

VIEWPOINT AFFORDABLE HOUSING

# Affordable Housing: Emerging Asset Class, Global Investment Possibilities

CBRE



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The need for state-funded affordable housing has been accepted by Western societies since the early 20th century. The U.K. launched a major public housing initiative in 1919 to reduce the slum dwelling that emerged during Britain’s industrialization. The U.S. launched its own affordable housing program in the 1930s, in the wake of the great depression. Since those times, some state provision of housing at below market rents has been a feature of most market-driven OECD economies.

Access to decent housing for people with low or moderate incomes is an issue that rarely goes away. Most recently, attention has focussed on the millennial generation, which faces a combination of high levels of student debt, high house prices and uncertain employment prospects. High house prices are also an issue for other groups in the OECD whose incomes have been held back by the impact of globalization. Mortgage availability has been reduced as a consequence of the regulatory policies introduced in the wake of the great financial crisis. House prices have risen in the owner occupied sector as a result of quantitative easing and low interest rates. Housing affordability is an important part of the reaction against globalization now playing out in Europe and North America.

The provision of social or affordable housing is very costly, and it is difficult for governments, many of which already have very high debt to GDP ratios, to meet society’s needs as fully as would be desired. CBRE Research suggests that there could be up to \$1.7 trillion of capital looking for a home in global real estate, but that ‘scarcity of product’ is a substantial barrier to deployment of these funds.<sup>1</sup> Affordable housing is an ‘alternative’ asset class within real estate that is beginning to present some interesting opportunities, particularly in North America.

The purpose of this ViewPoint is to stimulate interest in the affordable housing sector by providing a review, country by country, of the ways in which private capital currently enters the market. We cover Europe and the Americas, and will deal with Asia Pacific at a later date when this market is more developed in that region. We focus on those countries where we have found an emerging or well-established route for private capital into the affordable housing sector.

1. CBRE (2017) ‘Investor Intentions Survey’

The ViewPoint is structured as follows:

- Americas
  - U.S.
  - Canada
  - Mexico
  - Market size summary

- Europe
  - France
  - Germany
  - Netherlands
  - U.K.
  - Scotland
  - Market size summary

- Conclusions

**AMERICAS****U.S.**

In the U.S. there are approximately 5.1 million affordable housing units provided through an array of federal, state and local programs. Approximately half of those units, or more than 2.3 million, are the product of the Low Income Housing Tax Credit (LIHTC) program. In the U.S., private sector participation is available through investment, financing or subsidized provision of housing at lower rents. Annually, the federal government allocates approximately \$46 billion for affordable housing programs. The two most successful of the federal programs, which account for roughly 80% of the existing inventory, are the LIHTC and the Section 8 Housing Choice Voucher programs.

**LIHTC Program**

By far the most successful federal affordable housing program, the LIHTC, is the federal government's primary program for encouraging the investment of private equity in the development of affordable rental housing for low-income households. The program finances the construction, rehabilitation and preservation of affordable housing by providing a tax credit—a dollar-for-dollar reduction in federal taxes owed on other income—to private investors that purchase the credits. It is estimated that over \$100 billion in private equity capital has been generated from the sale of tax credits since the inception of the program in 1986. The tax credit is calculated as a percentage of costs incurred in developing the affordable housing property, and is claimed annually over a

