



# **Boosting the supply of affordable rented housing: learning from other countries**

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&  
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## **Project Report**

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# List of Abbreviations & Acronyms

|       |  |
|-------|--|
| CCHR  | Centre for Comparative Housing Research                |
| CIH   | Chartered Institute of Housing                         |
| DMU   | De Montfort University                                 |
| ENHR  | European Network for Housing Research                  |
| ESRC  | Economic and Social Research Council                   |
| GDP   | Gross Domestic Product                                 |
| GGFD  | General Government Financial Deficit                   |
| LEP   | Local Enterprise Partnership                           |
| LIHTC | Low Income Housing Tax Credit                          |
| OECD  | Organisation for Economic Co-operation and Development |
| PBSR  | Public Sector Borrowing Requirement                    |
| PfP   | Places for People                                      |
| PI    | Principal Investigator                                 |
| QAP   | Qualified Allocation Plan                              |
| REIT  | Real Estate Investment Trust                           |
| UK    | United Kingdom   |
| USA   | United States of America                               |

# Chapter 1

## Introduction

### Introduction

This chapter sets out the context and the objectives of the project. It outlines the approach that has been taken and states briefly what is to follow in subsequent chapters. The report focuses primarily on activities that were undertaken between July and December 2013.

### Background and approach

Places for People (PfP), one of the largest housing development and management organisations in the UK, partnered the Centre for Comparative Housing Research (CCHR) at De Montfort University (DMU) in this knowledge exchange opportunity from July to December 2013. Working together, the partners examined the feasibility of using fresh ideas, generated by an examination of policy and practice in North America and Western Europe, to initiate innovative practice and policy that will boost the production of affordable housing for rent in the UK. This was the overall aim of the project. The knowledge exchange activity built on previous research into housing supply overseas by CCHR (Oxley *et al*, 2010). It also benefited from the vast experience of PfP in developing and managing homes. Over a period of six months the research partners updated previous research findings and explored the lessons that might be learnt in the UK from policies applied elsewhere. There has been an emphasis on financial incentives to boost housing construction for affordable rented housing in the USA and France, although incentives in other countries have also been considered.

The knowledge exchange has applied international lesson learning rather than simple transferability of policy and practice. A vigorous and detailed process of engagement between CCHR and PfP and consultation and reflection with a wide range of practice and policy stakeholders has examined the practicality of learning lessons from elsewhere.

The impact and practical transferability questions were addressed through a series of discussions, presentations and seminars involving PfP staff and other stakeholders including other housing organisations, local government and central government departments. PfP and CCHR worked together on the policy learning and the agenda for future research. The engagement involved the setting up of a dedicated website, participation in approximately twenty events through which ideas were exchanged with major stakeholders, professional bodies, think tanks, trade organisations, housing providers and civil servants. Press releases and articles were published and the project team participated in online discussion forums.

## Aims and objectives

The detailed objectives of the knowledge exchange activity were to:

- Update and clarify information from previous research (Oxley *et al*, 2010) on tax and other financial incentives in several countries that boost the construction of affordable rented housing. These measures are effectively ‘conditional financial incentives’ i.e. conditions are imposed that keep rents below market levels and the incomes of the tenants below defined thresholds. Guarantees are provided that the housing will be subject to these conditions for a specified time period – typically 15 to 20 years.
- Examine the practical barriers to, and the opportunities for, the application in the UK of new conditional financial incentives to increase the volume of construction of housing intended for occupancy at sub-market rents. These are incentives inspired by overseas practice.
- Identify the institutional and practice changes required of housing suppliers to implement new (internationally inspired) practices that increase rental housing production.
- Identify the policy changes required by government to implement new (internationally inspired) practices that increase rented housing production.
- Monitor the impact of the use (by PfP) of a residential Real Estate Investment Trust (REIT) to increase investment in rental housing (Hollander, 2012). The intended use of a REIT has been inspired by practice elsewhere, especially the USA.
- Contribute to comparative research methods in social sciences that are designed to examine the potential for the beneficial transfer of practice and policy instruments between countries in the light of varying contexts and suggest strategies for resolving the methodological questions.
- Specify the aims, objectives and methods of further research that is required to increase the impact of overseas experience on raising housing production in the UK.

## Personnel

Professor Michael Oxley was the Principal Investigator (PI) for the six months of funded work. In January 2014, he moved from DMU to become Director of the Cambridge Centre for Housing and Planning Research at the University of Cambridge. Other De Montfort University staff involved in the project were Dr Tim Brown (Director of CCHR), Ros Lishman and Dr Jo Richardson<sup>1</sup>.

The PfP contribution included major inputs from the Chief Executive, David Cowans, the Director of Policy and Public Affairs, Roger Wilshaw (seconded to PfP for most of the duration of this project from the Department of Communities and Local Government), the Group Planning and Delivery Manager, Anne Rupert and the Group Director on Business Development, Mary Parsons.

The updating of previous work and the verification and elaboration of overseas information was assisted in large measure by contributions to the work from Dr Marietta Haffner and Dr

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<sup>1</sup> Dr Jo Richardson took over the role of PI in 2014.

Joris Hoekstra from the OTB Research Institute for the Built Environment at Delft University of Technology in the Netherlands and Dr Eric Belsky, Managing Director of the Joint Center for Housing Studies of Harvard University, USA.

