



## Social Housing Models: Past and Future

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**Abstract:** *This paper looks at the rationale for social housing; examines the models that have been used in Europe over the last century and how social housing might be maintained into the future.*

**Keywords:** social housing; housing finance; market failures; distribution; housing allowances.



## **Social housing models: past and future**

### **Why social housing?**

This paper aims to make a contribution to the debate around the roles different social housing models can play in meeting the simple objective of providing adequate housing for all. To address this it first clarifies some of the special attributes of housing that drive the need for intervention. It then looks back at the different models of public and social housing that have been implemented across Europe - concentrating on the period since 1945 and assessing where they stand today. In the final section, we bring out some lessons for future policy. As such it is in no way a formal comparative study but rather an overview of what has worked and what might work in the future.

The objectives of social housing provision appear simple: to ensure that everyone is adequately housed, and that housing does not limit their capacity to obtain the other necessities of life, or to take advantage of life's opportunities. Social housing can help to achieve these goals by increasing total provision; allocating to those in need; providing rent and/or income subsidies to those unable to afford adequate accommodation; and by effective management and enable access particularly to jobs, services and an adequate environment. However what can be achieved in different contexts depends on many factors, importantly the stage of development and urbanisation as well as the legal and institutional frameworks in which housing is provided (Whitehead 2003; Garcia de Freitas et al. 2015).

Many commentators in the past assumed that once minimum physical standards were achieved the task would have been complete. The reality has proved to be very different as aspirations, standards and social objectives have expanded and both the cost and the capacity to implement different forms of intervention have opened up other opportunities. Here we stress how these factors have modified the role of social housing over time.

## **Principles**

### **The special nature of housing**

The starting point for any analysis must be why housing is differently from other marketed goods and services – for instance food is just as important as housing but governments rarely directly provide food. Equally why is it different from the sorts of goods and services that are normally provided directly by government – notably health and education.

There are many different ways of categorising these reasons in the literature (eg: Boellhouwer and van de Heijden 1992, Whitehead 1998, 2002). An important starting point for most analyses is that housing is clearly a private good in that the majority of benefits go to the owner or the occupier of the dwelling. But housing also provides social value and is often regarded as a merit good – i.e. one which society values more than some households who would rather spend their income of other goods. This calls for government intervention as does the fact that housing generates both positive and negative externalities (spillovers).



In earlier centuries negative locational externalities related to public health and the risk of fire in urban areas were the most important reasons for public intervention. However these problems were mainly addressed through regulation and investment in safe water and sewerage supplies and are rarely important in developed economies. Now and in the future it is potential positive externalities that are seen to be particularly important, notably in the context of the regeneration of the existing stock, improving urban systems and local labour markets, place-making, and reducing pollution and congestion and the costs of providing health and other services.

Second, housing is not just a ‘necessary’ good but also a ‘luxury’ good. The first implies price and income inelasticity of demand for certain attributes (making it easier for government to meet agreed minimum standards). The second implies that demand for housing will rise disproportionately as incomes grow. So, as general incomes rise, acceptable minimum standards also rise making it more difficult for governments to satisfy aspirations while higher income households out compete poorer for the available housing.

Third, housing needs land and land cannot be replicated like most other inputs and is required not just for housing but also for most other activities. So as an economy grows the demand for land increases and this demand cannot be satisfied without price increases. Land which is accessible to good transport and other valuable social investments will also rise more rapidly.

Further, housing supply cannot adjust rapidly to changes in demand, so not only do house prices rise to allocate what is available but also price differentials increase to reflect the changing spatial structure of economic activity. A related issue is that housing as a long-lived investment good necessarily involves the finance market, in itself highly imperfect.

A final fundamental is that housing costs limit households’ capacity to buy other necessities of life and meet their aspirations (Stephens and Whitehead 2007). The importance of this depends heavily on the extent to which incomes are unequally distributed.

## Implications

The nature of the housing product means that in most developed countries policy is about how government can improve the operation of the housing market - including the possibility of replacing the market in some contexts. In very few non-socialist countries is housing regarded as a public or social good.

Thus, given that incomes are unevenly distributed, the central reason for intervention is often distributional rather than efficiency, except at times of particular market failure – notably the extreme housing shortages after the world wars – or when political ideology requires government provision. This in turn raises the issue whether intervention should be through income redistribution rather than be housing specific. Again the evidence from developed economies is that income redistribution is rarely if ever seen as adequate - in part because housing costs vary so greatly between areas and needs differ between household groups but



also because the political will to undertake general income redistribution appears to be very limited (Smith et al, 2008).

Of itself this does not imply social provision - there could instead be housing specific income support (Whitehead 2002; Galster 1997; Yates and Whitehead 2008). The case for social provision is disputed but is generally based on three strands of reasoning:

- In the face of supply shortages, government sponsored housing is the easiest way of increasing supply rapidly, especially where government controls at least some land and infrastructure provision and has risk-free access to finance;
- The social housing provided can be allocated in line with government priorities and identified housing needs; it can also enable more appropriate management standards unconstrained by profit motives;
- At the political level it is often more acceptable than subsidising private suppliers to deliver additional housing. Equally, it can support macro-economic objectives by reducing volatility and may be a factor in voting behaviour.