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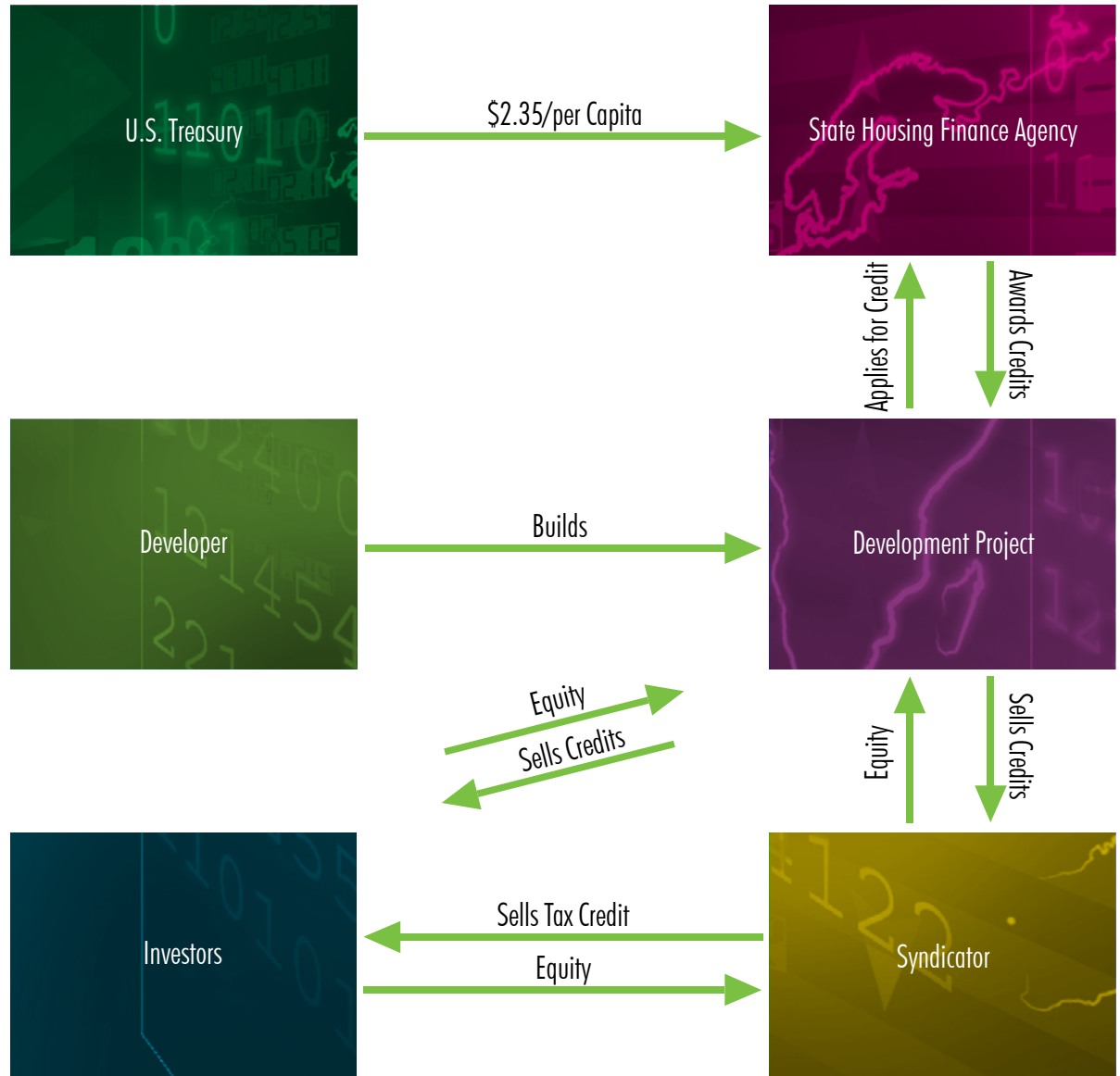
10-year period. To avoid recapture of any of the credits, the property must comply with the federal LIHTC requirements for at least 15 years (the “compliance period”). The tax credits are allocated to the states on a \$2.35 per capita basis with a small state minimum of \$2.69 million for 2016. Allocating states tax credits typically requires an additional 15 years of compliance with affordability restrictions beyond the initial 15-year federal compliance period, and some states may require much more. The tax credits are

administered by each state housing agency in accord with its need. The cash generated through the purchase of the tax credits by the private sector provides the equity needed to acquire additional funding and/or financing to build new affordable housing or make substantial repairs to existing affordable housing. The tax credit sales reduce the amount of money a developer has to borrow to complete a project.