### **Structure of report**

The overall research aim and each of the objectives have been achieved. This report, together with other information on the project [website](#)<sup>2</sup>, explains the processes of investigation and engagement and the findings. It also suggests further research and consultation that should be carried out to build on the findings from this work. The report is complemented by the 'Position Paper' that was prepared to assist the consultation process. This is available on the [ESRC website](#)<sup>3</sup> together with a background paper (Haffner, 2013) that updates previous findings for a range of counties and a paper on France (Hoekstra, 2013) that deepens and updates information on tax incentives that promote affordable housing supply.

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<sup>2</sup> <http://housingsupply.our.dmu.ac.uk/>

<sup>3</sup> <http://www.esrc.ac.uk/my-esrc/grants/ES.K007564.1/read>

## Chapter 2

# Approaches to the supply of affordable rented housing in other countries: how are they different?

### Introduction

In this chapter a typology of policy approaches is outlined, and the application of one type of policy measure – conditional object incentives – is summarised. The use of this approach in France and the USA, where the evidence of outcomes is strongest, is set out briefly. The exploration within the project of the possibility of using residential real estate investment trusts (REITS), and applying learning from the experience of the USA, to support affordable housing supply is outlined. It is then explained that the knowledge exchange with PfP concluded that the use of tax incentives to boost affordable housing supply is a significant lesson from overseas experience that was worthy of further consideration through a wide consultation process.

### A typology of approaches to guide the discussion of competing policy approaches

The consideration of approaches in other countries has been guided by a typology, developed by the project that distinguishes policy approaches that are used in market-based economies worldwide:

- support those in need through **unconditional income related assistance** (help goes to households: pure subject subsidies);
- support those in need through **conditional income related assistance** (help goes to households with housing conditions attached: conditional subject subsidies);
- support supply through **unconditional subsidies** (help goes to suppliers: pure object subsidies); and
- support supply through **conditional subsidies** (help goes to suppliers with conditions about helping households: conditional object incentives).

Details of these approaches are provided in the table below:

**Table 1: Rental subsidies and incentives: definitions**

|                                  | <b>Who gets the help?</b>   | <b>Conditions</b>  | <b>Type of help</b>   |
|----------------------------------|---|--|---|
| 1. Pure Subject Subsidies        | Households  | Personal circumstances but not specifically housing costs  | Income supplements; personal tax reductions   |
| 2. Conditional Subject Subsidies | Households  | Household, income, size and housing costs  | Housing allowance, housing voucher  |
| 3. Pure Object Subsidies         | Suppliers – including house builders and landlords of many types* | Additional housing supplied  | Grants, tax reductions, cheap loans, equity finance                                   |
| 4. Conditional Object Incentives | Suppliers – including house builders and landlords of many types* | Additional housing supplied; Rents limited; allocation constrained (usually to households below an income threshold, but employment, household type and other indicators of need may also apply) | Grants, tax reductions, cheap loans, equity finance, tradable tax credits, cheap land |

\* The assistance to suppliers may come straight from the Government or be channelled through an intermediary such as a financial institution or a special housing fund (with the financial institutional or fund having an obligation or incentive to supply preferential finance), or through another developer (when, for example, a commercial developer is required to support affordable housing through planning). In each case the assistance has its origin in a policy decision.

The project primarily has focussed on category four – conditional object subsidies. This type of approach has not been developed in any major way in the UK in relation to tax incentives but has been used successfully in other countries.

### **The range of countries considered**

This knowledge exchange project stems from a study that initially examined policy incentives for the rented sector in 27 high-income OECD member countries and then focussed with increasing detail on fewer countries (Oxley *et al*, 2010). The current project has centred on a twin track approach in relation to other countries. These are, firstly, a nine country scoping study reviewing policies that provide affordable housing through conditional object incentives (see paper by Haffner, 2013). Only two of these countries, France and the USA, have long established tax incentives that are thoroughly documented and are not complicated by other general non-specific tax measures.



## France

The project team has clarified and updated information on the application of conditional incentives exist to increase the supply of intermediate housing in France (see paper by Hoekstra, 2013). The principles were established in the early 1990s and are:

- a developer puts together a package within the framework of a specific government initiative;
- a property production and management package is sold to individuals;
- the project is built and a managing agent lets the units to the appropriate customers;
- the individual investor benefits from the conditional tax concessions; and
- the developer benefits indirectly from the tax concessions (and other subsidies) by factoring in these in the viability modelling of the initial proposed package.

The impact of the overall model has been significant. Between 1995 and 2004, it accounted on average for over a third of private sector production (30,000+ units per year). In 2009/10, it amounted to over 50% of private sector production (60,000+ units).

## USA

A system of low income housing tax credits (LIHTCs) has been in operation since 1986. It is essentially an income related construction incentive. Developers are able to obtain these subsidies *either* if at least 40% of units go to low income households whose incomes are less than 60% of the area median *or* if at least 20% of units go to low income households whose income is less than 50% of the area median. Rents also have to be held below market levels.

It is a federal scheme within the jurisdiction of the Internal Revenue Service. The Federal Government allocates quotas, based on population levels, to each state. The value of a tax credit is annually adjusted to take account of inflation. Each state allocates their quotas according to a qualified allocation plan (QAP). The QAPs enable each state to prioritise funding for locally important issues, for example, new build or improving existing stock, urban or rural areas, etc. The tax credits last for ten years and schemes must remain in low income occupancy for at least 15 years with 30 years becoming the norm.

The developer, who can be a private, public or non-profit organisation, receives the tax credit and sells them on to an investor or a syndicator. The latter is likely to pool several projects into one equity fund. There is a market for tax credits i.e. they are a tradable commodity. Investors assume the development and operating risk when they invest in LIHTC projects. They can only claim tax credits if the buildings are maintained in compliance with programme requirements, which are monitored primarily by state housing agencies. Investors are principally corporate institutions rather than individuals.

