

# **SOCIAL RENTAL HOUSING IN FRANCE**

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## **Preface**

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From its foundations laid more than one hundred years ago, to the cooperation between government intervention and private initiative to put into place what was not yet known as a public interest service, the HLM Movement has inherited a range of organizations, strongly anchored in their territories, belonging to different families and having the mission of housing those who struggle to do so through the housing market.

It has largely developed its activity of production, in rental housing and social ascension over the last fifty years and its social housing assets are therefore relatively recent. It has thus been a major player in the improvement in the housing conditions of households.

Today, it carries out its action in a world that has deeply changed, but where the existence of economic and social regulators that the HLM organizations constitute remains indispensable: the current crisis can only confirm this.

In a few decades, the demographic and social composition of the population housed has encountered major changes: the family type of young employees with average incomes with children has partly given up its place to more modest households, amongst which a growing share of single person and elderly households. With the implementation of the opposable right to housing, social housing capacities are subjected even more to the requirement of housing the most underprivileged persons and families.

These requirements should nevertheless not put into question the imperative of social mixing that seeks to keep social housing's mission as broad as possible and refuses concentrations of social cases in the same neighborhoods, which would put into question the integration of their inhabitants in society.

But the expectations regarding HLM organizations have been multiplied and the palette of its competencies enlarged: we must build more, renovate the neighborhoods from the 60's and 70's, meet the challenges of sustainable development and the needs that result from the aging of tenants and encourage the development of services to the inhabitants.

This naturally leads to an evolution of the contract with authorities, an expression that today designates both the National and municipal governments, since this latter party plays an increasing role in the implementation of housing policies. The agreement on public interest that each organization is meant to sign is the occasion to spell out in a consistent way its commitments to the development and improvement of its housing capacities, the housing of new households and the quality of service provided for occupants.

In the same way that GNP cannot account for trends in the wealth of a nation, this present work does not have the ambition of recounting the history of HLM's in all their dimensions. It modestly seeks to offer a focus in perspective with figures that should enable a better understanding of the stakes relative to social housing real-estate, its occupation, the economics of its production and the financial balance of social landlords, as well as the European dimension of social policy on housing.

Reading this book will therefore constitute a good look into the subject in order to identify the different facets and the major tendencies in social housing.

## CHAPTER 1

### SOCIAL RENTAL HOUSING CAPACITIES

*Based on the last survey of the ministry in charge of housing for social rental housing capacities, metropolitan France totaled 4.37 million social rental housing units on 1<sup>st</sup> January 2009, out of a total capacity estimated by INSEE at around 32 million housing units. The social rental housing capacities in French overseas departments can be estimated at 120,000 units.*

*If we limit ourselves to principal residences, and to the results of the Housing survey conducted in 2006, one household out of six is a tenant in an HLM (French social housing authorities). The rapid growth in social housing capacities since the Second World War is in contrast to the erosion of private housing capacities but the two phenomena have not coincided. Social housing capacities especially developed between the middle of the 50's and the end of the 70's whereas the decline in private housing capacities was significant in the middle of the 60's and in the middle of the 80's (table 1). For around twenty years now, private housing capacities have renewed with moderate growth thanks to fiscal investment incentives. After a slowdown, social housing capacities have more recently begun a turnaround; the pressure of the needs having pushed national governments to improve its conditions of financing and local government to increase their contributions sometimes very significantly (chapter 5).*

#### **First, Defining Social Housing**

No definition of social housing exists which is unanimously accepted. Several approaches are indeed possible:

- depending on State assistance; but the multiplicity of the forms of assistance make this approach complex with regard to flows, even more so in terms of capacities;
- as housing accessible to low-income households, because it is made available at a price set at a level below the market price, or because its access is reserved for households whose income is below a cap; even if care is taken to introduce the notion of decency or minimum quality in order to eliminate shanties, such a definition is readily overturned by the existence of assistance to individuals to which every household is eligible under the sole condition of resources;
- in terms of landlord organizations for social housing; this is without a doubt the most frequent definition and social housing is often assimilated to the HLM housing capacities. However, social housing is not necessarily only rental property and social rental housing is not limited to HLM's.

#### *The "SRU" law*

Article 55 of the SRU law (Solidarity and urban renewal) dating from 13 December 2000 that seeks to reinforce the obligation made on communities in large metropolitan areas to possess at least 20% of social housing (chapter 5) defines the latter as follows:

- HLM social housing, with the exception of non-regulated housing built beginning in 1977 in metropolitan France, the year in which regulated housing was introduced in legislation (chapter 4),
- government regulated housing of other landlords (SEM, private individual landlords or legal entities, subsidiaries of the CDC, etc. - chapter 2) subject to limits in resources,

- the housing of the SEM in overseas departments (DOM),
- the housing of former public mining companies,
- social residences and retirement homes for the elderly, the handicapped or for young workers, if they are regulated, as well as places in residential centers.

Through the importance that it carries and its hard-fought stability, this text seems to have universally imposed the definition of social housing that it uses, in addition to its other merits. This is expressed in terms of landlord organizations and contractual agreements. Unfortunately, it lends itself poorly to utilization in occupant surveys. The most operational definition in this respect is the one that assimilates social rental housing capacities to the HLM properties augmented by the contractually regulated part of SEM properties.

The contours of contractually regulated private housing capacities and intermediary rental housing capacities are indeed difficult to define. These housing units are located on the borders of social housing capacities for two reasons:

- their resources cap, when they exist, and rent levels that are significantly higher than those of strictly defined social housing capacities,
- the constraints on occupation only apply during the period of the initial loan, which varies from 9 to 30 years; PLS housing units and social landlords have the same resource caps as those of private landlords but their obligations remain beyond the termination of the credit period.

Two other categories present special accounting difficulties: the temporary residence centers and social housing in French overseas departments (DOM).

### *Housing and Residence Centers*

Residence centers are collective structures that offer complementary services to their occupants in addition to housing. These structures welcome the elderly, adults with handicaps, migrant workers, young workers, students and individuals in social difficulty.

Residence centers are part of these types of structures, of which some are owned or managed by social landlords. The law makes a distinction between this latter category and the standard rental housing capacities if the occupants pay a user fee and not a simple rental fee, which means when the services provided include services other than housing.

The INSEE considers a different criterion and classifies as housing units the residential centers for the elderly that are equipped with an installation for cooking, which therefore makes recourse to collective restaurant services optional.

### *Social housing in the DOM*

Social housing in French overseas departments (DOM) presents certain specificities. The SRU law is also in force there but the funding sources are different (chapter 4). The scope and the methods of surveys on housing capacities and their occupation have progressively moved towards those of metropolitan France.

### *How much social rental housing?*

Different sources led the capacities in metropolitan France to be estimated at roughly 4.3 million housing units at the end of 2008 (table). If a more accurate accounting system is

desired, one must bear in mind that the various sources don't cover the same scope and are not perfect.

These differences result in the inclusion or exclusion of:

- unoccupied housing units for technical reasons or offers for rental but vacant (165,000 in January 2009 according to EPLS),
- housing units not owned but managed by social landlords,
- housing units belonging to the State and to local governments (200,000 end 2006 according to the ENL), as well as to state-owned companies (150,000 according to the same source),
- "intermediate" housing units of various types,
- housing located in the DOM (120,000 in January 2009 according to EPLS),
- residential centers (225,000 housing unit equivalents belonged to HLM organizations end 2008, according to their federations).

### **An Unequal Geographical Spread**

Social housing capacities were primarily developed in response (belated) to the damages resulting from the Second World War. The needs spawned by the baby-boom, destructions, the obsolescence of some housing, then, at the beginning of the 60's, by the return of repatriates, were then augmented by large population movements. In fact, the rural exodus was accentuated whereas the rebuilding of means of production attracted manpower to large cities.

Given the volume and urgency of the needs, and perhaps also because of the fascination exerted on certain individuals by the industrial performance that mass construction represented, social housing was set up in the form of "great complexes" near growing urban or industrial centers, and in places where land was abundant.

As the majority of the current social housing capacities were built before 1975, the location and size of the buildings remain deeply marked (table 2 and graph 1). Thus, 85% of HLM housing is in collective buildings. The percentage of individual housing diminishes of course when the size of the urban area increases: the majority in rural areas (63%), it is only 3% in the Parisian metropolitan area. 90% of HLM housing capacities are located on the territory of 2,100 communities that gather 60% of the population. In these communities, 26% of the principal residences are in HLM's. On the other hand, in 20,500 communities representing 11% of the population, there is absolutely no social housing.

Social rental housing capacities are also very unequally spread out depending on the regions. In addition to the reasons of industrialization and metropolitan development mentioned here above, those related to regional traditions can be added. Thus, the west of the country privileges home ownership whereas private rental housing is very developed in most of the southern regions. It is in the region of Paris, Champagne-Ardenne and Haute-Normandie that the density of social housing capacities is the highest and in Poitou-Charentes, Aquitaine and especially in Midi-Pyrénées that it is the lowest (map).

### **Improvements Focused on Energy Efficiency**

Almost all social rental housing units are equipped with the basic elements of comfort (toilets, sanitary installations and central heating), which, still today, distinguishes them from the private sector, along with their size which is significantly larger: two HLM housing units out of three have three or four rooms, as compared to less than one private housing unit out of two; on

average, the gap in living space per housing unit between HLM and private housing is 2m<sup>2</sup> (69 m<sup>2</sup> vs. 67 m<sup>2</sup>).

The needs for refurbishment, or even demolition, are therefore not linked to a lack of original equipment (all the buildings over four stories high have an elevator), but rather due to a lack of maintenance or to accelerated aging. To this was added the necessity to undertake works for insulation and the replacement of highly energy-consuming equipment by high performance equipment after the oil shortages. In parallel, the organizations replaced polluting sources of energy (coal and heating fuel) with clean energies (natural gas and electricity). Today, HLM housing obtains good energy performance: it is responsible for 11% of CO<sub>2</sub> emissions in primary residences, which is a proportion inferior to its weight in the whole (16%).

The HLM movement intends to pursue operations in this direction: in the framework of the Grenelle summit on the environment, it has committed to refit 800,000 housing units in ten years beginning in 2009, including 180,000 units in urban renewal programs, especially housing units belonging to the most energy-using categories (more than 330 Kwh/m<sup>2</sup>/pa) and those that make use of heating networks or fossil fuels for heating and the production of hot water for sanitary purposes.

### **Fewer New Housing Units, Increased Intervention in Existing Capacities**

The rhythm of new construction startups for social housing took a clear downturn at the end of the 90's before bouncing back over the past few years. The production of social housing units is particularly sensitive to the conditions of financing: when the conditions deteriorate, construction tends to contract, especially if the rebound in the private sector creates a situation favorable for increases in the cost of construction and levels of competition between general contractors. On the opposite, the recovery plan of 2001 and even more so, the housing section of the law on programming for social unity dated 18 January 2005, entitled the Plan for social cohesion (PCS), have enabled output to be strongly increased. The PCS provided for the financing of 100,000 new social housing units each year from 2005 to 2009, excluding urban renewal, and accompanied by the corresponding amounts of budgetary assistance. Several measures of accompaniment sought to facilitate the financing of these operations: decreases in interest rates on loans and lengthening by five years of the term of loans by the CDC, property tax exemptions extended from 15 to 25 years for the duration of the plan. The initial output objectives of the PCS were largely reached: the number of effective decisions on financing nearly tripled, going from 43,000 in 2000 to nearly 120,000 in 2009. For 2010, the objectives call for the financing of 140,000 new housing units.

More than the increase in new constructions, it is the development of interventions in existing housing capacities that characterize the recent production. The proportion of operations for acquisition-improvement has tended to grow over time; it is higher in large cities and when this involves producing housing units for insertion, reserved for underprivileged households that the government desires to house with very low rents in favorable locations. In addition, since the end of the 90's, the law enables social landlords to acquire existing housing units and to turn them into government regulated housing without carryout out any renovation work. This change was made necessary by article 55 of the SRU law that imposed an increase in the proportion of social housing units on certain communities relative to their total capacities: the land reserves and the state of existing capacities in many of these communities didn't indicate any other feasible solution. The increased intervention by social landlords on the existing housing market was also facilitated by the disengagement of institutional investors and large public companies who sold their rental housing assets in block (table 3).



## **Demolition and Urban Renewal: A Certain Acceleration**

Demolition has long been considered as a taboo subject, both because its necessity is founded on a three-fold failure: technical, economic and social, and because it is difficult to justify while the needs for social housing remain high and their production has stagnated for a long time, which is translated by the difficulty of ensuring replacement housing for occupants. Up until recently, there were therefore around 4,000 social housing units demolished annually, meaning roughly one per thousand, which represent a particularly low renewal rate; even if the average age of buildings is less than 40 years old and the demolitions of private housing units with the same age are even rarer. The annual rhythm has now reached some 15,000 (table 2).

Nonetheless, renewing social housing capacities is an undeniable necessity. In fact, the trends of the last years in both social and technical terms have definitively disqualified significant fractions of existing capacities. It is the case for housing with very low norms built in the 50's and 60's; it is especially group housing that market trends have condemned: because the local market is durably depressed (in formerly industrial regions) or because the neighborhood is in great social difficulty (namely, the priority neighborhoods in city policy).

The principal difficulty resides in the insufficiency of financing for demolition: in addition to its technical cost and the expenses of re-housing, depending on the case, account must be made for the capital remaining to be repaid on loans and future unrealized gains on these housing units whose exploitation is profitable as long as their vacancy rate is limited. In this respect, the law dated 1<sup>st</sup> August 2003, instating a national program for urban renewal that covers more than five hundred neighborhoods targeted by city policy, underlines a significant change in the ambition of the objectives, the level of the means engaged and the method adopted. The goals target the demolition of 250,000 social housing units and an equivalent number of constructions, the improvement and “residentialization” (<sup>1</sup>) of 400,000 additional housing units; the initial five-year period has had to be prolonged and the current term of the program is set at present for 2013. The means made available have also been increased: the State is providing a part of its credits for city policy, the 1% Housing funds has made an increased contribution and social landlords have provided participation (limited) via the CGLLS; the CDC provides access to its financing on savings funds.

These means have been concentrated through an ad hoc public agency, the National Agency for Urban Renovation (ANRU), created in 2004. The agency offers one-stop service for each project built in partnership and first supported by the representatives of the local government concerned; in addition to the part on housing, the project can also include the reorganization of urban space or road works and the creation of public, social, or even commercial facilities. In total, during the period of the national program, the agency could dispose of 12 billion euros (€ bn.) of resources, enabling it to generate an investment of some €40 bn., of which 70% would concern housing.

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<sup>1</sup> This term includes works that seek to define the limits more clearly in each residence between the private space managed by social landlords and the public space managed by local authorities, in order to facilitate the re-appropriation of the space shared in common by the tenants: fences, marking with vegetation, safe accesses.

## **Sales of HLM**

The sale of social housing to tenants was introduced in 1965 by a law that granted the initiative of acquisition to tenants. Subsequent laws transferred the initiative of the sale to the selling organizations. Whether the initiative is reserved for the acquirer or the organizations selling the property, sales have never been significant: their rhythm has been in the order of 4 to 5,000 units per year for a long time.

On the contrary, the United Kingdom has implemented a large-scale policy of sales (the number of housing units sold to occupants since 1980 is estimated at some 2 million housing units) by recognizing for each tenant in 1980, the “right to buy” the rental housing unit occupied, and by granting them significant advantages in terms of price and financing.

As for the initiative of acquisition belonging to the occupants, it is only effective if it is accompanied by incentives, especially in terms of the price, as the English example illustrates. In the United Kingdom, a tenant residing for at least 3 years benefits from a rebate of 33%, that may reach 60% for a period of occupancy of 20 years or more; in addition, they may benefit from financing by local government of up to 100% of the purchase price. In France, the law of 2006 made the mechanism setting the sales price more flexible by allowing it to vary by more or less 35% relative to the estimated market price.

The question is also asked to know whether French social rental housing capacities are not resistant to sales due to their nature since they include a majority of housing units in shared buildings. In the United Kingdom, almost all of the units sold to occupants were individual housing units. The aspiration of households for home ownership is often combined with the desire for an individual house. However, in France, the proportion of individual housing, barring local exceptions, is high only in the part of recent constructions that are generally not the part that the organizations wish to dispose of. The provisions that make the selling organization become the manager of the co-ownership property resulting from the sale remove one obstacle without constituting a strong incentive to sell collective housing assets.

Sales of HLM housing still limited and demolitions in full acceleration: units exiting from assets have doubled in a few years. The ramp up of the Plan for social cohesion is translated by the increased importance in acquisitions of existing housing units, with or without improvement works, whereas the putting into service of new housing units is stable. Overall, the HLM capacities continue to grow at an average annual rate of 1%, just barely comparable to that of principal residences as a whole (table 2).

