

Social Housing: an Economic Issue

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The paper presents briefly the situation of the social housing market in general, with accents on the Romanian situation, in the contexts of a mortgage crisis in the United States and of a need to adhere to the European level of dwelling supply. The need for financing of a social housing system, through various means is obvious, mostly when the conclusion of the paper is that there are no recent studies on the Romanian market (the latest publicly available study being conducted in 2004, before the crises and the increases in the prices of the houses). The paper is considering a series of solutions for financing a social housing system, having in view a series of articles on the subject.

Key words: *social housing, Romania, financing, mortgage*

JEL classification: R31, R38, R51

The issue of social housing is extremely important all over the world, and apparently more so with the latest development of the international economy. The increase in the number of the financially-impaired persons raises the need for sheltering from public, national or international bodies, in order to ensure the minimum conditions for living. Therefore, there is the need for an efficient system of social housing, ensuring the sustainability of a society in crisis.

Defined generally as “a housing development partly or fully funded by the government to assist low income families.”, the term “social housing” has various interpretations based on the legal framework of the country on which it refers to. More so, the interpretation of the term

is based on the type of housing system implemented by that particular country. There are distinctions between public authorities renting out dwellings to families of modest income, refugee housing, emergency housing,

In literature¹ there are identified three types of intervention that the state can use in order to ensure an efficient social housing system (Whitehead, Scanlon, 2007):

1. Housing allowance
2. Creation of a new social rented sector
3. Support for low income households to access owner occupation

Still in the area of definition of terms, social housing refers mainly to the concept of affordability (Hulchanski, 1995 and Pelletiere 2006), which compares the income of a household with a benchmark, in Romania with the average income. Other approach is to use as a benchmark, that affordability index equal to a household income where mortgage payments for a typical house represent less than 30%. In this approach, Romania's affordability index was estimated to be around 46%, in 2004. The level of the index may have varied significantly in the past four years, mostly dominated by an increase in the prices of the houses. However, at the latest report in the field, dated from 2004, the figures were the ones presented in the table below.

¹

Table 1 Romania's Housing Affordability Index (official figures, 2004)

Average house-price [thousand USD]	Household income [USD/year]	Maximum interest rate of a typical loan	HAI [%]
46000	6000	10%	46

Source: Country reports on Housing, compiled in Hegedus and Stryuk, 2005

As will be noticed further on from this paper, there are no recent figures calculated for Romania, therefore the need for a more in depth study is required.

As a second idea to dwell upon, one must take into consideration also the issue of the quality of housing that can be defined as the number or non-recoverable houses and the number of single dwelling houses with multiple households.

The third issue one must take into consideration, while discussing social housing is the ownership and its impact on the market. Currently, in the Romanian situation of the housing market, there is an arbitrage possibility, since the market for owning a dwelling is mostly client driven, and the market for renting a dwelling is owner driven. More so, one may list the supposed advantages of house ownership, that is

1. Allowing financial security to a family, by providing it with an asset that increase in value over time. Of course, in this situation, the advantage is obvious mostly for the families that do not have to make mortgage payments for a period over 10 years.

2. Enabling the families to act responsibly towards their environment
3. Stabilizing neighborhoods and strengthening communities
4. Generating jobs and stimulating economic growth, especially in the case of households that must manage mortgage payments. This issue is valid under the supposition that the economy as a whole is a sane one, and that mortgages are instrument for market driven success and not means of multiplying a crisis, as is the fact currently in the United States.

Having in mind all these issues, it is clear the need for a comprehensive, efficient and sustainable housing system, ensuring the affordable housing for the greater majority of the society and reasonable living conditions for the special cases where affordability of ownership cannot be an issue.

What Does Europe say about Social Housing?

There is no unified approach on the subject in the European Union. As easily observed from the Housing Statistics in the European Union 2004¹, the latest official report on the subject, the member countries have their own understanding of the system, either governmentally, regionally or locally managed, governed by the principles of the free market, or, on the contrary, taken out of the game of supply and demand.

For instance, the Czech Republic, Estonia, Finland, France, Ireland, Lithuania, Malta, Netherlands, Portugal, the Slovak republic, Spain and Sweden support fully the demand side direct subsidies from the state budget. In the category of demand side subsidies are included the subsidies to the owner occupied sector for the production or renovation by owner occupiers of the own homes. Meanwhile, Austria, Belgium,

¹ "Housing Statistics in the European Union 2004", Editors: National Board of Housing, Building and Planning, Sweden and Ministry for Regional Development of the Czech Republic, February 2005, ISBN: 91-7147-865-5

Latvia and Slovenia support the same type of subsidies from the regional or local budget, mostly while enhancing the idea that housing, as a basic human need, should not be subject to the free market, but derived from the social responsibility principles.