The outcome of the LIHTC system is impressive. In the late nineteen nineties the programme delivered around 60,000 new units rising to 80,000 at the peak, more recently delivering 35,000 in 2011. Overall it has helped to build, renovate or conserve more than 2.5 million affordable housing units. It accounts for 90% of all current affordable housing provision. Vacancy rates are lower than for market rented housing. Also, the quality of

housing is high. Nevertheless, there are two interrelated issues. Firstly, extremely low income households cannot afford the rents unless they have a housing choice voucher<sup>4</sup>. Secondly, developers often require an additional subsidy from the state or federal government – LIHTCs on average contribute a third of the development costs and traditional financing provides a further 40-45%. The remaining 20-25% might come from reduced public land costs, especially as land costs cannot be covered through LIHTCs.

On the [project website](#), links are provided to information that explains in depth the application and outcomes of LIHTCs in the USA.

### **The potential of real estate investment trusts (REITs) to increase the supply of affordable housing in the UK**

Previous research on the private rented sector (Oxley *et al*, 2010) that informed this project considered the role in the USA of REITs. These have been successful in encouraging investment in rented housing. However, their role needs to be kept in perspective; less than 1% of multi-family properties are owned by REITs and less than 3% of properties with 50 or more units are in REITs. But REITs are estimated to account for 8% of apartments.

A REIT is effectively a mutual fund for real estate with retail investors obtaining the benefit of a diversified portfolio under professional management. Whilst the potential for residential REITs is limited in the UK, with the boundary between private and social suppliers becoming blurred, the large scale purchase of existing housing association stock by REITs or the conversion of existing large housing associations to REITs has been viewed as a possible source of rental sector growth.

The use of REITs to boost investment in social rented housing in the UK has been considered by Government and PFP, as well as many others. On 21 March 2012 the Chancellor of the Exchequer announced that the Government would undertake a consultation on REITs and explore the potential role social housing REITs could play to support the social housing sector (HM Treasury & DCLG, 2012, p3). In response to the consultation PFP submitted written evidence (2012) which stated that:

“We strongly support the removal of current barriers to the launch of social housing REITs. We have worked on our own REIT proposal for some time and believe that social housing REITs have real potential to attract investment and boost housing supply. However, the model has limitations, most notably in that house price inflation means it is only viable in the South. We believe that diversification of investment is crucial to address wider housing need across the country.”

However, at the end of the consultation, the Government concluded that,

“... as regards social housing REITs, the Government has decided not to make any changes to the REIT regime at this point because it does not consider that changes

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<sup>4</sup> Housing choice vouchers in the USA are the UK equivalent of housing benefits.

would materially alter the returns possible on social housing and thereby open up access to new sources of funding”. (HM Treasury and DCLG, 2012, p25)

The interest of PfP in residential REITS continues, especially in relation to market rental dwellings. It was however concluded that within the context on this knowledge exchange activity, resources should be focussed on tax incentives more generally rather than an in-depth examination of the potential of social housing REITS.

### **Conclusions on approaches to the supply of affordable rented housing in other countries**

Discussions between the CCHR and PfP teams in the course of this project led to the conclusion that the use of conditional objective incentives in other countries, and especially tax incentives, offered a significantly different approach to the policy direction in the UK. The evidence for France and the USA, in particular, suggested that targeted tax incentives have the potential to boost the supply of rental housing of an acceptable quality and to improve affordability. The lessons that might be learnt for the UK from the application of such measures in other countries were the focus of the subsequent consultation with policy makers and stakeholders. It, nevertheless, is important to reiterate that the housing policy context in both countries is different from the UK – hence the emphasis on lesson learning rather than simplistic policy transfer. For example, in the USA the two major tenures are owner occupation (66%) and private renting (32%). Public sector housing is a highly marginalised tenure. This and other opportunities and the barriers to implementation were examined fully in the subsequent knowledge exchange activities that are detailed in the next chapter.

# Chapter 3

## Rationale for ‘why we need to learn from other countries’

### Introduction

In the UK, we have a housing supply crisis. We are building an insufficient number of houses, especially affordable homes, despite a raft of initiatives. Moreover, the scale of public investment at £2-2.5 billion is dwarfed by the costs of housing benefits at £20-£25 billion.

### Housing supply crisis

There is a long-standing consensus that we are not building sufficient housing. Housing investment in the UK has been low by international standards for several decades. Measures of gross fixed capital formation in housing as a percentage of gross domestic product (GDP) capture the volume of a nation’s resources devoted to house building and major improvements in the housing stock. By this measure the UK has had lower levels of housing investment than most other advanced economies. The UK figure of 3.6% in 1970 compares, for example, with 7.2% for France, 6.8% Germany, and 6.7% Netherlands; in 1980 the UK figure of 3.7% compared with 6.7% France, 6.9% Germany, 7% Netherlands and 4.4% USA. From 1996 to 2011 the UK averaged 3.3% whilst the figures were 5% for France, 6% Germany, 5.8% Netherlands and 4.5% USA (for more details see Pawson and Wilcox, 2013, table 8).

