Cambridge Centre for Housing & Planning Research

Conditional object incentives: more value for UK housing subsidies?

Michael Oxley

HSA York
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UNIVERSITY OF CAMBRIDGE

Overview

- ESRC project
- Policy problems
- Policy instruments
- Conditional supply side support
- France
- USA
- More bricks and less benefit in the UK?

ESRC Funded Research

Boosting the Supply of Affordable Rented Housing in the UK:
learning from other countries

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ESRC with Places for People

ES/K007564/1

http://www.esrc.ac.uk/my-esrc/grants/ES.K007564.1/read

Four dimensions to housing problems

- Production
- Allocation
- Quality
- Affordability

Four approaches to policy

- **unconditional income related assistance**
- **conditional income related assistance**
- **unconditional supply subsidies**
- **conditional supply subsidies**

Supply of more affordable housing

How to get more affordable housing:

(a) Subsidise

(b) Incentivise

With (a) give funds to councils and housing associations and say “build more houses”

With (b) provide tax breaks and a range of incentives to all sorts of housing suppliers

Conditional incentives

Incentives for housing providers if they:

1. provide good quality housing
2. provide it at sub-market rents or prices
3. allocate it to households on low incomes

- Call these 'conditional object incentives'
- Call the housing so provided 'social'

Conditional incentives: examples

- France
- USA

France: how it operates

- Specialist 'new' developers / financiers and agents / brokers
- Property production and management package normally sold to individuals before development commences
- 'Individual' benefits from tax concessions
- Tax concessions and other incentives impact on development

France: 'devil is in the detail'

- Thirteen separate conditional tax incentives since 1986 – Each incentive varies
  - tax benefits including length of time of incentive
  - target groups / areas
  - conditions
- Issues include
  - relatively low architectural & technical quality
  - small apartments and studios
  - individuals and tax benefits – not 'landlords'

France: impact

- Housing supply
  - 33-35% of private sector production per year between 1995 and 2004 (30,000+ units)
  - 50%+ per year in 2009/10 (60,00+ units)
- Cost of tax incentives
  - €900+ million in 2009 and 2010
  - Recent initiatives per unit: €34,000- €46,000
- Impact of rents in local housing markets
  - Uncertain

LIHTCs in the USA

- LIHTCs = Low Income Housing Tax Credits
- What are they?
- What do they do?
- What have they achieved?

LIHTC: income related construction incentives

- They are essentially construction subsidies obtained by developers provided that at least
  - 40% of units go to low income households whose income is less than 60% of the area median

  OR
  - 20% of units go to low income households whose income is less than 60% of the area median
- And rents are held below market levels (maximum rent is 30% of eligible income)

LIHTC: federal scheme with local discretion

- Operated since 1986
- Federal Government allocates quotas to each state
- Each state allocates according to a 'Qualified Allocation Plan'
- Competition for LIHTCs

LIHTC time limited support

- Tax Credits for 10 years
- Schemes must remain in low income occupancy for at least 15 years
- Tax Credits are sold onto investors. Tax Credits are tradeable

LIHTC: may need supplementary support

- LIHTCs have a strong record in terms of housing quality and financial stability and creating new housing
- However, extremely low income households cannot afford the rents unless they have a housing voucher or the developer is able to obtain additional capital and operating subsidies

LIHTC: efficiency plus political support

- Efficiency gains from competitive allocation
- Do not involve direct public expenditure; their exchequer cost is indirect, through tax concessions
- Tax concession to housing that has to conform to specific quality, allocation and rent standards
- Specifics can be tied to local decisions that are made about the allocation of a nationally financed policy instrument
- Additional housing that results from LIHTC may be privately owned but it might also be owned or managed by other sorts of organisations, including community development corporations
- Lots of support across the political spectrum

In a nutshell

- Linking tax incentives (for production) with regulations (for quality, access and affordability) can result in more affordable dwellings within an essentially market system
- But other support might be used with more houses to support decent housing for the lowest income households

Supply side support

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 This compares with capital subsidies of just over £2.5 billion. Supply side support for the rental sector in 2010/11 was 75% of that in 1990/91.

Demand side support

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.

Value of conditional supply side support

- Links problems of

- Production
- Allocation
- Quality
- Affordability

Barriers to change?

- Evidence
- Ideology
- Inertia
- Regulations

The value of change

More bricks and less benefit expenditure in the UK?