Importantly the case does not generally depend on public or even non-profit ownership but rather on effective provision and socially based allocation (Kofner et al. 2012; Holmans et al. 2002; Turner and Whitehead 2002).

In looking at how the role of social housing has developed it is important to recognise that historically supply subsidies were the only means to deliver assistance as the mechanisms did not exist to support income related subsidies (Elsinga et al. 2014; Scanlon et al. 2014; Whitehead 2003). Thus it was only in the 1970s and 1980s when data improved and computerisation started to be put in place that housing allowances began to be introduced. Importantly these could be made available to eligible households in all tenures potentially weakening the case for social provision.

## Looking back: social housing in North Western Europe

The earliest models of social housing in Europe go back centuries if not millennia and involved direct provision by the church, charities and employers. Increasingly however their role became one of addressing the needs of the rapidly growing numbers of urban workers.

As the industrial revolution continued across Europe, housing conditions in urban areas worsened resulting in massive overcrowding, appalling physical conditions, inadequate sanitation and risks of disease, as well as high rents. Most of the early interventions concentrated on improving public health but there was also increasing regulation around housing and occupancy standards. In the UK, for instance, the 1890 Housing for the Working Classes Act made local authorities responsible for ensuring adequate accommodation for their populations.

The First World War resulted in a massive shortfall of housing, particularly in urban and industrial areas. In many European countries policy emphasis was on large scale new build programmes. These were supported in part by the growth in mortgage lending and associated



tax reliefs but also through direct subsidies to delivery. Sometimes these were concentrated on local authorities but often support was available to a range of providers. In the UK, for instance, a lump sum per unit subsidy was introduced to support additional housing in all tenures as part of the 'Homes Fit for Heroes' policy.

The Second World War ended with both massive housing shortages and poorly maintained existing housing, but also rapidly rising housing aspirations as income grew. In most of Europe social housing provision became central to addressing these widespread housing problems, with a prime objective of overcoming overall numerical shortages by the quickest and easiest means.

There were two main post-war models in Northern and Eastern Europe:

- The welfare state model where housing was seen as part of the social contract between governments and their populations and housing was provided by non-profit landlords either for the full range of those looking for accommodation or to accommodate those in housing need (Esping-Andersen, 1990; 1996); and
- A socialist model of employer and municipality based provision where housing was seen as part of the social wage (Hegedüs et al., 2013).

In Southern Europe, the model was often very different, limiting social provision to local initiatives and at the national level concentrating on regulation and self-support mechanisms (Allen et al, 2004).

## North Western Europe

In post-war Europe the housing provided by municipalities and other public sector/non-profit organisations was built mainly to accommodate mainstream working family households. In almost all cases the model involved rent subsidies together with lifetime or multi-generational security of tenure. Investment was paid for in a range of ways but notably through national governments providing low cost finance and/or grants to local authorities and sometimes non-profit providers together with cheap or free land. In the first three decades after the war, rents were normally based on historic costs.

This model no longer operated effectively once physical shortages were overcome in the 1970s and 1980s. It also became practicable to provide income related housing allowances to all those eligible for assistance – fundamentally changing the role and rationale of social housing. Rapid general inflation meant that social rents often fell far below market rents but also sometimes did not enable effective renovation to be undertaken. Different countries took different approaches thereafter, sometimes bringing rents more in line with house values or allowing large rent increases to pay for investment in the existing stock. In some countries - notably Germany, Sweden - the capacity to develop new housing was shifted to commercial providers. Moreover, while formal allocation rules often were not changed, opportunities to access other tenures increased rapidly, so in all Northern European countries, including those which had stressed universality, allocations shifted rapidly towards vulnerable and non-participant households as well as migrants unable to access market housing. All of these changes reflected



a more comprehensive evaluation of the welfare state model (e.g. Esping Andersen 1990; Lundqvist 1992; Kemeny 1995a, b).

In this environment social housing needed to become something more (Whitehead 1998; Lujanen 2004). Possibilities included: ensuring better more socially oriented landlords; more efficient and forward looking providers; the provision of additional services and types of dwelling for more vulnerable households; a wider range of tenures including both intermediate and market housing; and greater emphasis on place making and regeneration across urban areas (Lawson et al. 2012; Monk et al. 2010).

In many ways the core reasons why social rented housing, whether provided by municipalities or non-profits, has continued to have a comparative advantage are practical - and much what they always were:

- continued public control of the land necessary for new housing investment;
- more ready and cheaper access to finance than the private sector;
- municipal powers with respect to planning and building regulations which help them prioritise social housing;
- public control over complementary investment which helps support social housing provision;
- the capacity of social housing through administrative allocation directly to target assistance and achieve broader social objectives;
- especially when provided by municipalities it is seen as a mandated approach to meeting voter aspirations;
- where there is already a significant unencumbered capital base, investment in both new and existing social housing can be undertaken with relatively little central government support. Indeed, in the Netherlands and Sweden social housing now contributes to the national purse.

