



The French Social Housing Sector at the Crossroads of Budgetary Constraints and Social Missions

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Abstract: *France has a high rate of production of new housing and the Global Financial Crisis has had little impact on a country of fixed-rate housing loans and strong guarantees for home-buyers. At the same time, the social rental sector, managed by a powerful network of public and private (not-for-profit) companies, has greatly increased its housing production thanks to the use of a financial mechanism that is independent of mainstream finance. Housing should be easily available throughout France. But this is not the case in the capital region and for some disadvantaged households. Critics regularly speak out against the deficiencies of French housing policies. Opponents of increased public spending consider that too much public money is being spent on this, while supporters of the free market say that the legal and institutional framework hinders private initiatives. Advocates of homeless people and low-income groups complain about the high cost of housing and segregation processes. This paper presents the debates and discussions regarding the pros and cons of housing policies in France at a time of severe budgetary constraints.*

Keywords: social housing; France; housing finance.



Introduction

This paper describes the components of the French housing model in place since the Global Financial Crisis (GFC) and the debates regarding its sustainability and especially the sustainability of the social rental sector. For background information on the French system, readers should refer to Scanlon et al. (2013). The first part introduces the present situation of the housing markets and production in France and shows that the GFC has had little impact on housing, which is a very active sector, with a high level of new production in the three main markets, i.e. owner-occupation, private rental, and social rental. But this leads to a number of questions, which are explored in the second part, about the cost-effectiveness of public spending on housing policies. If first-time buyers enjoy supply-side subsidies ('zero interest loans'), they may no longer be entitled to demand-side allowances. Private rental investors are still enjoying fiscal rebates, but the cost of this measure and its social impact are regularly under review. The question about the social rental sector is whether it will be able to provide equity for increasing its stock if rents are reduced jointly with demand-side subsidies granted to their tenants.

The third part examines more deeply the prospective role of the social rental sector as the provider of low-cost housing. Social rental organisations used to house low- and middle-income households in the 1960s and 1970s. The steady growth of owner-occupation has pushed more and more tenants from low- and very low-income groups into the social rental sector. The financial equilibrium of social landlords has been sound enough to provide equity for the last 20 years. Equity has fuelled a high pace of new construction, which has helped social landlords to provide a greater supply of homes and thus fulfil their social mission. But in the meantime the housing needs of very poor households are increasing, and social rents are still too high for them. The government is obliging social organizations to reduce some rents, which will save housing allowances, paid on the national budget. The issue is whether/how to reduce rents, which will have the effect of saving expenditures on housing allowances, and that will reduce demand-side subsidies paid from the national budget? The question is whether the social rental sector will be able to improve its management capabilities in order to keep on building one-fourth of the new-build production and sheltering a growing share of very poor tenants.

Housing construction and housing markets at high levels, quickly recovering from the GFC

High levels of construction in the three markets

According to CGDD data (2016), housing construction grew significantly in the 1950s, reaching a peak of above 500,000 new dwellings a year during the 1970s. The average was 350,000 new dwellings a year from 1980 to 2000, rising to 400,000 dwellings from 2000 until the GFC, which induced a slowdown. The average production rate from 2009 to 2016 was 370,000 new dwellings a year, a high rate by European standards, equal to 1.1% of the existing housing stock. Production is shared between the owner-occupied sector (57%), the social rental sector (26%), and the private rental sector (17%).



The owner-occupier sector: difficult times for first-time buyers with little equity

Sales of new single-family homes sharply declined in 2008. From 180,000 sales in 2007, the average then lingered at 140,000 (2008-2012) and then dropped to 120,000 (2013-2015). The latest figures (2017) show a slow recovery in this sector, which traditionally targets low-income and first-time buyers. Half of them are ‘social owner-occupiers’ eligible for subsidised loans (*prêts à taux zéro* PTZ). The decrease in sales, initiated during the GFC, has lasted longer (than expected), given the slack economy and high unemployment, which make it more difficult for some households to become home-owners.

