ENHR Conference 2014

Boosting affordable UK housing supply through conditional object incentives: can comparative studies and knowledge exchange help us learn lessons?

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Abstract
This paper explores the potential of alternative approaches to subsidising the delivery of affordable housing in the UK. Using evidence from two case-study countries: France and the USA the paperexamines the value of conditional object incentives that promote the supply of affordable rented housing. The aims and the outcomes of this approach will be critically assessed for potential lesson learning with an emphasis on the capacity of such incentives to deliver value for money with respect to output and affordability. The subsidies considered include tax reductions and tax credits as used in France and the USA.

A key aspect of the paper is an analysis of the potential benefits and the possible hazards of a comparative research approach. This draws on a process of 'knowledge exchange' utilised by the authors as part of an ESRC funded project during 2013. The paper considers whether a conditional object incentive approach might work in the UK as an alternative, or an addition, to current supply and demand side support and whether (1) policy transfer, (2) innovation and (3) diffusion of such a policy can help to boost affordable housing supply. The potential benefits of such an approach will be outlined as well as the barriers to implementation.

Introduction

There is a long standing consensus that we are not building enough homes in England. There have been a plethora reports over the last decade starting with the Barker Review in 2004 which demonstrate the need to boost housing supply. Alan Holmans has recently analysed the 2011 Census and other data to suggest new estimates of housing need and demand to 2031. For the planning period to 2031 Holmans projects that there will be an approximate 20% population increase in that time giving rise to a need in England for over 240,000 additional homes per annum, of which about one third will require some form of subsidy to meet affordability needs. The current rate of building is delivering just under half of what is needed.

There is a fundamental problem of lack of supply. There are two broad areas of complex and contested issues that have kept the supply low:

1. Land supply, infrastructure + planning process
2. Financing + affordability

This paper will focus on the latter of these two broad problem areas and will explore the potential of alternative approaches to subsidising the delivery of affordable housing in the UK. Using evidence from two case-study countries: France and the USA; the paper will examine the value of conditional object incentives that promote the supply of affordable rented housing.

The next section outlines the Economic and Social Research Council (ESRC) research project that informs this paper.The paper will draw on evidence from an

ESRC funded project “Boosting the Supply of Affordable Rented Housing in the UK: learning from other countries” July – December 2013 ESRC with Places for People Ref ES/K007564/1 seehttp://www.esrc.ac.uk/my-esrc/grants/ES.K007564.1/read .

In the subsequent sections we will briefly discuss the policy problems that contextualise the current housing shortage and then set out a typology of four main policy instruments used in market based economies. The approach of conditional supply side support is discussed then in a little more detail and this is followed by evaluation of examples from France and from the USA; the subsidies considered will include tax reductions and tax credits as used in France and the USA. We suggest these approaches might be considered for adaptation as alternatives to boosting affordable housing supply and we ask whether there could be more bricks (object subsidy) and less benefit (subject subsidy) in the UK. Finally the paper will briefly assess the value of taking a comparative approach in housing policy; the aims and the outcomes of this approach will be critically assessed for potential lesson learning with an emphasis on the capacity of such incentives to deliver value for money with respect to output and affordability.

ESRC project

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 an ESRC Knowledge Exchange project which 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. More specifically it sought to 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

The knowledge exchange activity built on previous research into housing supply overseas by CCHR (Oxley *et al*, 2010). It also benefited from the experience ofPfP in developing and managing homes. The project updated previous research findings and explored the lessons that might be learnt in the UK from policies applied elsewhere. There was an emphasis on financial incentives to boost housing construction for affordable rented housing in the USA and France, although incentives in other countries were also considered.

The potential impact and feasibility of new ideas were examined 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 setting up of a dedicated website, (http://housingsupply.our.dmu.ac.uk/) 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.

We draw on the ideas and evidence from this project in the subsequent sections.

Policy problems

It is helpful to view housing policy problems in terms of four dimensions. These are:

1. Production,
2. Allocation,
3. Quality and
4. Affordability.

The first is about the supply of housing from all sources including new building and improvement of the existing stock. It centres on how to secure sufficient investment to achieve a rate of housing production that can meet housing needs. The second is about the allocation of the existing and additional stock in an efficient and fair fashion that takes account of housing demands and needs. The third is concerned with the quality of housing services in the widest sense, encompassing the physical and locational attributes of dwellings and their neighbourhoods. Good quality housing is decent housing that meets housing needs and provides households with safe, secure and pleasant accommodation that is environmentally sustainable. The fourth is about the cost of decent housing relevant to household incomes and is especially concerned with the relatively high costs of decent housing for low income households.