In England, Holmans (2013) calculated that between 2011 and 2031, we need to build 240,000-245,000 units per year, 80,000+ of which should be affordable homes. We are currently building approximately 100,000 units per year of which between 30,000 and 40,000 are affordable. In Scotland, the output of owner occupied dwellings has dramatically fallen from 22,000 in 2007/08 to 10,000 in 2011/12. In relation to affordable housing, output is running at just over two-thirds of estimated needs (Audit Scotland, 2013). In Wales, Holmans and Monk (2010) commented that 14,200 units were needed per year, of which 5,100 should be ‘affordable’ between 2006 and 2026. In 2012/13, less than 5,500 houses were completed, of which 750 were provided by housing associations (Nicholas, 2013, p96). A recent study for the Royal Town Planning Institute notes that at the local level, councils may be significantly underestimating the scale of housing need (McDonald and Williams, 2014). Future prospects are challenging. Alakeson (2014, p3) notes that “vastly increasing the supply of new homes is not enough... we have to increase the right kinds of properties to meet the needs of those who currently have few housing options”.

Chronic undersupply has a human cost, for example, the average age of a first time buyer without the help of ‘the bank of mum and dad’ has risen to 37 years old. There are over 1.8 million households on housing registers in England – a doubling over the last decade. It also has an economic impact. Government research suggests that every 100,000 new houses

built could boost GDP by 1%. In addition, each £1 spent on housing creates £2.09 for the wider economy.

### **Response by policy makers**

There are many independent reports covering supply (see for example, Alakeson and Cory, 2013; Royal Institution of Chartered Surveyors, 2013; Royal Town Planning Institute, 2013; and Shelter, 2013). They are evidence-based and make a compelling case for increasing the supply of good quality housing, especially affordable homes for households in need. The majority of studies conclude that fundamental policy changes are required and it would be inappropriate to return to the pre-downturn reliance on government grants and planning agreements. Funding and investment is, however, underplayed compared, for example, with infrastructure shortfalls, the inadequacies of the planning system and lack of land. From a supply side subsidy perspective, there are relatively few detailed studies and only one recent report that adopts a comparative perspective (see, for example, Gibb *et al*, 2013, and House of Commons Communities and Local Government Select Committee, 2012). Gibb *et al* (2013), furthermore, provides little insight into the challenges and opportunities of lesson learning from other countries.

In England, there are at least 15 national initiatives to stimulate supply (Wilson, 2013b). These are often small scale and short term as well as overlapping. They have been initiated through the Government's spending reviews and budget cycles. This has resulted in a lack of continuity and simplicity for housing providers and, more importantly, a continued failure to address under-supply.

The housing supply side crisis reflects the long-term trend of a shift from bricks and mortar subsidies to individual income linked assistance through housing benefits. It is argued that the latter (i.e. demand side subsidies) promote individual choice and are more efficient than supply side subsidies. However, the inelasticity of housing markets leads to an ineffective supply side response and a consequential rise in house prices and rents. The UK government's measures to reduce the cost of housing benefits are a further consequence of the long-term move to demand led subsidies (Wilson, 2013a). In 2010/11, help with housing costs amounted to £20 billion in Great Britain with over £12 billion for tenants in the social rented sector (Pawson and Wilcox, 2013). This compares with capital subsidies of just over £2.5 billion. We estimate that supply side support for the rental sector in 2010/11 was 75% of that in 1990/91. In comparison, demand side support through housing benefits was over four times that in 1990/91. This makes a compelling case for rebalancing bricks and mortar subsidies and individual income linked assistance. For rental housing, less supply side support requires considerably more demand side support, and with a lot more housing benefit expenditure.

### **Principles of and barriers to a new approach**

In summary, the housing supply crisis highlights the importance of:

- increasing supply – production / quantity;
- meeting housing needs – targeting allocation on specific groups;

- ensuring a high standard for homes – quality; and
- guaranteeing affordability.

These are key points that are frequently stressed in reports in England on tackling the housing supply crisis (see above) and are crucial in developing a new approach.

Due regard has to be given to the potential barriers in developing a new approach to boosting the supply of affordable housing. These are not insurmountable but highlight that it challenges conventional systems that have been used in the UK for many decades. They are:

- **Structural:** The housing sector has generally been geared up to a system of affordable housing provision based on government grants and the use of planning agreements. Because of the credit crunch, recession and public expenditure cuts, it is highly unlikely that we will return to the apparent halcyon days of generous levels of grant and high affordable site specific housing targets. New innovative approaches are required that will necessitate a restructuring of the housing development system.
- **Ideological:** The promotion of owner occupation to meet the aspirations of newly forming households has been a major tenet of government policy in the UK for many decades. Boosting affordable housing supply does not challenge this principle. Instead, it provides a model for affordable housing provision that would also meet other government priorities of reducing the scale of housing benefit payments.
- **Regulatory:** New models of affordable housing supply will require different regulatory approaches. In addition, proposals would need to be EU ‘proofed’ in relation, for example, to state aid and competition policies.
- **Fiscal:** The major political parties in the UK are committed to public expenditure restraint. New funding mechanisms, therefore, need to operate within this parameter. Some stakeholders call for a return to generous grant funding, while other suggest that the solution is for the Treasury to change its approach on financial accounting from the PBSR (public sector borrowing requirement) to GGFD (general government financial deficit), as the latter does not include borrowing by public corporations. Both are non-starters as all of the main political parties have ruled out such measures.
- **Lesson learning:** Our approach centres on lesson learning from other countries rather than simplistic policy transfer of an idea. The latter may appear to be more straightforward but often fails to appreciate the different economic, political and social environments. We argue that this is a major reason why the previous attempts to ‘import’ new approaches failed.
- **Innovation inertia:** Many stakeholders, whilst supporting our narrative on the long-term supply crisis, fail to bring forward innovative and realistic proposals.