Private rental investment is high in small and medium-sized towns

The ‘Pinel’ fiscal scheme offers fiscal rebates to households investing in newly built rental dwellings. The scheme authorises a tax deduction equal to 18% of the investment. The dwelling is rented for nine years at contractual rates of rent (between the social and market rent levels) to low- and middle-income households. The average figure has been 65,000 units a year for the last 15 years. After a decrease in sales in 2008, adjustments to the fiscal scheme set average sales on a high trend (up to 70,000 units/year) in 2015/2016. In the capital region, owing to the big differences between free market and regulated rent levels, this scheme has had little impact on the market. The impact has been stronger on private rent levels in the small and medium-sized markets.

The social rental sector is enjoying sustained growth

Social housing production (‘HLM’) amounted to 40,000 units per year in the 1990s. In 2003, a comprehensive ‘social inclusion programme’ increased production to 100,000 units, and since 2010 it has maintained this pace.

Altogether, the social rental housing sector has grown by half a million units in 10 years, which is unique when compared with other countries (Whitehead 2017). This development occurred throughout the financial crisis and is the result of broad political consensus at national and local levels, a specific financial circuit operating since 1896 with the Fonds d’Épargne, and strong networks of social housing organisations. Loans for the social rental housing sector are channelled through Fonds d’Épargne, a special financial circuit based on private savings (*Livret A* savings passbook), which provides long-term loans for social housing (Scanlon et al. 2014 and Schaefer 2015).

Since the GFC, with this scheme having been opened up to all banks and the ceiling of deposits having been increased (to €22k), the available funds have grown to an amount of 250 billion EUR. Loans for social rental housing (covering 75% of building cost) reached 16 billion EUR in 2016. This financial circuit, which has been unaffected by the financial market turmoil, has made it possible to adapt both to the increase in the cost and the increase in the quantity of social dwellings.



Prices are high in the capital region and in some high-demand markets, but are stable in many local areas

According to Tutin and Vorms (2016), the continuous rise in housing prices since 2000 has been mainly credit-led ‘for cheap home ownership [...] whereas it has been asset-based for higher-income groups’. Ten years after the GFC, with low rates of interest, the two trends are still present. Prices on the existing housing market rose regularly from 2000 to 2008, the drop in 2009 being much smaller in France than abroad. National average prices rose again until 2010 and are now stable. Prices are, however, still increasing in the Greater Paris area and some large metropolitan areas (Bordeaux, Nice, Lyon), while prices in the rest of France have been stable or slightly declining in some depressed areas. The market is strongly divided between high-quality products in much sought-after areas, where prices are increasing, and low- or medium-quality products at stagnating prices.

The prices of new housing construction doubled in twenty years

The prices of houses sold by private developers doubled between 1998 and 2008. The GFC stopped this rise. The average price (250,000 EUR / house) has remained steady for the last seven years. This price stability may conceal a decrease in the size of plots or the housing’s location in more remote locations, but it includes an increase in some technical qualities, especially thermal insulation. Prices of new flats (per sq. m.) increased sharply from 1998 to 2007, remained stable in 2007-2008, but started rising again in 2010, and have now reached a plateau that is 100% higher than in 2000. Social housing companies report a similar increase in construction costs from 75,000 EUR in 2000 to 140,000 EUR in 2013 (for a 70 m² flat).

Could housing markets and production be more efficient with less public funds or fewer fiscal rebates?

Housing policies in France rely on active housing markets backed by demand-side subsidies, supply-side grants from public authorities, and fiscal rebates. For next year’s budget, the debates are focused on public spending, especially demand-side subsidies and their effectiveness for the benefit of households. Some fiscal rebates and supply-side subsidies are also up for review/reconsideration.

Easing owner-occupation for low-income households

Low- and middle-income owner-occupation has decreased since the GFC because of weak economic development. The main public support for owner-occupation is the ‘zero interest loan’ (PTZ) granted to first-time buyers with earnings below an income ceiling. This programme, which is not ‘very’ costly for the state budget (750 million EUR in 2013), should continue until at least 2021. But housing allowances paid monthly to low-income owner-occupiers (800 million EUR, 4% of housing allowances) might be cut in 2018. This would jeopardise the financial position of low-income owner-occupiers, while increasing their debt-to-income ratio.

