

Rethinking Real Estate Markets

Session: Financing Real Estate

**Social, public and cooperative housing in Europe:
Dealing with financial risks on the housing market**

CECODHAS
Internal Market WG
Rudy de Jong
4 June 2009

- ❑ **The financial crisis started in the USA housing market:
Was it a governance and control problem?
or:
A risk management problem?**

- ❑ **Basic risk of the residential market is vulnerable households/ low solvency, depending on economic development.**

- ❑ **Management of this risk is vital for stability of residential markets, financial markets and economy.**

- ❑ **Risk management is taking place at 3 levels:**
 - **Financial markets**
 - **Individual investors (households, small landlords)**
 - **Institutional and commercial investors**

Level 1: Risk management in the financial markets.

High risk mortgages (sub prime loans) can be bundled together with other loans and converted into 'asset-backed-securities' with a standardized 'rating' and traded on the international financial markets.

This offers the market in theory optimal transparency of the risks of these investments.

Investors in the market will value the risk of these 'asset-backed-securities' in the price of the product.

However:

Residential Real Estate risks are not clear.

Investors don't value long term risks.

Risk perception changes with economic cycles.

Level 2: Risk management of individual investors (home ownership and small landlords).

- ❑ Legal restrictions on private risks (loan-to-income)**
- ❑ Saving systems to enforce private funding (Sparkasse)**
- ❑ Private guaranty systems (parents/ tax deduction)**
- ❑ Public guaranty systems on mortgages**
- ❑ Public subsidies for acquiring home ownership**
- ❑ Risk pooling (cooperative housing)**

However:

- ❑ For more than 20% of the households this doesn't solve their solvency (or dependency) problem.**

Level 3: Risk management by institutional arrangements.

- ❑ Rental housing (transfers risks from households to investors)**
- ❑ Risk pooling (cooperative housing)**
- ❑ Rent allocation systems (increase and decrease with household income)**
- ❑ Social Housing as ultimate system to take over the risks of low solvency households; people can lose their jobs, but they won't lose their homes**
 - Public subsidies and funding for Social Housing (investments, refurbishment)**
 - Public guaranty systems on market funding of Social Housing**
 - Risk pooling (housing organisations)**

- ❑ **Social and cooperative housing offer a stabilizing factor in society. People can lose their jobs, but they won't lose their homes. They stay in their own neighbourhoods and communities. Their children can continue to go to their own schools, stay in their social networks, etc.**
- ❑ **Social and cooperative housing offer a stabilizing factor in economy. People can lose their jobs, but they won't lose their homes. It gives them the opportunity to pick up economic activities when things go better.**
- ❑ **Social and cooperative housing offer a stabilizing factor in housing markets. They offer long term investments which moderates high volatility in commercial residential markets.**

Current questions:

- ❑ **Because of the financial crisis in many EU countries the continuity of the financial support for Social Housing is in danger.**
- ❑ **Existing restrictions related to state aid and fair competition**
- ❑ **Many different systems for financing Social Housing.**
 - **Is in principle positive. We need a diversity of systems adapted to local and national circumstances.**
 - **But: national systems are often depending on one financial arrangement which make them sensitive for economic and political developments.**
- ❑ **Need for a sustainable funding system for Social and Cooperative Housing**
 - **Compatible with the single EU Market**
 - **Supporting national housing policy**
 - **Accepting state guarantee for funding Social Housing.**

... Thank you for you attention!