**Table 1: trends in rental housing capacities from 1963 to 2006 (principal residences leased unfurnished)**

In thousands of units

	1963	1967	1970	1973	1978	1984	1988	1992	1996	2002	2006
Law from 1948	2 366	1 753	1 396	1 137	934	708	522	442	337	246	263
Unrestricted sector	2 396	2 903	3 360	3 595	3 895	3 862	3 769	4 118	4 449	4 830	5 106
Total private sector	4 762	4 656	4 756	4 732	4 829	4 570	4 291	4 560	4 786	5 076	5 369
HLM	918	1 164	1 565	1 933	2 481	2 978	3 189	3 376	3 657	3 832	4 126
Other social housing	171	230	263	297	342	384	433	399	434	399	361
Total social sector	1 089	1 394	1 828	2 230	2 823	3 362	3 622	3 775	4 091	4 231	4 487
<b>Total</b>	<b>5 851</b>	<b>6 050</b>	<b>6 584</b>	<b>6 962</b>	<b>7 652</b>	<b>7 932</b>	<b>7 913</b>	<b>8 335</b>	<b>8 877</b>	<b>9 307</b>	<b>9 856</b>

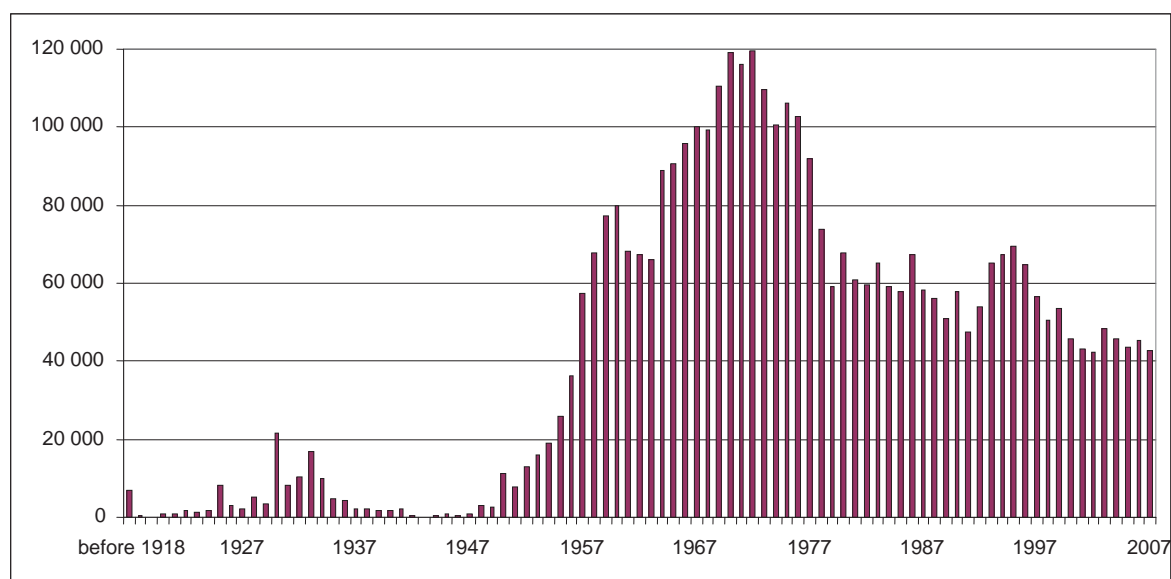
Source: INSEE (Housing surveys)

**Table 2: annual trends in HLM capacities**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
New housing put into service	31	29	35	30	25	26	30	31	34
Acquisition-improvement	300	600	200	200	200	900	400	300	700
Net block acquisitions less disposal	7 400	8 400	9 000	200	9 500	6 000	8 900	200	100
Gross capacities growth	47	45	66	60	52	48	73	50	53
	400	700	900	800	000	300	300	300	700
Demolition	5 300	5 700	7 200	8 500	500	200	400	700	700
Sales	4 200	3 800	3 800	4 100	4 600	4 800	4 800	4 900	4 600
<b>Net increase</b>	<b>37</b>	<b>36</b>	<b>55</b>	<b>48</b>	<b>34</b>	<b>30</b>	<b>54</b>	<b>32</b>	<b>32</b>
	<b>900</b>	<b>200</b>	<b>900</b>	<b>200</b>	<b>900</b>	<b>300</b>	<b>100</b>	<b>800</b>	<b>800</b>

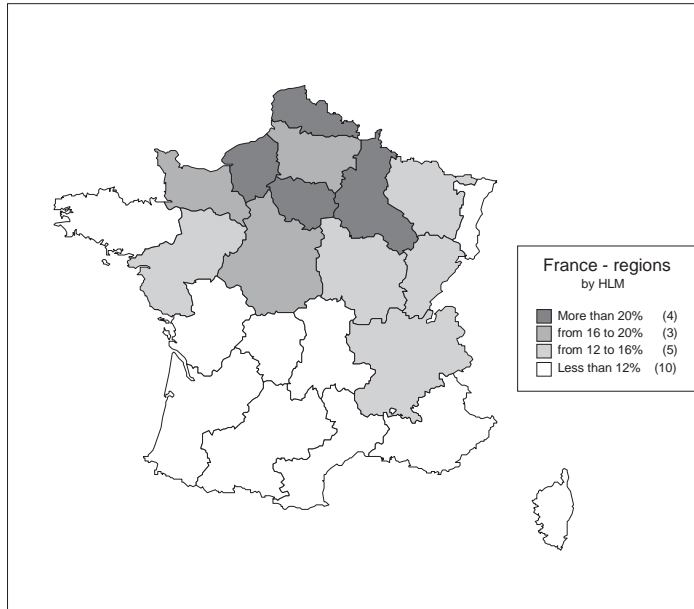
Source: Social housing union (estimation based on the statistical data of the federations)

**Graph 1: HLM properties as of 1<sup>st</sup> January 2008 based on the year of first rental**



Source: Ministry of Housing (EPLS)

**Map: proportion of HLM housing as a portion of principal residences by region**



Source: Ministry of Housing (EPLS)

## CHAPTER 2

### THE ORGANIZATIONS

*The fight against insalubrities and the private initiative of industrialists concerned by the living conditions of their workers combined to give birth to the legislative and legal framework enabling the creation of social housing organizations at the end of the 19<sup>th</sup> century. Lacking financial intervention by the State, the activity of these organizations remained limited until the 1950's.*

*At present, social housing organizations constitute as a whole more than one thousand entities with varying status: amongst the HLM organizations, there are public housing offices, HLM-ESH corporations, cooperatives and real-estate credit corporations, as well as mixed economy companies or local public enterprises. Their activity covers the construction and management of rental housing, the conducting of operations fostering home ownership and the organization and execution of services in the field of housing; this activity is strictly regulated by law and is the subject of control by the authorities and monitored by the professional organizations that they belong to.*

#### **Putting into Place Legislation on Social Housing**

The first measures taken in terms of housing result from concerns about hygiene. This is the case for the law relative to the sanitation of unsanitary housing passed on 13 April 1850. It enabled a community to prohibit the renting of housing units “that were found in conditions of a nature that may impact the life or health of their inhabitants”, but its application remained very limited.

The first initiatives were those of private individuals: philanthropists or utopists who created towns for workers, industrialists concerned about attracting or retaining their manpower. Amongst these works one can find housing units for rent or intended to lead to ownership, collective buildings as well as individual houses; no one model became the standard.

In 1889, the international congress for affordable housing (HBM) took place at the end of the world fair in Paris. The ‘Société française des HBM’ was set up in 1890 and recognized as a public interest. One of its founders, Jules Siegfried, was the promoter of the first law on social housing.

- **The Siegfried law (1884)** set up a legal framework for HBM companies and grants them tax breaks. However, the impulse given by the law is not sufficient and three new laws were necessary:
- The **Strauss law (1906)**, which enabled communities and French departments to aid HBM companies and create HBM cooperatives;
- The **Ribot law (1908)**, which instituted real-estate credit corporations (SACI) and enabled them to benefit from financial support from local government and from the

‘Caisses d’épargne’ to grant low-interest loans of 2% either to private individuals or to HBM companies;

- The **Bonnevay law (1912)**, which instituted HBM offices: this meant public establishments constituted by a decree from the French administration at the request of municipal councils or departmental boards.

The legal framework thus being in place, the number of organizations rapidly increased: 760 in 1920, 200 additional organizations five years later. However, due especially to a lack of financial means and despite the size of the needs (900,000 buildings damaged during the war), their activity was modest.

After the First World War, the Loucheur law (1928) engaged a vast program: the construction of 260,000 housing units in five years for rent or ownership. The State participated directly in the funding of this program by giving low-interest loans to HBM organizations and through subsidies. In 1934, some 200,000 housing units had been built. The economic crisis ended this program.

Just prior to the Second World War, nearly 1,400 organizations had built 300,000 affordable housing units of which half for first-home ownership. Today, around 120,000 HLM housing units built before the war still remain, amounting to 3% of total current capacities.

The law from 21 July 1950 definitively replaced the term HBM by that of HLM, that could henceforth only be used by approved organizations.

### **The Families of HLM Organizations**

HLM organizations can be categorized in two groups depending on their legal status: public establishments or common law companies. Regardless of their status, they are subject to a set of standard regulations, gathered in the Code for the construction of housing (CCH), relative to their status, competencies and obligations, their relations with tenants and administrative control of their activity and management.

#### *Public Housing Offices*

The offices are local public establishments, created by decree of the French Administration (Conseil d’Etat) at the initiative of a community, a group of municipalities or a department. This status necessarily implies their attachment to a territorial government, their compliance with the code for government contracts, control of legality and budgetary control. The status of the HLM public office, a public establishment for administration, dates back to the Bonnevay law, that of the public office for organization and construction (OPAC), an establishment of both an industrial and commercial nature, dates from 1971.

This distinction disappeared in 2007: a new category of organizations, the Public office of housing, an establishment of both an industrial and commercial nature that replaced the previous organizations. Local governments occupy 55% of the chairs on the board of directors, the representation of tenants is reinforced and that of socio-professional partners is confirmed. At the end of 2009, there were 278 Offices for public housing.

### *Private HLM Corporations – Social Enterprises for Housing*

Private HLM corporations originate from the HBM companies created at the end of the 19<sup>th</sup> century. These are joint-stock companies subject to the laws regulating commercial companies whose creation must first pass through an administrative approval procedure. Since May 2002, HLM corporations are identified as “social enterprises for housing” (ESH).

Special provisions make them non-profit organizations: the administrators and the members of their supervisory boards are volunteers, reserves may not be incorporated in the share capital and distributed dividends are capped at a rate equal to the ‘livret A’ savings plan plus 1.5%. The transfer of shares to third parties is subject to the approval of the board of directors and its sales price is limited. The law on orientation and city planning and urban renewal dated 1 August 2003 considerably modified the rules of governance of the ESH by reorganizing the distribution of shareholdings and power in order to bring forward a leading shareholder; for this purpose, four categories of shareholders have been provided for:

- A leading shareholder that holds the majority of the share capital;
- The EPCI, departments and regions that are not majority shareholders and on whose territory organization has assets;
- Tenant representatives;
- Moral entities other than the majority shareholder and physical persons.

Local governments and tenant representatives together hold a blocking minority: one third of the votes plus one.

Subsequent to the reorganization, the 1% for Housing fund is the leading shareholder in approximately one third of the 281 ESH. Groups of ESH have formed through cross holdings, sometimes under the egis of a collector of the 1% Housing, or around a legacy shareholder such as the CDC (see hereafter) or the network of the ‘Caisses d’épargne’.

### *Cooperative HLM Corporations*

Cooperative corporations were instituted by the Strauss law of 1906. They are subject to the legal regime for cooperation provided for by the law dated 10 September 1947, in addition to certain adaptations inherent to the HLM sector: the prohibition from incorporating capital reserves and the absence of revalorization of exiting share capital. Their status was considerably modified in 1971 when cooperative corporations of production with variable capital were instituted.

The law made their functioning more flexible in 1992 by allowing the entry of minority investors as associates and by broadening their scope of competence. This was further broadened by the SRU law. Finally, this latter law created a new category of organizations: the HLM cooperative company of public interest or “SCIC HLM”: without changing the purpose of the cooperative, this status gives still more flexibility to the organization of the colleges of shareholders and their voting rights.

At the end of 2009, there were a total of 165 cooperatives including 137 production cooperatives, 23 SCIC HLM, 2 cooperatives of rental-attribution and 3 cooperatives under local legislation (in the counties of Alsace and Moselle).

### *Shared Competence of the Offices, Corporations and Cooperative Companies*

The competencies of HLM organizations can be put into four areas:

- **Social rental:** construction, acquisition and, possibly, improvement and rental housing unit management dedicated to persons or families with low income. In addition, the organizations may acquire hotels, furnished or not, intended for the temporary accommodation of persons in difficulty, and rent them to approved organizations; they can create hotel residences and manage them or have them managed;
- **First home ownership** (in a broad sense): in neighborhoods or communities in which the supply is insufficient or at the request of a local government, construction of housing units for acquirers who intend to use them for their personal occupation (with a maximum sales price and income caps set by law) or for rental in the framework of fiscal provisions in favor of investments in rental property (Robien amended, Borloo populaire or Scellier) under constraints of resources caps and rent of type PLI.
- **Zoning:** HLM organizations may carry out all operations provided for by the code of urbanization and by the CCH: zones of concerted zoning, residential subdivisions, programs for housing improvements (OPAH) in particular.
- **Services:** the scope has also been further enlarged by it and can vary from one family of organizations to another. They consist in:
  - Rental housing unit management or the construction, on behalf of other HLM organizations, or any other mission entering into the scope of the competence of said organizations,
  - the construction and management of housing units intended for gendarmes, policemen and firemen...,
  - the leasing of housing units vacant for more than a year in order to sublet under conditions of resources; the management of co-owned properties resulting from the sale of social rental housing units to their occupants, for a period of ten years after the first transfer; the activity of managing co-owned properties in certain contexts (OPAH), the management of housing units located within these co-owned properties, the possibility to acquire units there with a view to their resale, to carry out works and rent them temporarily,
  - the assistance of physical persons or construction companies in order to build buildings for first-home ownership,
  - the execution of services, either for associations or approved organizations in the field of social housing, or for co-owned property managers for OPAH operated buildings,
  - a mandate as a general contractor for public works or the conducting of operations on behalf of public general contractors,
  - the construction of recreation centers for social purposes.



The table in annex recaps and quantifies the principal activities of each family of organization. The main competence of the offices and HLM corporations is renting, that of the cooperatives is home ownership.

#### *Real-Estate Credit Corporations – SACI and SACICAP*

The SACI with the ‘Crédit foncier de France’, have constituted a privileged channel of distribution of assisted or regulated loans, also acting as real-estate promoters beginning in 1976 for zoning, subdivisions or builders of individual housing. Today, there are a total of 56 SACI within the Crédit immobilier de France (CIF).

An organization in a banking network was set up in 1991. The real-estate activity of promotion, transactions and management of assets and the credit activity have been effectively separated. The credit activity under the name of “Crédit immobilier de France”, is henceforth ensured by 19 financial subsidiaries and the non-financial activities are provided by real-estate structures regrouping subsidiaries for promotion, creation of subdivisions, construction of individual houses, administration of real-estate assets and transactions. This reorganization and the division in subsidiaries of the financial and real-estate activities have limited the activity of the SACI in terms of distribution of loans of a very social nature.

Finally, since January 2008, the SACI have been transformed into “Cooperative corporations of public interest for first-home ownership” (SACICAP) and a Union of social economics for first home ownership has been created, which represents them at the national level and which can sign conventions with government officials. The SACICAP have the purpose of carrying out operations for social home ownership as well as zoning operations and the execution of services linked to housing, particularly with an objective of social integration; they must use a third of their dividends for actions favoring the housing of persons with low resources.

#### *The Representation of the HLM Movement – The Social Union for Housing*

A national Union of the federations of HBM organizations was created in June 1925. Today it brings together the four families of organizations as well as a federation of the regional Associations of organizations, representing 800 organizations in all, led by 13,000 volunteer administrators. It became the Social Union for Housing (USH) in 2002 and, first and foremost, has a role of representation of its members with regard to government officials, municipalities and other professional organizations; it participates in the activities of the European Liaison Committee for social housing (CECODHAS), which plays a similar role at the European level, and it is a member of the European Centre of Employers and Enterprises providing public services (CEEP).

The services and subsidiaries of the USH and the network of regional associations contribute to the representation, training, information and advising of member organizations. The Union and the federations are especially attentive to help HLM organizations avoid any financial difficulties: to this end, they have put into place federal provisions of centralization of financial data for their members in order to identify and anticipate possible failures; they are represented within the CGLLS (here below) and in that framework, participate in the turnaround of organizations in difficulty. Finally, the SRU law confers the power to the Social Union for Housing to sign conventions with the State that may involve the improvement of services

rendered, the evolution of the economic balance and the modernization of the operating conditions of the organizations; the provisions of these conventions have a compulsory nature.

Over the last years, the USH and its federations have signed various agreements with the State concerning the production of social housing in the framework of the Plan for social cohesion (2005 – 2009) or in terms of thermal insulation improvements of social housing capacities signed during the Grenelle summit on the environment.

### **Mixed Economy Companies – Local Public Companies (SEM)**

Local mixed economy companies are corporations associating in their share capital territorial authorities or their groupings and public or private economic and financial partners with minority shareholdings. As companies of local government, they are regulated by the law dated 24 July 1966 on commercial companies, which makes them subject to the rules of private law; however, they benefit from a dispensatory regime justified by the general interest character of their missions and their majority public shareholdings.

The SEM has competencies comparable to those of HLM organizations in terms of social housing and assisted funding is open to them in the same conditions. They are regrouped and represented by the national federation of the SEM, which, in 2008, became the federation of local public companies.

The 235 real-estate SEM's are of very different sizes: 90% have fewer than 3,000 housing units and 7 SEM's manage 35,000 housing units on average, meaning half of the total capacity.

### **The Control of the Organizations: MILOS**

The HLM organizations, non-trading companies constituted under the egis of the real-estate credit companies, cooperative building companies and more generally, the companies or associations that exercise an activity of construction or social housing management are subject to the control of the administration. The purpose of this control, performed by the Mission of inter-ministerial inspection of social housing (MILOS), an organization placed under the joint authority of the minister in charge of housing and the minister of finance, is to ensure the conformity of the employment of their subsidies, loans and advantages granted by the State with their stated purpose and the abidance of the legal provisions that regulate the activity of these organizations.

The roughly 200 annual controls cover the accounting, financial, administrative, technical and social aspects of these organizations' activity in accordance with a procedure which has a character of open hearings and allows the organization's management to reply to the observations formulated. The MILOS is, beyond its strict function of control, in a position enabling it to produce a sort of audit of the social sector, to put forward various findings on the operations of these organizations and to recommend regulatory measures seeking to make improvements. The activity report that it publishes annually illustrates this role.

## **Solidarity between Organizations: The CGLLS**

The 'Caisse de garantie du logement locatif social' (CGLLS) is a national public establishment of an administrative character, whose board is composed equally of representatives of the State and the HLM and SEM organizations, as well as a qualified figurehead. Its role is limited to dealing with problems resulting from the social rental activity.

In order to avoid that possible deficits due to the activity of promotion be financed to the detriment of rental housing exploitation, the SRU law has provided for the setting up of another company for guarantees that covers the risks of organizations for operations of real-estate promotion and sales to first time homeowners.

The CGLLS contributes to the prevention of financial risks and the turnaround of organizations in difficulty. It contributes to the expenses of the Social Union for Housing and of the federation of local public companies for their exploitation and the development of actions in favor of social housing, in particular the prevention of difficulties for these organizations, as well as the funding of the associations of tenant representatives. Its guarantee funds intervene in order to guarantee loans by the CDC when local governments, who are solicited first, cannot or do not want to give their guarantee (chapter 5). Since 2004, new competencies have been vested in it: the participation in the reinforcement and restructuring of the fabric of the HLM organizations.

## **The CDC and Social Housing**

La Caisse des dépôts et consignations centralizes the deposits on savings plans in order to finance most of the social housing loans (chapter 4). It is therefore the principal lender for social housing organizations. In addition, as early as the 1950's, the CDC constituted a real-estate pole active both on the competitive housing market and in social housing. This activity is ensured at present by two subsidiaries, Icade and the group constituted around the National real-estate company (Société nationale immobilière - SNI). Icade is in the competitive sector and promotes real-estate management; the SNI group, which is made up of 14 ESH's (180,000 housing units) and one SEM (70,000 housing units), is devoted to social and intermediate housing.

**Social housing organizations, their capacities at the end of 2008 and their production in 2008**

	<b>Offices publics de l'habitat</b>	<b>ESH (HLM corp.)</b>	<b>Cooperatives</b>	<b>Crédit immobilier de France -SACICAP</b>	<b>SEM-EPL</b>
Number of organizations	278	281	165	56 SACICAP, 18 regional financial subsidiaries and various real-estate subsidiaries	235 real-estate SEM
Headcount employees	46 000	29 500	800 <sup>(2)</sup>	5 600 <sup>(3)</sup>	10 600
<b>Rental housing capacities</b>	2 125 000	1 871 000	20 000 1 800	-	488 000 <sup>(4)</sup>
- standard housing units		115		-	
- housing units in shelters (equivalent-units <sup>(1)</sup> )	108 000	300			
<b>Rental activity</b>	27 500	37	1 000	-	Rental and home ownership 11 800 }
- construction site openings for new or acquired and improved housing	5 300	300	0	-	
- acquisitions of existing housing units less disposals	900	2 600	2 200	3 500	
	100	1 800	1 000	2 900	
<b>First-time ownership activity</b>					
- construction site openings or sales by block sector					
- contracts signed in other sectors					
<b>Credit</b>					
Loans for management	-	nd	nd	28 billion €	-
Loans granted in 2008	-	-	-	6.4 billion €	-
<b>Urban development</b>					
- lots (number of lots starting construction)	850	1 000	600	1 100	nd
- ZAC commercial zone (number of operations underway)	16	54	-	-	nd
	34 000	25 000	33 000	320 000	nd
<b>Building management (number of units managed)</b>					

(1) The most common equivalence is the following: an equivalent-housing unit for 3 rooms of type I or for 1.5 units of type Ib, and an equivalent-unit for each unit beginning with type II.

(2) Employees of 75 cooperatives that have an activity of construction or management.

(3) Headcount employed in all of the activities.

(4) Of which two-thirds are regulated housing units.