These elements of housing problems are usually disconnected to the detriment of effective policy making and an adequate housing supply. It is useful to concentrate on the UK's housing supply problem whilst keeping allocation, quality and affordability firmly in focus.

In 2001 there were 25.5 million households in the UK. In 2011 there were 26.5 million and by 2021 there will be over 29 million. Around 240,000 new homes a year are needed simply in England over the 20 years to 2031. Last year around 150,000 dwellings were built in the UK. Nearer to 300,000 per year are required to match the needs of a growing number of households, to replace dwellings that are unsuitable for occupation and to meet a backlog of unmet need. (Live tables 209, 401; DCLG, Holmans, 2013).

The under supply of new dwellings is a reflection of a long standing relatively low level of housing investment in the UK. 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 compared, 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).

The challenge is to increase UK housing investment whilst also addressing allocation, quality and affordability issues.

Policy instruments
In this section we present a typology of four housing policy approaches that are used in market-based economies worldwide:

1. Support those in need through unconditional income related assistance (help goes to households: pure subject subsidies).

2. Support those in need through conditional income related assistance (help goes to households with housing conditions attached: conditional subject subsidies).

3. Support supply through unconditional subsidies (help goes to suppliers: pure object subsidies).

4. Support supply through conditional subsidies (help goes to suppliers with conditions about helping households: conditional object incentives).

These four approaches as they apply to rental housing are set out in Table 1

Table 1 Rental subsidies and incentives: definitions			
	Who gets the help?	Conditions	Type of help
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 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 first approach in Table 1 is geared to redistributing income generally and the third approach is geared to increasing housing supply generally. The main approaches relevant to solving affordable housing problems directly are Conditional Subject Subsidies and Conditional Object Incentives. These are the mechanisms most used throughout the world. The only approach that links the four policy issues indentified is Conditional Object Incentives.

Conditional supply side support
To increase the supply of affordable housing governments can
(a) Subsidise
(b) Incentivise

With (a) UK governments have given funds to councils and housing associations and they have been told to "build more houses".
With (b) government would provide tax breaks and other incentives to all sorts of housing suppliersunder certain conditions. These conditional incentives would mean incentives for housing providers if they**:**

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

It is possible to call this a 'conditional object incentives' approach and to call the housing so provided 'social housing' or if rented 'affordable rented housing'. Conditional supply side support has some advantages compared to other approaches. Conditional subject subsidies can promote choice but only if households face real options; suitable housing has to be available. Without regulation these demand side subsidies may increase rents and be of limited long term value. They are usually very costly and the benefits may go largely to owners and suppliers without any large increases in quantity. Pure object subsidies may increase supply but they do not specially target affordability problems. Conditional object incentives tackle supply problems and affordability problems in unison. They connect production incentives with rent restrictions and allocation conditions, including income criteria. They have the greatest potential to boost the supply of affordable rented housing. Affordable rented housing may have wider objectives than tackling the lack of housing that is suitable for low income households. It may have wider economic, social and environmental objectives. These objectives may need a separate set of policy instruments or they might be tackled by widening the conditions attached to the production incentives. In the next two sections we consider examples of the application of conditional object incentives in two countries.

France

In France, the government's promotion of a modern 'intermediate' private rented sector was a response to the housing and regeneration crisis in the late 1970s and early 1980s. A number of measures were introduced including conditional tax concessions. These took two forms – a yearly deduction of a percentage of investment costs and a yearly deduction of a percentage of rental income. In addition, other measures included low interest loans for providers of housing and conditional improvement grants for landlords.
In relation to conditional incentives to increase the supply of intermediate housing, the principles that were established in the 1980s and early 1990s are:

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

There are three points to note. Firstly, the government's initiatives have resulted in a new type of property specialist with the roles of developer, financier, investment adviser and managing agent. Secondly, the individual landlord is generally not involved in the management of a property. Evidence suggests that they may never have visited the scheme and may not be aware of its location. They are in reality investors not landlords. Thirdly, schemes generally comprise small apartments and studios in blocks with relatively low architectural quality.

A key feature of the French model is the role of the national government in specifying the details of the conditional tax incentives. Since 1986, there have been thirteen separate schemes. At any one time, there are likely to be a number of these in operation. Each scheme has different incentives as well as conditions that frequently relate to broader government policy priorities e.g.

