CECODHAS HOUSING EUROPE

Contribution to the XIX Informal Meeting of EU Housing Ministers

9th and 10th December 2013 - Brussels

“The sustainable financing of housing policies in times of crisis”

EXECUTIVE SUMMARY

To match the gap between affordable financing means and investment needs to both refurbish the current stock and built more housing units, we believe that EU has already the necessary institutions, programmes and instruments but should better adapt them to the needs of EU citizens, access to decent and affordable housing being one of the most important. Therefore we call on the Housing Ministers to support the following proposals :

- To extend the EIB portofolio supporting affordable housing by the creation of a European fund for sustainable housing within the EIB group
- To develop development urban financing products that could support different types of investments: investments with high and short term financial returns, as well as activities with long-term and difficult to measure economic and social benefits
- To adopt Specific measures for Member States experiencing financial difficulties and/or under financial assistance of the EU to help them absorbing EU funds
- To create A European Housing Observatory to better evaluate future needs and current gaps in housing and financial supply for the sector

Our proposals:

1- **A European Housing Fund to support affordable housing programmes**
2- **Adequate instruments for effective urban regeneration**
3- **Measures to help countries in difficulty to use EU funds**
4- **A European Housing Observatory**

Introduction: a call for action

"Can we still afford the welfare state, the quality of life and lifestyle that are all trademarks of the European Union since several decades?" To put it bluntly that is the kind of question that many policy makers have in mind since the beginning of the crisis in 2008. And many of them answer no to that question drawing the conclusion that we need a reduction of public spending on a wide range of areas linked to welfare (including in affordable house-building).

However a quick look at the evolution of the per capita income-levels (which measures the wealth of a country) in the EU over the last 3 decades, one thing is striking: on average European countries are in 2010 richer than what they used to be in 2000 (+10%) and much richer than what they used to be in 1980 (+64%). Even countries that since 2008 have a decrease in their income per capita are still much wealthier than in the 80ies and 90ies[1].

Reminding those facts is not a call for inaction in terms of public investment decisions. On the contrary, this reality should encourage member states of the European Union, as well as local and regional governments to carefully spend and distribute the wealth of our nations on areas that have the greatest societal impact. We at CECODHAS Housing Europe believe that affordable housing is one of these areas.

There is now plenty of evidence that affordable housing is one of the best areas for governments to invest in. Not only because it has direct effects on the living conditions of low-income households but also because it helps save costs on many other areas, ranging from health, employment to social inclusion and education.

Housing and social infrastructure create sustainable and peaceful communities, Europe needs to invests in what EU citizens need and should fight the current diverging growth paths between Member States by redefining solidarity.

The housing affordability gap has been increasing to become unsustainable for a large number of EU citizens. In addition, the missing housing units to answer the increase of households numbers is creating unbearable tensions on local housing markets. We believe that the past two decades of housing policies have not been ambitious enough to tackle these challenges, neither it supported the necessary energy refurbishment of the current housing stock.

[1] Figures are from the World Bank and appear here : http://www.inequalitywatch.eu/spip.php?article102

1- A European Housing Fund

Opportunity and justification:

Not all EU countries have structures in place to finance housing. There are of course loan mechanisms to support refurbishment for energy efficiency in nearly all European countries. But few countries have mechanisms to finance the construction or refurbishment of affordable housing. Whatever the model adopted in countries where public sector housing policy exists, countries have in common seeking to reduce the cost of capital for investment in housing (and in particular affordable housing). Some countries are currently finding it difficult to access bank lending or the capital markets at reasonable conditions, especially for long term activities (in part in anticipation of the application of new Basel III and Solvency II prudential standards).

Secondly, EIB has for many years been expanding its lending to social housing. The EIB lends either to the public authorities (municipalities, regions, provinces) or to aggregating funders of social housing. A European instrument specifically dedicated to housing issues would give greater leverage to the capital supplied by the EIB, by raising funds from other financial institutions (as does the Council of Europe Development Bank) and from the capital markets. It would also enable putting forward criteria for the selection of projects best suited to the housing sector (in terms of the volume, duration and measurement of the social return on investment).

Proposed instrument: European fund for sustainable housing within the EIB group:

The EIB group is made up of the European investment bank and the European investment fund (EIF). The European Investment Fund is a financial instrument specializing in venture capital investments benefiting SMEs across Europe.

Article 28 of the protocol on the statutes of the European Investment Bank also stipulates “The Board of Governors may, acting unanimously, decide to set up subsidiaries or other entities, which shall have legal personality and financial autonomy.”