# Chapter 4

## Engagement with stakeholders

### Introduction

The engagement process has been successful and has achieved the targets set out in the knowledge exchange proposal. These included the use of a dedicated website, three specific seminars, the issuing of press releases and contributions to online forums as well as blogs. The outcome has been an ‘in principle’ support for the development of conditional supply incentives to boost affordable housing supply in the UK based on lesson learning from France and the USA.

### Engagement process

The engagement process has involved a series of activities that are in line with the knowledge exchange proposal. These include:

- Setting up of a dedicated website: <http://housingsupply.our.dmu.ac.uk/>. It contains information on the project, the consultation papers and other resources.
- Participation in approximately 20 events between June and December 2013 – see Appendix A. These included three major stakeholder seminar events in late November and early December 2013. They involved key organisations such as professional bodies, think tanks, trade organisations and housing providers as well as civil servants. Participants were sent the *Position Paper*<sup>5</sup> beforehand.
- Press releases and articles for the media, for example, the press release for the launch event in July 2013 (De Montfort University, 2013) and a contribution to *The Guardian Professional Housing Network* (Oxley, 2013).
- Participation in online forums and blogs including a discussion on Twitter on 28 November 2013.
- Liaison with the Chartered Institute of Housing (CIH) who are facilitating a specific project on the American system of low income housing tax credits. We are represented on the steering committee.
- Involvement of students through coursework – this has involved formal assignments for students on part time blended learning and online learning courses on lesson learning for the UK on low income tax credits. It should be noted that the students work as middle managers for housing associations and local authorities.

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<sup>5</sup> Available from <http://housingsupply.our.dmu.ac.uk/consultation/>.

## Key outcomes

The engagement process has been successful. The three seminars, in particular, enabled us to discuss our work with the relevant key stakeholders. It, however, should be noted that a further seminar is scheduled to take place in March 2014 with representatives of financial institutions (which had to be postponed from its original date in mid December 2013). It also proved difficult to engage with leading politicians. However, our work plan for 2014 (see Chapter 6) includes a proposal to engage with the major political parties as well as contributing to policy commissions such as the Lyons Review.

The response to our proposals has been positive with an 'in principle' acknowledgement that a focus on boosting affordable housing supply through conditional supply incentives is worthy of more detailed analysis and consideration. It was generally agreed that the lack of funding was a significant barrier. But there were a variety of opinions on its relative significance as against other factors such as land availability and the planning system. Most respondents also felt that our proposals were a significant shift from current and traditional approaches for increasing housing supply in the UK. It, therefore, would require a detailed and well-developed analysis for 'making the case for conditional supply incentives'. There were two re-occurring recommendations for this further analysis:

- macro-economic appraisal of the costs and benefits of our model to test whether its advantages outweighed those of existing approaches; and
- micro-economic modelling of a hypothetical scheme from the perspective of housing providers especially housing associations.

## Detailed outcomes

A re-occurring theme from the engagement process was the importance of clarity over, firstly, the aims of boosting affordable housing supply through conditional tax incentives and, secondly, the funding problems it addresses. For example, is it:

- a more efficient way of subsidising affordable housing;
- a way of attracting new investors into the sector;
- a way to subsidise affordable housing without impacting the public sector balance sheet;  
or
- a means of securing a long term subsidy model that is widely accepted politically?

This links to the feedback highlighting the importance of macro-economic analysis. Participants emphasised that the next stage of the work could involve producing a model which can begin to quantify the total cost and benefit to the Government (including unit costs; lost tax revenue; additionality; deadweight; and displacement). In addition, an analysis of the likely impact on overall supply and affordability (taking account of other costs of inadequate affordable supply, for example, homelessness and overcrowding) is required. From a micro-economic analysis, a similar approach was suggested with a focus on yield and return on investment.



Other points raised during the engagement process included ones centring around national policies and issues and others focussing on local considerations. National issues included:

- learning the lessons from the USA on the political significance of local decision-making and its relevance to localism in the UK;
- relationship with other specific government policies, for example, sustainable development and the zero carbon guidance, lifetime homes standards and affordable rents;
- robust and clear evaluation evidence of the impact in the USA and France as a way of convincing national stakeholders including government;
- the scale, nature and necessity of tax incentives to secure private sector investment bearing in mind the growing interest in institutional investment by pension funds, etc, in build to let;
- housing sector capacity in responding positively to this new model in terms of expertise, knowledge and skills; and
- the development of the equivalent of the American state housing agencies with respondents suggesting various organisational solutions, for example, Homes and Communities Agency in England excluding London, local enterprise partnerships (LEPs) and devolved governments in Scotland and Wales.

Local interrelated issues included:

- consideration of whether the model could be made conditional on local factors, for example, a local plan; scale of housing need, etc;
- links with other tenure types such as shared ownership;
- relationship with planning agreements / section 106 agreements as it could have a potentially beneficial impact on developers' approaches;
- need to recognise and have a strategy to avoid perceived weaknesses in the model, for example, avoiding mono-tenure development; and
- consideration of geographical differences, for instance, how could the model operate effectively in the north and the south of England?

## Chapter 5

# Project contribution to comparative housing research

### Introduction

Although this project primarily focuses on knowledge exchange to tackle the affordable housing investment and supply problem in the UK, it makes a contribution to comparative research in terms of policy transfer and lesson learning as well as methodology. The next section focuses on the former, and this is followed by a section on the latter. The final section considers the relationship between the concepts of lesson learning, innovation and diffusion.