## CHAPTER 3

### THE OCCUPANTS

*The tenants occupying social housing capacities have changed over the last half century at the rhythm of society in general. Social housing neighborhoods were developed to meet the requirements of employees from a middle class in full development. Over the years, an increasing part of them moved towards home ownership and were replaced first by workers of a more modest level, often immigrants. Since the 1980's, social housing landlords have been confronted by the development of a new form of poverty, resulting from precariousness and long-term unemployment. They must face two contradictory demands: maintain a minimum of social diversity and welcome the more underprivileged persons, which the implementation of the opposable right to housing gives them an incentive to do.*

*Those entering social housing have always been poorer than those exiting, whereas the generation of the parents of the baby-boom have aged on site or have been replaced by smaller families. The social purpose of social housing capacities has thus been strengthened over the years whereas the traditional function of welcoming families has been maintained while translating the overall evolutions in the structure of households, in particular the increasing proportion of single-parent families.*

#### **The Family Purpose of Social Housing**

*A lot of large and single-parent families*

The proportion of persons living alone in social housing (39%) is greater than the national average and increasing significantly; it remains considerably lower than that of private rental housing capacities where the offer for small housing units is more abundant. On the other hand, and this is one of the principal characteristics of social housing, families said to be large (couples and single-parent families with at least three children) are largely over-represented. The reinforced presence of single-parent families is equally notable, which constitute nearly 16% of households in social housing capacities against barely 7% of households all together (table 1).

Consequently, there are a lot of young people in social housing: 29% of the occupants are under 18 years of age whereas this age range only constitutes 22% of the entire population.

*Few Young Households*

12% of the persons of reference of the households found in social housing are under the age of 30: this is more than the overall average, but a lot less than in private rental housing. It is also two times less than 20 years ago. As for aging households, they remain under-represented too because the upper age groups include many homeowners; but they are more numerous than in private rental housing (table 2). The adaptation of the buildings, especially in terms of the size of the housing units and accommodating the handicapped also constitutes an important preoccupation

for landlords. In fact, between 1984 and 2006, the average age of the persons of reference increased by 4 years and the average number of persons per household dropped from 3.2 to 2.4.

### *More and More Immigrants*

Employees and workers, who account for 30% of the persons of reference overall, constitute nearly half (49%) of those in social housing (table 3). The downward trend of this proportion, whereas that of retirees is increasing, only translates the trend in French society: HLM housing capacities continue to house a quarter of the households for workers.

On the other hand, the proportion of immigrant households found in HLM housing capacities has regularly increased, going from 15.0% in 1996 to 17.5% in 2006, whereas in the population overall, it has only increased from 8.4% to 9.6%

### **The Under-Occupation of Social Housing**

The aging of the population brings about an increase in the proportion of under-populated housing units. It is in the housing units occupied by their owners that the phenomenon is the clearest. The under-occupation of HLM housing units, whose degree can be a subject of controversy, poses a particular problem: since it involves housing units that benefit from public assistance, it is in fact normal for municipalities to seek to achieve the best balance possible between the needs of households and the housing that they occupy.

Offering a smaller-sized housing unit to a tenant in place nevertheless encounters numerous obstacles. First, HLM housing capacities overall include a low proportion of small housing units (chapter 1). Secondly, these small units are often more recent and due to this fact may be more expensive than the average-size housing unit. Finally, it is humanly difficult to require a household, more often in old age, to leave a housing unit where they have accumulated memories, even more so if that imposes a change of neighbors on it.

The law on mobilization for housing and the fight against exclusion dated 25 March 2009, the so called MLLE Law, consequently foresees that the landlord shall propose to the tenant of an under-occupied housing unit a new housing unit corresponding to his needs, provided that the rent of this unit is lower than the previous one. The law considers that there is under-occupation if the number of rooms of the housing unit (excluding the kitchen) exceeds the number of persons in the household by more than two: for example, a single person in a four-room apartment. In zones under pressure, the refusal of three consecutive offers brings about the loss of the right to stay in the housing unit. Tenants over 65, households including a handicapped person and those whose housing unit is located in a sensitive urban zone (ZUS)<sup>2</sup> are not concerned by this obligation of mobility.

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<sup>2</sup> The 715 neighborhoods classified in sensitive urban zones are confronted by important urban and social difficulties and are the subject of a policy of specific assistance for economic development and urban renewal.

## Who Houses the Poorest?

The HLM are sometimes accused of not housing the poorest. The imprecision of the concepts allows everyone to produce the statistics that they would like. In this respect, the following elements must be kept in mind:

- the offer of social housing is unequally spread over the territory; it is also concentrated on average-sized housing units; therefore, a large number of poor households don't receive offers in social housing capacities; for example, poor households are numerous in rural areas and small towns and they are homeowners there in the majority of cases;
- there is also a bias on the demand side since, if households with high levels of income don't have a right to social housing, foreigners in irregular situations may not hope to have one either;
- there are several ways to define poverty; different results will be obtained by varying the definition of income, for example whether overall income is considered or rather the income per unit of consumption (<sup>3</sup>) or else by introducing other strictly monetary elements; the inclusion or not of students, for whom the notion of income has no real meaning, weighs heavily on the conclusions;
- it is not sufficient to compare the respective proportions of poor households found in social housing capacities compared to private capacities; the conditions in which they are housed must also be compared in terms of rent, location, comfort and precariousness; the conditions of life in large high rises are not always enviable, but they cannot be compared to those of the occupants in the most deteriorated capacities in the private sector.

By retaining the European definition of the poverty threshold (income per unit of consumption equals 60% of mean income, meaning 830 Euro per month in 2006) and by excluding students, the proportion of poor households housed in HLM capacities rose from 17% in 1984 to 30% in 2006, whereas the relative share of these capacities rose only very slightly.

### *The Mechanism of "Pauperization of Social Housing"*

What is incontestable however is that the occupants of social housing, overall, are poorer and poorer. This is what is translated in an ambiguous way by the term "pauperization" which could lead readers to believe, obviously erroneously, that a sort of fateful coincidence brings about a decrease in incomes for a large portion of those who reside in social housing. The "pauperization of social housing" results in reality from a dual movement: the departure, most often for first-time home ownership, of households with the highest and most stable incomes, and their replacement by new arrivals, who on the contrary, have lower resources than the average of other occupants.

The predominance of low-income employees rather than truly poor households, which is slowly diminishing, can be explained through the history of social housing occupation. In fact, the first occupants of many buildings built during the 50's and 60's originated primarily from the middle classes whereas poorer people, when they disposed of non-precarious housing, were rather older households who were property owners in rural areas or tenants of old constructions in the private

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<sup>3</sup> One unit of consumption is counted for the first adult of the household, 0.5 for the other adults and 0.3 per child.



sector in downtown areas. That is why the tenants of HLM's had income near the mean income for all households up until the end of the 1970's: it was even 1% greater in 1973, then 8% lower in 1978; the gap has subsequently never ceased to get bigger, going from 16 % in 1984 to 34% in 2006.

Up until the Housing survey of 1978 included, the majority of households housed in HLM's disposed of income greater than the mean income of all households combined (graph 1). If we consider the first quartile of the distribution of income (<sup>4</sup>), the occupants of HLM were only 12% in 1973 to be situated below it; this proportion has increased ever since, survey after survey, to exceed 40% in 2006. It even attained 44 % if the income per unit of consumption is taken into account.

Three-year surveys on the occupation of social housing enable the income of occupants to be compared to resources caps. And, in 2006, 72% of the households that entered housing units during the three preceding years had resources at 60% of the caps, as compared to 66% for all the occupants. In addition, 52% of the households recently entered received personal assistance, instead of 49%.

#### *Rental Supplements and the Loss of the Right to Stay in Social Housing for Households above the Resources Caps*

According to the same source, the proportion of households going over the resources caps is lower than 7%. In addition, it falls rapidly relative to the size of the excess: beyond an excess of 20%, there are only 2.4% of households and only 1% over 40% (graph 2).

Well-off households housed in HLM housing represent important political stakes despite their low number. The "rental supplements for solidarity" (SLS) were made mandatory by the law of 1996 and its scale was considerably hardened at the beginning of 2009. The total rent of households whose incomes clearly exceed the caps is set at a level near that of the general market, or even above it. Indeed, the rental supplements are, in large metropolitan areas excluding the Paris region, 5.89 Euros per m<sup>2</sup> for incomes double the cap and €14.91 per m<sup>2</sup> for incomes triple the cap; these amounts are respectively multiplied by 2 and 2.5 in the Paris suburbs and in Paris itself. The law nevertheless provides for a maximum debt service ratio of 25% which diminishes the effects of the scale.

The MLLE Law even make provisions to terminate the right to stay in social housing for tenants whose income exceeds the double of the resources caps for two consecutive years. This loss of rights then takes place at the end of a three year period, except if the income goes below the double of the cap during this period. Tenants aged 65 and older, individuals whose household includes a handicapped person and those whose housing is located in a ZUS are not concerned by this measure. This provision is applicable only to high pressure areas. Outside of these zones, it could also be applied through a decision by the organization.

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<sup>4</sup> This means the level of income below which 25% of households are found, all statuses of occupation combined, whose resources are the lowest.



## Expenses by Occupants

HLM rent levels are set not based on local market conditions but rather depending on the initial financing of the programs within the limit of the caps set by the regulations (chapter 4). Only four zones are distinct (chart chapter 4), so that rent levels in the social sector are in general very far below rent levels in the private sector in large cities, whereas the gap is narrow in rural areas (table 4).

Consequently, the gross debt service ratio of HLM tenants, meaning the rent in relation to income, is lower, by nearly six points, than that of tenants in the unregulated sector (<sup>5</sup>), despite larger households and lower incomes. Taking into account personal assistance widens the gap: the net debt service ratio of HLM tenants is lower by nearly eight points as compared to the private sector (table 5). Personal assistance is higher in social housing than in the private sector for the same two reasons that the gross debt service ratio is lower: larger households and lower income.

On the other hand, charges in HLM housing are comparable to those in private rental housing (€ 2,000 per housing unit in 2008 by including the charges and energy expenditures) and a little bit higher if only charges excluding energy are retained: that is due on one hand to the structure of social housing, still dominated by large collective buildings, and on the other hand, by the significant frequency of certain services, especially custodianship.

## Occupant Mobility

The annual rate of mobility (<sup>6</sup>) is estimated at 7% for all households. It is significantly lower for owners (4%) and higher for tenants (13%). Amongst tenants, mobility in the private sector is higher (18%) than that of social housing (7.5 %). Housing units in the private sector, that are smaller and more central, correspond better in fact to the demand of mobile households, who are often young and small sized. The age of the household, before income, is the principal determinant of mobility.

According to the data from the federations of HLM organizations, the annual turnover rate varied between 9.0% and 12.5% over the period 1989 - 2008 (graph 3). The lowest rates were observed first at the bottom of the economic cycle between 1991 and 1994, then, in more recent years, under the effect of increases in prices and rent levels. The high levels observed between 1995 and 2002, although it was during a time when the number of HLM housing units was diminishing, can be linked, not only to the improvement in the job market, but also to the restarting of social home ownership with the launching of 0% loans and a general fall in interest rates.

### *The Role of Social Home Ownership*

In fact, social home ownership constitutes an important factor of mobility, and consequently, as it has been seen, pauperization of social housing occupants insomuch as those who acquire property have higher than average incomes and are replaced by households with lower incomes.

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<sup>5</sup> Private sector, excluding the law of 1948.

<sup>6</sup> Estimated based on the number of parties departing in less than four years during the Housing survey of 2006.

During the period 2002-2006, not very favorable for social home ownership due to strong pressures on the real-estate market, 70,000 HLM households became home owners each year on average; it was less than during the periods 1997-2002 (80,000 acquisitions), or 1984-1988 (90,000 cases, when PAP loans were still numerous), but clearly more than in the period 1988-1992 (50,000 new owners per year).

## **Access to Social Housing**

### *Resources Caps*

Instated in 1954, the resources caps are revised each year; they depend on the type of financing, the geographical zone and the composition of households. The resources caps of the PLUS, which is applicable for the vast majority of HLM housing units, were therefore equal, in 2009, to monthly income of €1,760 for a single individual in the provinces and €4,720 for a family of four in Paris. The caps for PLA-I are equal to 55% or 60% of the PLUS caps depending on the type of household. The PLS caps are equal to 130% of PLUS caps and those of the PLI go from 140% to 180% of the PLUS caps depending on the geographical zone.

It is estimated that 65% of all the households disposed of incomes below these caps. This proportion is lower in Paris (60%). It also varies with the composition of the household: it is 76% for a single person and 55% for a couple, then increases rapidly with the number of dependants. These caps are revised annually depending on inflation, excluding tobacco and rent levels.

Compliance to resources caps is a necessary condition to get access to social housing, but it is largely insufficient. In fact, nearly half of the entrants have resources 40% below the resources caps and nearly a quarter of them are 20% below the caps (graph 2).

### *Obtaining HLM Housing*

The requests for social housing can be filed with the organizations, HLM or SEM, with the competent communities and groupings of communities or with the services of the State. The length of validity of the request is one year beginning on the date of its registration.

The INSEE statistics bureau estimated, at the end of 2006, that 1.22 million households (meaning 4.6%) had a request underway with an HLM organization. A little less than half of those requests originated from households already living in an HLM (550,000). In four years, total demand increased by nearly 15%, that of households not yet housed in an HLM by 23%. The portion of requesting parties from the greater Paris area only progressed slightly; it is difficult to say if this is due to a random statistic or a reality that would translate the discouragement of a certain number of requesting parties for example.

### *The Conditions of Attribution*

The attribution of social housing units is subject to two regulatory conditions, the legality of the status as a resident for foreigners and compliance with resources conditions.

Temporary derogations to resources caps are however provided for, which require a decree by the prefect: in order to resolve serious issues of vacancy, facilitate the exchanges of housing in the interest of families or to allow the installation of activities necessary for the economic and social life of all the housing units, or else in the ZUS, in order to encourage social mixing. In addition, certain associations may be beneficiaries of attributions in social housing when they sublet these units to persons in difficulty or to young people under the age of thirty.

While monitoring social mixing, the attribution of housing is made as a matter of priority to private individuals whose housing is precarious or unhealthy and to those who accumulate economic and social difficulties. The other requests are satisfied by respecting the priorities defined in the departmental regulations of attribution and the orientations of inter-communal housing conferences.

Housing units reserved by the Prefect for the benefit of persons with priority constitute the prefecture's quota; it may not exceed 30% of the total number of housing units for each organization. The territorial authorities may also obtain reservations, within a limit of 20% of the housing units per program, as a counterpart for their grant of a financial guarantee. Finally, the financial aid from local communities and from the 1% Housing also make provision for the reservation of a part of the housing financed.

### **The Opposable Right to Housing and Social Housing**

The notion of the right to housing is recorded in law dating from 1990 and the operations concerning social housing have the explicit mission of participating in its implementation. With the law instituting the opposable right to housing dated 5 March 2007, the so called DALO law, the State remains the guarantor of the right to housing, but a right to recourse before a judge is open. This right is exercised through amicable recourse before a commission of mediation, then, failing to find a solution, by recourse before an administrative judge. In this procedure, the commission of mediation and the prefect of the department, who presides over the commission, play a central role in practice. Recourse to private regulated housing capacities and the reinforcement of the offering for temporary housing are well laid out by the law, but it is the mobilization of the rental housing of the HLM and SEM organizations that in reality will constitute the principal response to those requesting housing.

The publics targeted as a matter of priority, with reserve to filling the regulatory conditions for access to social housing, are the persons or households: without housing, meaning without a fixed place of residence or housed by other people; threatened with expulsion without other housing; housed or accommodated temporarily in transition; housed in a local unfit for living in or presenting an insalubrious or dangerous character; housed in an over-populated or indecent local, under the condition of having a minor dependent child or a handicapped person or having a handicap oneself. The right to contentious recourse before the administrative judge has been in force since 1<sup>st</sup> December 2008 for requesting parties with priority. It will also be available as of

January 2012 for any party requesting social housing not having received any proposal adapted to their situation at the end of an “abnormally long” period of time, whose duration is set by the prefect.

The number of households that are part of the categories with priority is poorly known, the estimations attaining several hundreds of thousands of households in total and more than a million and a half people. Two and a half years after passing the law, the last step of implementation has not yet been carried out and an assessment would be premature. It can simply be noted that the high influx of recourse before the commissions of mediation that were anticipated in view of the estimates of the public concerned, has not happened. Based on the dashboard of indicators set up by the law’s tracking committee, it can be seen that 100,000 cases of recourse had been filed by the end of August 2009 in view of a housing unit and 9,000 in view of temporary housing. More than 60% of the cases of recourse are filed in the greater Paris region and 20% in Paris. Around half of the cases examined have led to a favorable decision. Some 15,000 households have thus been relocated in an ordinary housing unit of social housing or in a temporary shelter structure.