Throughout the financial crisis, the number of foreclosures and repossessions was and is still low in France, with a rate of 2% of non-performing loans for first-time buyers. ‘Mortgage loans are repaid according to the income of the borrowers rather than to the value of homes’ (EMF 2011) based on a maximum debt-to-income ratio of 30%, a non-legal but usual prudential rule



for granting housing loans. Critics point out that households with low or irregular income levels are often not eligible for a loan. But the system is very secure for bankers, who are backed by a public guarantee fund (FGAS), and for most buyers, secured through insurance schemes. The question is how to enlarge the flow of first-time buyers while offering consumers an effective safety net? A partial answer is provided by ‘social owner-occupation’.

Social housing organisations offer a wide range of solutions for ‘social home ownership’. They build and sell 10,000 new dwellings a year, some of them to former tenants. Such sales include an insurance package, which protects the buyer in the case of financial or private difficulties by offering a ‘buy back’ option at a guaranteed price.

Another product developed since the GFC is a ‘rent and buy’ option (*PSLA*): after a four-year tenancy, the tenant may buy the dwelling. With 7,000 units developed in 2015, this is now more than just a niche market, and it has been promoted mainly by social housing organisations. As managers of a large stock of rental housing, they are able to provide a rental dwelling as an emergency solution in the case of financial difficulties for the buyer.

Private rental investment: a ‘gift to the rich’ or an offering that lowers private rents?

The ‘Pinel’ fiscal scheme has been implemented since 1984 and aims to enhance the quality and supply of stock in the private rental sector. The fiscal rebates and associated social constraints may change every four years, depending on the fiscal and social choices of the central government.

The advocates of the scheme point out that, without fiscal rebates, no investor would venture on to this market. They claim that the ‘fiscal expense’ (1.5 billion EUR) is purely theoretical, as the 18% fiscal ‘carrot’ is close to the 20% rate of VAT collected on new buildings. At the same time, the economic benefits are 8.5 billion EUR in sales, and the outcome is a supply of private rental housing, two-thirds of which are flats, one-third houses, and all of which meet modern standards.

Opponents of this programme represent two categories of complainants. Incumbent landlords of existing rental dwellings complain that this new supply may be ‘too large’ for medium-sized and small towns, leading to lower rents or more vacancies in terms of their own low-quality products. This is precisely what the Ministry of Housing was aiming at when it created the scheme. Defenders of homeless people and low-income households claim that it does not increase the supply of affordable private rental housing in very expensive and tight markets and that the fiscal rebates are a gift to the rich. The government has just decided that the scheme can continue until 2021, but that it should target low- and middle-income tenants in large urban areas.



Beyond the availability of cheap loans: increasing the supply of social rental housing requires more equity

Increasing the stock of social rental housing helps to spread social rental housing across the existing urban fabric and into municipalities with a small share of social dwellings. Since 2000, most mid- and large-sized municipalities must, by law, dedicate 20% (25% since 2013) of their housing stock to social rental housing. Municipalities below this minimum threshold need to/are required to set up a multi-year programme, in collaboration with social developers, aimed at reaching the share of social rental stock required by law. In 2016, 200 municipalities that did not comply with the law were fined a total of 50 million EUR. These fines are symbolic and used as a spur to action.

Conversely, social housing may be demolished in neighbourhoods with a high concentration of social and economic problems and in some depressed areas with weak demand. Thus, 8,000 dwellings a year were demolished between 2000 and 2004 and 16,000 between 2006 and 2016. Combined with a rate of 4,000 to 9,000 sales to sitting tenants, the net increase in the social rental housing stock nationwide is now above 70,000 dwellings a year.