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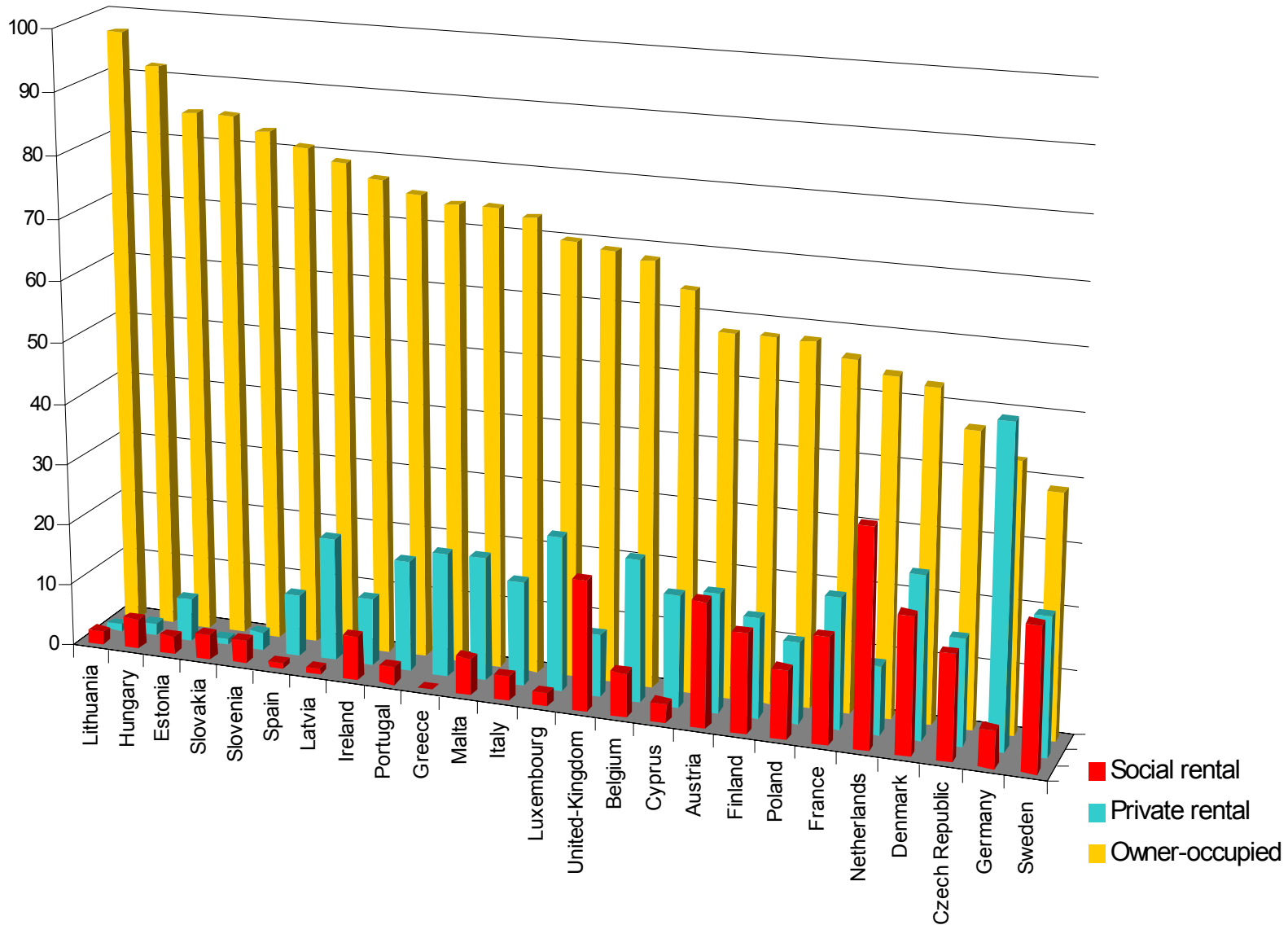
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Session: Social Housing as part of the housing market

Social, public and cooperative housing in Europe: Creating social and economic stability in the housing market