**Table 1: Breakdown of households according to the status of occupation and the composition of the household**

	Tenants		Owners	Total
	Social housing	Private sector		
Person alone	38.8%	45.1%	26.5%	34.0%
Single-parent family 1 child	8.1%	5.5%	2.2%	3.9%
Single-parent family 2 children	5.0%	2.5%	1.1%	2.0%
Single-parent family 3 children or more	2.5%	1.2%	0.4%	0.9%
Couple without children	14.5%	21.1%	33.0%	26.5%
Couple with one child	9.7%	10.1%	12.4%	11.2%
Couple with two children	9.6%	7.3%	14.4%	11.8%
Couple with three children or more	7.1%	3.8%	5.6%	5.3%
Other cases	4.7%	3.5%	4.4%	4.3%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: INSEE (Housing survey 2006)

**Table 2: Breakdown of households according to the status of occupation and the age of the person of reference**

	Tenants		Owners	Ensemble
	Social housing	Private sector		
Under the age of 30	12.0%	28.0%	2.4%	10.8%
30 to 39 years old	22.3%	24.7%	13.7%	17.6%
40 to 49 years old	19.6%	15.9%	18.7%	18.2%
50 to 64 years old	25.2%	17.4%	31.8%	27.0%
65 and over	20.9%	13.9%	33.4%	26.4%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: INSEE (Housing survey 2006)

**Table 3: Breakdown of households according to their status of occupation and the socio-professional category of the person of reference**

	Tenants		Owners	Together
	Social housing	Private sector		
Farmers	0.1%	0.4%	1.9%	1.3%
Craftsmen, merchants and company owners	1.5%	4.3%	5.0%	4.1%
White-collar workers and upper intellectual professions	4.4%	13.5%	13.8%	11.9%
Intermediary professions	12.1%	17.1%	15.5%	15.3%
Employees	24.6%	19.3%	8.8%	14.4%
Workers	24.1%	21.1%	11.4%	15.6%
Retirees	25.7%	16.8%	41.2%	32.3%
Other persons without a professional activity	7.5%	7.5%	2.4%	5.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: INSEE (Housing survey 2006)

**Table 4: Average monthly rent depending on the rental sector and the size of the urban area**

**In Euros per m<sup>2</sup>**

	HLM	Unregulated Sector	TOTAL
Rural communities	4.0	4.9	4.6
Urban areas with fewer than 20,000 occupants	4.2	5.8	5.2
Urban areas from 20,000 to 100,000 occupants	4.1	6.7	5.3
Urban areas from 100,000 to 2 million inhab.	4.3	7.9	6.2
Paris metropolis	5.4	12.9	8.4
All of France	4.5	7.3	6.0

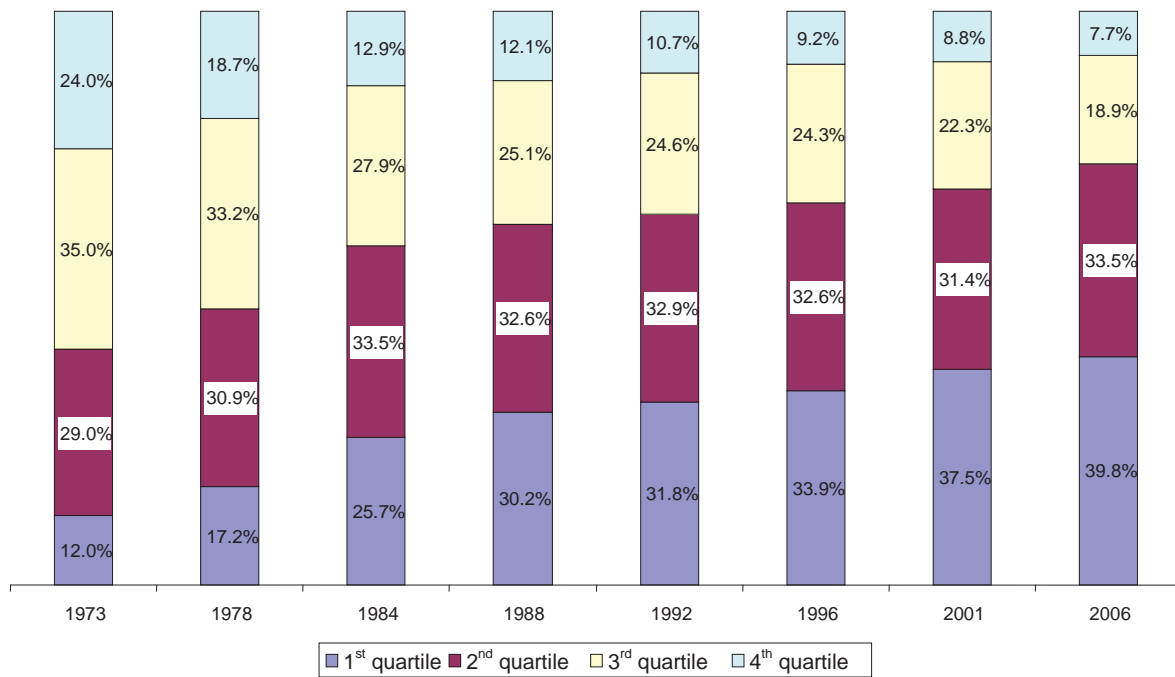
*Source: INSEE (Housing survey 2006)*

**Table 5: Monthly rent and average debt service ratio depending on the rental sector**

	HLM	Unregulated Sector
Average area (m <sup>2</sup> )	69	67
Monthly rent (€month)	310	485
Gross debt service ratio (%)	18.1	23.7
Net debt service ratio (%)	12.8	20.5
Debt service ratio with charges	+ 9.2	+ 6.3

*Source: INSEE (Housing survey 2006).*

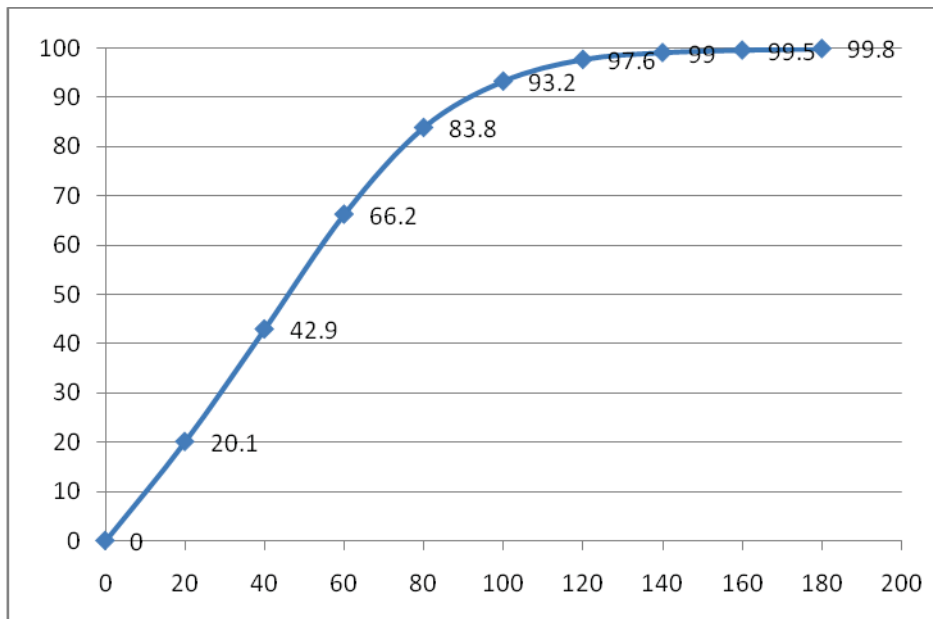
**Graph 1:**  
**Breakdown of households in HLM per quartile of income; trend between 1973 and 2006**



Source: INSEE (Housing survey 1973 to 2006, students excluded as of 1992)

Interpretation: by definition, a quarter of all households have income below the first quartile. In 1973, 12.0% of HLM Tenants had income below the first quartile; in 2006, this proportion was 39.8%.

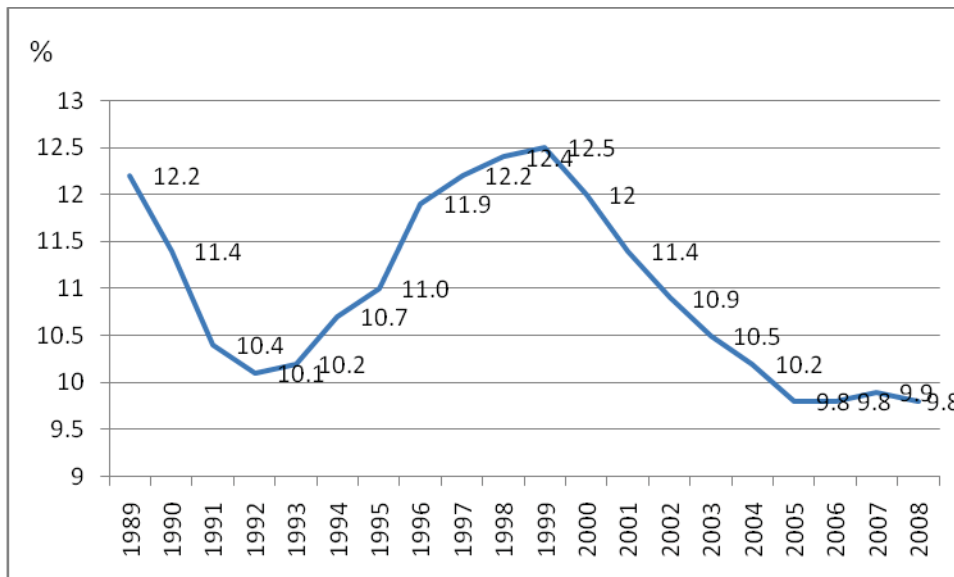
**Graph 2: Situation of HLM tenants relative to the PLUS resources caps**



Source: Ministry of Housing (Occupation of social rental capacities survey, January 2006)

Interpretation: 20.1% of HLM tenants have a level of income 20% below the PLUS resources caps.

**Graph 3: Turnover rate of HLM housing units (housing units freed up during the year/ total capacities at the end of the year)**



Sources: Federations of HLM organizations



## CHAPTER 4

### FINANCING

*In order to be able to offer affordable rentals, affordable financing must be obtained. The current system is original and not very orthodox from a financial point of view, since it consists of recycling the savings of households on a livret A savings plan into long-term credits for social landlords. The tax exemptions on interests, the State's guarantee on deposits and the absence of remuneration by the CDC contribute to the low level of the loans. The reform of the livret A, which widened its distribution beginning in January 2009, has, in addition, enabled a reduction in the cost of collecting this resource and the reinforcement of the relative advantage of these loans from the CDC to social landlords.*

*This “channel of assistance” limits the amount of State subsidies but forces it into touchy arbitration between the remuneration of popular savings and the costs of the loans to social housing. The recourse to formulas of indexing, frequently revised, has reduced this role as an arbitrator without eliminating it. The changes in the rules caused by the strong variations in the parameters, upward in 2008 then downward in 2009, have supplied several illustrations of this.*

#### **A Brief History**

The direct and massive intervention by the State in the financing of social housing only really began with the law dated 3 September 1947 that reorganized the HBM sector (affordable housing) and upset the conditions of financing for social housing: it instated a “temporary” program of direct loans from the Treasury at interest rates of 2% for 65 years, with deferred amortization for 5 years and totally interest free for 2 years, then a 50% discount on interests for 8 years, for rental or for first-time homeowners.

#### *The Thirty Glorious*

The State was rapidly forced to limit the volume of its very generous interventions and therefore to seek out complementary sources of financing. In particular, it improved the loans granted by the CDC on the livret A savings program (<sup>7</sup>) and, in 1953, made employer's participation in the construction effort mandatory, the “1% Housing Fund” (chapter 5).

The State's desire to reduce the volume of the Treasury's direct interventions led to the de-budgeting of credits, with the creation of the ‘Caisse de prêts’ for HLM's (CPHLM) in 1966. The scheme of the program is the following: the CDC centralizes the funds collected on the livret A savings program; it loans to the CPHLM at the cost of the resources (6.2% for 20 years in 1966); in turn, the CPHLM loans to the HLM (2.6% for 40 years for the HLMO) and the State ensures

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<sup>7</sup> Created at the beginning of the 19<sup>th</sup> century, the livret A savings plan is a savings product at sight, whose interests are neither subject to income tax nor to social contributions. The amount of deposits per plan is capped at €15,300. Anyone may open one livret savings plan only. More than 45 million plans are open.

the balance by paying out improvements on interests and subsidies. In consideration of this, the quota of loans attains 95% whereas it varied between 60 and 75% before then.

### **The Reform of 1977; Regulated Contracts**

The reform of the financing of housing (law of 3 January 1977) takes the findings from various reports that, if they diverge at times concerning the means to be put into place, all came to the same conclusion:

- the problem regarding the quality of existing housing capacities and new constructions now takes precedence over the quantitative aspect,
- the system of assistance, based on aid for construction that is too closed, is both inefficient and unjust.

#### *The Founding Principles*

A new unique loan, the PLA (Rental Assistance Loan) is distributed by the CPHLM solely to social landlords, HLM's and SEM's, and by the 'Crédit Foncier' to all investors, physical persons or moral entities. The cost of operations may not exceed a reference price and the housing units financed must comply with quality norms. In order to improve existing real-estate, loans from the CDC (unimproved) are accompanied by a new budgetary bonus, the PALULOS (Bonus for the improvement of housing dedicated for rental and social occupation). The change in financing and the demands on quality are translated by an increase in rent levels that the personal assistance for housing (APL), a new form of personal assistance, seeks to compensate for low-income tenants.

The new forms of assistance, PLA or PALULOS for landlords, APL for the occupants, are granted under conditions of "regulated contracts" for the housing units concerned. The signing of "APL conventions" forces landlords to:

- attribute housing units to households under resources caps,
- abide by a maximum rent recorded in the agreement,
- reserve a portion of housing units (30% maximum) for families designated as having priority by the prefect.

The awarding of housing units in the non-regulated capacities remains in force. Therefore, two types of assistance to individuals co-exist moving forward (box 1).

## **BOX 1: ASSISTANCE TO INDIVIDUALS**

Tenants and first-time homeowners may benefit from personal assistance under conditions of resources that use different scales of reference.

### **1/ The different forms of assistance**

Among the forms of individual assistance granted to tenant households, we find:

- the ALF, family housing allowances; created in 1948, they are attributed to households that have family dependents;
- The ALS, allowance for social housing; created in 1971, it was first reserved for persons aged 65 and older, for young workers under 25 years of age as well as for handicapped adults, then attributed to the long-term unemployed and the beneficiaries of the minimum revenue for social insertion (RMI) before being broadened in 1993, to all types of households previously excluded from the system of assistance, students in particular;
- the APL, personalized assistance for housing; introduced by the law of 1977 that reformed the financing of housing, is granted to households whose housing unit was financed by a rental assistance loan (PLA and more recently, PLA-I, PLS and PLUS) for which an agreement has been signed between the landlord and the State.

### **2/ The scale of reference for rentals**

The sole scale of reference applies to the ALF and the APL. The amount of aid is based on the direct definition of the participation of the household in its housing expenses beginning with a rate of participation, or a debt service ratio applied to its resources. The amount of assistance is then simply deducted from it: it is the difference between the eligible expense (capped rent plus a flat fee for charges) and the household's participation.

The formula of the calculation for assistance is expressed as:

$$\boxed{\text{Assistance} = \text{Rent} + \text{Charges} - \text{Personal Participation}}$$

The rent is the rent paid taken into account within the limit of the cap. The charges are flat fees: €51 + €11 per family dependent. The personal participation is defined by the formula:

$$\boxed{Pp = P\emptyset + (Tf + Tl) \times (R - R\emptyset)}$$

In fact, this includes:

- a minimum expense ( $P\emptyset$ ), of €3 or 8.5% of the total rent + a flat fee for charges;
- participation based on the size of the household ( $Tf$ ) that diminishes when the size of the household increases;
- participation based on the rent ( $Tl$ ), which increases with the rent;
- these two rates of participation being applied to the current income of the household ( $R$ ) reduced by the amount of RMI (the  $R\emptyset$  in the formula), which avoids a threshold effect for a household that goes from a remunerated activity to the minimum revenue (approximately €450 for a single individual) or vice versa.

### **3/ The beneficiaries**

In 2008, nearly 6 million households or occupants of shelters benefited from personal assistance (table). Tenants (excluding shelters) represented 81% of the beneficiary households. 45% of tenants benefited from housing assistance compared to only 11% for homeowners.

The beneficiaries included a majority of small households: 50% are single individuals and 7% were couples without children. Their income is often very low: among the tenants benefitting from personal assistance and who are not students, 75% have income lower than minimum wage (approximately €1,000 per month). Finally, nearly 700,000 students are beneficiaries of housing assistance.

**Table for Box 1: the beneficiaries of assistance to individuals**

In thousands

	1990	2000	2008
First-time homeowners	1 155	887	615
Tenants (excl. shelters)	3 042	4 818	5 142
Total (excl. shelters)	4 197	5 705	5 757
Tenants in shelters	384	572	558
Total	4 581	6 277	6 315

*Source: Housing Account 2008.*

### **Channels of Funding: The Livret A**

The CPHLM was eliminated in 1986 and, beginning in 1988, subsidies from the State were paid directly to the building organizations whereas the CDC granted loans to them. This was the last step in the disengagement of the State which, henceforth, no longer improved loans and didn't guarantee them either: it rested on the CDC, which became a direct lender, to take care of the balance of operations and the solvability of the organizations. The functioning of the funding channel for assisted loans based on savings funds as we know it today was then in place.

#### *The Savings Funds of the CDC*

In fact, funding loans to social landlords relies on the funds collected on livret A and Blue savings plans and these funds are centralized within the savings funds of the CDC. The CDC also receives the majority of deposits on the so called popular savings plan (LEP) and a reduced part of funds from sustainable development savings plans (LDD). At the end of 2008, the holdings of centralized deposits were greater than €210 bn., of which two thirds for the livret A savings plan alone.

The transformation of liquid savings into long-term loans, even at an indexed rate, is a risky operation. In order to ensure the liquidity and the safety of the system, a large part of the deposits is retained and invested in the form of liquidities on the financial markets. It is therefore necessary to have holdings and a flow of collected funds sufficiently high to allow the financing of the organizations' activity at the level of their needs. At the end of 2008, outstanding loans attained €100 bn. (table 1). Although it rose significantly throughout the year, it only represented 47% of the savings funds' assets and the amount of financial investments stood at 52%.

#### *The Generalization of the Livret A Savings Plan: The Provisions of the LME Law*

Subsequent to a complaint filed by several banks for inhibiting competition, the European Commission requested France in 2006 to modify the procedures of distribution for livret A and Blue savings plans. The livret A was in fact distributed exclusively by the Banque Postale and the Caisses d'épargne and the Blue savings plan by the Crédit Mutuel. Although the deposits on these savings plans only represent around 4% of the financial savings of households, their emblematic character and their wide usage (more than 45 million savings plans) led them to be regarded, rightly or wrongly, as an excellent loss leader.

Following the recommendations of a report made by Mr. Camdessus on the modernization of the distribution of the livret A savings plans and the funding channels of social housing, the LME law (law for the modernization of the economy), adopted on 4 August 2008, opened up the distribution of livret A savings plans to all credit establishments beginning on 1 January 2009. The livret A savings plan at the Banque Postale conserves special characteristics: the obligation of opening an account to any person who makes the request, the possibility to make operations for small amounts of money and custodianship of income.

A portion of the funds collected on livret A and LDD savings plans is centralized at the CDC. It must cover a minimum of 1.25 times the loans granted to social housing and the policies of cities. The non-centralized part must be employed by the banks to finance SME's or projects for energy savings in older constructions.

The level of remuneration of banks for the centralized part is set by ordinance at 0.6%, instead of 1.12% previously (on average). The Banque Postale receives an additional remuneration for its obligations of banking accessibility whereas the historic distributors receive a compensatory remuneration for a transition period of three years. These two remunerations will be taken care of through the savings funds of the CDC.

Finally, an observatory for regulated savings has been created to track the implementation of the reform; it must submit an annual report to Parliament.

In October 2009, the European Commission considered that the opening of the distribution of the livret A to all banks complied with its demands and closed the infraction procedure against France that it had engaged.

## *The Interest Rates of the Resource and its Variability*

The level of the interest rates of the livret A determines the cost of the resource of the loans to social rental housing (graph 1). Since 1998, the government has wanted to rid itself of the responsibility of setting this rate in a discretionary way whilst ensuring that savers are guaranteed to have a positive remuneration. Since August 2004, the rate of the livret A has been determined by a mathematical formula. The formula in force since the beginning of 2008 is the following:

$$\text{Rate of the livret A} = \text{Sup} \left[ \left( \frac{1}{4} \text{Eonia} + \frac{1}{4} \text{Euribor 3 months} + \frac{1}{2} \text{Inflation} \right), \text{Inflation} + 0.25 \right]$$

The revision is bi-annual: the Bank of France calculates the rate that will take effect on 1<sup>st</sup> February and on 1<sup>st</sup> August, the variation between two successive values may not exceed 1.5%. When it considers that exceptional circumstances justify a dispensation from the application of the result of the calculation, the Bank of France transmits its opinion and its proposals on rates to the Minister of the Economy: if the degree of interest rate or inflation rate fluctuations justify it, it can propose an additional revision in May or in October. In 2009, in a context of a sharp decrease in inflation and interest rates, the rate of livret A was therefore reduced to 2.5% in February then to 1.75% in May and 1.25% in August, whereas the application of the calculation formula would have led to a level of 0.25%.

The rate of the PLUS, the central product for the financing of social housing, is set by adding the average remuneration of the collection networks to the rate of the livret A. Not only do the savings funds of the CDC not remunerate themselves on the interest rate for loans (but only on the investment of the surplus of the centralized collection), but they also offer a rebate in order to limit the impact of the raising of the livret A interest rate. This rebate was set at 0.38% in 2009.

The rate of the PLUS since August 2008 is equal to the livret A interest rate increased by 0.60%. In a few years, social housing has thus benefited from a significant drop in the interest rates on loans granted: the modification of the calculation formula of the livret A in 2008 represented a gain of around 0.30 points; the gap between the livret A interest rate and the rate of the PLUS has been decreased by an additional 0.40 points since 2006 (graph 2).

