

Housing: An international challenge

A case study guide.

Introduction

Local Government plays an important role in England to plan for, finance attract and deliver housing investment. This role is broad and is often undertaken in partnership with the private sector and housing associations. Quite frequently the need to plan for and build housing crosses local authority boundaries and is intrinsically linked to the wider role of local government to promote locally led growth.

The challenges vary both domestically and internationally. However, the common thread from the LGA's work with councils in England and internationally is that taking a long term view on the demand for and quality of housing in your local area and considering the investment and partnerships required to deliver can both help to stimulate economic growth locally, deliver better outcomes for residents and businesses and help to manage pressures on public services.

This report focuses on a number of key themes chosen to reflect key issues facing policy and lobbying priorities for local government. The report sets out a series of case studies drawn from academic research, CECODHAS Housing Europe (the European Federation of Public, Cooperative & Social Housing) and through LGA contacts at the Local Government Commonwealth Forum, the National Housing Federation and the national associations of local government for New Zealand, South Africa and Canada to illustrate the range of innovation taking place internationally to build new housing and invest in existing stock. This work was commissioned by the LGA's People and Places Board to share good practice and sits alongside the LGA's work to share domestic examples of innovation across councils.

- Raising finance to invest in affordable housing.
- Land for building.
- Building quickly
- Quality of building and quality of life.
- Making the best use of existing building.

1. Raising finance to invest in affordable housing

Stock holding councils in England have been able to manage the finances of their own housing stock since 2012, but their ability to invest is limited by housing borrowing restrictions set by central government. The LGA has called for the borrowing restrictions to be lifted.

Councils also play an important role to leverage and attract finance for housing. For all councils there are opportunities to build on previous commercial and entrepreneurial experience to start new house building projects which provide private rented, affordable and market housing. This can involve using the strength of the local government balance sheet to reduce risk, using surplus public sector land and entering into formal joint ventures with the private sector and Housing Associations.

Each country has a different model of providing and funding affordable housing. Whilst it is difficult to make a direct comparison between countries, some of the funding principles and innovative responses from other countries could offer learning for housing providers in England.

This section also includes smaller scale funding models for affordable housing developed by community organisations and land development.

Denmark's national social housing building and investment fund finances new building by using surpluses from rental income. Social housing in Denmark is provided by housing associations and the level of contribution to the national building fund varies according the underlying debt profiles of different estates. The national fund has made the sector less reliant on government provided subsidy.

Social housing is only a small proportion of the housing stock in **Spain** (2%) and it is more likely to be for sale than rent. Social housing consists of Vivienda de Proteccion Publica (publicly protected housing). The state provides loans at reduced interest rates for construction and renovation. If the property is for sale the low cost of finance is passed on to the home owner through cheaper mortgage finance. Providers have to meet conditions for size and quality and homes must be sold or let to people on low incomes.

America has a tax credit model to encourage building of homes for people on low incomes. The Low Income Housing Tax Credit (LIHTC) awards tax credits to developers for eligible projects. The tax credits can be sold on to investors to raise capital for housing projects, reducing the level of borrowing for the developer. The reduced development cost is passed on to tenants as lower, more affordable rents.

The **Australian** National Rental Affordability Scheme (NRAS) offers financial incentives (tax credits and payments) to private and non-profit businesses and community organisations. The incentives apply to new homes built for rent at 20% or more below market rents.

The **Scottish** Government set up the Scottish National Housing Trust Initiative for councils and private developers to build housing for intermediate rent using private sector funding and council borrowing. In this model a Limited Liability Partnerships (LLP) is formed with the council, developer and Scottish Futures Trust. The council, through the LLP pays up to 70% of an agreed purchase price to the developer up-front. The developer funds the remaining 30% through private funding. Rental income pays the interest on the loans, and the debt of the LLP is underwritten by the Scottish Government.

The Highland Housing Alliance was set up in 2005 as a partnership between the Highland Council, five housing associations and two housing trusts. The original aims were to purchase sites, fund infrastructure and investing surpluses into housing projects including affordable housing with high development costs.

The Champlain Housing Trust is the largest community land trust in **America** providing homes for sale and rent. The Trust acquires land and properties and sells or rents the property, but keeps ownership of the land. A resale mechanism shares the equity with the tenant/owner but keeps any public subsidy or surplus in the system so that prices are affordable for people on low incomes without the need for external subsidy.