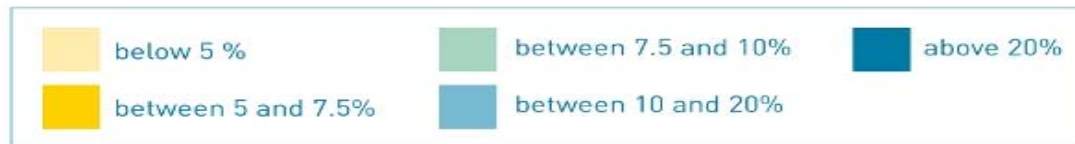
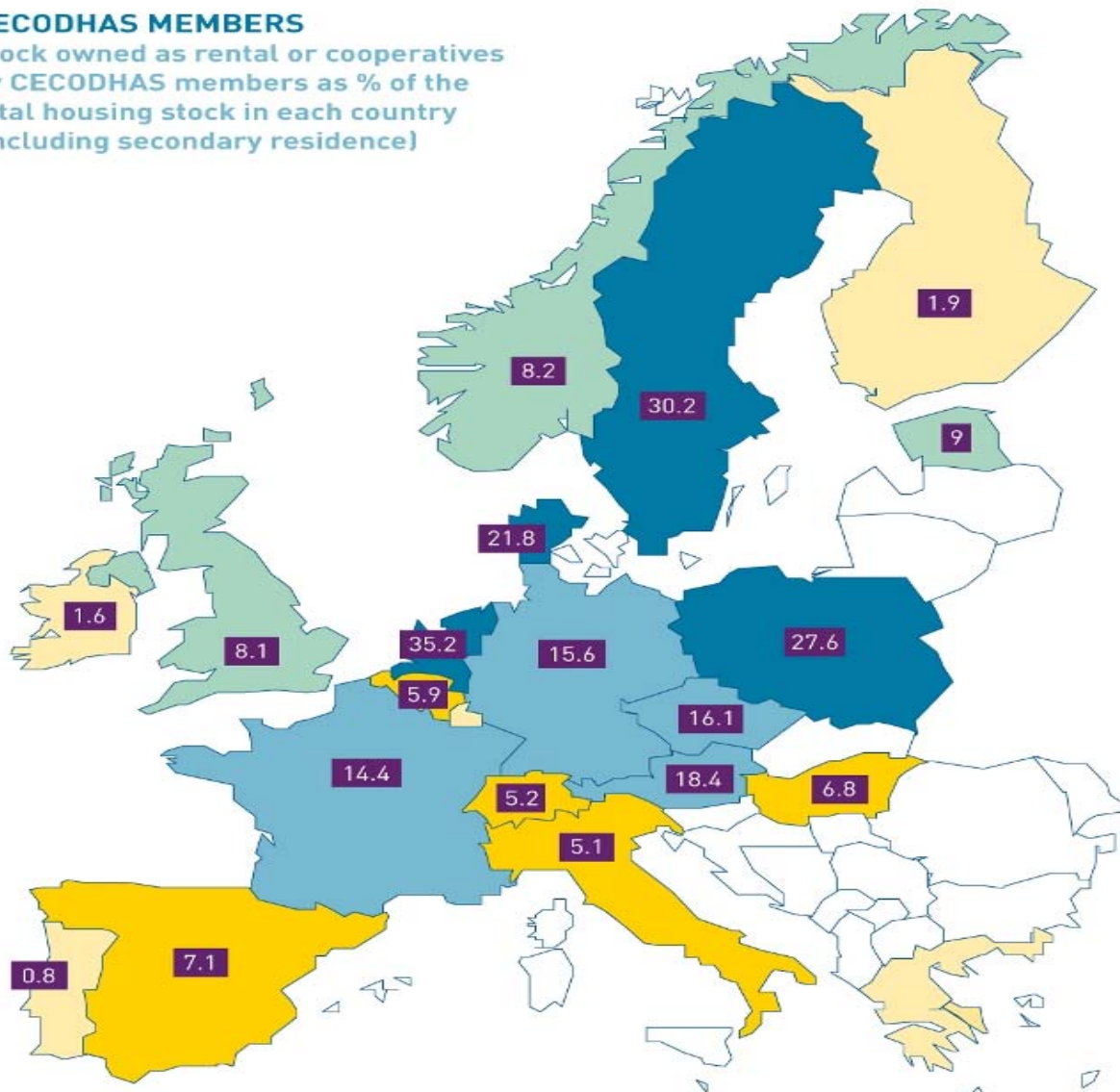
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Housing market diversity in Europe