### Policy transfer and lesson learning

This raises important issues as well as highlighting the challenge faced by comparative research. Dolowitz and Marsh (1996, p344) defined it as:

“Policy transfer, emulation and lesson drawing all refer to a process in which knowledge about policies, administrative arrangements, institutions, etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place.”

Further extensive literature built on this, including Dolowitz *et al* (2000), and key challenges and difficulties in such an approach were outlined:

- the difficulties of learning from other countries in terms of different economic, political and social systems, and in different times;
- a range of types of transfer is available, from simple copying to complex adaptation and updating; and
- analytical frameworks for understanding policy transfer are not sufficiently robust.

Our approach has focussed on lesson learning i.e. complex adaptation. This has involved a number of stages:

- understanding and updating our knowledge of conditional object incentives as a policy measure to boost affordable housing supply in France and the USA;
- identifying the opportunities and challenges of this type of approach through, for example, the use of country experts (see below);
- engaging with stakeholders on the principles of conditional tax incentives approach for the UK through a deep learning process (see Chapter 4); and
- developing and evaluating models that would be relevant for the UK (see Chapter 6).

Our work between July and December 2013 highlighted the significant difference between simplistic policy transfer and lesson learning. We were made aware through our USA country expert that there had been an attempt in the early 2000s to promote the American system of low income housing tax credits in the UK (see, for instance, Baker, 2002, and

Stothart, 2003). This was unsuccessful for a number of reasons. One of these was that the proposal in essence centred on the transfer of the system from the USA to the UK with little attempt to consider the different economic, political and social systems. For example, there was an assumption that the Treasury would be willing to make fundamental changes to the taxation system to accommodate the ideas of tradable tax credits. This proved not to be the case!

### **Project methodology**

The team used the approach of country experts in gathering data and information in other countries – France and the USA. The differences between these countries and with the UK, as well as some of the lessons we might learn have already been outlined earlier in Chapters 2 to 4 of this report.

This approach of the use of country experts has been used by the team before (see Oxley *et al*, 2010) as it helps to overcome some of the criticisms and engage in ‘deep learning’ about the specific political, economic and social contexts in each country. Ragin (1987, pvii) asks “When can two nation-states legitimately be compared?”. Our answer from this project is that when complex contexts are understood through country experts and deep learning.

The input from the country experts included:

- a paper by Haffner (2013) focussing on a summary of information on countries where affordable housing is provided by private landlords;
- a paper by Hoekstra (2013) on the French system of providing supply side conditional tax incentives; and
- email exchanges with Belsky on the transfer of low income housing tax incentives to the UK in early 2000s – see above.

### **Knowledge exchange: from lesson learning to innovation and diffusion**

The amalgamation of (1) policy transfer, (2) innovation and (3) diffusion is not common in research on housing and regeneration and something that the research team has explored in this ESRC knowledge exchange project. This will be developed further during 2014 – see Chapter 6. In particular:

- the extent to which lesson learning is a contributor to policy innovation – see, for instance, Hambleton and Howard (2013)?;
- the relationship between lesson learning and innovation diffusion?; and
- the development of the concept of ‘innovation transfer’?

A vital component of the ‘lesson learning’ approach is the exchange of knowledge and ideas between academic ideas and practitioner applicability. Places for People have worked with De Montfort University since the start of the research process in testing the lessons from the other countries, not just through the filter of UK economic, social and political context, but through the practitioner lens of ‘is this achievable and attractive for a UK housing

association’ – fundamentally – ‘can these innovations be adapted for us to result in boosting affordable housing supply’?

The next (dissemination) stage of this project runs in parallel with the final step in the methodological plan. Diffusion of ideas (communication through multiple channels to different people in the social system) will take place through the detailed modelling of a specific worked example which will then be shared through the housing and finance sector and with politicians and policy makers for further adaptation – a process of ‘rolling lesson learning’.

# Chapter 6

## Further activities – what needs to be done?

### Introduction

The engagement with key stakeholders has contributed to the development of a programme of activities for the period from January to December 2014. These will enhance the impact element. The activities can be grouped into three interrelated categories:

- development of the conditional supply model for affordable housing;
- consultation and engagement; and
- dissemination and diffusion.

Each of these is now set out in turn.

### Development of the model

Feedback from the consultation and engagement process in autumn 2013 emphasised that the principles of the approach were welcomed, but that further modelling work was required. This needed, firstly, to cover the costs and benefits of a conditional tax incentive approach to boosting affordable housing supply from the perspective of national governments – the macro-economic element. Secondly, it is essential to show how the model could be developed and delivered in the UK at a local level by housing developers and other stakeholders – the micro-scale element.

At this stage, our thinking on an approach for taking forward both of these elements is to utilise the principles of economic appraisal techniques. These include the Homes and Communities Agency (2014) *Additionality Guide*, the Treasury Green Book (HM Treasury, 2003), the Office of the Deputy Prime Minister (2003) guidance on assessing the impact of spatial interventions and the work of Scottish Enterprise (2008) on economic impact assessment.

We have identified stakeholders, including Places for People, that have expressed an interest in working with us on modelling these two elements. We are currently at the stage of scoping the macro-economic and micro-economic elements. The output would be a more refined and detailed model that could be used in a further round of consultation and engagement with key stakeholders later in 2014.

In addition, there are likely to be further refinements of our approach and model through discussions with the Chartered Institute of Housing who is co-ordinating a related project on low income housing tax credits in the USA.