### **PLUS, PLA-I, PLS and PLI: The Current Regime**

Three sub-sectors can be distinguished in social housing to which there are three corresponding financial tools. The “very social” sector, for the lowest incomes, financed by the PLA-I and the sector “social-intermediate” sector, corresponding to the PLS, for the highest incomes, surround the central product, the PLUS, which finances “standard” social housing. The PLI is only mentioned for memory; it was meant to finance the “intermediate” sector but is not longer used today due to its intrinsic lack of attractiveness and victim of the SRU law that has included PLS housing in the scope of social housing but has excluded the PLI from it.

### *The PLUS (Rental housing loan for social usage)*

The PLUS is exclusively distributed by the CDC and dedicated solely for HLM and SEM organizations, for their social rental housing operations, meaning:

- the purchase of land and the construction of new housing units,
- the acquisition of housing units followed by their improvement or not,
- the transformation of non-residential real-estate into housing units,
- the building of social residences and housing-shelters.

The PLUS also finances the demolition and renovation works and urban restructuring of construction-demolition operations (PLUS-CD, here below). Finally, municipalities (or their groupings) may have recourse to it for their very social interventions in old housing capacities.

The principal technical characteristics of the PLUS are the following:

- its duration is from 15 to 40 years; the maximum duration is 50 years for loans financing the land or building costs;
- its rate is revisable (formula most frequently); the revision is carried out at each anniversary based on the possible variation of the livret A interest rate. The interest rates and the graduation of the annuities (initially from 0 to 0.5%) are revised at the same time, which allows the impact on the annuity by the variation of interest rates to be smoothed;
- another loan with a rate indexed on the inflation rate exists: its rate is the sum of a constant reference rate for the duration of the loan and the annual rolling average of the price index, as in the formula for the calculation of the livret A interest rate.

Operations of acquisition and construction financed by a PLUS are subject to VAT at a reduced rate (5.5%) instead of the normal rate (19.6%) and the housing units benefit from an exemption on property taxes for the property built (TFPB) for 15 years; this exemption has been raised to 25 years for operations financed until 2013. These advantages are granted under the condition that the part of the PLUS loan, increased by subsidies (State, municipalities) and the assistance of the 1% Housing (subsidy or loan), attains 50% of the amount of the operation.

Finally, a particularity of the PLUS resides in the triple cap for the resources applied, in a skewed way, to the occupants of the housing units financed: the organizations have the obligation of housing 30% of tenants whose income is lower than 60% of the usual resources cap and the possibility of accepting 10% of tenants with income 20% higher than this cap. This rule is obviously made more flexible when the operation is comprised of less than 10 housing units.

### *The PLUS-CD (Social rental housing loan for construction-demolition)*

The PLUS-CD finances construction or acquisition operations for social rental housing units intended for the relocating of occupants from demolished buildings or co-owned apartment buildings in difficulty. It is different from the ordinary PLUS through its increased rate of subsidies (table 2) and, until 2009, by an improved interest rate.



### *The PLA-I (Rental housing loan for insertion)*

The PLA-I finances reduced-rent housing units intended for tenants with low income and who encounter special difficulties of insertion. Its resources caps are lower by 40 to 45% than those of the PLUS and its rent caps are 10% lower. The lower level of rent and a higher average cost, since the operations target small well-located buildings, justify an increased subsidy and a rate of interest improved by 0.80% by the CDC, meaning an interest rate lower than the livret A interest rate by 0.20%; the CDC uses a part of the products produced by the treasury management of the savings funds for that purpose.

### *The PLS (Social rental housing loan) and the PLI (Intermediate rental housing loan)*

The PLS and the PLI address social landlords, HLM's and SEM's, but also all private landlords, physical persons or moral entities. Previously distributed through special channels, these two loans had their distribution enlarged to selected establishments in 2001 subsequent to a call to tender which is renewed each year. The PLS, like the PLUS, benefits from a reduced rate of VAT and an exemption on the TFPB property tax. The PLS resources caps are proportionate to those of the PLUS (table 3). Its rent cap, initially set at 150% of the PLUS cap, was significantly raised in 2009 in large metropolitan areas, where the needs for intermediate rental housing are great and the financial balance more difficult to reach.

The PLI seeks to meet the needs of households that dispose of income too high to have access to social housing capacities but insufficient to find housing without difficulty in the private sector. The resources of the occupants and the rent levels practiced are subject to caps that are considerably higher than those of the PLS, and for private landlords, these constraints apply to a shorter period. The utilization of the PLI is limited to priority zones where the rental housing market is particularly difficult. The PLI does not benefit from any of the fiscal advantages of the PLUS and PLS.

### **Forms of Assistance for Improvements Renewed**

The improvement of social housing capacities has gone through the PALULOS since 1977. A 10% subsidy rate is applied to the amount of work planned and taken into account within the limit of a cap of €13,000, associated with a reduced rate of VAT since 1998 for improvement works. The combination of the PALULOS, a complementary loan by the CDC and a rent increase partially covered by a reinforced assistance to individuals has enabled the financing of the refurbishing of a large part of the social housing capacities from before 1980. The needs remain high nonetheless, especially in terms of energy efficiency, whereas State credits for improvement have been reduced and have even disappeared since 2009.

The program resulting from the Grenelle summit on the environment (chapter 1) will be financed by an improved loan from the CDC: the first installment of €1.2 bn. for 100,000 housing units in two years was put into place at the beginning of 2009 at a fixed rate of 1.9% for a period of 15 years. The works can also open rights to a TFPB tax allowance of 25% of the amount. Finally,



the MLE Law has introduced the possibility to find an agreement between landlord and tenant organizations, on the recovery of a part of the savings on charges obtained thanks to the works, capped at 50%.

### **Financing of Housing in the DOM (French Overseas Departments)**

The housing policy carried out in the overseas departments is specific in several aspects. Indeed, the DOM are confronted by quantitative housing problems comparable to those that metropolitan France encountered around forty years ago. In addition, the small amount of available land, the surcharges linked to distance, insularity and natural catastrophe risks mean that the cost of housing is high whereas the income of the inhabitants is lower than that of France proper. This situation of shortage and the insolvability of a large portion of households justify maintaining strong and diversified aid for construction. The financial effort of the State goes through the “Unique budgetary line item” (LBU), managed by the ministry in charge of overseas territories and not by the one in charge of housing. The LBU is totally fungible (it finances the construction as well as the improvement of social rental housing) and leaves local authorities with the possibility of large margins of adaptation; its amount represented €280 M in 2009.

Within the aids for construction, assisted housing, its hierarchy and its means of financing are significantly different from those of metropolitan France. Firstly, the populations with the lowest levels of income are not oriented towards social rental housing but rather towards very social home ownership, in the form of a product specific to the DOM, called LES (evolving social housing). Thereafter, social rental housing is broken down into three products, like in Metropolitan France: the LLS (social rental housing), which corresponds to the PLUS, the LLTS (very social rental housing), the equivalent to the PLA-I, and the PLS.

The resources caps of the LLS are those of the PLUS in France proper excluding the Paris Metropolitan area and reduced by 10%; those of the LLTS are lower by 25% to those of the LLS. These two loans are served exclusively to social landlords, HLM’s and SEM’s<sup>(8)</sup>, by the CDC and financed through the livret A in the same conditions as in Metropolitan France. However, they are associated to subsidies that are a lot more significant.

The PLS and the PLI have been introduced recently in the French overseas departments. Like in metropolitan France, the caps of the PLS are linked to those of the LLS; those of the PLI are based on the values of zone B in mainland France (box 2).

In order to attempt to overcome the difficulties specific to the financing of social housing in the DOM, several innovations have been launched or are on the brink of being launched. The FRAFU (Regional funds for land and urban development) have been created in order to contribute to the financing of urban development, whether it be by constituting land reserves or developing already urbanized areas or that have the purpose of becoming urbanized. They are financed by the State (FIDOM), municipalities and the European Union (FEDER).

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<sup>8</sup> Twelve real-estate SEM’s, five ESH’s and one cooperative HLM. There are no OPH’s in the DOM.

The law of 27 May 2009 for economic development overseas (LODEOM) modifies the provisions for tax incentives (<sup>9</sup>). It orients them towards social housing and intermediate social housing by introducing a leveling off of rent for qualified operations and allows the ESH to act as service providers for moral entities that would benefit from these provisions and to become shareholders in real-estate companies.

Finally, it should be underscored that there is no APL housing assistance in the DOM: the reform of 1977 was not extended to them due to the maintaining of strong aid for construction. Housing allowances are therefore granted there in both private and social housing capacities, with a scale of reference which differs from that of metropolitan France by the limitation of the number of dependant persons taken into account and by a flat fee representative of charges lower by around 30%, given the absence of heating expenses: it covers the same proportion of real expenses as in metropolitan France.

## **BOX 2: DEFINITION OF ZONES OF FINANCING**

The regulation of housing assistance includes different breakdowns of the territory in metropolitan France in geographical zones in order to define the resources or rent caps of the construction incentives and the scale of reference for assistance to individuals.

### **Zones 1, 2, 3 and 1b**

This breakdown is applied to the rent caps of the PLUS and the PLA-I and to the assistance to individuals. It is based on the number of inhabitants of each metropolitan area and is revised at the time of each population census.

Zone 1 includes the Paris metropolitan area and the new cities of the greater Paris region, with the exception of zone 1b.

Zone 1b is the central part of zone 1. It is comprised of Paris and the 29 bordering communities.

Zone 2 includes the greater Paris region outside of zone 1, metropolitan areas and cities of more than 100,000 inhabitants, zones of urbanization and new cities outside of the greater Paris region, the islands not connected to the continent and 9 townships bordering the greater Paris region.

Zone 3 covers the rest of the territory in metropolitan France.

### **Zones A, B, C and A1**

This is the zoning of the “Robien” provisions (<sup>10</sup>), of the PLI and it serves to set the maximum rent levels of the PLS. It is formed based on indicators of market pressures and is revised depending on the variations of these indicators.

Zone A includes the Paris metropolitan area, the French Riviera and the French part of the Geneva metropolitan area. Zone A1 is identical to the zone 1b.

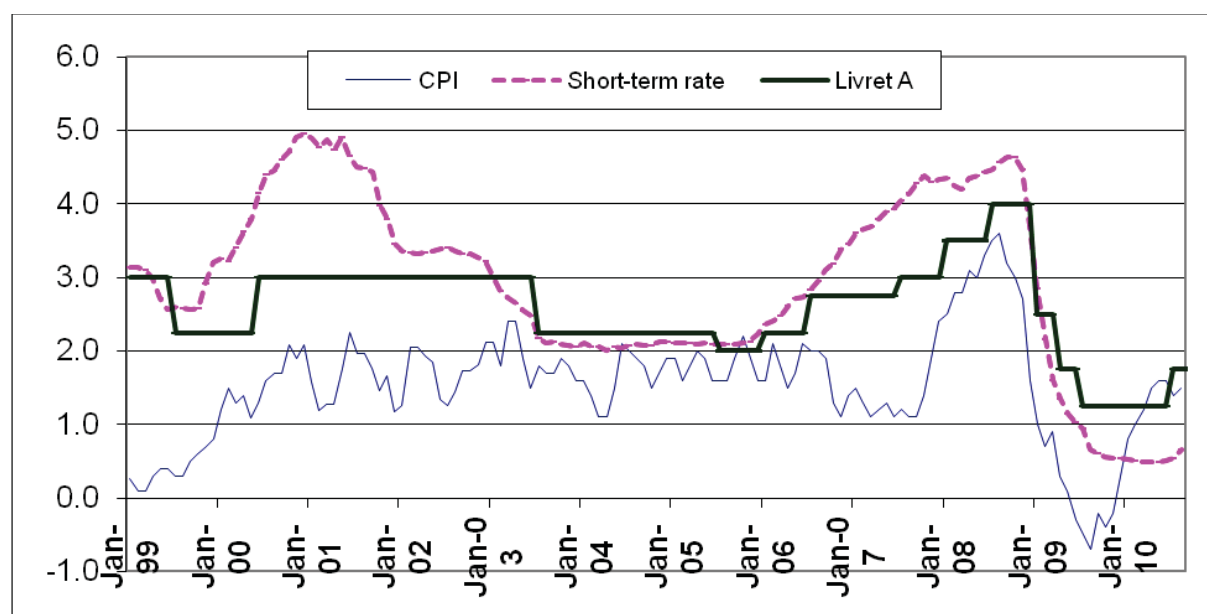
<sup>9</sup> This provision allowed 40 to 50% of the amount of the acquisition of a new housing unit intended for rental on the open market or intermediate rental housing for five years to be deducted from taxable income.

<sup>10</sup> Tax incentive for investment in rental housing.

Zone B includes the greater Paris region outside of zone A, metropolitan areas with more than 50,000 inhabitants, the edge of the French Riviera, overseas departments, Corsica and the other areas bordering other countries or coastal areas that are expensive. Since 2006, the “refocused Robien” provisions have made a difference between two zones, B1 and B2, within the zone B.

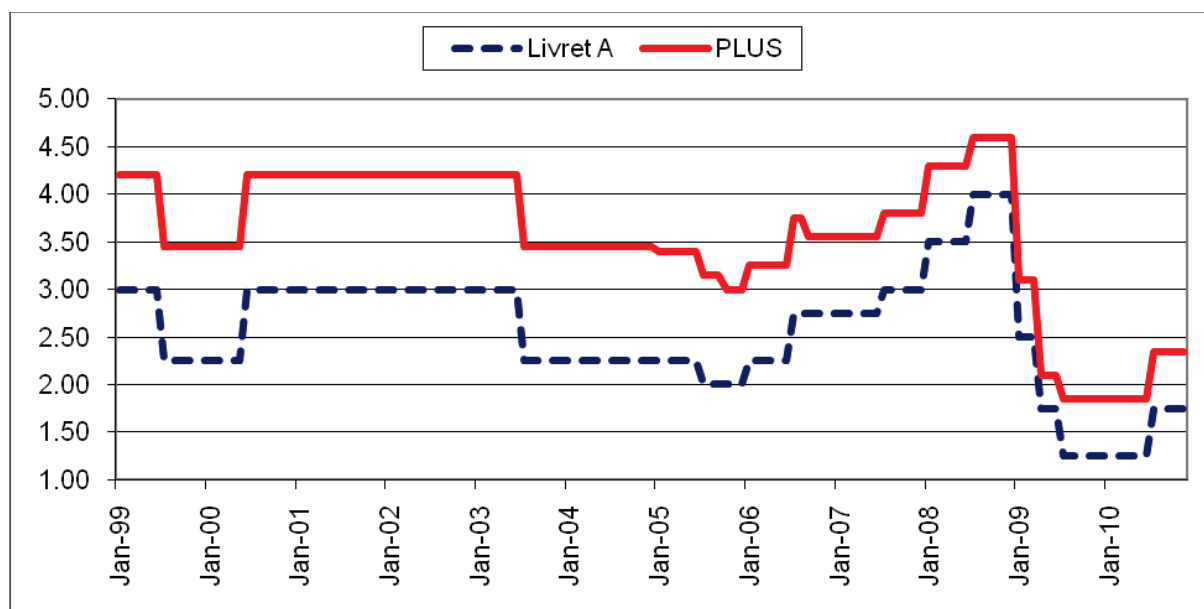
Zone C corresponds to the rest of the territory.

**Graph 1: evolution of the consumer price index, short-term interest rates and the livret A interest rate**



*Price index excluding tobacco spread annually; Short-term interest rate: average of the 3 month Euribor and the Eonia.*

**Graph 2: trend of interest rates for the livret A and the PLA-PLUS**



**Table 1: outstanding loans on savings funds (end 2009)**

In billions of Euros

PLUS and assimilated	53.2
PLA-I and assimilated	4.9
PLS and PLI	10.8
<b><i>Loans for construction and acquisition-improvement</i></b>	<b>68.9</b>
<b><i>Improvement Loans</i></b>	<b>5.3</b>
Loans for Urban Renewal	5.6
Loans for Urban Projects	2.0
<b><i>Loans for urban renewal policies</i></b>	<b>7.6</b>
<b><i>Other loans</i></b>	<b>16.4</b>
<b>Total loans to housing-cities (*)</b>	<b>98.2</b>
<b><i>Capex Loans to municipalities</i></b>	<b>5.6</b>
<b><i>Misc. loans (Codevi and others)</i></b>	<b>7.1</b>
<b>OVERALL TOTAL</b>	<b>110.9</b>

Source: CDC (annual report on savings funds 2009).

(\*) Excluding accrued interests not yet due: € 3.5bn.

**Table 2: characteristics of the PLUS, PLUS-CD and PLA-I (October 2009)**

	PLUS	PLUS-CD	PLA-I
Maximum rent (in m <sup>2</sup> of useful area)	From €4.9 (zone 3) to €6.3 (zone 1b)	90% to 100% of the PLUS	8 / 9 of the PLUS
Resources caps	Cf. chapter 3	same as PLUS	55% or 60% of the PLUS depending on the household's category
CDC loan rate	Livret A + 0.60 % = 1.85%	Livret A + 0.60% =1.85%	Livret A – 0.20% = 1.05%
Maximum loan period / loan on land	40 / 50 years	40 / 50 years	40 / 50 years
Maximum rate of State subsidy	New: 5% Acquisition-improvement: 10%	12% to 22% depending on the level of rent	New: 20% Acquisition-improvement: 20%

**Table 3: characteristics of the PLS and PLI for social landlords (October 2009)**

	PLS	PLI
Maximum rent	From €7.3 (zone C) to €12.4 (zone A1)	2 / 3 of the "Robien" maximum rent
Resources cap (by reference to the PLUS)	130%	Zone A: 180% Zone B: 160% Zone C: 140%
Lending rate (contract awarded in 2009)	Livret A + 1.16% = 2.41%	Livret A + 1.45% = 2.70%
Maximum length of the loan / real-estate loan	40 / 50 years	30 / 50 years
State Subsidies	No	No
Reduced VAT rate	Yes	No
TFPB exemption	Yes (25 years)	No

## CHAPTER 5

### FINANCIAL BALANCE

*As it is often the case in Europe, programs for social housing are financed in such a way that the rents received balance out the investment and exploitation costs for the entire period of the life of the buildings. An alternative, practiced in a small number of countries, consists in setting the rate of rent depending on other criteria, particularly the income of occupants, subsidies for exploitation coming into play thereafter if necessary in order to balance the organizations' books. In order to reach this balance, in addition to the loans on the livret A, the State grants subsidies and tax incentives to which aids from communities and the 1% Housing Fund are added in increasing proportions.*

*Despite these aids, building organizations must pay in more and more equity themselves for new operations, whose costs are increasing faster than the rate of inflation due namely to the application of new norms in terms of energy savings and accessibility. The possibility of producing positive operational results on existing housing capacities is a means for them to ensure their development. Finally, if the financial balance of each new operation is desirable and sought out, the possibility of equalization between earlier amortized operations and more recent ones gives a margin of flexibility in the overall management of each organization.*

#### **The Financial Balance of New Rental Housing Operations**

Public assistance for social rental housing is assistance for investments, granted or set at the time of the initial financing of the operations, without it being necessary, in principle, to provide aid during the period exploitation; the rent received by the social landlords must therefore cover all the expenses for exploitation, while remaining below the maximum levels of rent as provided for by the regulations. How can the right level of rent be set? The general contractors for social housing and the services of the State make use of the so called method of the balanced rent: it is defined as the startup rent so that the difference between the cumulative receipts (rent installments) and expenses for exploitation, or the cumulative treasury balance, may never be negative during the period of reimbursement of the principal loan. A cumulative treasury that is nil at term indicates that the operation is financially neutral without enrichment or impoverishment of the landlord organization if the residual value of the asset is not taken into account.