CECODHAS MEMBERS

Stock owned as rental or cooperatives by CECODHAS members as % of the total housing stock in each country (including secondary residence)



CECODHAS is the European Committee for social housing, a network of national and regional social housing federations gathering public, private and cooperatives housing organisations. Together the members in EU members States manage 25 millions dwellings.

CECODHAS members work together for a Europe which provides access to decent and affordable housing for all in communities which are socially, economically and environmentally sustainable and where all are enabled to reach their full potential.

- ❑ to reinforce the European Social model and take an active role in the definition of its future
- ❑ to protect fundamental rights and call for policies to ensure and reinforce social rights
- ❑ to promote integrated approaches to urban policies and sustainable development
- ❑ to fight for services of general interest of good quality accessible for all and for legal certainty for the providers

Over 40,000 housing providers, belonging to the public, not for profit and cooperative housing sector.

CECODHAS' members account for 10,000 public and voluntary housing organisations and 30.000 housing cooperatives.

CECODHAS members provide affordable housing through a variety of different tenures: social rental housing, affordable home-ownership, cooperative housing, shared ownership, progressive ownership...

They house altogether 25 million households (ca. 12%) in the EU (50-55 million citizens of the EU!!!).

Core business =

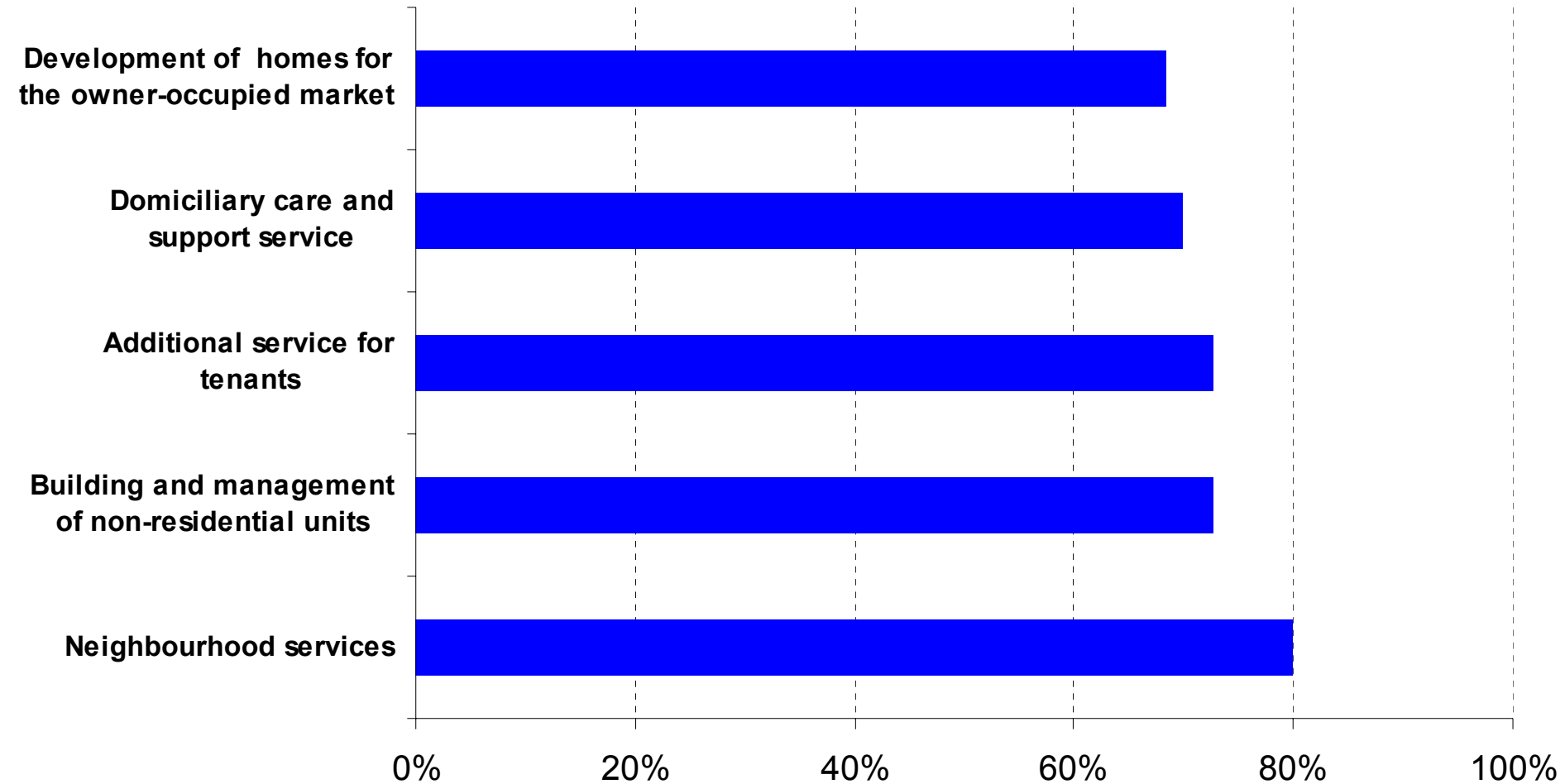
- Pooling of common interest in housing**
- Internalisation of public interest in housing**