The typical structure of a tax credit transaction starts with a developer that is awarded tax credits selling those credits to private sector investors. This is in exchange for an interest in the property ownership entity, most often, a limited partnership or limited liability company. The developer retains a very small general partner ownership, normally less than 5%, while the tax credit investors receive the remaining ownership interests as limited partners. Thus, in addition to the tax credits, the investors receive the typical returns on their investments based on the ownership interest they acquire as limited partners. Tax credits are purchased by individuals, corporations, banks, private equity groups, syndicators of credits and investment funds. It is estimated that historically \$6 to \$8 billion per year has been invested in tax credits by the private sector. However, in recent years, the pool of tax credit investors has grown dramatically as investors have discovered the stability and returns of affordable housing investments financed with tax credits. As a result, slightly more than \$13 billion was invested in tax credits in 2015.

Figure 1 provides a useful visual aid for understanding the flow of tax credits from their origin in the IRS to their ultimate destinations with private investors.

**Figure 1: Flow of Tax Credits Around the U.S. Economy**



Source: CBRE Research (2017)

Another major LIHTC investment vehicle is the secondary LIHTC sales market. As LIHTC properties approach the initial 15-year compliance period, many ownership groups look to sell or resyndicate the properties. The LIHTC rules (codified by the IRS under Section 42 of the code) allow buyers and syndicators to acquire new tax credits so long as certain requirements are met, such as using the tax credit equity for capital improvements. CBRE Affordable Housing has transacted over \$10 billion in sales volume in the LIHTC secondary sales market. In 2016, we sold more than 22,000 LIHTC units for a sales volume of more than \$1.5 billion. A recent report from Fannie Mae on 2014 affordable housing sales data shows more than \$5.4 billion in sales of affordable apartment properties valued at \$2.5 million or more, with slightly more than half of that volume involving properties with active LIHTC subsidies.<sup>2</sup>

*In existence for 30 years, the LIHTC program has proven to be the most important resource for creating affordable private sector housing in the U.S.*

2016 was a strong year in the tax credit market. By mid-year, average pricing for tax credits hit \$1.03 per \$1.00 of tax credit. Markets such as San Francisco and New York commanded up to \$1.20 per \$1.00 of tax credit. But the presidential election in November 2016 has caused investors to slow down investment activity due to the uncertainty of President Trump's tax reform proposals. Of primary concern is the proposed corporate tax rate reduction from the current 35% rate. Lower corporate tax rates would likely decrease demand for tax credits, driving tax credit pricing lower and decreasing the amount of tax credit equity that can be generated. But there is reason to be optimistic as well. The LIHTC program has enjoyed strong support since its inception with bipartisan pending bills that would expand and strengthen the program. So far, nothing proposed by President Trump, or included in the blueprint for tax reform released last June by the House Republicans, reduces or limits the LIHTC program in any way. The recent uncertainty has, for the moment, decreased tax credit pricing in the market and reduced the number of new tax credit projects being financed.

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2. Fannie Mae (2014) '2014 Annual Housing Activities Report'

In existence for 30 years, the LIHTC program has proven to be the most important resource for creating affordable private sector housing in the U.S. In that time, approximately 2.8 million affordable housing units were built with tax credits. The program has developed into a valuable investment vehicle for the private sector, as well as the most productive housing program in the country.

### **Section 8 Housing Choice Voucher Program**

The Housing Choice Voucher program (HCV) provides rent subsidies to properties that accept the vouchers. Applicants that meet the qualification requirements set by the local housing agencies receive rental vouchers that can be used at any rental unit in the private sector that accepts HCV vouchers. Voucher holders are typically required to put 30% of their adjusted household income toward their monthly rental amount. If a rental property owner voluntarily agrees to accept vouchers and the approved rental amount, called the Fair Market Rent (FMR) set annually by the U.S. Housing and Urban Development agency (HUD) for that metro area, the owner will receive the balance of the rent payment that exceeds 30% of the tenant's household income from the local housing agency. In addition to agreeing to accept the FMR rental amounts, a property participating in the HCV program must meet HUD's Housing Quality Standards (HQS) to ensure that voucher holders have a healthy and safe place to live. Funds for the vouchers come from the federal government and may be supplemented by state funding.