The proportion of social housing on the total housing stock of the country varied in 2003 (again, the most recent European data available) from 34.6% in the Netherlands to 0% in Greece. The figures change when considering the percentage in rental sector, where they vary from 70 and 80% in Slovenia and the Czech Republic (that also include in the calculation the dwellings with regulated rent) to 0% again in Greece. Mostly, the null figures in Greece are caused by the lack (in 2004) of a legal framework on the issue of social housing. Still, the volatility of the percentage of total public stock and rental sector is undeniable, similarly to the fact that in most of the European countries the public and local authorities are an important player in the rental market, as shown in the Table below.

Table 2. Social housing in % of rental sector, housing stock and new dwelling completions, 2003

	Social housing in % of			
	rental sector	total housing stock	new completions in rental sector	new completions in the total housing sector
Austria ¹⁾	35.4	14.3	na	na
Belgium	23.0	7.0	25.0	6.0
Cyprus	na	4.6	na	na
Czech Republic	80.0 ^{1) 7)}	20.0 ⁷⁾	99.0	25.5
Denmark	43.0 ²⁾	20.0 ²⁾	75.0	40.0
Estonia ¹⁾	na	3.0	na	na
Finland	50.0	17.2	na	17.0 ³⁾
France	45.5	17.5	40.0 ⁴⁾	13.0
Germany	12.5 ¹⁾	6.5 ¹⁾	12.2	3.2
Greece	0.0	0.0	0.0	0.0
Hungary	na	4.6	82.5	4.5
Ireland ¹⁾	45.0	8.0	na	9.0
Italy	na	na	na	na
Latvia	1.5	0.1	0.0	0.0
Lithuania	27.0	3.0	0.0	0.0
Luxembourg ⁴⁾	6.4	1.9	0.9	0.6
Malta	na	na	na	na
Netherlands	76.8	34.6	77.0	18.3
Poland	na	23.4 ¹⁾	na	6.8
Portugal ⁸⁾	15.8	3.3	na	na
Slovak Republic	54.0	4.5	100.0	28.0
Slovenia ¹⁾	72.7	6.6	na	na
Spain	11.6 ⁵⁾	0.9 ⁵⁾	na	1.3 ⁶⁾
Sweden	45.0 ¹⁾	21.0 ¹⁾	54.0	18.0
United Kingdom	na	na	na	na

Source: "Housing Statistics in the European Union 2004", National Board of Housing, Building and Planning, Sweden and Ministry for Regional Development of the Czech Republic

An equally important issue is the financing of the social housing, either through public funds subsidies, public funds loans, or any other

market derived method of financing. From the same European statistics, the comparisons between countries seem on the one hand extremely difficult to make, due to the various components of the indicators, and, on the other hand obsolete to a certain extent. The fact that these statistics have become unusable from an investor point of view is generated mostly by the different methods applied in calculating and considering the subsidy or the loan support. Therefore, from an investor point of view, the right approach should be one country-focused, not European wide oriented. However, it is interesting to note that Denmark has the largest public houses subsidies expenditure as percentage of the total public expenditure, with close to 2%, while France reaches close to 4.5% of the state budget expenditure and 1.9% of GDP. In terms of public houses loans expenditure, Greece has the highest percentage of the total public expenditure (1.56%) and GDP (0.73%), while France continues to hold the top position when considering the percentage from the state budget expenditure (1.70%).

The matter of social housing appears to be more and more stressing in the former transition countries, where state housing subsidies were cut severely, considering that the state budget funds were directed towards more needy sectors, such as healthcare or education. Also, the liberalization of the utilities markets has led to an increase in the costs, causing the subsidies to go towards the support of the energy, heating or water costs, rather than rent per se. And last, but not least, the fact that the housing output has decreased overall, mostly in the sector of public managed dwellings. This situation, corroborated with the effects of privatization in the real estate market and restitution, caused a morphing of the values in the system, where the public rented housing is seen as no longer safe, but “charity”, and is directed only towards those who cannot afford to buy or privately rent their own homes (Hegedüs-Teller, 2006).

Financing the system

Worldwide, the affordable housing problem is as dire as it can get, mostly supported by poverty, therefore the strategies towards increasing the efficiency of a social housing system seems to fall under the poverty-reduction schemes. The IMF and World Bank Poverty Reduction Strategy Papers (PRSPs), required from the national governments to fill with information depicting measureable goals, budget information and a clear, poignant strategy, have been focused (on the issue of housing) either on building via funds coming from various sources a number of publicly owned social dwellings, or on public-private partnerships and land reform measures.