In **Canada**, the City of Canmore created an employee housing linkage program as part of a strategy to create perpetually affordable housing. The City introduced a new Land Use bylaw requiring developers of commercial sites to provide employee housing at the same time.

2. Land for building

Identifying suitable land for housing development and regeneration is a key component of the English planning process. Local authorities through their local plan are required to objectively assess demand for housing and plan accordingly. Local authorities in England are making good progress to get their local plans in place providing important certainty for prospective developers and investors in the local area.

Authorities also have a range of powers and tools at their disposal to encourage, incentivise and compel land to be brought forward for housing and to use their own land for housing development. This includes arrangements such as 'build now pay later' on both public and private land which can mean that development is viable and secure important infrastructure contributions necessary to ensure that the development is sustainable.

The case studies in this chapter span a range of powers and tools to ensure a steady and sustainable supply of land to support sustainable housing development. The consistent theme is the role of the local authority: to bring parties together, to plan for sustainable development to provide long term certainty and to support land acquisition where necessary.

Germany uses a legally binding process of land pooling or 'readjustment' called Umlegung. "The process starts with the municipality determining the area of the site for Umlegung and the rights and claims of all individual plots are added together. The land designated for streets and other public space is then appropriated from the total area. The remaining land area is then returned to the original land owners according to their share of either the original value or land area. If allocated by land value then the landowner has to pay the uplift in value – between the original land value and the new land value – to the municipality as public investment in infrastructure makes the land more valuable. This means the municipality can recoup the costs of infrastructure"¹.

¹ Source text from RTPi

In the **Netherlands** municipalities and provinces have powers to purchase undeveloped land, install services and parcel it up for sale. Municipalities can use the municipal pre-exemption right (compulsory purchase) to designate an area for development. A landowner in the area who wants to sell their land must offer it first to the local area. The municipality will buy it at existing land use value, provide the infrastructure and sell plots of land at a price that recoups the initial outlay.

Housing was an important part of rebuilding **South Africa** after the end of Apartheid. Over 3 million housing units have been delivered since 1994. Provinces and municipalities have worked together, with municipalities acting as delivery agents and leading on land acquisition and development.

Canada designates zones of land for different purposes in their planning process. A new zone of “rural residential development” was created in Cowichan Valley Regional District in British Columbia to allow a combination of land uses including farming, affordable homes and secondary buildings forming part of a new ecovillage. The land is owned by a co-operative and a land trust covenant protects the ecological features of the site and protects one third from development.

3. Building quickly

England has a backlog of sites where planning permission has been granted but building has not been started. The LGA is calling for incentives for developers to build, and powers to intervene when sites remain unused.

The case studies in this chapter consider the use of housing zones to encourage fast track development, options to reduce process and incentives to ensure that sites with planning permission are built out swiftly.

Housing Accords and special housing areas were created in legislation passed by the **New Zealand** government in 2013. For example, Auckland Council and the NZ government have agreed a housing accord to allow special housing areas to be designated for fast track agreement covering brownfield and greenfield sites. A housing accord grants the council additional powers to create special approvals and consent new land and housing developments. In the designated areas these take precedent over other planning powers including those held by central government.

Both council and central government commit to work together on the cost of building materials, skills provision and infrastructure. Developers benefit from a speeded up process.

Social housing forms 18% of the housing stock in **Sweden** and is owned by municipalities. A response to rising demand and the second highest building cost in Europe was to develop

SABOs Kombohus, a national procurement framework. The original framework set a fixed price for 2-4 floor apartment blocks and 5-8 floor tower houses, cutting building costs by 20%.

The **Netherlands** offers compensation to residents in areas of new development, due to loss of value when the land use plan changes. Compensation is paid when planning permission is approved. It is paid by the municipality, but is often actually paid for by the developer. Municipalities in the Netherlands act as land buyers and infrastructure providers.

4. Quality and sustainable house building

High quality homes need to be supported by adequate infrastructure to ensure that the costs and impacts of development are met whilst maintaining the viability of the site overall. The current financial climate has meant that this is a challenging circle to square and local authorities in England work with developers to encourage and support schemes that are viable and provide the necessary infrastructure to support both new communities and supporting recovery by creating jobs and attracting investment.

There is much to learn from international experience of building housing, and good practice in building homes that are good quality and designed for current and future housing needs. The case studies in this chapter set out the role of councils to work with communities to ensure high quality design and sustainable housing and the use of financial levers to support infrastructure provision.

