, etc.).