*Example:* The 2016 FMR for a two-bedroom apartment in the San Diego-Carlsbad-San Marcos MSA was \$1,499. Even though rents topped \$2,000 per month in many different areas of San Diego, a rental property that accepted HCV vouchers in that metro area could not charge more than \$1,499 per month for a two-bedroom apartment. If the voucher holder's adjusted monthly household income was \$2,500, he would pay \$750 for rent ( $\$2,500 \times 30\%$ ). The local housing agency would then pay the remaining \$749 to the landlord ( $\$1,499 - \$750$ ).



**CANADA**

Affordable housing in Canada is administered by the Canada Mortgage and Housing Corporation (CMHC), an agency of the Canadian federal government. According to CMHC, 584,700 Canadian households were receiving some form of assistance under the various programs available in 2013. The affordable housing programs in Canada are very decentralized due to the partnership structure that exists between CMHC and each province/territory. Under that structure, annual allocations of funds from CMHC to each province/territory are matched by the receiving province/territory, giving them the ability to design and deliver affordable housing programs that address their local housing needs and priorities. As a result, approximately 80% of the existing affordable housing portfolio is directly administered by the provinces and territories.

Private investment opportunities in Canada were virtually nonexistent until 2013, when Manitoba Province passed a tax credit for the construction of new affordable rental housing as part of its overall budget. Named the Rental Housing Construction Tax Credit (RHCTC), this first-of-its-kind tax credit in Canada provides a credit of up to 8% of the capital cost of new rental housing construction in Manitoba if the project is five or more residential units and at least 10% of the units are affordable. The tax credit is earned on a project when it becomes available for rent and the affordable housing criteria are met. Eligible not-for-profit projects will receive a fully refundable tax credit in the year in which the tax credit is earned, as qualifying units are rented. The tax credit on for-profit projects will be non-refundable, claimable over a minimum of five years, and capped annually by the amount of Manitoba income tax payable by the owner(s). The maximum credit was set at \$12,000 per eligible rental unit.

According to the Acting Assistant Deputy Minister of the Community Development and Strategic Initiatives Division of Manitoba Housing and Community Development, by January 2016 Manitoba Housing had received 18 applications to the RHCTC, of which four had received tax certificates. These four developments have 118 units in total and 70 affordable units. The other fourteen applications have received letters of eligibility based on their preliminary applications and are in various stages of development. They are expected to have 419 units in total and 222 affordable units. When completed, 54% of the total units in the projects will be affordable, much higher than the program requirement of 10%.

The RHCTC program has been well-received by both nonprofit and for-profit housing providers as an attractive way to increase investment in the affordable rental sector. The program is still in its infancy, yet if it succeeds in increasing the supply of affordable rental housing in a meaningful way, it may encourage the other provinces and territories to create similar incentive programs for private investment.

**MEXICO**

Affordable housing in Mexico is mandated by its 1917 Constitution. To fulfil that mandate, Mexico pursued a policy of various types of financial assistance for the construction and ownership of single-family homes. Funded by the government and employer contributions, the autonomous INFONAVIT agency has provided more than five million mortgages to lower-income workers in Mexico since 1972. However, there is no structure for rental housing financing in INFONAVIT and no access available to private investors.

Recently, Mexico recognized the need for more affordable housing and created a new program named ARRENDAVIT for the development of affordable rental properties. As of this writing, the program had only constructed 100 rental apartments and there is no opportunity for private investors to participate.

**Figure 2: Affordable Housing Stock in North America**

Country	Units of Affordable Housing (Thousands)	Private Investment Opportunity?
Canada	585	Limited
Mexico	0	No
U.S.	5,027	Yes

Source: CBRE Research (2017)

## EUROPE

Europe has a long tradition of social housing provision and, perhaps surprisingly, quite a bit of experience of private sector involvement, with a number of new routes for capital opening up. Perhaps less surprisingly, there is quite a bit of difference between countries in the structures and mechanisms by which social housing is procured and provided.