The City of Toronto in **Canada** has a housing charter called “opportunity for all”. The charter is designed to guide city council staff in assisting people who face challenges finding affordable accommodation, from single people to seniors and people with disabilities.

The Andria Housing Cooperative in Northern **Italy** developed the template for first time homes for young couples in response to a shortage of affordable housing. The homes are built as small two-storey terraces and are designed to be expandable accommodation by the owner at a later date saving money on the initial building cost. The first floor is left uncompleted but can be converted into bedrooms and bathrooms as needed.

West Vancouver in **Canada** found that residents were particularly concerned about housing and neighbourhood character as part of the community planning process. Changes such as older houses being replaced with newer, larger ones and affordability of housing for older and younger people were common themes. The municipality’s response was a year long dialogue on neighbourhood character. The process built up trust between the community and municipal officials, and led to a number of recommendations including expanding affordable housing options.

Regents Park in Toronto, **Canada**, was built in the 40s and 50s as a self-contained social

housing community. After becoming isolated and blighted by crime and poverty over a number of years, the area is being revitalised by Toronto Community Housing into a mixed use, mixed income neighbourhood. The sale of homes in the first phase will fund the redevelopment in later stages. One of the aims of the development is to improve the health and wellbeing of residents and this is being studied as a formal research project.

Some **American** cities have used Tax Increment Funding (TIF) to finance regeneration projects. Within a TIF area, additional tax revenue is captured and used to fund infrastructure development. In America TIF has been used to fund affordable housing and infrastructure such as roads and sewers as well as regeneration.

In **Scotland**, the Highland Council holds a Landbank Fund which provides loans and grants to partner organisations to help them secure and prepare strategic sites for development. The Fund was originally set up using a £5million grant from the then Scottish Executive and £5million from housing land sales. Additional funding has come from council tax payments from owners of second homes and holiday home. The Fund is a revolving facility with loans repaid as land and property is resold or developed.

5. Making the best use of existing buildings

We need to make best use of our existing buildings, including those that are empty or in poor condition. Over 600,000 homes in England are empty, and over a third of these properties have been empty for over 6 months². There are a number of reasons why councils take action to bring empty homes back into use. Long term empty homes have a negative impact on surrounding homes and areas, and while tackling empty homes will not provide a solution to the need for new homes, it is an important part of making best use of the existing housing stock.

Councils also play an important role to support and encourage an increase in standards and quality across the current housing stock. This has included prioritising meeting, maintaining and exceeding the decent homes standard in social properties, encouraging and incentivising investment in privately rented accommodation and enforcing when standards are unacceptable.

Homegrown Homes in **Canada** is a not for profit organisation that buys derelict buildings in city centres, refurbishes them for let to low income families at reduced rents. Homegrown Homes has approach each project creatively, using grants, donations, volunteers and the support of local businesses to complete projects without public subsidy. Labour costs are reduced by partnering with local prisons, which also help prisoners learn new skills.

Self-Help Housing in **Germany** is a kind of home-steading programme for empty flats and is used to provide housing for young people. Self-help housing may operate for a limited time period until a permanent solution is found for the building and is often made affordable by using

² Source: DCLG

volunteers to complete refurbishments. In Berlin, more than 300 large blocks with around 5000 flats (often former squats) were refurbished in a Self-Help Programme, which included public funding for some of the repairs.

An award winning model of affordable housing in **Germany** adds a new floor of housing to existing buildings. The “on top” timber module replaces the existing roof with a lightweight timber housing unit. A trial project is being run by a housing association, university and private builder.

Further information

CECODHAS Housing Europe
<http://www.housingeurope.eu/>

BSHF World Habitat Awards
<http://www.worldhabitatawards.org/winners-and-finalists/>

De Montford University
<http://www.dmu.ac.uk/documents/business-and-law-documents/research/cchr/bshf.pdf>

International review of land supply and planning systems, Joseph Rowntree Foundation 2013
<http://www.jrf.org.uk/publications/international-review-planning-systems>

Delivering Large Scale Housing, RTPi 2013
<http://www.rtpi.org.uk/media/630969/RTPi%20large%20scale%20housing%20report.pdf>

Innovative financing of affordable housing international and UK perspectives, Joseph Rowntree 2013
<http://www.jrf.org.uk/sites/files/jrf/affordable-housing-finance-full.pdf>