The balanced rent thus established depends on the technical characteristics, the price and the financing of the operation and the management conditions proper to the landlord. It may not exceed the maximum level of rent provided for by the regulations, which is set for each new operation by convention with the State in the framework of its administrative rules. In order to fill the possible gap between a balanced rent and the maximum level of rent, the general contractors for social construction must seek out all the improvements possible in various areas: technical to reduce the cost of construction, financial in the form of subsidies from local government or the 1% Housing Fund. They can also put forward their own equity in order to limit making use of borrowing. As a last resort, they can choose to make a money-losing operation while counting on

the exploitation gains made on existing real-estate in order to balance out their overall management; there is then equalization between different segments of real-estate assets.

The random nature of a projection over 40 years is obvious. However, this approach is common to the central and exterior services of housing administration and social landlords; it therefore constitutes a support for their dialog and a programming tool for rental housing, it being understood that the financial balance of an operation is not an imperative condition of its approval. In addition, it allows the landlord to measure the effect of a modification of total costs, technical characteristics or a financing plan on the balance of the operation.

### *Forecasted receipts and expenses*

The rent receipts expected from a rental housing operation must cover different expenses:

- the financial charge corresponding to the reimbursement of the loans, in capital and interests,
- the maintenance expenses: major maintenance, replacement and addition of components,
- the property tax on the buildings at the end of the period of exemption,
- the management costs and regular upkeep at the landlord's expense,
- the risks of bad debts or vacant housing units, which decreases potential receipts.

Financial charges are by far the most significant budget line item, as indicated in graph 1 that indicates the weight of different estimated expenses of an operation financed in PLUS. Recourse to equity capital should allow this charge to be diminished, and even more so if the organization renounces its reconstitution.

The law does not impose a maximum total cost but the State's subsidies are calculated in relation to a statutory base and all of its aids are calibrated in order to ensure the balance of operations whose costs are near this base. The greater the gap, the more the inflow of complementary assistance is necessary: in the case of the operation described in the box, the total costs exceed the subsidies base by around 50% and the balanced rent exceeds the maximum rent authorized by regulations by 25%.

### **Assistance granted in the case of financing an operation through PLUS**

#### **A - State assistance**

Approval given by the State for a social rental housing operation financed through PLUS gives the right to the following public assistance:

- 1) a level of VAT reduced from 19.6% to 5.5% on the land used for the construction and on the construction or improvement works;
- 2) a State subsidy, that can reach 5% in theory; this rate is applied to a statutory base representative of the production costs of housing; when the cost of land is high, an additional subsidy may be received;
- 3) an exemption on the TFPB property tax for 25 years, as opposed to 2 years for new buildings in general.

As an example, the amount of assistance for a new apartment building is calculated here below, representative of the production financed through PLUS and approved in 2008 in a large metropolitan area in the provinces (in zone 2 of the housing regulations – box 2, chapter 5).



The total costs are, before any assistance, of €2,000 tax included per m<sup>2</sup> of useable area (SU), this being defined as the net floor area increased by half of the annexes, amounting to €134,000 for a 67 m<sup>2</sup> housing unit, of which 20% is the cost of land.

### **1-Reduced rate of VAT**

The reduction of the VAT is applied to the acquisition of land for the construction and all of the expenses that are included in the construction, finishing works, services and fees included. It enables the cost of the construction to be lowered by €15,800 / housing unit, amounting to 11.8% of the total costs.

### **2 - State subsidies**

The base of the subsidy varies depending on the zone and type of construction (new / acquisition-improvement, individual/group); it can be increased depending on the local or technical characteristics of the operation (presence of an elevator, certifications attesting to the energy or environmental performance, a small-sized operation) within the limit of 30%. The base amount is €1,161 per m<sup>2</sup> SU for new apartment buildings in zone 2, to which an average increase of 15% is applied. For an ordinary operation through PLUS, the rate of the subsidy is 2.5% in general.

A subsidy on land can in addition be granted in order to finance the part of the expenses for land that exceeds a reference value set at €150 per m<sup>2</sup> SU in zone 2. Its maximum rate is 50%; it is paid under the condition that a local government also makes a contribution for an amount at least equal to 20% of the over-expenditure relative to the reference value.

These two subsidies represent in all €140 / m<sup>2</sup> and €9,380 / housing unit, meaning 7.0% of the total cost.

### **3 - TFPB Exemption**

The average annual amount of TFPB due on recent social housing units can be estimated at €500; prolonging the length of the exemption by 23 years is the equivalent of paying a subsidy of €8,800 for the housing unit, meaning 6.6% of the total cost.

#### **B – Loan by the CDC**

The approval by the State also gives the right to a loan on savings funds by the CDC. This involves a “channel aid” to the extent that this loan presents a double advantage, its rate and its duration. Indeed, the PLUS (like the PLA-I and, more recently, the PLS) is granted for a period of 40 years, even 50 years for the part for the land, durations for which the offering of bank loans is limited or inexistent. The CDC grants a loan “at cost” (chapter 4), that can be considered to be one point lower than a loan obtained on the market, which would be 4.6% if it is accepted that the livret A fluctuates on the long term around a pivot value of 3.0% and the PLUS around 3.6%.

This advantage of one point on the rate enables the annuity of the PLUS to be diminished by 13.7%. In other terms, a subsidy of 13.7% of its amount would have to be paid in order to “improve” a 40-year loan at a rate of 4.6% and reduce its annuity to the level of the PLUS. In our example, the amount of the loan is €106,586 and the advantage of the rate of the PLUS is the equivalent from an actuarial point of view of a subsidy of €14,600, meaning 10.9% of the total cost.



The respective importance of the different types of assistance mobilized can be appreciated, and especially that of a loan on savings funds (graph 2): the total represents 36% of the total cost. To that, the guarantee granted by local governments can almost be systematically added to loans on savings funds, a financial advantage that can be measured by reference to the cost of a guarantee by the CGLLS for a PLUS loan, meaning 2% of the borrowed amount.

### **C – Other types of assistance**

The end goal of this system is of course to produce a financially balanced operation in the limits of the maximum rent set by regulations. This is significantly lower than the market level for rents: €5.5 / m<sup>2</sup> through new PLUS against more than €9 / m<sup>2</sup> on average for housing units in the private sector in metropolitan areas with more than 100,000 inhabitants in 2008.

The objective of balance was not reached in the operation described here: under normal conditions of exploitation, the balanced rent exceeds the maximum rent by more than 20%. The amount of “free funds” necessary to nullify this gap is €30,000 per housing unit. They can originate from three sources: the 1% Housing, local governments and the organizations themselves.

It can be supposed that the 1% Housing Fund participates in the financing of this operation in the form of a reservation of a part of the housing units: the cost of the reservation is €18,000, a third of the housing units are reserved; the contribution is therefore €6,000 per housing unit. The local governments are also likely to provide direct financial assistance that can be estimated at 10% of the total cost of the operation, meaning €12,000 per housing unit. €12,000 remain to be found in order to ensure the financial balance: the organization can either contribute them in the form of equity capital or accept putting into service a non-balanced operation under the condition that its losses on future exploitation can be covered by budget surpluses produced by its existing real-estate assets.

### **The Role of The 1% Housing Fund**

In the 1940's, groupings of companies, especially in the north of France, already participated voluntarily in the financing of the housing of their employees. This contribution became mandatory in 1953 for all private non-agricultural companies with at least 10 employees (cap raised to 20 employees at the beginning of 2006, with a compensation by the State for losses due to this readjustment), with a rate initially set at 1% of total gross wages, whence the common name of “1% Housing”, next to which, a more administrative one “participation by employers to the construction effort” (PEEC). The obligation also applies to public establishments of an industrial and commercial character. The companies subject to it employ around 13 million employees. They pay their participation in the form of subsidies, subscriptions of securities or interest-free loans to approved collectors, principally the Inter-professional Committees for housing (CIL) and the chambers of commerce and industry (CCI).

An increasing part of collected funds has been allocated to the financing of assistance to individuals to the extent that the PEEC now only corresponds to 0.45% of total gross wages. That

does not signal that the resources available have diminished: since now they are constituted primarily by returns on loans.

In return for the payments received, the collectors have since the beginning offered complementary loans to first-time homeowners at reduced rates, reservations of rental housing units obtained in exchange for the financings that they grant to the general contractors for social constructions, and advice in terms of first home ownership for the employees of the companies concerned.

### *Traditional Utilizations*

The traditional utilizations of the 1% Housing in the rental housing sector are the payment of subsidies and loans for the construction and improvement of housing units. In the framework of the Plan for social cohesion, assistance in the form of subsidies has been privileged: an annual budget of approximately €220 M (raised to €300 M as of 2009) has thus been allocated to the financing of the PLUS and the PLA-I, against around €450 M in loans heretofore.

In exchange for the financings granted, the collectors obtain reservations for social rental housing units in favor of the employees of the companies concerned: the 35,000 new reservations in 2007 bring the collectors' capacities of rental reservations to around 715,000 housing units. A difference is made between reservations called "sole designations" and reservations in "right of succession" which run for a defined period of time during which the reserving party may present new candidates in the case of the departure of a beneficiary tenant.

The amount of long-term utilizations by all collectors united within the UESL came to €2.5 bn. in 2007, of which €1.9 bn. in favor of physical persons. The HLM and SEM organizations benefit from 85% of the long-term contributions to moral entities; the rest is spread between real-estate companies controlled by the collectors and associations and disinterested organizations. Assistance to general contractors for social constructions can also be added in the form of pre-financing of their operations for an amount of €130 M in 2007.

### *New Utilizations*

The range of utilizations of the 1% Housing has been broadened over time and its professional structures have been strengthened. For the recent period, it can be noted:

- The creation, end 1996, of a Union for the social economics of housing (UESL) grouping together all of the CIL and the CCI collecting bodies. Its role has just been transformed in the framework of the MLLE Law dated 25 March 2009: if the law confirms the missions consisting of representing the interests of its collector associates, emitting recommendations to ensure the implementation of policies of utilization of the resources of the 1% and managing the funds improved by the associates (either by borrowing on the market if the resources of the collectors are insufficient), in order to finance these utilizations; on the other hand, it terminates the conventional mechanism for the definition of the policies of utilization. This definition thus comes back into the domain of the law and regulations.
- The creation of new forms of assistance to physical persons, beginning in 1998. They seek to facilitate their access to a first housing unit, by helping them to finance the guarantee deposit or by offering a guarantee to the landlord, and their later mobility. These aids, that benefit a

larger public than solely the employees of the companies subject to the PEEC, especially the young, represented €1 540 M in 2007 in all.

- The commitment in 2001 to contribute to the policy on urban renewal, which later took the form of a subsidy to the ANRU and the improvement of a bundle of loans to urban renewal by the CDC.
- The creation, in 2002, of a “Housing property” association, whose purpose is to have private rental housing units built and managed before disposing of them later to the complementary retirement regimes of the private sector. Its investments are in part made in neighborhoods of social housing and in urban renewal in order to diversify the offering and encourage social mixing, in the form of rental housing units without resources or maximum rent caps. The remaining investments are made there where the rental housing supply is insufficient, especially in communities that do not reach the threshold of 20% of social housing units provided for by the SRU law and contributes to putting the plan for social cohesion to execution; these housing units are subject to the resources and rent levels caps of the PLS. Since its creation at the end of 2008, the association has acquired nearly 25,000 housing units, essentially outside the zones of urban renovation. The contribution of the UESL to the association attained €750 M in 2007.

## **The Role of Local Government**

Municipalities have intervened for a long time in this field by providing their financial guarantee for the loans contracted by building organizations. This guarantee is not automatic, and for 5% of construction loans, it is not granted, due to a refusal or disinterest for the program envisaged or else because its financial situation prevents the municipality from taking such an engagement.

The right of reservation given in exchange covers at most 20% of the housing units concerned and enables the municipality to recommend candidates for renting.

Municipalities play an increasing role in both the financing of social housing and in the elaboration of objectives and the implementation of the policies for housing. By authorizing the State to delegate the competence of managing construction assistance (social rental housing and the improvement of the private sector), to the public establishments for intercommunity cooperation backed by a local program for housing or, by default, to the departments, the law on Liberties and local responsibilities dated 13 August 2004 constitutes a new stage in the process of decentralization of the policies on housing. In 2009, the 107 delegates, including 28 departments, managed more than half of the State budgetary assistance available in the framework of conventions covering several years, which also provide for a contribution made by the delegate municipality itself.

Whether it be in the framework or outside of this delegation of competence, the regions, departments, communities and groupings of communities may contribute to the financing of new constructions or the refurbishment of housing units, and subsidize the operating of an HLM or SEM organization but this is a less widespread practice. The number of municipalities concerned and the diversity of the assistance do not facilitate the estimates for this contribution. Today, it is generally in the vicinity of 10% of the cost of the PLUS and PLA-I operations of the Plan for social cohesion and the trend is upward. The assistance from municipalities sometimes takes the

form of providing the land, especially in rural communities either through a donation, sales for one euro or an emphyteutic lease. These diverse forms of assistance open up the rights of reservation that can be added to the rights received in exchange for a financial guarantee.

The relationships between organizations and local governments are not limited to solely an exchange between financing or guarantees and reservations. They are also institutional: the president of a public office for housing is obligatorily chosen from among the representatives of the municipality to which it is attached in order to sit on its board of administration. The request from elected officials often goes beyond the production and the management of social rental housing units and the organizations are solicited for operations of reorganization and urban renewal, the building of public equipment, intervening on land issues, leading an OPAH...

The SRU law has reinforced the obligation for the communities of large metropolitan areas to dispose of a sufficient number of social housing units, set at 20% of the principal places of residence for communities with at least 3,500 inhabitants (1,500 inhabitants in greater Paris) included in a metropolitan area of more than 50,000 inhabitants. It institutes an annual levy on the fiscal resources of each community under the quota; this gross levy is reduced by the expenses engaged by the communities to finance social housing units. For each community below the threshold of 20%, it institutes a program to make up the deficit by the 2020 horizon broken down by three-year periods. For the tri-annual period 2005-2007, 400 of the 730 communities concerned attained the production objectives assigned to them by this program.

### **The Financial Situation of all HLM Organizations**

Rent installments constitute the essential part of the resources of the organizations managing social housing units and the subsidies for exploitation are marginal, and principally provided to organizations in difficulty. Installments for garages and commercial space located in the housing complexes as well as the financial products produced by the management of treasury funds can be added to rent installments for housing units.

These receipts are diminished by the losses dues to bad debts and those due to non-recoverable rental charges on vacant housing units (that don't give entitlement to payment). The net receipts must cover a range of expenses of which table 1 indicates the respective importance in the HLM sector: annuities on loans, maintenance expenses, property taxes and administration costs. A surplus of receipts against expenses is the margin available, namely to provide capital equity for new constructions and the refurbishment of existing real-estate assets.

#### *Treasury, Financing Potential and Provision of Capital Equity*

Based on their consolidated balance sheets, at the end of 2007, the HLM organizations disposed of a treasury of €11.1 bn., but this sum is not integrally available to finance the improvement of existing housing capacities or the execution of new operations. A part, in the range of €1.4 bn., is a short-term resource produced by the exploitation cycle; it results from a delay between the monthly receipt of rent installments and the deferred payment of loan annuities and accounts payable and constitutes a temporary resource that cannot be employed indefinitely. Another part is made up of provisions for risks and charges (€2.3 bn.), which means sums placed in reserve in order to meet future expenses such as major maintenance or the risk of bad debt. The deposits of tenants (€1.1 bn.) that must remain available are also included in the treasury.

If these different sums are deducted, the part of permanent resources completely available for investment is obtained, or the financing potential, which stands at €6.3 bn., meaning €1,600 per housing unit managed. It is the financing potential, fed by the margin of annual self-financing and possibly the financial gains on the sale of rental housing units that can be employed as equity capital for new investments.

### *Perspectives*

The financial health of the social rental housing sector has improved as compared to the end of the 1990's. This improvement has enabled social landlords to accompany the re-launching of construction since 2001 by a significant increase in the part of equity capital in new operations. They are currently confronted by the simultaneous challenges of maintaining the level of activity at the level of needs for social housing in markets under pressure, pursuing the program of urban renewal and accelerating the refurbishment of existing real-estate assets in the framework of the Grenelle summit on the environment. The annual amount of employment of the financing potential could thus attain in a few years a level higher than the annual surpluses from self-financing produced by the normal activity, which represented €1.8 bn. in 2007.

It is therefore the business model for the development of the rental housing sector that is being transformed. In the future, it could be characterized by: a decrease in public assistance for the maintenance and improvement of existing real-estate assets that, once the effort granted in the framework of the Grenelle summit on the environment is completed, the organizations will have to ensure through their own resources; an increase in the provision of equity capital in new operations; increased recourse to a policy of disposal in order to produce new resources.

These trends are being accompanied by a renewal of the contract between organizations and public officials by going from a logic of financing one operation at a time to more all-encompassing contractual forms. This will be the subject of the convention of social utility (CUS) provided for by the MLLE Law. The CUS, which has a mandatory character, is signed by the organization with a representative of the State. Based on an assessment of the situation and a strategic plan for real-estate assets, it details the engagements of each organization in terms of investments and management of real-estate assets, social occupation of housing capacities and the quality of service provided to tenants. In addition, it includes indicators seeking to measure whether the objectives defined in the different areas (production, occupation, quality of service) are effectively attained.