### Consultation and engagement

There are a number of strands to this activity (and they link with dissemination – see below) and they are:

*Seminar and briefing session for financial institutions in March 2014:* This was originally scheduled for December 2013 and was part of the autumn engagement process but had to be postponed. We anticipate that this will address a number of the outstanding issues highlighted in Chapter 4, for example, attitude of institutional investors to a tax credit / incentive approach.

*Submission of evidence to national inquiries on housing policy:* In January 2014, a paper will be submitted to the RSA City Growth Commission. It is intended to submit evidence in February 2014 to the Lyons Housing Review, which has been established by the Labour Party to address the housing supply crisis in England. A submission will also be made to the Elphicke review announced by the coalition government in England at the beginning of February 2014.

Depending on the outputs and outcome of the modelling exercise at the macro and micro-scales, it is likely that there will be a further round of consultation with stakeholders that took part in the events in autumn 2013. A number of these organisations have expressed a willingness to continue engagement with and participate in this on-going set of activities. This ties in strongly with the core values of ‘knowledge exchange’ and practical filtering and remodelling of ideas, discussed in the previous section of this report.

## **Dissemination**

The emphasis in the dissemination programme is to influence national and local policy makers and politicians so that the conditional tax incentive supply model for boosting affordable housing supply is adopted as a measure to address the housing crisis in the UK. Our activities, therefore, focus on a number of interrelated approaches:

- **Report and launch event:** Discussions are underway between Places for People and ourselves on the production of a final report linked to a launch event to promote our overall approach and a more specific model.
- **Publications for policy makers:** For example, the Housing Quality Network (a membership organisation for councils and housing associations) will be publishing a paper on boosting affordable housing supply.
- **Media coverage:** For example, articles and press releases for the trade press, including the *Municipal Journal*. Additionally the team will employ a social media strategy to engage with individuals and bodies, and to write blogs dealing with key emerging themes from the work targeted at specific audiences.
- **Engagement with politicians:** As well as contributing to inquiries (see above), we intend to investigate opportunities such as participating in or organising fringe meetings at party political conferences in September and October 2014. We consider that this may open up opportunities to influence manifestos in the run up to the General Election in May 2015.
- **Engagement with professional bodies, think tanks and campaigning organisations:** Our consultation process in autumn 2013 focussed on these types of organisations. We are, therefore, investigating opportunities to participate in conferences and seminars.

Although dissemination centres on policy makers and politicians, we do intend to highlight our research to the academic community. For example, we will be presenting a paper to the European Network for Housing Research (ENHR) Conference in Edinburgh in July 2014.

# Chapter 7

## Conclusions

This knowledge exchange project, built on a partnership between Places for People (PfP), and the Centre for Comparative Housing Research (CCHR) at De Montfort University (DMU), sought to examine the feasibility of using fresh ideas, generated by an examination of policy and practice in North America and Western Europe, to initiate innovative practice and policy that will boost the production of affordable housing for rent in the UK. To achieve this aim the participants undertook to:

- Update and clarify information from previous research on overseas policy measures.
- Examine the practical barriers to, and the opportunities for, the application in the UK of new policy instruments inspired by practice in other countries.
- Consider the role of residential Real Estate Investment Trusts (REITs) in increasing investment in affordable rental housing.
- Contribute to comparative research methods in social sciences that are designed to examine the potential for the beneficial transfer of practice and policy instruments.
- Specify the aims, objectives and methods of further research that is required to increase the impact of overseas experience on raising housing production in the UK.

The overall aim and the detailed objectives have been achieved. Information from previous research was updated and deepened. Using the research outcomes, the partners demonstrated that an approach used successfully in several other countries to support the supply of affordable rented housing relies on selective supply side support and that such an approach, based on selective tax incentives, is radically different from what is currently done in the UK. The partners sought views, in particular, on the desirability and the practicality of using tax-based investment incentives to boost the supply of affordable rented housing in the UK. These views were obtained through a range of engagement processes. These included:

- Setting up a dedicated website.
- Participation in approximately 20 events between June and December 2013. These were attended by representatives of professional bodies, think tanks, trade organisations and housing providers as well as civil servants in England and Scotland.
- Press releases and articles for the media.
- Participation in online forums.

The series of impact activities complemented one another. The preparation of a *Position Paper* proved to be a valuable tool in summarising the ideas from other countries and sharp practically based presentations to non-academic audiences encouraged engagement and feedback. The close involvement of senior personnel from Places for People, their enthusiasm for the project and the efficiency with which they planned and help deliver the engagement activities, was germane to the success of the work.



From the perspective of comparative housing studies, the key methodological lesson was that the simple transfer of policy instruments is both unwise and impractical. The benefit of the evidence from other countries is that it can aid lesson learning and not policy transfer. Showing what works in other countries in the context of the policy environment in those countries has been essentially a spur to innovative thinking about how policy might work differently in the UK. The challenge has been to understand the opportunities and the constraints to implementing ideas that come out of understanding policy delivery elsewhere.

The engagement processes showed that there was a strong level of agreement that ideas from other countries could provide a fresh innovative approach to supporting affordable rented housing supply and they might deliver a significant increase in new housing starts without a large increase in direct public expenditure. There were, however, reservations and a strongly held view that even more evidence, based on the possible application of new ideas in the UK, was needed. Reservations stressed the need to address additional barriers to new supply, including land availability, alongside tax incentives or a view that other changes such as a relaxation of planning constraints were more important. This was not in dispute. The fresh ideas advanced were to be seen as part of a broader package of measures and not the sole answer.