Consequently, it is possible to envisage the creation of an entity dedicated to investment in (sustainable) housing (see annex for more details)

2- Adequate instruments for effective urban regeneration

In October 2011, the European Commission published a far-reaching and quite visionary report called Cities of Tomorrow – Challenges, visions, ways forward (European Commission, DG Regional Policy 2011). The report identifies four main threats to the European urban development model, as the diagram below shows: demographic decline, threats to economic development and competitiveness, growing social polarisation and the depletion of natural resources. Social housing providers share this vision of the threats and challenges for the cities at the present and in the future and we support the development of adequate policy and financial instruments to support cities in their regeneration and development programmes.

We call for the development by the European Investment Bank, with the support of the European Commission and in cooperation with other relevant actors**, of urban development financing products that could support different types of investments: investments with high and short term financial returns, as well as activities with long-term and difficult to measure economic and social benefits.** This is challenging task to make coincide the logic of the financial sector with the logic of integrated sustainable urban projects. The experience of Urban Development Funds under the 2007-2013 Structural Funds programming period, combined with the various texts that form the so-called EU urban agenda (Leipzig Charter, Toledo Declaration…) will be useful in the regard.

Part of the financing model of housing activities also comes from fiscal incentives, in the form of tax deductions, tax exemptions or reduced rates of VAT for undertaking certain types of works, namely the renovation of private dwellings and of social housing. **We call on EU Housing Ministers to ensure that discussions on tax policies at the EU level will not lead to jeopardizing the ability of private or public investors to carry out activities in the field of housing renovation. In times of slow economic growth** (i.e. non-existing economic growth in many Member States), this would have huge negative consequences.

In parallel, we suggest that, in the framework of the REFIT exercise for smart regulation and/or the similar exercise which is being undertaken in the framework of the Construction 2020 strategy, **the regulatory costs arising from EU legislation concerning residential building activities are assessed.** Indeed, the problem of decreasing competitiveness of the sector and higher prices due to the extra production costs must not be forgotten, both regarding the decreasing incomes of citizens in various EU countries and the increasing risk aversion of financial institutions for providing mortgage loans.

3- Specific measures for Member States experiencing financial difficulties and/or under financial assistance of the EU to help them absorbing EU funds

While the whole European Union still experiences in 2013 a decrease of its Growth Domestic Product compared to the same period in 2012, some member states are in an even worse situation (in terms of debt ratio, public deficit, unemployment rate) making for them almost impossible to dedicate budget to investments and EU projects.

Co-financing rates for projects under the Cohesion Policy do take into account the GDP per capita of the Member States and their regions and allow for lower required co-financing in poor countries and/or poor regions. But they do not take into account the public deficits of Member States and regions and therefore their inability to bring additional national or regional funding.

The risk of non-use of the Funds, because of the lack of national and regional cash funds, increases. Thus, projects linked to urban or housing regeneration, which are often highly cash and capital intensive, risks to be left out from the list of projects financed by the Structural Funds in the EU regions.

Although we support the idea of additionally –i.e. the EU funds shall not replace public or equivalent structural expenditure by a Member State – the exceptional situation of some member states (in particular, but not exclusively, in Southern Europe) require exceptional measures, especially for the Cohesion policy. For instance, **we call on for the prolongation of the Regulation as regards certain provisions relating to financial management for certain Member States experiencing or threatened with serious difficulties with respect to their financial stability**[2]. The same exception rules should also apply on the public deficit criteria, being one of the obstacle today for Structural funds to be used in countries with very high deficit. The Fund as described in the first proposal could play a special role for it.

In addition, the Banking crisis in most of the countries under 'Troika' programmes is not over. The deleveraging of housing assets from banks balance sheet to transfer it to an entity which would manage the stock as rental social housing is a sustainable solution, although not for all "bad asset" which should be prioritise each time it is possible, solving housing demands and banking crisis.

4- A European Housing Observatory

[2] http://register.consilium.europa.eu/pdf/en/11/pe00/pe00066.en11.pdf

Housing policy makers (public authorities or housing providers) at all levels need sound knowledge and balanced advice about the measures that ought to be taken. The European Commission takes into account the evolution of real house prices to monitor the macro economic imbalances in the Member States. But the price is just one element of the housing market trends to consider. Data about yearly formation of households, completion of housing units, quality and energy performance of the housing stock as well as yearly renovation rate, number of households living in fuel poverty are necessary to understand the full impact of the housing sector on the economy: housing shortage impedes growth, poor energy efficient homes have not only an impact on health (and thus public deficit), it is also a huge potential of energy savings (thus impacting the purchasing power of households), etc.