## FRANCE

According to the OECD, 18.7% of the French housing stock is affordable,<sup>3</sup> but until 2014, opportunity for large-scale investment was fairly limited. However, since the Finance Act of 2014 altered the balance of incentives and taxation on development of social housing to encourage flows of private sector capital into this sector, investors have been much more active. Incentives have included a reduced rate of VAT to 10%, as well as exemption from property tax for 20 years in return for a commitment to rent these units at 20% lower than market value for 15 years.

In response to these fiscal changes, the 'Fonds de logement intermédiaire' (FLI) was launched in 2014, run by the Société Nationale Immobilière' (SNI), a subsidiary of the 'Caisse des Dépôts et Consignations, but raising capital from the private sector (around €1 billion in total) with the aim of developing affordable housing. Investors in the FLI (now closed to investors) have included the French public sector fund ERAFP, Fonds de réserve pour les retraites (FRR, a French pension fund), CNP Assurances, BNP Paribas Cardiff, Aviva France, EDF Invest, the French insurance company Société Mutuelle Assurances Bâtiment et Travaux Publics (SMABTP) and Malakof Mederic. Their incentive for placing their capital in this fund has been a promise of returns at a minimum of 3.5% above inflation for the first year. The fund also provides regular rental flows and low vacancy, ensured by renting at a below-market price point.

### Case study – PERL

The business model of PERL is to buy land that is well-located, or existing high-quality buildings. Ownership is then divided between the bare ownership and usufruct, of which investors can buy the bare ownership for a 35%-40% of the cost of full ownership. Investors finance between 40% and 60% of the development costs but during the usufruct period do not take part in the maintenance or management aspects of the project. These are run by the housing association, which also receives the rental income during this period. After between 15 and 20 years, investors will recover the full property and consequently the right to use, rent or sell. The property that was bought 35%-40% cheaper than the market price at inception will have accrued in capital value to the full

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3. OECD (2016) *Affordable Housing Database*. Figure for France is for 2015, the latest available on the database.

market price. In addition, loan interest payments can be deducted from existing or future property-derived income, thus making savings on income tax and social contributions.

The model has delivered more than 5,300 affordable homes in France since its formation in 2006. Annual returns to investors have been between 5% and 8%, generated by the accrued capital value, the initial discount and tax benefits, attracting over €1 billion in investment. Whilst the success of this scheme is apparent, it is yet to be seen whether it will be replicated in other similar funds.

## GERMANY

Private sector provision of social housing has long been the norm in Germany, where housing remains in the social sector for only a limited period unless it is owned by the municipality. Since 2006, provision of social housing has been entirely a competence of the Lander (provinces), which have implemented different programs and funding schemes.

Affordable rents are maintained by state subsidy, covering the gap between market rents and affordable rents. Public subsidies decrease progressively and at the same time the rent increases. At the end of the amortization period (typically 20-40 years for dwellings newly built with public subsidies, and 12-20 years for renovated dwellings), the property can be let or sold at market rates.

Whilst the stock of affordable housing is around 1,539,742 units,<sup>4</sup> the proportion which is investable largely depends on whether municipal authorities decide to sell their stock, and whether stock is coming onto the market having reached the end of its amortization period. Following construction booms in the 1970's and 1990's, there has been corresponding period where very little development has occurred, resulting in a 62% decrease in stock between 1987 and 2013.<sup>5</sup> Municipal authorities have, in recent years, recommenced building. One example is in the city of Hesse, where the Council of Europe Development Bank has provided a €203 million loan to support the development of affordable housing.<sup>6</sup> Elsewhere, private developers have played a role in developing affordable housing due to regulatory requirements in certain municipalities. For instance, in 2015 in Berlin, 23,600 affordable housing units were developed as a result of the planning guidance issued in 2014 stating that 25% of a scheme over 25 units should be available at below-market prices.<sup>7</sup>

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4. OECD (2016) *Affordable Housing Database*. Figure for Germany is for 2013, the latest available on the database.