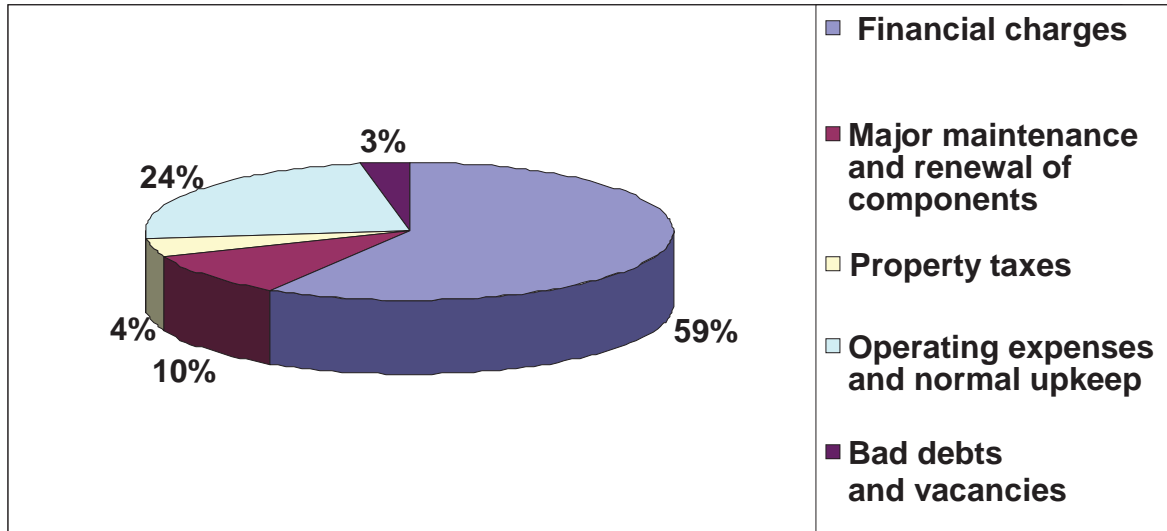
**Table 1: Economic Account of the HLM Rental Housing Sector**

	In % of paid up rent				In €Mil.
	1990	1995	2000	2007	2007
<b>RECEIPTS</b>					
Rent for housing units, shelters and rent surcharges	95.7	95.0	94.9	94.7	15 120
Other rents (garages, commercial real-estate)	4.3	5.0	5.1	5.3	851
<i>Subtotal of paid up rent</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>15 971</i>
Financial products	6.8	4.9	2.9	2.6	413
Subsidies for exploitation	1.5	1.0	0.9	0.7	107
Losses on rental charges (vacant housing units)	-0.8	-0.6	-1.0	-0.9	-149
Losses due to bad debt	-2.2	-1.2	-1.0	-0.8	-124
<b>Total amount of receipts</b>	<b>105.3</b>	<b>104.0</b>	<b>101.9</b>	<b>101.5</b>	<b>16 217</b>
<b>EXPENSES</b>					
Financial charges	47.4	50.0	46.8	43.2	6 901
Major maintenance & big repairs	13.0	11.7	11.2	9.1 (1)	1 461
Non-recoverable current upkeep	9.0	6.7	5.7	6.3	1 007
<i>Subtotal of maintenance expenses</i>	<i>23.0</i>	<i>18.4</i>	<i>16.9</i>	<i>15.4</i>	<i>2 468</i>
Cost of management	20.8	19.0	18.8	21.6	3 454
TFPB	4.1	7.6	10.1	9.7	1 548
<b>Total amount of expenses</b>	<b>94.3</b>	<b>95.0</b>	<b>92.6</b>	<b>90.0</b>	<b>14 371</b>
<b>Margin of self-financing available</b>	<b>11.0</b>	<b>9.0</b>	<b>9.3</b>	<b>11.6</b>	<b>1 847</b>

*Source: Federations and Social Union for Housing*

*(1) As of 2005, only the current upkeep and mayor maintenance are booked as exploitation expenses. Heavier repairs are booked as “replacements of components” in amortizations. The series of expenses for major maintenance and heavy repairs in this table are therefore not homogenous.*

**Graph 1: Weight of Different estimated expenses for a social housing operation (2008)**



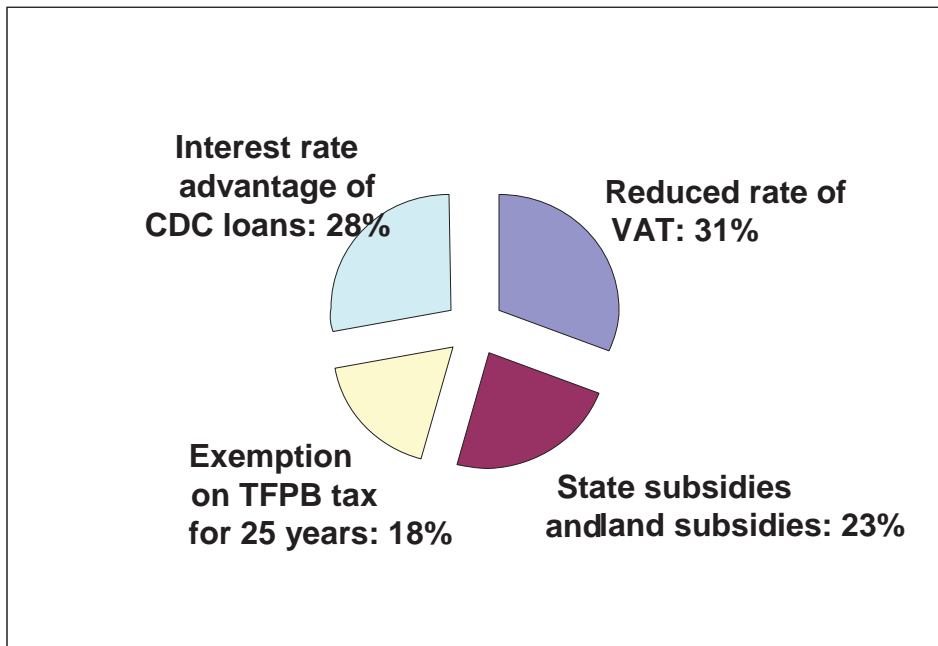
Case of a mid-priced operation, financed through PLUS: the CDC loan represents 75% of the total cost tax incl., subsidies from the State, local governments and the 1% Housing 15 % and equity capital 10% (this financing plan doesn't enable the reconstitution of equity capital). The expenses for major maintenance and the renewal of components are considered to represent 0.6% of the construction costs. Management costs and property tax are those generally observed in HLM housing capacities. Bad debt and vacancies generate a loss of rent installments set by convention at 3% for the duration of the projection.

This costing can be compared to the exploitation results for all of the real-estate assets (table 4), in which the financial charge has less weight, while remaining the first line item of expenses.

*Source: Social Union for Housing*



**Graph 2 to be inserted in the box for assistance granted in the case of a PLUS operation**  
**Title: Weight of the different types of State assistance for investment.**



*Source: Social Union for Housing*

## CHAPTER 6

### EUROPE AND SOCIAL HOUSING

*The importance and role of social rental housing capacities, the nature of its managers and the conditions of access vary greatly from one country to another. Also, the way of setting rent levels, the financing of programs and the forms of construction assistance, when they exist, have numerous avatars.*

*In the absence of legal competence at the Union level in terms of housing, each State continues to define its priorities and means of action, but the instruments of this policy must comply to the principles and engagements taken at the European level, which necessitates the constant adaptation of national rules. Sooner or later, a rebound on the debate regarding State assistance should be therefore be expected to be seen regarding possible competitive distortions that would result from the utilization of excessive assistance to the benefit of competitive activities.*

*Housing occupies an increasingly important place in regional policy and the social cohesion of the union. Urban zones in crisis and the urban renewal of social housing neighborhoods already figure among the priorities of European structural funds; this orientation has been renewed until 2013 for all member states. In addition, the new member states obtained in addition eligibility in 2006 for social housing and family housing units, although this includes restrictions on localization and amounts. In 2009, the eligibility to feder for energy renovation projects for all member states enabled a potential of eight billion euro to be allocated at the union level to complete national and regional measures.*

#### **Very Diverse Situations**

Despite a relatively homogenous economic and socio-demographic environment, and rather comparable recent tendencies, the housing conditions of Europeans conserve great diversity in the forms of housing and in the status of occupation. Thus, the importance of social rental housing capacities and simply the reality that it covers vary considerably from one country to another. Remember that for this work, a definition of social rental housing in France was not easy (chapter 1). It is therefore easy to conceive that this is even harder at the European level.

Even though housing is not an EU competence, European law and its institutions have had to define the notion of social housing without ending up with a single common definition. The VAT directives (1977 and 2006) thus retain a very vague definition: “any housing unit supplied in the framework of a social policy”. As for the decision regarding State assistance (2005), it considers as social “a housing unit intended for underprivileged persons or vulnerable social groups that for reasons of solvability, are not in a position to find housing at market conditions”. Finally, the communication relative to social services of general interest (2006) speaks in a similar but less precise way of “housing intended for underprivileged persons or less advantaged groups”.

### *The Importance of Social Housing Capacities*

In order to compare social housing capacities in the countries of the European Union, it's necessary to use the national definitions. Whether it involves the 15 oldest member States (graph 1) or the 12 new members (graph 2), the gaps are considerable and reflect both differences of definition (treatment of cooperatives in particular), but also of conception and quantitative development of social housing capacities. Thus the United Kingdom accounts for a proportion of social housing units greater than France's in spite of numerous sales to occupants, whereas it clearly reserves access to it for the most underprivileged; their capacities were formerly the largest in Western Europe.

Among the "fifteen", only Greece has no social rental housing, whereas Luxembourg and Spain have very reduced housing capacities of around 1% of their total housing capacities for principal residences. On the opposite, the Netherlands accounts for a very high proportion (34% of total housing capacities). The situation in Germany is complex: first of all, it is much contrasted between the Länder from former West Germany and those from the east where social rental housing capacities are the majority; secondly, Germany practices a system of temporarily regulated contracts for which the exits are numerous. France, with 17% of principal residences, occupies a mean position.

With the exception of the Czech Republic and Poland, the new Member States account for few social housing units: Cyprus and Malta, in accordance with the Mediterranean model, Bulgaria, where homeowners have always been the vast majority, and the other countries due to massive privatizations.

The weight of social history plays an essential role. The existence of powerful worker movements explains the importance of the social rental sector in certain countries (Germany, United Kingdom, France, etc.). The first function of these capacities was in fact to house employees with low but regular income that local industry needed: qualified workers, employees, technicians, etc. As for the poorest, they were housed in deteriorated private capacities and very little in social housing. Charity organizations had the mission of helping them to find decent housing.

Today, in most countries, a trend can be observed to refocus social housing on the most fragile populations. This is the consequence of a two-fold movement: on one hand, the quasi-disappearance of the most deteriorated fraction of private housing capacities (shantytowns, housing law of 1948 in France), which represented "de facto social housing capacities"; on the other hand, the erosion of the class of low-income workers but with stable income and the rise of precariousness (part-time employment, fixed-term contracts of shorter and shorter durations, etc.).

### *The Way of Managing Social Housing Capacities*

The players in social housing, who build, manage and own it, are very different in size and legal status: no European model exists more in terms of operators than in terms of social rental housing. The current tendency is a return to the beginnings, meaning the predominance of private players, companies that are more or less not-for-profit and associations, whereas the strong growth in housing capacities after the Second World War had been mostly ensured by public

authorities. A frequent co-habitation results from this between two principal types of managers, local governments and not-for-profit organizations.

Thus, in the United Kingdom, local governments remain the principal manager of social rental housing with 2 million units. They are no longer building any but those that attain good results in the framework of the reform of the public sector are authorized to create management organizations at a distance from the market (“Arm’s Length Management Organizations” - ALMO), intended to manage and refurbish their social housing assets with the help of the State while being under the control of local government. The “Housing Associations” that constitute the majority of approved Social Landlords (“Registered Social Landlords – RSL”) are on the contrary developing: they build and benefit from the transfer of real-estate assets coming from local governments (“Large Scale Voluntary Transfer”).

If it remains in place in the United Kingdom, this historic means of direct management by public authorities is disappearing and only subsists in a minority of member States. Delegation to public establishments remains on the contrary widespread in France, Wallonia (78 public companies for social housing), in Italy (territorial Companies for housing, ATER), in Poland (TBS), Germany, Finland and Sweden. The level of attachment is local the most often, but it can be intermediate (department in France or region in Italy and more rarely national (Luxembourg, Northern Ireland and Portugal). In the new east European member States, public rental housing capacities built and managed by the State were transferred to local governments after the fall of the Berlin wall. Housing was either sold to occupants and transformed into private co-owned properties or cooperatives, or transferred to government-run companies created for this purpose in order to ensure its management and modernization.

Today, the most widespread form of management consists in approving private entities with various statuses: associations, not-for-profit companies or cooperatives. Cooperatives are present in many countries; but it is the associations and companies that manage the most sizeable housing capacities. This is the case in the United Kingdom and in Ireland with the Housing Associations, in the Netherlands with the “Woningcorporaties”, associations or private foundations.

The recourse to ordinary players, non-specialized moral persons or physical persons, has developed in Germany since the loss of the privileged fiscal status of Social Landlords in 1990. The constraints of social occupation are only imposed for a period limited to a few years, instead of 35 years previously, so that German social housing capacities have rapidly melted. Contractual regulation of existing housing capacities occupies a growing place thanks to the abundance of private supply on markets that are often not under pressure. This also avoids the concentration of contractually regulated social housing in the same neighborhood or in the same building.

The Czech Republic, as a complement to the development of the supply of stable social housing by dedicated companies run by local government, is also going to move towards this type of temporary social contractual regulation in order to increase the supply of housing temporarily accessible and mobilizable by the communities.

For a long time now, France has allowed private regulated housing but the housing units concerned, of type PLS, have only been qualified as social since the SRU law. Alongside physical persons, whose housing units can be contractually regulated without works by the

ANAH since the beginning of 2008, a new player, that is private but whose activity is tightly regulated, the ‘Foncière Logement’ association has appeared on the scene of social housing (cf. chapter 5).

### *The Role of Social Housing Capacities*

The conditions of access and the role played by social rental housing vary greatly from one country to another.

In several countries in Northern Europe, Sweden, Denmark, The Netherlands and the United Kingdom, there are no resources caps. But the absence of caps doesn’t necessarily signify a large overture because in at least certain countries, like the United Kingdom, the rules of priority don’t suffer any derogation. In the United Kingdom today, the social rental housing capacities are very targeted towards persons in difficulty: in England, two thirds of the tenants in the social sector don’t have gainful employment, around three out of five are assisted and 35% of the households receive “*income support*”, a minimum income allowance.

In Spain and Portugal, where social rental housing capacities are very little developed, the population that they welcome is a very low-income population, like in the United Kingdom. On the contrary, more diversified categories can be found in Denmark, France, the Netherlands and Sweden, so that these countries are confronted by a dilemma: how to reserve social housing for those who need it most while preserving social mixing there? The desire for social mixing only constitutes a clearly expressed objective in the three countries of Benelux.

### *The Level of Rent*

The principle of calculating rent varies greatly from one country to another. Schematically, two opposing systems can be found: the “balanced rent” and “social rent”. Certain countries apply a blend of the two methods. Still others have a system free of set rent levels.

France, Denmark, Spain (for “protected” housing), Finland, the Netherlands and Sweden have retained the principle of a balanced rent that is a function of the cost of construction and the conditions of initial financing (chapter 5). The so called “social” rent is a function of tenants’ income in Germany and in housing units “for public promotion” in Spain. Belgium, Luxembourg and Portugal first calculate rent levels based on the cost of construction before adapting them to the household’s income. Finally, Austria and Italy set rent at the central or regional level, depending on the market. Rent levels are set freely by municipalities and the Housing Associations in Ireland and in the United Kingdom.

A rent surcharge for solidarity is applied in France, as well as Germany, Belgium and Italy.

## *The Financing of Investments*

For the financing of new activity, Social Landlords need to have stable access to long-term resources. It was only during the 1980's that the development and liberalization of the money market made the financing of social rental housing through the market possible. In the countries of the euro zone, macro-economic stability and the drop in interest rates that has resulted from it have enabled the market to compete against legacy channels of public financing, at least for the organizations and programs offering sufficient guarantees. In certain cases, this access to the market is only made possible through the presence of public guarantees (United Kingdom, the Netherlands and Finland).

Public financing has therefore not totally disappeared but it has often changed forms. France is the only country in the euro zone to conserve a form of financing that, if not by the State, is nevertheless centralized at the national level. In Germany and Belgium, financing of social rental housing is ensured by public regional banks. In Austria, six specialized banks (Wohnbaubanken) finance social housing by issuing partially tax-free bonds. In Finland, the Funds (public) for Housing (ARA) grant either loans to organizations by refinancing itself on the market or improved loans from private lenders.

Amongst the new member countries, recourse to public Funds remains widespread, especially in Poland, Slovenia and Slovakia. The European Investment Bank (EIB) and the Council of Europe Development Bank also participate in the financing of social housing, either directly or by improving these Funds.

In a few countries, the tenants themselves are also solicited. It is the case in Denmark where a deposit of 2% of the cost of the housing unit, reimbursable in the case of departure, is required, in Austria, where a participation higher than 50 euro per m<sup>2</sup> gives the right to purchase exercisable after 10 years and in Poland where the organizations call on the tenants to fill a part of the gap between the cost of construction and the public loan, whose quota is limited to 70%. This participation is reimbursed in case of departure but doesn't give the right to purchase the unit.

The subsidies granted to investors and investments bear diverse forms:

- the loans may be granted at a lower rate than that of the market, through recourse to a specialized channel, a guarantee or an explicit loan improvement;
- direct budgetary assistance may be granted at the national, regional or local level; they may also originate from specific resources, such as the 1% housing fund;
- fiscal assistance may help reduce the VAT (in roughly one EU country out of two), property taxes or corporate tax;
- land may be given free of charge or sold at a price below the market price, in the framework of a sale or long-term lease.

The amount of this assistance, more than their nature, depends on the gap to be filled between the market rent level and the effective rent, as well as by the existence of scales of reference for personal assistance. These have been introduced in most member countries, as this was recently the case in Italy. Amongst the 15, only Luxembourg, Belgium and Portugal prefer to modulate rent depending on level and type of tenants' income rather than having recourse to personal



assistance. This system is complicated to manage and often requires the payment of subsidies to balance operations. Personal assistance also exists in most of the new member States: the only exceptions are Estonia and Malta. In Bulgaria and in Lithuania, they only cover energy expenses. In Poland, roughly 5% of households receive personal assistance paid by the municipality.

The growth of personal assistance and the lowering of interest rates have incited governments to reduce construction assistance. In addition, they often require landlords to increase their participation in equity capital, even if they should have to sell a part of their housing capacities to tenants to do that. These sales have been practiced on a large scale in the United Kingdom, as much if not more for reasons of policies rather than budgetary reasons. They are currently widespread whilst remaining marginal for the most part. Landlords are rarely favorable to this because they have little desire to separate themselves from their best housing units or their best tenants. Those whose housing capacities are comprised of apartment buildings for the most part are confronted by additional difficulties, of co-owned property management especially, that does not always compensate the need for “respiration” of their housing capacities.

## **Social Housing and EU Community Policies**

As it has already been indicated, housing is not an EU community competence. Each State in the European Union defines its own objectives in terms of housing, in particular the place of social housing and the means to be put into place in order to finance and manage it: the status of housing operators, size and terms and conditions of public assistance. However, in conducting this policy, governments and players in social housing are de facto constrained to permanently ensuring the compliance of their activity with European level orientations and directives.

### *Representation of Social Landlords*

The HLM movement takes action with European bodies through the intermediary of the CECODHAS (The European Liaison Committee for Social Housing), the European organization for social housing created in 1988. It brings together 46 national and regional federations that in all represent more than 22,000 social housing companies in 19 countries.

It exercises its action on three levels:

- at the policy level, to ensure that the housing dimension is taken into account in different community policies;
- at the regulatory level, it plays a role of lobbying on European directives,
- at an operational level, it helps certain organizations to be taken into account for European funds.

It is also a place for reflection and exchange.

Since 1997, there is also a European Forum for housing that brings together very diverse European organizations naturally including the CECODHAS. This Forum is a place of exchange and debate between the different players in housing present in Brussels (Social Landlords, builders, financiers, charity and family associations, researchers).



Finally, the Social Union for Housing has disposed of a permanent delegation in Brussels since the beginning of 2001. This delegation is responsible for three main functions:

- an information and legislative monitoring function,
- a lobbying function directed towards European community bodies,
- a function of representation of the Social Union for Housing in the European networks.

As for the SEM, it is the C.E.E.P. (European Centre of Employers and Enterprises providing Public Services) that constitutes their place of exchange with their European counterparts. Within the C.E.E.P., the “local companies” commission has a general objective of supporting the local companies in Europe; in this framework, it ensures the contacts necessary with the European institutions.