Social and cooperative housing =

- Affordable quality for all**
- Accessibility (no risk selection)**
- Sustainable neighbourhoods (where people can reach their full potential)**
- User and stakeholder involvement**
- Reinvesting earnings into their objectives.**



NLAs carried out by CECODHAS' members (2008)



❑ The 'universalistic' model:

concept: particular conception of social welfare, which aims to provide the whole population with housing of decent quality at an affordable price

allocation: through waiting lists with or without priority criteria (local authorities).

❑ The 'targeted' approach:

concept: assumption that the objectives of housing policy will be met predominantly by the market and that only those households for whom the market is unable to deliver housing of decent quality at an affordable price will benefit from social housing.

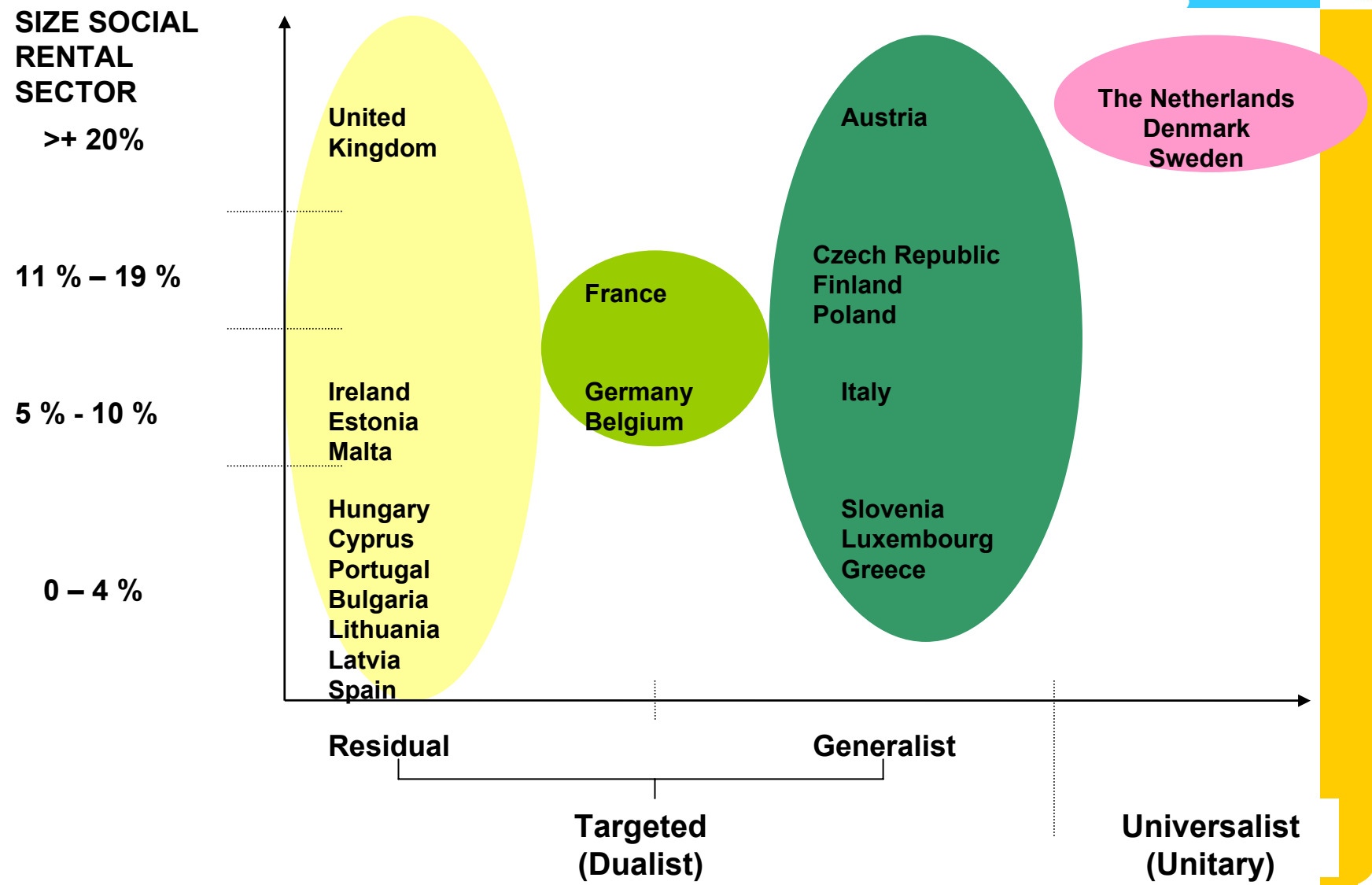
allocation: wide variation in terms of allocation criteria and size of sector.

two sub-types:

❑ **Generalist:** allocates housing to households falling under a certain income ceiling

