

Housing: An international challenge

Part One

Raising finance to invest in affordable housing

About:

The LGA's People and Places Board commissioned a short project to share good practice taking place internationally on housing. Examples are drawn from academic research, CECODHAS Housing Europe (the European Federation of Public, Cooperative & Social Housing) and through LGA international contacts.

Five themes were chosen to reflect key issues facing policy and lobbying priorities for local government:

- **Raising finance to invest in affordable housing**
- Land for building
- Building quickly
- Quality of building and quality of life.
- Making the best use of existing building.

Raising finance to invest in affordable housing: the context

Stock holding councils in England have been able to manage the finances of their own housing stock since 2012, but their ability to invest is limited by housing borrowing restrictions set by central government. The LGA has called for the borrowing restrictions to be lifted.

Councils also play an important role to leverage and attract finance for housing. For all councils there are opportunities to build on previous commercial and entrepreneurial experience to start new house building

projects which provide private rented, affordable and market housing. This can involve using the strength of the local government balance sheet to reduce risk, using surplus public sector land and entering into formal joint ventures with the private sector and Housing Associations.

Each country has a different model of providing and funding affordable housing. Whilst it is difficult to make a direct comparison between countries, some of the funding principles and innovative responses from other countries could offer learning for housing providers in England.

This section also includes smaller scale funding models for affordable housing developed by community organisations and land development.

International examples

1. **Denmark's** national social housing building and investment fund finances new building by using surpluses from rental income. Social housing in Denmark is provided by housing associations and the level of contribution to the national building fund varies according the underlying debt profiles of different estates. The national fund has made the sector less reliant on government provided subsidy.
2. Social housing is only a small proportion of the housing stock in **Spain** (2%) and it is more likely to be for sale than rent. Social housing consists of Vivienda de Proteccion Publica (publicly protected housing). The state provides loans at reduced interest rates for construction and renovation. If the property is for sale the low cost of finance is passed on to the home owner through cheaper mortgage finance. Providers have to meet conditions for size and quality and homes must be sold or let to people on low incomes.

Table 1: Social housing in the UK, Denmark and Spain¹

	Social housing as a % of the total housing stock	Social housing as % of new housing completions
Denmark	19%	22%
Spain	2%	16%
UK	18%	Not available

3. **America** has a tax credit model to encourage building of homes for people on low incomes. The Low Income Housing Tax Credit (LIHTC) awards tax credits to developers for eligible projects. The tax credits can be sold on to investors to raise capital for housing projects, reducing the level of borrowing for the developer. The reduced development cost is passed on to tenants as lower, more affordable rents. The housing tax credit has helped fund the development of 2.4 million apartments for low income people since its creation in 1986. This funding mechanism supports most of the new supply of affordable housing, financing around 100,000 new units a year².
<http://www.ncsha.org/advocacy-issues/housing-credit>
4. The **Australian** National Rental Affordability Scheme (NRAS) offers financial incentives (tax credits and payments) to private and non-profit businesses and community organisations. The incentives apply to new homes built for rent at 20% or more below market rents. The scheme started in 2008 and delivered 13,602 dwellings in 2013³.
<https://www.dss.gov.au/our-responsibilities/housing-support/programs-services/national-rental-affordability-scheme/about-the-national-rental-affordability-scheme-nras>
5. The **Scottish** Government set up the Scottish National Housing Trust Initiative for councils and private developers to build housing for intermediate rent using private sector funding and council borrowing. In this model a Limited Liability Partnerships (LLP) is formed with the council, developer and Scottish Futures Trust. The council, through the LLP pays up to 70% of an agreed purchase price to the developer up-

¹ Data from 2009 most recent available. Source: 2012 Europe Housing Review, CECODHAS Housing Europe

² National Council of State Housing Agencies, 2012 Q&A on the Housing Credit Program

³ Australian Government NRAS quarterly performance report 30 June 2014

front. The developer funds the remaining 30% through private funding. Rental income pays the interest on the loans, and the debt of the LLP is underwritten by the Scottish Government. Contracts have been signed with developers to build over 1,000 affordable homes to rent. Since the programme began in 2012 it has provided homes to over 400 individuals⁴.

<http://www.scottishfuturetrust.org.uk/our-work/housing/national-housing-trust/>

6. The Highland Housing Alliance was set up in 2005 as a partnership between the Highland Council, five housing associations and two housing trusts. The original aims were to purchase sites, fund infrastructure and investing surpluses into housing projects including affordable housing with high development costs. The Highland Housing works with the Scottish National Housing Trust and recent projects include 42 new homes aimed at people who would otherwise find it difficult to buy a home.
<http://www.highlandhousingalliance.com/>
7. The Champlain Housing Trust is the largest community land trust in **America** providing homes for sale and rent. The Trust acquires land and properties and sells or rents the property, but keeps ownership of the land. A resale mechanism shares the equity with the tenant/owner but keeps any public subsidy or surplus in the system so that prices affordable for people on low incomes without the need for external subsidy.

The Trust manages 1,800 rental units and 520 homes in its shared equity programme. Innovation and sustainability in housing finance was recognised in a UN World Habitat award.

<http://www.getahome.org/>

⁴ Source: Scottish Housing Trust

Further reading

CECODHAS Housing Europe

<http://www.housingeurope.eu/>

Commonwealth Local Government Forum

<http://www.clgf.org.uk>

International review of land supply and planning systems, Joseph Rowntree Foundation 2013

<http://www.jrf.org.uk/publications/international-review-planning-systems>

Delivering Large Scale Housing, RTPI 2013

<http://www.rtpi.org.uk/media/630969/RTPI%20large%20scale%20housing%20report.pdf>

Innovative financing of affordable housing international and UK perspectives, Joseph Rowntree 2013

<http://www.jrf.org.uk/sites/files/jrf/affordable-housing-finance-full.pdf>