It is also noticeable that in South Eastern Europe, and more specifically in Romania, the term “Public-private partnership” has become a buzz word, seen as a panacea for all major problems, similar to the idea that microfinance may help erase poverty. Therefore, the strategy is not clear, and only best-practice examples in terms of a proper financing of the system are available right now. However, when discussing a series of housing programs, there are at least three dimensions that one must consider, in order to grasp the efficiency of a like solution:

- the quality of the housing solution and the financial assistance
- the eligibility of the beneficiaries of the system
- the system of delivery

For instance, the municipal financing in Germany ensure a healthy housing system. The main sources of financing were: tax revenues, national grants, international grants. An extremely interesting case is the Chilean system, where a combination of mortgages (that cannot exceed 75% of the value of the house) and grants, has proven to be the correct way of changing from an inadequate system to a successful

one. The multilayered, extremely flexible French system is also a textbook case in the matter.

Although in a steady economic environment, the transition economies in South Eastern Europe have implemented mortgage systems only at the end of the 1990s or at the beginning of the millennium. Mainly provided (or, in some cases, solely provided) by commercial banks, the mortgages are in some countries, not distinct from the loans and credits. Theoretically, there should be two basic options of financing housing loans:

- The bond market – accessed by mortgage banks and secondary institutions
 - Accessed solely by a special bank institution that may issue mortgage bonds, as is the case in Hungary and Poland
 - Accessed also by commercial banks, that may issue bonds backed by mortgage loans
- The deposit system – from commercial banks and savings' banks

The entire issue of mortgages is the subject of another article, by the same authors, to be published in a future number of the Romanian Economic Journal.

As listed in a HABITAT study¹, there are also a series of pointed solutions for solving the housing problem for the poor. These solutions do not necessarily involve the state per se, but may be enabled by the state participation. One of them is the employer provided housing finance. Existing in Europe since the industrial revolution, the solution has been give little attention until recently, where is has been used again successfully in African slums cities and mentioned most emphatically in Housing America's Workforce 2005. The advantages of a like solution are obvious, for the employee that cannot afford owner-

¹ HABITAT Debate: Financing for the Urban Poor, UN HABITAT, March 2007, Vol 13, No.1
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ship to the employer that has more dedicated workers. Housing provided by employers is evidently mostly rental, thus ensuring the payment of the rent, deducted from the salaries. A governmental enabling strategy of this approach has been used in the United States, where incentives have been provided for the private sector, in order to increase investments in housing. The incentives were tax credits, rental assistance and last, but definitely not least, the fact that housing assistance is regarded as a non-taxable benefit, like healthcare and life insurance.

Another suggested solution is the increase in the initial investment in the construction of a social house, by turning to green and sustainable materials and sustainable energy provision methods, thus ensuring a decrease in the cost of the utilities. This decrease in the cost of the utilities paid by a household over the normal period of mortgage leads to diminishing costs of operation for a dwelling, and thus, reduces the need for housing allowance.

In conclusion, there are no set solutions applicable worldwide for the problem of social housing. Obviously the increase in affordability through various methods is necessary, and the means and methods of achieving it are numerous. These methods thrive in an enabling environment, either if this is a legal or a financial one, although it is evident the need of a wholesome environment from all points of view.

However, all these must be supported by a clear view of the current status of the market and of the social housing programs, which is not the case in Romania nowadays.

APPENDIX: *Paragraph 48 of the Habitat Agenda commits member states to:*

(a) [Stimulating] national and local economies through promoting economic development, social development and environmental protection that will attract domestic and international financial resources and private investment, generate employment and increase revenues, providing a stronger financial base to support adequate shelter and sustainable human settlements development.

(b) [Strengthening] fiscal and financial management capacity at all levels, so as to fully develop the sources of revenue.

(c) [Enhancing] public revenue through the use, as appropriate, of fiscal instruments that are conducive to environmentally sound practices in order to promote direct support for sustainable human settlements development.

(d) [Strengthening] regulatory and legal frameworks to enable markets to work, overcome market failure and facilitate independent initiative and creativity, as well as to promote socially and environmentally responsible corporate investment and reinvestment in, and in partnership with, local communities and to encourage a wide range of other partnerships to finance shelter and human settlements development.

(e) [Promoting] equal access to credit for all people.

(f) [Adopting], where appropriate, transparent, timely, predictable and performance based mechanisms for the allocation of resources among different levels of government and various actors.

(g) [Fostering] the accessibility of the market for those who are less organized and informed or otherwise excluded from participation by providing subsidies, where appropriate, and promoting appropriate credit mechanisms and other instruments to address their needs.

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