5. Bauministerium (2015) 'Wohngeld- und Mietenbericht 2014', Federal Ministry for the Environment, Nature, Conservation, Building and Nuclear Safety

6. CEB (2016) '*Germany: Investing in Affordable Housing*'

7. IPPR (2016) '*German Model Homes?*'

The level of transactions in the market is highly variable. In 2015, only one transaction occurred with the sale of the City of Goepingen municipal housing company to a small private investor, and one in 2016 when private equity real estate fund management firm Benson Elliott bought a 74.9% equity stake in GWB Elstertal Geraer Wohnungsbaugesellschaft from its parent company Stadwerke Gera for an estimated €200 million. However, during the mid-2000's, a number of very large transactions occurred, with the cities of Kiel and Dresden selling their entire stock to private equity investors (see Appendix for transactions).

It is unlikely that significant growth in transaction volumes will be seen unless municipal authorities decide to dispose of large portfolios of social housing, as was the case in the 2000s.

### **Case study – Dresden Housing Association**

In 2004, the city of Dresden sold off its entire social housing portfolio to the New York-based private equity firm Fortress, a total of 48,000 apartments. In order to retain the social benefits of the housing, Fortress must hold on to 34,000 of the apartments for 10 years before it sells them, and when it does, it must offer existing tenants a 15% reduction from the market price. Finally, it cannot renovate the apartment complexes into luxury condominiums.

For Fortress, the deal promised good-value housing with long-term prospects of price appreciation. The possibility of increasing occupancy rates was another way to potentially raise value without pursuing aggressive rent rises (an option which is limited in the terms of the contract).

### **NETHERLANDS**

The stock of affordable housing in the Netherlands is the largest in Europe, with 2,481,000 units, accounting for around 75% of the rented stock. The key providers are registered private social housing organizations (Woning corporaties), which act on a commercial basis but are obliged to use their profits to meet general housing need. They are able to buy council land at reduced prices for the purposes of building social housing, can have their loans guaranteed, and are granted exemption from corporation tax.

Because housing organizations operate on a private basis, in theory, all the stock is investable. However, it is not likely that transfer of these units will take place in the same scale as in 2014, when two large housing associations in financial difficulty sold a substantial number of affordable housing units to private investors. In addition, transactions of affordable housing stock are regulated to the extent that dispositions of large portfolios are subject to ministerial approval.

Over the past three years, the top two investor categories have been investment funds and private equity, providing 75% of total investment since 2014 (see Table 2). One example includes Bouwinvest, through the Bouwinvest Dutch Institutional Residential Fund. The anchor investor in this fund is the Dutch Construction Workers Pension Fund. For Bouwinvest, the target is to provide a long-term average annual total return of 6% on Dutch residential investments. The strategy is risk-averse, aiming to create a safe opportunity. Another example is the German real estate investor Patrizia, which has been acquiring a substantial quantity of affordable housing in the Netherlands, having bought 5,500 units in 2014 from Vestia (FT, 2014). Their strategy for this investment was to acquire a large volume of stock at a good price, hold for seven years, and then sell at a higher price, having realised some rental increase and reduced vacancy rate.

**Figure 3: Investment in Dutch Social Housing Since 2014**

Investor Category	Total Investment since 2014	Percentage of Total
Investment Fund	€ 717,990,000	46%
Private Equity	€ 455,970,000	29%
Pension Fund	€ 71,468,500	5%
Private Property Company	€ 58,956,000	4%
Private Investor	€ 57,082,555	4%
Limited Partnership	€ 53,000,000	3%
Institutional Fund	€ 45,850,000	3%
Other	€ 30,495,000	2%
Unlisted Property Company	€ 29,759,000	2%
Housing Corporation	€ 18,200,000	1%
Insurance Company	€ 12,650,000	1%
Developer	€ 12,500,000	1%
Special fund	€ 5,650,000	0%
<b>Grand Total</b>	<b>€ 1,569,571,055</b>	

Source: CBRE Research (2016)

The future for investment in affordable housing in the Netherlands looks promising. Incentivised by attractively priced residential portfolios, an expected relaxation of the legislation for commercial investors to invest in social housing and the established reputation of the Dutch residential market as a secure investment location, demand for this sector has been strong since international players entered the field. Gaining further understanding of the portfolios and regulation, they have also been able to spot opportunities to maximize the occupancy and enhance future value of the properties to a greater extent. In addition, there is also ability to push rents out since the Dutch government decided that rental levels for social houses occupied by people with a “high” income can increase by more than CPI for a limited period of time. Indeed, on average, some 18% of the social housing stock in the country is occupied by households with a mid-to-high income (above €34,911 annually per household at present), so there is significant scope to optimize rents in the future.<sup>8</sup>

### U.K.

In the U.K., there are around 4,954,000 social housing units, principally provided by a network of 1,775 housing associations. These housing associations vary greatly in size, with the smallest HA controlling less than ten homes, and the largest around 140,000.