### *EU Legislation and Social Housing*

The interferences with EU legislation are numerous, whether this be regarding anti-trust laws, State subsidies, public tenders or sector policies in general. This can be illustrated, among other examples, regarding tax-free savings plans (the livret A of the Caisses and the Banque Postale and the Livret bleu of the Crédit Mutuel), public tenders or the application of reduced rates of VAT for construction and maintenance works:

- The question of the compliance to the principles of competition of the system channeling funding to the social rental housing sector through resources from savings funds was relaunched subsequent to a complaint filed by several banks for inhibiting competition (chapter 4). The collecting of Livret A lost its qualification as a “general economic interest” (box) to become a service activity subject to the rules of free competition. The distribution of livret A savings plans became open to all the banks that wish to offer them as of 2009 but neither the existence of tax-free savings instruments, nor the allocation of funds thus collected to the financing of social housing have been put into question.
- Due to the fact of the supremacy of European community legislation, national laws and regulations are undergoing adaptations of more or less sizeable amplitude, like in the case of public tenders. The obligations of notification for the different categories of adjudicators have thus given place to diverging interpretations between France and the European institutions regarding the regime applicable to the ESH, a controversy that ended by a decision of the European Court of Justice (2001). More generally, in 2004, the European Commission carried out a reorganization of the three legacy EU directives on public tenders. The French code of public tenders integrated this reform in 2006.
- The directive 2006/112/CE from the beginning of 2007, that replaced the 6th VAT directive from 1977, provides (article 98) that each member State that practices a normal rate of VAT higher than 15% and a reduced rate, that cannot be less than 5%, for certain products and services of first necessity whose limitative list is defined in annex III. This includes the “delivery, construction, transformation and renovation of housing supplied in the framework of social policy”; 10 States out of the 15 legacy members, including France, apply such reduced rates on social housing units. In parallel, five sectors that are high employers of labor, including works on private housing (article 106 and annex IV of the 2006 directive) could benefit from it on a temporary basis; 7 member States out of 15 apply these reduced rates for works on private housing. In addition, France included the normal upkeep on social

housing units in this. The directive 2009/47/CE has kept this provision in force by adding to annex III the five sectors of annex IV and by adding the restaurant industry to it.

- The question of State assistance and possible distortions of competition that could result from the utilization of excessive assistance to the benefit of competitive activities has brought about long negotiations. The general principle is that the compensations intended to cover the costs of the obligations of public service must be notified to the Commission so that its services can verify that they are not higher than the level necessary. In November 2005, the Monti-Kroes package decided to consider as compatible State assistance, meaning without it being necessary to notify it, the compensations granted to the activities qualified by SGEI, provided that two supplementary conditions be met:
  - The mandate: the management of the SGEI must be entrusted through an official act specifying the nature and duration of the obligations, companies and territories concerned, the nature of the rights granted, the parameters of the calculation, control and revision of the compensation and the conditions of reimbursement of possible overcompensations and the means to avoid them;
  - The compensation: it should not exceed that which is necessary to cover the costs incurred by the execution of the obligations of public service; a reasonable profit on equity capital is accepted and any overcompensation must be reimbursed (or deducted from the annual compensation depending on if it doesn't exceed 10% in general and 20% in the particular case of social housing).

These provisions apply to the SGEI whose turnover is limited and without restriction to hospitals and social housing companies under the condition that the social housing has been recognized as a SGEI. This decision rests on the member States. The Treaty not defining the SGEI, the principle of subsidiarity applies. The Commission can only control the invoice checking and the possible “blatant errors” or violations of the Treaty. This was the case for Dutch social housing: the commission considered that there was a blatant error for the motive that the social housing had to have a direct link with the housing of underprivileged households whereas the organizations of the Netherlands house in priority but not exclusively these populations since they can offer non-allocated housing to well-off households. Sweden is also in litigation for a similar motive: the housing units of municipal companies are considered as public and not social and are therefore accessible for everyone. The reflections underway seem to lead to the pursuit of this activity by foregoing any State assistance.

### *Housing as a Service of General Economic Interest*

The notion of public service has as an equivalent, in European vocabulary, that of service of general economic interest. It is present as early as the treaty of Rome in 1957 regarding the common policy on transportation and in article 86§2. It still stands twice in the current treaty instituting the European Community. First in article 16, according to which “with regard to the place that services of general economic interest occupy among the common values of the Union and the role that they play in the promotion of social and territorial cohesion of the Union, the Community and the Member States, in the limits of their respective competences, ensure that these services operate on the basis of principles and under conditions that enable them to accomplish their missions”. This characterization of services of general interest as a fundamental value of the European “model” fits in the tendency seeking to reinforce the provisions in the fight against exclusion that can be found again in the adoption of the Chart of fundamental rights.

In the part of the same treaty dedicated to the common rules on competition applicable to companies, services of general interest are mentioned again. Article 86 provides that “the companies in charge of the management of services of general economic interest are subject to the rules of the treaty, particularly the rules on competition, in the limits where the application of these rules does not compromise the accomplishment in rights or in fact of the particular mission that has been imparted to them”. The accomplishment of the missions of public service should therefore only give place to advantages or public assistance within reason and in proportion to the objectives pursued.

The EU approach is therefore two-fold: affirmation of public service as a common value and desire to apply the rules of free-enterprise to the companies that manage it. It simultaneously leads to the recommendation of opening new sectors to competition, in the fields of energy, transportation, and telecommunications specifically and to be specified on a case by case basis, through sector directives or in jurisprudence of the European Court of justice, the content of the missions of public service in each of the sectors concerned. Some general principles have come out of it:

- the distinction between a mission of general interest and the status of the company that implements it: a mission of public service can be perfectly taken on by private companies,
- the obligation, unless exceptional derogation, to contract a public service agreement, and then to proceed to putting the potential operators in competition,
- each time that it is possible, the distinction between the creation and the maintenance of infrastructures on one hand, and the supply of the service itself on the other hand, in order to facilitate competition.

Up to now, each country has defined the missions and obligations of public service, by making sure that the general rules of EU community rights are obeyed (competition, devolution of public tenders, State assistance) and, depending on the case, of directives by sector.

The seeking out of a balanced framework that guarantees satisfactory implementation of the missions of public service by the States without entering into contradiction with the principles of the freedom of services and competition is the permanent subject of new developments.

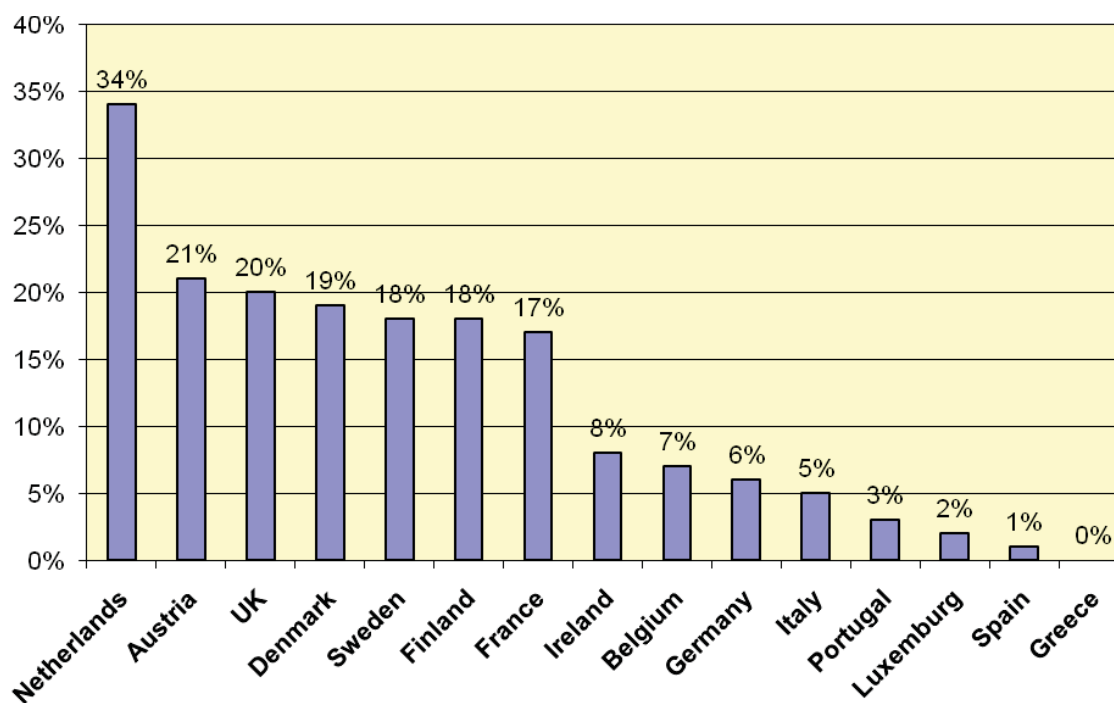
### *European Financing*

Europe does not only intervene through the definition of the rules of the game, the control of the players and the validation of good practices. Different categories of financing mobilizable at the European level concern social housing: structural funds, programs of community action and loans by the European Investment Bank.

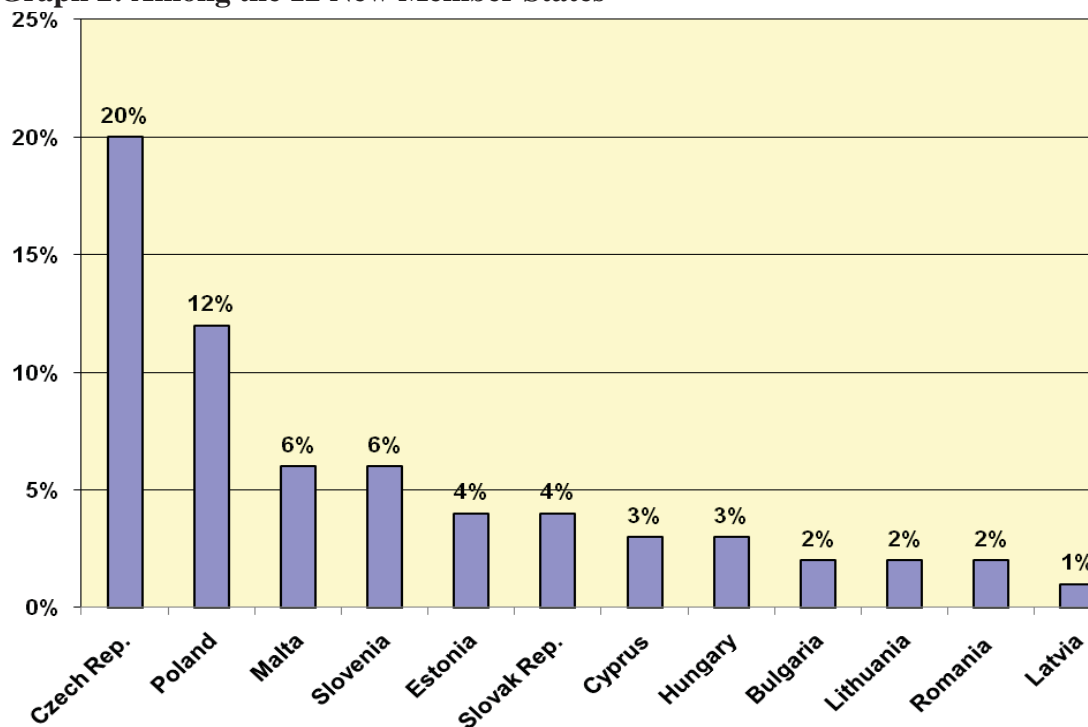
Structural European funds, and more particularly European Funds for regional development (FEDER) and the European social Funds, are mobilizable for projects conform to certain objectives. The European Union had decided to give more place to urban zones and to broaden the partnership with the players of the policy on cities during the phase 2000-2006. The eligibility to structural funds for projects integrated in urban renewal has been renewed until 2013 for all of the Member States. Projects for the modernization of social housing for the new member States, namely for making available “modern social housing units” have been added, which represents a change in the policies of assistance to social cohesion. Finally, in 2009, the expenses made to improve energy efficiency and to use renewable energies in housing became eligible in all member States.

*Proportion of social rental housing units in the housing capacities of principal residences*

**Graph 1: among the 15 old member States**



**Graph 2: Among the 12 New Member States**



Sources: Cecodhas and Insee.

## **Conclusion**

For around a century now that it has existed, social housing has never ceased to be put into question: do we house the poorest there at the lowest cost for society? Is it not a factor of segregation more than integration? If the questions remain the same, the context today is not that of the beginning or the middle of the twentieth century. Better, the context of 2009 is not that of the beginning of the decade!

Only three years ago, it was considered that by the end of the Plan for Social Cohesion, the needs would be concentrated on a few large urban zones, where housing is obviously expensive. Private players could then take the relay, with the help of the PLS and a new “PLUS fiscal” and the HLM organizations could refocus on their top priority mission, housing the poorest. The application of article 55 of the SRU law and the completion of the program for urban renewal would enable social mixing to be ensured at the level of neighborhoods or communities, if not at the level of buildings.

The examples of passing the baton from public to private are not in shortage. The United States have shown the example for a long time; in Europe, Germany has followed and elsewhere, calling on public-private partnerships is in vogue. As for refocusing on the most underprivileged, if this is frequently observed, it results as much from the tightening of budgetary constraints than from ideological choices.

During the last three years, three events of very unequal nature and reach have led us to reconsider the way in which we were tempted to respond to the questions (obviously linked) of knowing who should house the poor, where and how. These are the DALO law from March 2007, the Grenelle 1 law and the world financial crisis.

### **Who should house the poorest?**

Can we expect the market, meaning private investment, to provide housing for everyone? True, we dispose of a system for personal assistance which is now universal that strongly contributes to the solvability of households. If necessary, the market can also supply Landlords with insurance against the risks of bad debt and deterioration and, for the tenants not covered by ordinary insurance, guarantees for rental risks should facilitate access to housing.

Despite all that, the trilogy profitability/risk/liquidity places housing rather low in the hierarchy of investments outside of a few exceptional periods. The recourse to fiscal incentives is therefore necessary. For public officials, they present an undeniable advantage as compared to construction assistance: they do not constitute budgetary expenditures but rather a simple loss of earnings, which in fact is compensated elsewhere by other fiscal gains, in VAT specifically.

It is however not possible to count on physical persons to provide housing in a sufficient number for households with low or irregular income, immigrants, very large families, in other words, generally speaking, people who belong to a social group significantly different from theirs. The measures which have been carried out successively or superimposed have in fact had even more

success when they included fewer constraints and they have never targeted low-income tenants. As for institutional investors, it was ages ago, if it dare be said, that they frankly opted for disinvestment.

It can be objected that the social landlords themselves, if they manage as we have seen to house a large proportion of poor households, succeed less in housing to the very poor. Without minimizing the role of charity organizations, it is unfortunately obvious that due to the size of the underprivileged groups, they are far from being able to provide housing for everyone that the private sector is hardly likely to offer decent housing to at moderate costs.

First of all, the crisis has shown the limits of policies of home ownership for all. Our credit establishments don't have the spirit of adventure of their Anglo-Saxon counterparts. As for inventive mechanisms such as rental-ownership or a house for 15 Euros, they cannot hope to target a large audience, if only due to the large amounts of assistance that they mobilize. It therefore remains imperative to maintain a rental housing offering at affordable prices on most markets.

The crisis has also confirmed the volatility of the supply of financing by the market in an explosive way. Those who refused to generalize the financing of social housing along the lines of the funds collected for the livret A savings plan were truly inspired; otherwise social housing would have been in a sore situation to support the building sector at the height of the storm. Since HLM organizations have been able to purchase housing units from private promoters, their counter-cycle role has taken on a new dimension, the complementarities between public and private promotion as well.

### **In What Type of Housing?**

It is of course less the existence of social landlords than the reach of their role that is under debate today. As soon as the private sector provides housing, with a hit and a miss, to the majority of middle-income households, the temptation is strong to reduce the field of action of social landlords. This temptation seems to be expressed in the conditions of implementation of the opposable right to housing which make social rental housing the main response, or even exclusive, available to commissions of mediation. The lowering of the resources caps and the provisions of the MLLE Law seeking to re-enforce the mobility of tenants above the caps or under-occupying housing units are linked to the same process. By even admitting that the economic efficiency of the private sector is superior, which remains to be proven, except by confusing it with the strict budgetary costs, that would not constitute a sufficient motive to limit social landlords to the housing of the poorest.

There is in fact a higher goal, that of social mixing, whose value today can be appreciated in view of the future of certain neighborhoods. However, they did not house only the poorest at the beginning, far from it; but their uniform character (often social rental housing, private co-ownership sometimes) no doubt predisposed them more than others to be transformed into ghettos.

Social mixing is therefore not only an affair of income or ethnic origin, it is also a question of the type of housing and the status of the occupant: it is desirable that housing units for social and



intermediary rental, and rental units at market prices as well as others for home ownership be available in the same geography, in order to ensure that the residential trajectories don't lead to uprooting.

This social mixing in a broad sense is the object of consensus. It doesn't necessarily imply that it should be the social landlords who welcome tenants with levels of income above the resources caps or propose housing units for sale. If they claim the right to do so, it is in the name of the continuity of their offering and services to inhabitants, whereas legislation regulates their home-ownership activity rather severely.

The DALO law constitutes a tremendous challenge in this regard: how in fact to implement the opposable right to housing in a spirit of social mixing? The risk is great to concentrate its beneficiaries in zones where underprivileged populations are already numerous. It would therefore be necessary to act in such a way so that the private sector can take its part in the implementation of the opposable right to housing; but how? The question is being asked with particular sharpness in the zones under the most pressure.

### **And in What City?**

Urban renewal begins first with a reintroduction of diversity in social housing neighborhoods: diversity of income levels, status, but also in terms of activities. It therefore supposes that certain social housing units should be built or rebuilt elsewhere, and particularly in more central neighborhoods, because the requirement of location, especially the proximity to the place of work has been formulated with insistence by requesting parties. That poses problems of two orders, that of the spread of social housing units between different communities on the scale of a metropolitan area and that of their cost.

Article 55 of the SRU law has reinforced the obligation, for the communities in large metropolitan areas, to dispose of at least 20% of social rental housing units. It seeks to organize the solidarity between communities of a same metropolitan area by a better balanced spread of social housing. The mixing of housing would be improved by this, without it being a cure all; in fact, within each community, imbalances between neighborhoods will still persist.

This measure is beginning to bear fruit and making up the deficit has started in a large number of communities concerned to such an extent that, despite the criticisms regarding its uniform character for the entire territory and the failure to take into account social home ownership, it has resisted to several changes in political majority, the proof that it is the object at present of a rather wide consensus.

The creation of the ANRU, the number and the overall character of the projects that it has allowed to launch have undeniably accelerated urban renewal and opened the perspective of a satisfactory re-leveling of social housing in the neighborhoods concerned. However, up to now, a too-centralized piloting of the process has been underscored paradoxically, as it involves projects led by local officials and whose success requires the consultation and a certain amount of support by the inhabitants. In addition, the execution of the urban renewal program relies too exclusively on the financial support of the 1% Housing funds to not raise concerns relative to the durability of these aspects in the mid-term.

The production of social housing units has doubled in the last few years thanks to the plan for Social Cohesion, recently prolonged by a two-year recovery plan. This success is based on the combination of State assistance and, in an increasing way, on the mobilization of assistance from local governments and the equity capital of landlord organizations. The financial balance of new social housing programs still remains difficult despite the decrease in interest rates and the real-estate market crisis that has brought about a fall in the costs of construction and allowed the general contractors for social construction to benefit from land purchase opportunities: demand that is concentrated in high-pressure zones, a requirement for good locations, re-enforced energy efficiency, smaller sized buildings, everything is converging to push costs upward.

The HLM movement didn't wait for the Grenelle 1 law to mobilize itself in order to improve the energy efficiency of its assets. To the lowest performing 800,000 housing units there could soon be added some 1.5 million housing units that consume slightly less energy, meaning more than half the housing capacities in all. There is no lack of tools: specific loans by the CDC, mobilization of the FEDER, sustainable development engagements by local governments, loans at much reduced rates for the building sector. But the financial balance will be more difficult to reach than at the time of the PALULOS, when significant increases in rent levels were possible and could be absorbed by the households with the lowest income through assistance to the person.

Under these conditions, the financial model for the development of social rental housing capacities does not stand out very clearly: the decrease in direct assistance by the State, the difficulties of local governments to maintain their own at the same level and the arbitration on the employment of equity capital of operators between the improvement of existing capacities, urban renewal and the funding of new operations are the principal factors of uncertainty... in a post-crisis world itself full of unknowns: new increases in the cost of raw materials and rising interest rates are inevitable, but in what proportions and when?