❑ **Residual:** focuses on housing provision for the most vulnerable

A typology of social housing provision in the EU-27

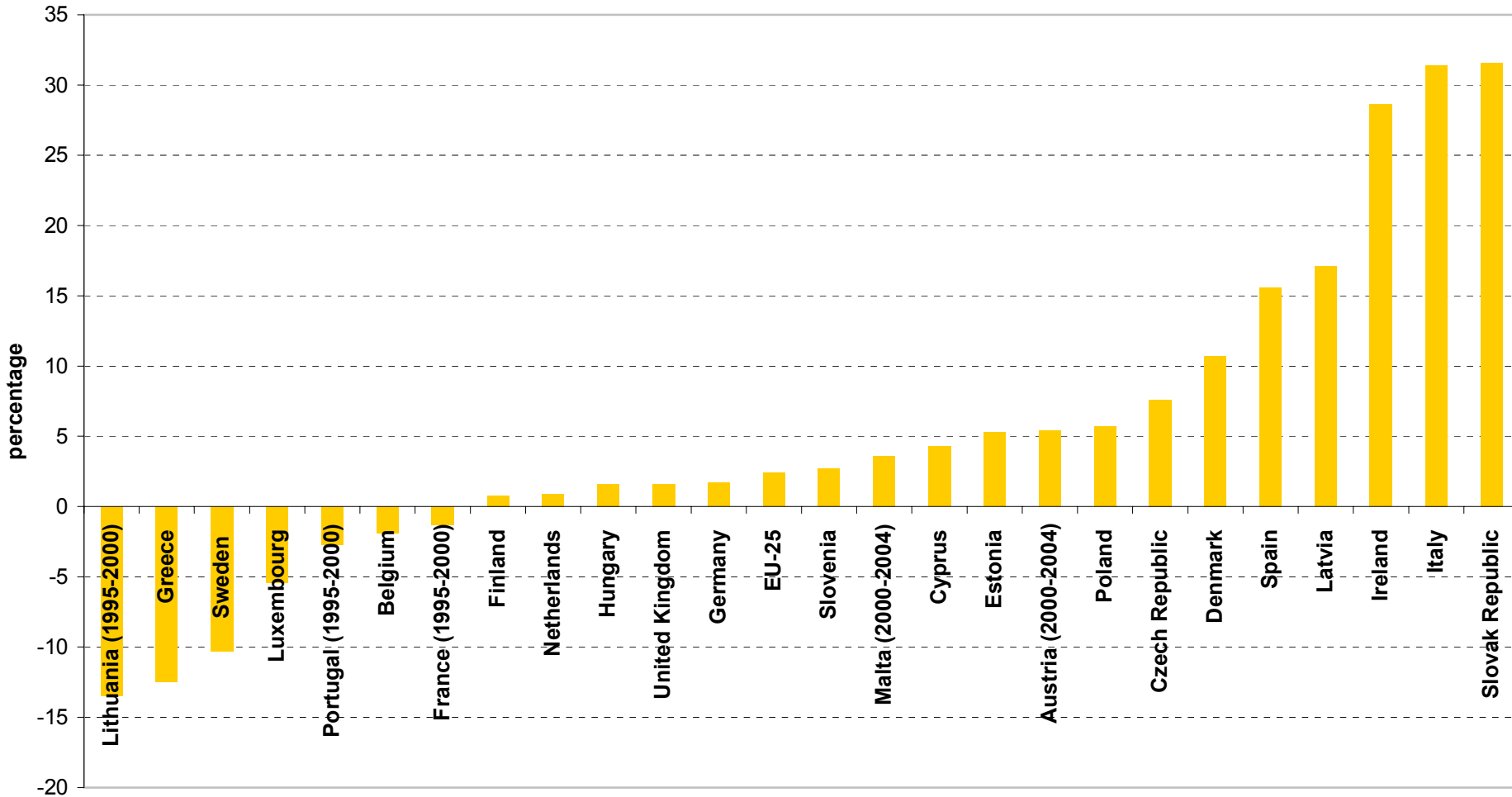


Main social and demographic trends affecting social housing provision in the EU

ISSUES	COUNTRIES (*)	RESPONSES / CHALLENGES
Ageing population	Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, the Netherlands, Portugal, Sweden, Italy, Belgium	- Adapting homes for special needs - Providing services at home
Decrease in household size Increase in number of households	Austria, Belgium, Czech Republic, Finland, France, Germany, Hungary, the Netherlands, Poland, Portugal, Spain, UK, Ireland, Luxemburg	Housing output including different forms of tenures
Large and increasing proportion of single households	Austria, France, Germany, Hungary, Spain, UK	Adapting homes
High immigration levels	Austria, France, Greece, the Netherlands, Portugal, Spain, Ireland, Italy, Luxemburg	- Sustainable communities policies - Local integration programmes / initiatives
Strong presence of ethnic minorities in social housing	Austria, France, the Netherlands, Portugal	Social mix policies, preventing social exclusion

Affordability

Chart 1b: Evolution of the share of housing expenditures on total expenditures (1995-2004)



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