- Tax benefits: Duflot (2012-2016) – No fixed tax deduction as percentage of rental income, Scellierintermediaire (2009-2012) – 30% tax deduction as percentage of rental income.
- Length of time that property has to be let: Duflot (2012-2016) – 9 years, Scellierintermediaire (2009-2012) – 9, 12 or 15 years.
- Income limit of tenants: Robien (2003-2006) – no limit, Duflot (2012-2016) – strict limits.
- Location: Scellierintermediaire (2009-2012) – only available in urbanised areas, Robien (2003-2006) – all regions.
- Relationship to macro-economic policy: Scellier (2009-2012) and Scellierintermediaire (2009-2012) were highly incentivised as part of measures to tackle the great recession.
- Other specific features: Scellier (2009-2012) placed an emphasis on promoting energy efficiency.

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). Partly because of specific incentives through the Scellier and Scellierintermediaire schemes, in 2009/10, it accounted for over 50% of private sector production (60,000+ units). In terms of tax foregone by the French Government, it is estimated that this amounted to over €900 million in 2009 and 2010 with the figure per unit varying between €34,000 and €46,000 depending on the specific scheme.
At a local scale, there have been concerns expressed on the over-production of units in some parts of France leading to housing market problems such as high vacancy rates and issues for 'landlords/ investors'. There is also a view that in high pressure urban housing markets, the incentives have not been attractive enough to stimulate sufficient supply.

In relation to the implications for the UK, it is instructive to note how different governments in France over the last 25-30 years have developed specific schemes to reflect broader economic policies. But, at the same time, these adhere to well-established principles.

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 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. 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.

LIHTCs combine efficiency and political support. In summary, the key positives are:
- Efficiency gains from competitive allocation
- They do not involve direct public expenditure; their exchequer cost is indirect, through tax concessions
- They provide a tax concession to housing that has to conform to specific quality, allocation and rent standards
- The 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

More bricks and less benefit in the UK?
The positive outcomes from a conditional supply side support in other countries raise questions about the balance between demand and supply side support in the UK as well as the nature of the supply side support.
In 2011/12, supply side support for rental housing in Great Britain was 57% of the amount in 1990/91 (grants to help build and improve social and private rental housing).

In comparison, demand side support through housing benefits for tenants was over four times that in 1990/91 (Calculations from Pawson and Wilcox, 2013, Table 122).A reduction in supply side support has been accompanied by a significant increase in demand side support with a huge increase in the housing benefits bill. The different approach to conditional object incentives in other countries suggests that consideration should be given to a rebalancing of object and subject approaches in the UK. If the object incentives are conditional on allocation, quality and affordability criteria being met, they offer the promise of linking, through one policy instrument, the four dimensions of housing problems.

The value of a comparative approach
Policy transfer and lesson learning from other countries raises important issues as well as highlighting the challenge faced by comparative research. Dolowitz and Marsh (1996) define this process 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." (pg 344)

Further extensive literature built on this, including Dolowitz et al (2000), and key challenges and difficulties in such an approach are 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 are available, from simple copying to complex adaptation and updating.
- Analytical frameworks for understanding policy transfer are not sufficiently robust.

Indeed, the difficulties of cross-national policy transfer and lesson learning led one commentator (Seddon, 2008)to suggest it was 'industrial tourism' as well as criticising the approach because 'copying leads to mediocrity rather than excellence and innovation'.

The authors are well-rehearsed in the challenges of policy transfer and through learning from previous studies (e.g. Brown et al, 2002 and Oxley et al 2010). The research strategy therefore proposed bringing together innovation and policy transfer to avoid 'mediocrity' and to ensure diffusion of message too. Rogers (1995) explains that innovation in comparative research is a practice that is seen as 'new' by the adopting individual or organisation and that diffusion is: "…the process by which an innovation is communicated through certain channels over time among the members of the social system."(pg 5)

This 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 wanted to explore in this ESRC knowledge exchange project. Moreover, the researchers wanted to test some key questions:

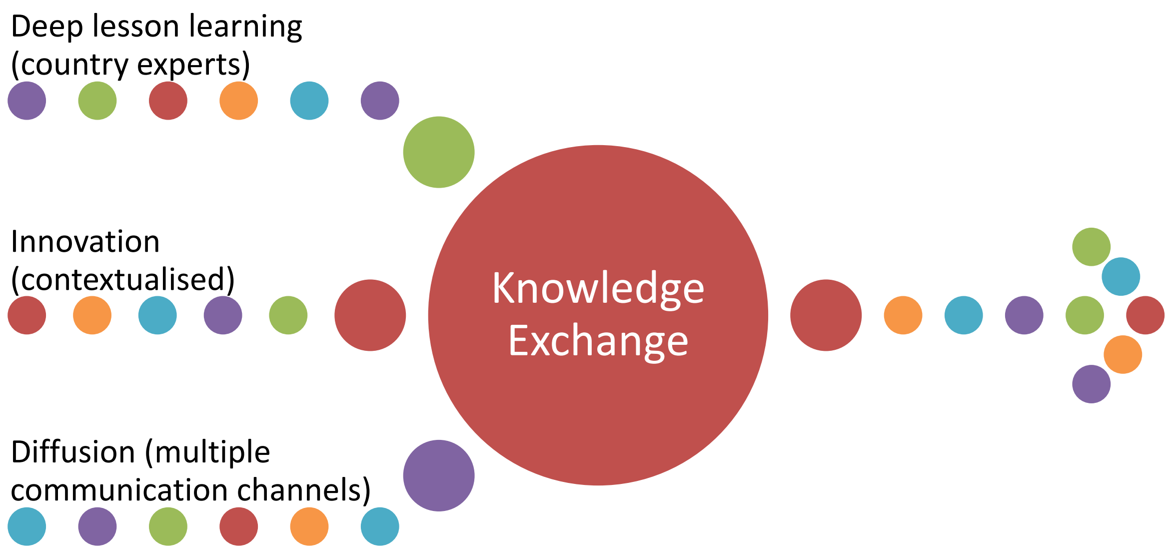
- To what extent is innovation possible through policy transfer?
- Are there other more significant factors for innovation than policy transfer?
- What is the relationship between policy transfer and innovation diffusion?
- Is there a case for developing the concept of 'innovation transfer'? (Hunt, 2001)

The research project sought to understand some of the methods of boosting affordable supply in other countries, to see if innovations could be adapted, contextualised and diffused in UK housing policy making. The team used the approach of country-experts in gathering data in countries for comparison – France and the United States of America, in particular. This approach of the use of country experts 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) asks "When can two nation-states legitimately be compared?"(pg vii). Our answer from this project is that when complex contexts are understood through country experts and deep learning.

From the deep learning process, the next step was to test 'innovations' through a series of round tables with high level UK housing industry experts, finance professionals. Fundamental themes were debated and there was a positive response to the broad ideas; housing participants at the roundtables asked the team to develop the next stage through more detailed modelling and that will form the next stage of the research.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'.

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'?

Our research approach has developed a stepped approach with practical knowledge exchange at its heart.



This method can contribute towards the development and improvement of 'lesson learning' for research within housing and regeneration but also other multi-disciplinary spheres of interest too.

There are criticisms of comparative research approaches that propose policy transfer, but this paper does not advocate policy transfer and is clear in its suggestion that other countries can be used as a point of fact comparison of data, for example in countries where there are higher levels of house building and investment, there are questions worth investigating to see what is happening; including the political and economic context that impact on the situation. Policy transfer is not what this paper proposes; instead we suggest there is a place for innovation and learning new ideasfollowed by diffusion of those ideas and policy learning. Through investigation of how other countries like France and USA have boosted housing supply through tax incentives there is evidence to challenge how things are currently done in the UK and to propose possible alternatives.

Conclusions

Linking tax incentives (for production) with regulations (for quality, access and affordability) can result in more affordable dwellings in an essentially market system; but there are barriers to change that need to be addressed. Firstly, there is a need for evidence on different approaches that can be taken; and the ESRC project which informs this paper is a good starting point for that evidence collection. We are mindful also of the differences between countries that can prevent good ideas translating across geographical boundaries – for example differing political ideologies, culture, law and regulation are just some of the barriers. But these barriers should not be an excuse for inertia; comparative research projects can be used to ask questions on different data points; for example – why is another country able to boost new house-build numbers when we are struggling to do so in the UK? As long as we are clear on the differences in the other countries, like France and the USA then there can be lesson learning and diffusion of ideas that could, with contextual adaptation, be possible alternatives to delivering housing.

This paper has outlined some of the evidence from France and the USA and discussed the ways in which lessons might be learnt; but the next steps need further consideration. There is a further layer of 'reality checking' needed through micro and macro modelling to see how alternative approaches through tax incentives might look to housing organisations – how could it affect the bottom line? This is the next stage of the research.

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