France stands out in the EU landscape with a very strong commitment to increasing the social housing stock, a commitment that has been endorsed by four different governments over the last 15 years. This has been possible thanks to the special financial circuit used to fund this housing combined with fiscal aids (5% VAT rate), grants from local authorities and Action Logement, and stakeholders' own equity capital contributions. Could this strong political consensus in favour of social rental housing waver under national budgetary constraints?

Some critical issues about the role of social housing organisations in national housing policies

Tackling homelessness with a 'housing first' strategy

An analysis of homelessness in France (La Fondation Abbé Pierre 2017) revealed that, despite a high level of housing production, socially vulnerable sections of the population are unable to find adequate housing solutions. Homelessness affects people with social inclusion issues (combinations of a lack of training, unemployment, health problems) as well as low-paid or part-time workers. Some families suffer from a lack of adequate housing, overcrowding, and fuel poverty. Other groups consist of refugees or families from the Balkans, which have caused a new surge in shanty-town housing.

Answers to the problem range from developing a supply of special housing (hostels, transitional accommodation) to providing mainstream housing solutions. Social support is badly needed to help households cope with the complexity of housing allocation and regulations. The 'housing first' strategy involves a robust social framework of private (non-profit) associations operating as social services with funds from public authorities. Households below the poverty line require very cheap rental units (under 5 EUR/m²) and/or higher housing allowances. Newly built social rental housing units cost above 5.5 EUR/m². Only a relatively modest share of social housing stock meets these requirements, some of them are HLM units financed before 1977, where low turnover slowed down new allocations. The pressure of needs may lead to an increase in the turnover of current tenants, and this may



be brought about through various methods: incentives to move to more expensive new dwellings or coercion through a supplement of rent (for middle-income and lower middle-income groups). There is open discussion with local tenants unions regarding the respective rights of sitting tenants versus newcomers and what could be a proper local definition of ‘social mix’ on the scale of a building.

Fighting discrimination and reducing ghettos with the help of a sustained urban renewal policy

Since 2004, the Urban Renewal Programme has been a comprehensive set of actions focused on 1,500 neighbourhoods that are home to five million inhabitants. It involves heavy refurbishment, new builds, and demolition. Beyond real estate management, it includes improvements to educational and economic conditions. It is monitored by local authorities and the National Urban Renewal Agency *ANRU* (CGET 2016). The programme needs 10 billion EUR by 2024 to fulfil its objectives. The government has recently renewed its support and confirmed that public funding will be available. But this also implies that local authorities and social housing organisations have the means to pay their share of the programme.

Will social housing organisations be financially sustainable without any public grants and with decreasing rents?

By achieving a high level of investment, social housing organisations have increased their outstanding debt to 160 billion EUR (2016). According to the analysis made by the Fonds d’Epargne, their overall financial status is sound, thanks to the size and diversity of their assets. The financial equilibrium of social housing organisations is based on cross-subsidising. When loans on existing buildings are amortised, these dwellings provide equity capital and fuel new production. Equity capital is combined with grants from local authorities and shareholders. Recent developments will need years before any return on equity capital will be recorded. A balance needs to be struck between demolishing out-of-date buildings, refurbishing others, maintaining the housing stock, and finding equity capital for new housing.

The strength of social housing organisations used to come from their efficient day-to-day management and the ability to maintain a long-term vision. Capital injections by various partners and the pooling of resources have so far provided a stable source of equity capital. But it could dry up in the coming years.

Reducing the number of social housing bodies to reach a critical mass

The question of the number and size of social rental organisations is regularly discussed. The French social rental sector is as large as the British one, but its institutional organisation and economic fundamentals are more like the Dutch system. Not-for-profit organisations enjoy a special status for their public utility and are subject to strict social regulations regarding rents, revenue ceilings, control over tenancy, and allocation of dwellings. They are dedicated to housing low- and middle-income households. On the one hand, they have links with local authorities (through public sector housing offices, Offices de l’habitat, and semi-public sector local companies, Entreprises publiques locales). On the other hand, they have links with the private sector (private social companies for housing, Entreprises sociales pour l’habitat).