Housing policy makers need also information about new technologies or practices that will help build more affordable and energy efficient homes.

Though housing policy is determined at the national and regional level, the impact of EU policies on the housing sector is growing and its evolution has an impact on the overall EU economy.

An independent European Housing Observatory providing all housing policy stakeholders with national and EU wide data, as well as carrying out research would be of great value for member states and regions when designing housing policies measures and for the EU when proposing policies that might have an impact on the housing sector.

Annexe 1 -

The diagnosis: More Europeans will need affordable and resource efficient homes in the decades to come

1.1. Growing number of households at the horizon 2030

Despite the difference in birth rates between the EU member states, the number of households (in particular one-person households[3]) is expected to continue to rise over the next 20 years in a large part of the EU. For instance, by 2030 the number of households in the UK is projected to grow to 26.7 million, an increase of 4.5 million (20%) over 2011, or on average 236,410 households per year[4]. In France, the number of households could increase by 25% by 2030[5].

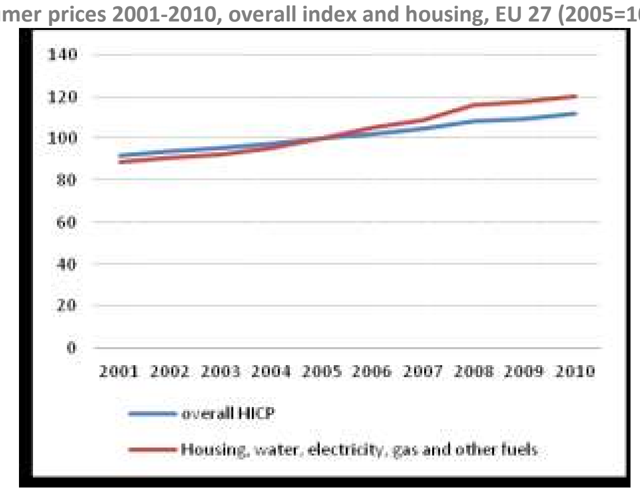
Against this evolution, the number of new homes is not enough to meet housing needs. In England for instance, in 2013 while around 235 000 new households will be forming, only around 110 000 homes will be built.

1.2. Growing individual spending on housing[6]

A regular rise has been recorded in the incidence of *housing costs over the total household consumption* in all countries. According to a recently published report by RICS[7], carrying out an analysis based on Eurostat data on households' consumption expenditures, housing related expenditure is currently the biggest component of consumer spending at an aggregated European level. In 2009, the equivalent of €1500 billion were spent on housing in the 27 EU Member States making up 22.9 % of total household consumption expenditure, up from 20.4 % in 2000

It is also interesting to look at housing compared to other consumption goods. Interestingly, the *housing price index* has risen more rapidly than the overall price index since 2004, as shown by Chart 4 below, where the Harmonized Index of Consumer Prices (HICP) for housing includes housing, water, electricity, gas and other fuels.

Chart 4: Harmonized indexes of consumer prices 2001-2010, overall index and housing, EU 27 (2005=100)

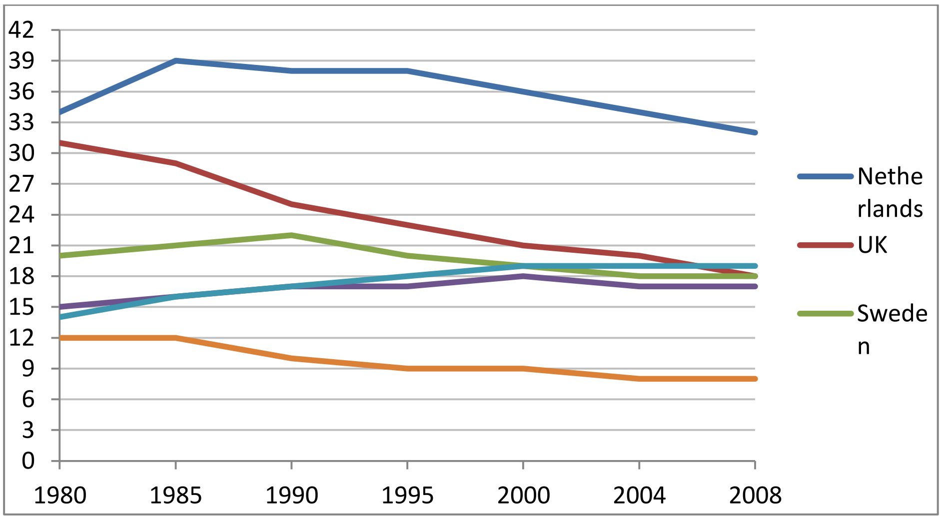


Source: Eurostat, HICP [teicp000] and [teicp040]

