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FINANCING ALTERNATIVES: RENTAL & SOCIAL HOUSING

The overwhelming significance of shelter and a home to citizens has led many governments to consider housing subsidies through social housing and rental accommodation. At present, subsidies come in many guises, including: direct interest rate reductions; allowing mortgage interest payments to be deducted from income tax; supporting housing-related saving; supporting insurance of mortgages; supporting the secondary mortgage markets; and direct grants for shelter. If appropriate housing finance is in place, the proportion of households requiring subsidy could be minimized, i.e. only those too poor to afford the real cost of the shelter available. Adopting effective financing systems can thus, reduce the need for subsidy.

The advantage of subsidies is that it can help improve fairness, reduce housing costs, stimulate economic growth and have a direct benefit on public health. Well planned, they can also overcome market inefficiencies that may result in monopoly profits and undersupply by developers, poor housing quality, or an insufficient volume of construction.

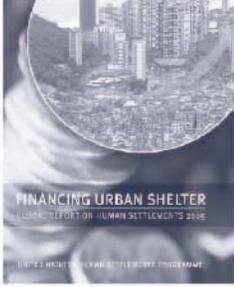
Three specific trends within social housing that are consistent with privatization and deregulation are well established in a number of countries:

- Governments have shifted away from the direct construction and management of public housing and have used several strategies to reduce their stocks, with large-scale transfers to occupiers in some cases;
- There is increasing assistance for homeownership through direct demand subsidies;
- Consistent with the two trends above is the greater use of housing allowances to assist low-income families renting accommodation in the private or non-profit sectors.

Although in the North the state is generally playing a less direct role in economic intervention, this is not necessarily the case in housing. Despite the shift to income-related support, the social rented sector (defined as housing let at below-market prices and allocated administratively on the basis of housing need, rather than on the ability to pay) remains a significant tenure in several states. However, there have been significant changes in policy and the nature of housing support has shifted in Western Europe. Support systems with large, general interest subsidies for new construction and rehabilitation have been phased out. Targeted income-related subsidies have become relatively more important, as have subsidies to depressed housing areas. There has been a general marked decline in the levels of new housing units in this sector. As the numbers of designated social housing and/or public properties fall, there are concerns that the scale of social disadvantage associated with such accommodation will rise. It is feared that this will result in a high concentration of social disadvantage, thereby exacerbating social exclusion, reducing mobility and creating greater marginalisation of the poor.

Prior to transition, in most Eastern European countries housing was provided by state institutions (workplace, local government and/or housing co-operatives). Essentially, the system was one in which state-provided social rental systems dominated, with low rents and administrative allocation systems. The transition phase included the transfer of some of these dwellings to their occupants under privatization programmes. In some countries, more than 90 per cent of the stock was sold, while in others the percentage was as low as 6 per cent. However, housing markets were very limited. Even where people own their dwellings, it appears to have been difficult to trade them. By the end of the 1990s, there was some interest in reinvestment in rental housing – for example in Poland, Slovakia, the Czech Republic and Hungary.





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Financing Urban Shelter



Large-scale public housing has not been that significant in the South despite exceptions such as Hong Kong. While many countries have experimented on a minor scale, in general the scale of provision reflects the limited funds available to invest in public housing initiatives and the high standards that are required. In general, public rental housing has not been allocated to the poor, nor would it necessarily have been affordable even if it had been allocated. In some cases, these properties have now been privatized following the increased emphasis on market provision. As with the transition countries in Europe, China has relatively recently begun a policy to transfer to homeownership dwellings that had previously been rented from state-owned enterprises and from other state housing providers. Despite a general trend against direct provision in the South as well as the North, there is some continuing support for rental housing in a number of countries. In Hong Kong, the Housing Authority actually increased its stock by 18,000 units between 1991 and 2001. In the Republic of Korea, there has been (since 1989) a growing interest in permanent rental dwelling programmes for those on low incomes. In South Africa, there has also been a policy to support the development of a social housing sector and, more specifically, to encourage the development of housing associations to manage low-income estates and rental accommodation.

There are concerns with regard to social housing about the concentration of the poor in specific areas. It's recognized that remote locations can add to problems of social exclusion, while a high concentration of very poor households can increase some of the problems of poverty. In programmes that place emphasis on market mechanisms, the poor may have relatively little choice about the kind of housing solution that is offered. The locations appear to be a result of greater reliance on the market, which chooses the location according to a range of factors but which has no particular incentive to maximize locational advantage to the poor. The emphasis placed by government on the adequate standard of the dwelling, combined with the wish for contractors to maximize profits, tend to orientate the solution towards lower land costs and greater construction investment.

PUBLIC HOUSING IN NEW YORK, UNITED STATES

The New York City Housing Authority (NYCHA) is the largest public housing authority in the country, with roughly 181,000 apartments in 2698 residential buildings throughout the city as of September 2004. The public housing residential population represents roughly 5 per cent of the city's total, and on average pays US\$311 in monthly rent. This same population's average annual income is US\$18,334, and almost 18 per cent of households are on public assistance. NYCHA has more than 10,000 apartments that are for the elderly alone, and about 33 percent of NYCHA households are headed by persons over 62 years of age. Working families account for 40 per cent of NYCHA residents; but with an extremely low vacancy rate of only 0.43 per cent of apartments available for all public housing households, it is not very surprising that over 136,000 families are on NYCHA's waiting list.

Source: Information from NYCHA Fact Sheet (revised 2 December 2004) quoted in Carolini, 2004, accessible online at www.nyc.gov/html/nycha/pdf/factsheet.pdf.

THE RIGHT TO BUY, JINAN, CHINA

In Jinan, a city of 1.5 million in eastern China, the percentage of work-managed housing was still at 63 per cent in 1998, with 18 per cent living in state-managed housing and 19 per cent in private housing. Nominal rents in public housing rose during the 1990s from an average of 0.11 yuan to about 6.75 yuan per square metre. The Comfortable Housing Programme was aimed at assisting those in particular need, and by 1999, 10,800 (just under half of the 24,500 low income households with special housing problems) had bought – at cost price – or were renting comfortable housing. Attempts to sell public housing began in 1994, but did not really take off until conditions were made more favourable; by the end of 1995, only 5 per cent of all units had been sold. The subsidy on sale was further increased until it became almost a free allocation. In many cases, and by the end of 1999, 80 per cent of public housing units had been privatized. *Source:* Zhao and Bourassa, 2003.

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