The additional evidence required suggests the need for further work on detailed modelling of two types:

- macro-economic modelling of the costs and benefits of tax incentives, including the impact on welfare payments and overall public expenditure; and
- micro-economic modelling of a hypothetical scheme from the perspective of housing providers especially housing associations.

Following this there should be further consultation with policy makers and practitioners.

The period of funded knowledge exchange is completed but the impact activities are not. An additional seminar will take place in March 2014 with representatives of financial institutions (which had to be postponed from its original date in mid December 2013). There is a proposal to engage with the major political parties as well as to the [Lyons Review](#) and [Elphicke Review](#) of affordable housing policy. The [project website](#) will continue to be a source of engagement and presentations at conferences are planned.

An update on the outcomes from these further activities will be provided by the end of 2014.

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## Appendix A

### Project Activities

| Date        | Activity   | Additional Information  |
|-------------|--|---|
| 12.06.13    | Home Connections Annual Conference, London   | Keynote presentation by <b>Tim Brown</b> (DMU).   |
| 13.06.13    | Blaby Housing Conference, Leicestershire   | Keynote presentation by <b>Tim Brown</b> (DMU).   |
| 02.07.13    | CCHR / Chartered Institute of Housing East Midlands Conference, Leicester  | Formal launch of project including presentations on the project by <b>Tim Brown</b> and <b>Michael Oxley</b> (DMU).   |
| 20.09.13    | Chartered Institute of Housing Steering Group on Low Income Housing Tax Credits (LIHTCs)   | <b>Tim Brown</b> (DMU) is a member of steering group that includes representatives from housing associations in London.   |
| 23.09.13    | Research seminar at De Montfort University   | Focus on comparative research, including methodology – presentation by <b>Tim Brown</b> (DMU).  |
| Autumn 2013 | Assignments for modules on De Montfort University housing courses:<br>1. on Resourcing Housing & Regeneration<br>2. on Housing, Planning & Regeneration                            | Taught and assessed by <b>Tim Brown</b> (DMU).  |
| 07.10.13    | Piece published on <i>LSE British Politics and Policy Blog</i> on <a href="#">Why the lack of adequate social housing in the UK is an important issue and how it may be solved</a> | <b>Jo Richardson</b> (DMU)  |
| 08.11.13    | Meeting with David Orr, Chief Executive of the National Housing Federation   | <b>David Cowans</b> (PfP).  |
| 13.11.13    | European Federation for Living General Assembly, London  | Keynote speech by <b>Tim Brown</b> (DMU). Audience included housing association in England.   |
| 14.11.13    | Meeting with Charles Seaford, Head of Well-being and Alicia Weston, Housing Analyst at the New Economics Foundation  | <b>Roger Wilshaw</b> (PfP).   |
| 20.11.13*   | Roundtable event in London (and with video conference) with the Housing Futures Network  | <b>David Cowans</b> (PfP) hosted the event and included a presentation on the project by <b>Tim Brown</b> and <b>Michael Oxley</b> (DMU) to representatives of major housing associations. With <b>Roger Wilshaw</b> and <b>Anne Rupert</b> (PfP) and <b>Ros Lishman</b> (DMU). |

| <b>Date</b> | <b>Activity</b>   | <b>Additional Information</b>  |
|-------------|---|--|
| 20.11.13*   | Roundtable event in London with representatives of professional bodies (e.g. Royal Town Planning Institute & Royal Institution of Chartered Surveyors), trade bodies (e.g. Homebuilders Federation), think tanks and Department for Communities and Local Government civil servants | <b>David Cowans</b> (PfP) hosted the event and included a presentation on the project by <b>Tim Brown</b> and <b>Michael Oxley</b> (DMU). With <b>Roger Wilshaw</b> and <b>Anne Rupert</b> (PfP) and <b>Ros Lishman</b> (DMU). |
| 21.11.13    | Meeting with Javier Stanziola, Head of Research and Analysis, and Adam Morton, Investment Policy Officer, National Housing Federation   | <b>Roger Wilshaw</b> (PfP).  |
| 22.11.13    | Meeting with Nicola Yates, City Director of Bristol City Council / Member of Core Cities Group  | <b>Tim Brown</b> (DMU).  |
| 28.11.13    | Online Place_Chat Discussion on Twitter on What can really be done to increase the supply of housing?   | Organised by Places for People and contribution from <b>Michael Oxley</b> via @DMUCCHR.  |
| 03.12.13    | European Union Housing Seminar, Roundtable Discussion, London & Brussels  | <b>Tim Brown</b> (DMU) invited to join the discussion through the UK EU Office. Audience included representatives from think tanks and professional bodies.  |
| 04.12.13*   | Meeting with Civil Servants in the Scottish Government, Edinburgh   | Presentation on the project by <b>Tim Brown</b> (DMU) with <b>Roger Wilshaw</b> (PfP) and <b>Ros Lishman</b> (DMU).  |
| 05.12.13    | Westminster Briefing Conference on Affordable Housing Provision, London   | Presentation on the project by <b>Michael Oxley</b> (DMU)  |
| 09.12.13    | Article published online on <i>The Guardian Professional Housing Network</i> : <a href="#">How America and France increased affordable housing supply</a>   | By <b>Michael Oxley</b> (DMU).   |
| 12.12.13    | Meeting with Gavin Smart, Director of Policy and Practice at the Chartered Institute of Housing   | <b>Roger Wilshaw</b> (PfP).  |
| 20.12.13    | CIH Steering Group on LIHTCs  | <b>Tim Brown</b> (DMU) is a member of steering group that includes representatives from housing associations in London   |

\* Major stakeholder events