A major stakeholder is the Employers' Fund, Action Logement. This body was created in 2016 by merging 20 'employer funds', formerly so-called '1%' bodies, and managing the tax on private sector wages dedicated to housing under the control of employers and employee unions (Schaefer, 2015). Action Logement, one of the main shareholders of housing companies, controls one million social dwellings.

The average of 7,000 dwellings per organisation may be high compared with similar bodies abroad, but it includes a number of small bodies owning less than 5,000 dwellings together with larger organisations (above 30,000 dwellings). Increasing the size of housing organisations may be effective for finance pooling, but economies of scale are not clearly established as far as maintenance and daily management are concerned. Social housing organisations must maintain close contact with local authorities and provide an efficient local service to their tenants.

Notwithstanding the lack of scientific analysis, political authorities consider that merging organisations that own less than 15,000 dwellings increases their efficiency. The question of territory/local area (and its population) may be more important than the size of the organisation. A first option could be to merge some organisations, especially small Offices, which could be put under the control of a group of larger local authorities. A second option is to assemble some organisations into a group of companies, each group being more or less centralised with a single main shareholder. The third option would be to establish flexible links between independent organisations, each responsible for a territory/local area, with shared services.

Reducing public spending on personal grants through a reduction in social rents?

Housing benefits (personal grants) have come under fire as one of the targets for reducing the overall public deficit in 2018. This budget cost 18 billion EUR, 7 billion EUR of which goes to social tenants (half of them receive housing allowances), which covers one-third of social rents (24 billion EUR). A major step could be to stipulate by law that social rents be significantly cut (by 50 EUR for an average rent of 400 EUR) for low-income tenants (only). A decrease in rent, leading to a decrease in housing allowances, should have a neutral effect on social tenants, according to the Ministry of Budget, but not on social organisations, which have calculated it will cost them 1.2 billion EUR. This could be compared with the 'landlord levy' in the Netherlands (Hoekstra 2017). It could deeply change their financial position and put the target of 100,000 new dwellings a year beyond their reach.

Conclusions

On the first point, regarding housing policies since the GFC, housing policies seem to meet a wide range of needs, and do so using diversified legal, institutional and financial tools. They are good at providing a broad supply of housing to many households in many parts of France, but not in the capital region or in some high-demand markets. Furthermore for some disadvantaged groups, there is no 'housing ladder', there is rather a housing roller coaster. Special efforts are still needed to increase supply in the capital region while improving access to existing housing for the homeless through better coordination of national and local partners.



The second question concerns the cost of public policies. These should continue to be effective, but they are facing budgetary constraints. It seems that the usual fiscal and budgetary tools for helping owner-occupation and easing private rental housing are likely to be maintained in the years to come, with some adjustments. This indicates that they are considered as an efficient part of public policies.

The third point refers to the fundamentals of the social rental sector, which until now has been based on a 'generalist' conception of social housing. Social housing used to accommodate various categories of low- to middle-income workers. Today, the allocation of social housing units is not focused on blending together 'the poor and the rich', but rather 'the poor and the very poor'. An economic model of rents covering costs with the help of the public authorities could be developed if such support fades and if in the meantime rents are reduced. Social rental organisations are required to/have been asked to reach self-sufficiency by reorganising their networks with the help of their shareholders. The scarcity of equity capital could lead some organisations to become more 'market oriented', increasing their activity on the intermediate market, while others would specialise in sheltering poorer households, a separation of roles that might weaken the social sector as a whole. Both types of organisations could reduce their production.

The government will go on supporting the sector, but with fewer resources, according to the debates that have opened in reference to the 2018 budget. It is too early to determine whether the decisions to be made are purely fiscal/budgetary, or if they encompass a broad political change with respect to the task and the *raison d'être* of the social rental sector within the general framework of housing policies. The fear is that the social housing sector might play more of a 'residual' role, while local housing policies in some territories will encounter difficulties in offering a balanced choice of tenures and enough affordable dwellings to their inhabitants.



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