[3] http://www.oecd.org/futures/42551944.pdf
[4] National Housing Federation (2013): Housing Market Trends in England, http://s3-eu-west-1.amazonaws.com/hothouse.housing.org.uk/Downloads/Housing_market_trends_in_England.pdf
[5] http://www.insee.fr/fr/themes/document.asp?ref_id=projmen2030
[6] For more information see the CECODHAS European Social Housing Observatory Briefing Year 5 / Number 1, January 2012: Housing Affordability in the EU
[7] RICS (2011)

1.3. Decreased or inadequate public support to housing in the EU[8]

The size of the social housing sector has been shrinking since the 1980ies in the majority of countries although with some exception. And despite some recovery programmes in the immediate aftermath of the crisis with investment measures in the housing sector, from 2011 many member states have carried out cuts in affordable house building as part of wider fiscal consolidation programmes[9].



At the same time, tax exemption for mortgage interests has been a common feature of housing policies creating inequality between home-buyers and tenants and contributing to the raise the inequalities of wealth together with housing price bubbles.

The policies supporting housing in the last decades have failed to produce the housing outcomes needed and should be reformed. Because housing markets have a considerable weight in the economies of EU countries, we believe that it is of crucial importance, that Housing policies at national and regional level are better monitored with the aim to have a stable housing market with affordable and decent home solutions for all (and not only to focus the housing market performance on debt and price level).

In conclusion, EU citizens are confronted with a "scissors effect": on the one hand, they spend more and more on housing (with a disproportionate burden for the people below the at-risk-of-poverty threshold); on the other hand, governments are failing to further support the affordable housing sector despite a growing demand.

Is this situation doomed to continue as long as fiscal consolidation efforts will stop and growth will be high and sustain again? Since this might take years, waiting is not an option. Decision-makers in the EU Member States and at the Union's level must take decisive measures.

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[8] This part comes from 2012 Housing Europe Review : the nuts and bolts of European Social Housing Systems

[9]See CECODHAS Housing Europe's Observatory Research Briefing Year 5 / Number 2, February 2012 on the IMPACT OF THE CRISIS AND AUSTERITY MEASURES ON THE SOCIAL HOUSING SECTOR

Annex 2 - Note about the European Housing Fund

Capital: The capital of this European housing fund would in part be made up in part of EIB capital, of funds raised by bond issuances in the international capital markets, and of investment from the public sector entities already active at national level in the housing field.

Activities: The Fund should be in a position to propose low-cost finance to intermediate entities (state¬-owned banks, private banks, organizations that finance housing associations modelled on the Housing Finance Corporation of the United Kingdom). These could in turn propose loans at preferential rates, guarantees with other banking institutions for the construction of new affordable housing but could also be used, to support large scale refurbishment of affordable housing (and could therefore refinance energy service companies (ESCOs)for example) . The Fund should also be in a position to propose technical assistance to set up the national or regional entities required to bring channels of finance.

Added value compared to national entities:

The Fund's vocation is not to substitute for the national entities already active in the long term housing finance field, such as the Caisse des dépôts, KfW, Norwegian Housing Bank – Husbanken, National Polish housing bank, Italian Cassa depositi e prestiti … among others. The Fund should on the one hand complement the activities of these entities by proposing supplementary finance in areas not currently eligible for national finance (for example in more specifically social or non-energy areas). On the other hand, the Fund could play the role of a national entity when one does not already exist. **In particular the Fund could contribute expertise to and subsidies for technical assistance in setting up systems raising funds by means of an aggregating financial intermediary** (modelled on the Housing Finance Corporation http://www.thfcorp.com/ in the United Kingdom), in order to meet the funding needs of the affordable housing sector.

CECODHAS Housing Europe 'The Federation of public, cooperative and social housing', is a network of national and regional social housing federations gathering 4.500 public, voluntary housing organizations and 28.000 cooperatives housing. Together the 45 members in 18 EU Members States and 3 non-EU countries manage 25 million dwellings. CECODHAS Housing Europe members work together for a Europe that 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.

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