

SUMMARY

The main task of this study is the analysis of the effectiveness of various forms of housing-specific supply-side subsidies, rent regulation and demand-side subsidies, as well as of long-term non-market rental housing stock policy under changing conditions. The specific subject of the study is limited to rental and co-operative housing.

Chapter 1

Housing market sectors

Typical housing markets comprise several distinct tenancy forms such as owner occupation, co-operative housing and rental housing, among others. In the first instance, there is an identity of owner and user, in the second, a group of co-operative members indirectly owns the common property and in the third, owners act as landlords while individual tenant households assume the role of occupants and users.

Housing co-operatives represent an attempt to bridge the inherent antagonism between landlords and tenants by acquiring shares of a jointly administrated housing co-operative, which then develops, operates and owns a group of co-operative dwellings. However, over time, this legal structure often leads to diverging interests of the co-operative as an institution and the individual co-operative members, if they are not allowed to partake in potential capital gains.

Within the rental housing sector proper, tenures are differentiated even further by distinguishing between various classes of landlords, such as public, limited-profit, company and charity landlords, all of which have specific interests and provide housing for different target groups.

Over time, and corresponding with individual tenancy preferences, varied and mixed tenancy forms have developed (shared ownership, lease purchase, option to buy etc.).

For a rational evaluation of national, regional and local rental-housing sectors both short-term and long-term aspects need to be taken into account, as well as the interests of the intervening market agents. The interests of the different classes of landlords mentioned above vary greatly, depending on their basic socio-economic orientation. Some would act strictly according to market and profit principles, while others would embrace a socio-political mission by contributing to the improvement of general housing conditions and particularly those of lower-income households.

Chapter 2

Market-oriented rental housing

Within the framework of a contemporary market economy, various groups of investors essentially

seek to obtain a profit, while different classes of potential tenants strive to meet their housing needs.

A comparative analysis of various forms of private investment in rental housing serves as the basis for later definition of effective market interventions in this sector. In this regard, this chapter describes the typical financing of rental housing production and essential aspects of traditional mortgage loans under varying inflationary conditions.

Feasibility studies are based on current and anticipated future macroeconomic developments. In combination with project-specific planned real and imputed expenditures and revenues, feasibility studies result in an overall yield rate, which is then compared to that of alternative investment opportunities. Thus, feasibility studies show liquidity development and provide a criterion for approval or rejection of a rental housing investment project.

In view of the long-term character of rental housing investments, certain risks related to letting acquire particular importance. Therefore, balanced tenancy contracts should correctly reflect the distribution of these risks between landlords and tenants.

Chapter 3

Tenancy law

Tenancy law defines formal and material aspects of tenancy contracts, stipulating general and specific rights and duties of landlords and tenants. As far as there is no general regulation or if it allows for some leeway, contract parties have to agree on the duration of the lease, on limits to the utilisation of the dwelling, on transfer rights, on the time for giving notice and on procedures for any settlement of disputes.

The essential economic content of tenancy contracts originates either from a free agreement between both parties or from official rent regulation. In the case of free market rents, any additional real and/or imputed expenditure that the tenant is to assume must be identified in the contract.

Chapter 4

Market interventions

In spite of their basically market-oriented economies, modern European states have repeatedly intervened in housing markets, in order to protect tenant households from excessive rents. These housing-related market interventions generally refer to supply-side subsidies, rent regulation and demand-side subsidies. Various combinations of these instruments intend to reduce the housing expenditure effort of individual households.

However, over time, housing policy aims require periodic surveying of actual housing conditions in order to corroborate their ongoing validity.

Chapter 5

Supply-side subsidies

Supply-side subsidies are supposed to reduce the user costs of rental housing. With this aim, the state often assumes part of market-based production costs or provides capital at preferential conditions.

In view of the great variety of supply-side subsidies, an extensive analysis and evaluation of interest, annuity and operating subsidies and of construction cost grants indicates their specific economic efficiency. It also shows that interest and annuity subsidies do not actually reduce financing costs but rather make public households assume part of them. In addition, as soon as real interest rates differ considerably from the anticipated rates, excess subsidisation occurs. Similarly, operating subsidies compensate part of actual provision costs. In this regard, construction cost subsidies prove more efficient, as they help to save part of financing costs.

Among supply-side subsidies, preferential loans also play an important role. If properly designed, they may reach high efficiency, particularly if their interest rates approach the going inflation rate.

Sometimes, tax allowances are implemented as an indirect form of supply-side subsidy benefiting tenant households.

In order to limit the number of potential applicants for subsidised dwellings, authorities usually define target groups, predominantly consisting of lower-income households. Supply-side subsidies that are linked to individual household incomes occur less frequently and represent a transition to demand-side subsidisation.

Chapter 6

Rent regulation

Rent regulation is a popular housing policy instrument. It might be tied to supply-side subsidies or also be applicable to non-subsidised private rental housing.

In the first case, rent regulation ensures that supply-side subsidies benefit the actual occupants. In the second case, due to severe imbalances registered in the rental housing market or due to imminent housing provision shortages, it restricts the property rights of private landlords. Also, rent regulation, once established, proves hard to revoke and usually persists quite independently of positive housing market developments.