Perhaps the most fundamental rationale for the continuation of traditional social rented housing has been that in Western/Northern European countries it is local authorities that continue to have the legal responsibility, often first introduced in the nineteenth century, to ensure their populations are adequately housed.

## **Eastern Europe**

The socialist model was one of state ownership and allocation of housing and related services implemented by municipalities and employers. Even before 1989, this model had begun to change in some Eastern European countries. Thereafter privatisation and, where relevant, restitution became the norm, to the point where most such countries now have only a tiny municipal rented sector with very few resources even to maintain that stock and little capacity to raise rental revenues (Hegedus et al. 2013). Problems of under-investment in the existing stock, particularly those relating to energy efficiency and affordability, have been transferred to the private sector where many households have few resources to address them. Policy makers across transition economies are looking to develop new models of housing and energy support but these are mainly in their infancy.



## **Southern and South Eastern Europe**

In Southern Europe, the model generally remains one of rent controls and self/family provision, without significant central government support. Some countries in southern Europe (notably Italy and Portugal) have quite strong histories of local authority, co-operative and social rented supply. However even in these countries social housing now accounts for tiny proportions of the housing stock and what remains is often starved of funds. In other countries, social housing may not even be identified in the data.

There are however some instances of national and regional policies of land allocation for social owner-occupation and other means of support into home ownership as well as for construction more generally. Spain in particular developed a model based on one off subsidies to owner-occupation (Pareja Eastway 2017).

In poorer Southern and South Eastern European countries, informal housing remains an important part of the housing system and there are examples of extreme negative externalities. Policies tend to mirror those in emerging economies – with attempts to formalise informal housing and sometimes new build investment programmes often funded by international agencies - although these remain marginal. In these contexts it is perhaps appropriate to compare Southern and indeed parts of Eastern Europe with emerging models in other parts of the world – notably South America, where government assistance, mainly to meet numerical shortages, comes in the form of land and capital subsidies to support owner-occupation helped by financial innovation to enable those with some capacity to pay to contribute more effectively to housing costs (Garcia de Freitas et al. 2015).

## **Implications**

This rapid review suggests that, if anything, social housing models across Western Europe are converging, with less direct provision by municipalities and more by private and non-profit suppliers, with increasing emphasis on financial self-sufficiency and rising rents offset by greater access to income related subsidies. Equally, social housing is increasingly limited to lower income and vulnerable households, while mainstream households who face affordability problems may receive some assistance to enter a range of ‘intermediate’ tenures. In other parts of Europe, however, social housing provision has either always been relatively limited or has become much less available. In these countries new and different housing models need to be developed if fundamental housing objectives are to be achieved.

## **Looking forward: a role for social housing?**

There will always be a need for sub-market housing provision. But equally there are increasingly diverse ways of meeting that need. So, does traditional social housing – let by public and non-profit landlords to mainstream tenants - have a future?



To address this question we should return to basics. Who is social housing for? Can it help supply? Are there other needs that are not being met? Is it really about redistribution of income? Are there wider social and political objectives?

Who is likely to be supported? In countries for which there are useful data, the evidence is of increasing concentrations on poorer, more vulnerable, often minority and migrant households (Scanlon et al. 2014). Those countries that have historically gone for a more universalistic approach see very similar patterns to countries that have more obviously targeted their assistance.

Is total supply still an issue? Shortages are re-emerging in some countries and regions, especially where there have been influxes of refugees and other migrants or very rapidly rising prices. Social providers in countries where they have a strong capital base have the potential to contribute across tenures and markets (Williams et al. 2012; CECODHAS 2009; Gibb et al. 2013).

Across much of Europe there is evidence of growing demand for rental housing, given the current economic environment (including low inflation; low interest rates; greater uncertainties in the labour market). Housing in the private rented sector is often inadequate. Arguably, social providers are in a good position to fill this role.

Where, perhaps oddly, the case for social housing is least strong is in terms of distributional outcomes. Social housing is not always of good quality and well maintained and is in lower demand regions, so the benefits of submarket rents may be limited; while in high demand areas many who need help will not be able to access social housing. The case for income related housing allowances and freedom of choice rather than social provision can often look more attractive - as long as these are adequately funded.

This suggests that much of the case for social housing lies in providers' capacities to improve efficiency and to provide better products than the market as well as more effectively to achieve social and political objectives. If additional resources are to be allocated for social housing there needs to be political commitment. The economic environment also needs to be propitious. In addition, clear political and economic cases have to be made for investment in infrastructure/regeneration/energy efficiency/ environment/climate change.

Any larger role for social housing almost certainly depends on whether governments have the capacity and commitment to make land available at below market value. It is this that has kick-started almost all major social housing programmes in the past, not only in Europe but worldwide and is likely to be the same in the future.

At the present time opportunities to maintain and expand social investment in housing appear only to be available to well-established social providers who can borrow against strong balance sheets. A final question is therefore whether countries with long experience and long pockets can help countries currently without significant social sectors to develop new models, as they have started to do (to a very limited extent) in South East Europe?





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