Again, the actual design of rent regulation varies considerably. Firstly, regulation is often different for sitting tenants and for new tenancies. In view of inflation causing a continuous loss of purchasing power, nominal rents require periodic adjustment. Also, rents contracted in new tenancies usually exceed those in the occupied stock. Rent regulation may be based on strictly political decisions, on provision costs or depend on market rents or also

result from periodic negotiation between landlord and tenant organisations.

Frequently, rent regulation makes reference to "cost rents" of varied definition. If correctly applied, cost rent systems enable landlords to distribute provision costs over longer periods of time. However, these systems often comprise rent elements exceeding costs, as well.

Chapter 7

Demand-side subsidies

Housing-related demand-side subsidies provide income complements, intended to enable households to pay for adequate rental housing without undue financial effort.

As a rule, tenant households are legally entitled to housing benefit, while owner-occupiers may or may not, depending on specific regulation. In view of the uncertainty of actual household incomes and housing conditions, housing benefit systems are open-ended and do not allow for the determination of the corresponding expenditures in advance. Housing benefit claims are based on national definitions and surveys of household incomes, which are then compared to actual or normative housing expenditures, sometimes including running charges and energy costs, as well. Housing benefit then (partly) covers the difference between the appropriate and the reasonable housing expenditure.

Depending on the national housing benefit system, the amount of individual housing benefit granted is based on reference values such as effort ratios or residual incomes.

If part or all of housing expenditure is considered within a social benefit system, then housing benefit might be restricted or even eliminated. If social benefit is limited to non-housing essentials, then housing benefit would have to consider the entire appropriate housing expenditure.

Chapter 8

Non-market rental housing stock policy

The long-term commitment of non-market rental housing stocks to social housing policy aims not only requires day-to-day technical, administrative and financial management but also a comprehensive attention to socially problematic situations. These might originate from tenants who disregard house rules (e.g. by non-payment of rent, inadequate usage of common spaces and equipment, vandalism etc.) or from changes in the social structure of residents. In this regard, an outward trend of middle- and higher-income tenant households might entail a downgrading process in the housing estate left behind, eventually leading to stigmatisation, segregation and finally to social exclusion of remaining residents.

Finally, landlords of non-market rental housing need to define their long-term self-conception. They have to react effectively to changes in the regional and local housing demand and, last but not least, with state authorities, resolve the question of property rights linked to the housing stocks they administer.

Chapter 9

National rental housing systems

Following the theoretical analyses summarised above, this chapter presents a compact description of national rental housing policies in ten selected EU countries, namely Austria (AT), Germany (DE), Denmark (DK), Finland (FI), France (FR), the Netherlands (NL), Sweden (SE) and the United Kingdom (UK), as well as the Czech Republic (CZ) and Poland (PL).

Chapter 10

Conclusions

As the result of the analyses mentioned, the author draws several conclusions regarding the implementation of an effective and socially oriented housing policy. Essentially, they refer to supply-side subsidies, rent regulation and demand-side subsidies, as well as to principles for the management of non-profit housing stocks.

In this sense, the most relevant conclusions are:

National housing policies should not award preference to any specific tenure, leaving the choice to individual households. However, public rental housing is able to influence general housing provision, both directly and indirectly (→ 10.1).

Private landlords should be exposed to competition by cost-rent municipal housing in order to ensure that they let at low-profit rents. Unearned income such as planning gains, capital gains during letting and from excess residual values should be taxed at high rates (→ 10.2).

Tenancy contracts should clearly define rights and duties of both parties. Agreed-upon rents should reflect the actual distribution of risks involved. Any breach-of-contract claim should preferably be handled by out-of-court institutions (→ 10.3).

Among other responsibilities, welfare states are obliged to ensure general access to adequate housing conditions. Any material right to housing depends on the typical level of housing conditions of medium-income households, though. When choosing and implementing housing policy instruments, EU member states should be granted an opting-out right from general EU competition directives (→ 10.4).

Preferential loans would achieve high economic efficiency if annuities were indexed, thus ensuring full real repayment of borrowed capital. Refinancing for such loans might be obtained from

a state pension fund, also based on a real capital guarantee (→ 10.5).

Rents for municipal rental housing should cover all costs incurred during the first 50 years of occupation. The distribution of rent over time should be based on the comparative market rent structure, albeit at a proportional lower level. Any tail payments and capital gains should remain in the public sector (→ 10.6).

Housing benefit should serve as a housing-related income supplement, in addition to a sufficient residual income required for essential non-housing expenditures and potentially including social benefit payments. Calculation of housing benefit transfers should be based on rents for comparative municipal rental housing (→ 10.7).

Municipal rental housing, open to all households regardless of income, should serve three purposes: to provide alternative housing at below-market rents, to exert a downward pressure on private rents and to provide a normative basis for the calculation of housing benefit. The size of municipal housing required for the prevention of split rental housing markets should derive from rent surveys. As long as private rents, by far, exceed rents for comparable dwellings in the municipal housing stock, the size of the latter appears insufficient. On the other hand, prolonged vacancies in this housing sector point towards unacceptably low quality or excessive supply (→ 10.8).