Private sector involvement can be through financing, provision of housing at a lowered rent as part of a larger scheme, or through partnering with a housing association to develop a scheme. Lending only became possible in the 1980s as the U.K. government sought to reduce the absolute reliance on public sector financing to sustain development of social housing schemes.

By Q2 2016, total private finance facilities for Housing Associations in England had reached £78.5 billion, of which £64.7 billion had been drawn down according to the HCA Quarterly Survey of Private Registered Providers. The key private lenders have included Lloyds Banking Group, Barclays, Nationwide, Santander, Royal Bank of Scotland, Newcastle Building Society, and Yorkshire Building Society.<sup>9</sup>

In addition, Housing Associations have raised financing through bond issuance, especially since the last financial crisis. For lenders to the sector, Housing Associations represent a low-risk opportunity with strong credit ratings because of their subjection to strong governmental regulation to safeguard effective governance and financial viability. Overall, current capital markets finance and private placement facilities to the sector are now worth in excess of £19 billion.

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8. Dutch Government (2016) '*Aantal scheefwoners verder gedaald.*'

9. Heywood (2016) '*Investing in Affordable Housing.*'

### Case Study – The New Communities Partnership

A unique partnership between Kier Living, The Cheyne Social Property Impact Fund (managed by U.K.-based investment manager Cheyne Capital, a leading alternative sector investment fund) and The Housing Growth Partnership (a joint venture between the HCA and Lloyds Banking Group) launched in May 2016. The aim of this partnership is to deploy the available £1 billion of capital in developing 10,000 homes in the U.K., with the potential for 50% being ‘affordable.’ Whilst the public sector will choose the appropriate mix of tenure, the rental homes will be owned by Cheyne Social Property Impact Fund, managed by Cheyne Capital, and leased to the council for a period of usually 20 years. Councils will then pay an index-linked rent to the fund for the duration of the lease. Due to the high demand for low-cost rented housing, the likelihood of missed rental payments is low, delivering long-term stable returns. The partnership also meets investor demand for ‘responsible’ investing that not only delivers reliable returns but makes a positive social impact.

### SCOTLAND

Demand for affordable housing is increasing at a time when the number of homes built in 2013 was at its lowest level since 1947. The reasons for this can be broken into three broad categories:

- **Issues with financing development**
  - a. As the value of land is driven by demand for owner-occupation housing, the land purchase price is too high
  - b. Lack of available development finance
- **Investor attitudes**
  - a. Investors unwilling to take planning or development risk
  - b. Affordable residential property seen as illiquid
  - c. Lack of robust market information
- **Yield**
  - a. Affordable rented housing is seen to produce inadequate yields



To overcome some of these issues, a number of new approaches to investment and financing housing in Scotland are being tried more extensively to allow private investors to channel funding into affordable housing in a way that both produces a desirable social outcome and meets investor needs for return.

**Leasing models** – In these models, investors develop housing for social, affordable and/or private rent, which is leased to local authorities or housing associations to operate for a specified period. Institutions provide equity funding for development and receive income from lease payments.

**Direct purchase models** – Housing is produced by the developer, which is sold as an income-producing asset to an investor. Most of the models produced to date on this basis incorporate a government guarantee of the income stream to address investors' need for certainty about revenue.

**Aggregated bond** – Housing associations jointly participate in bond issue, thus providing the size investors require, receiving long-term, relatively cheap funding secured on their existing assets. They can use the funds to finance new construction of social, affordable, or market rented housing. Institutions participate as bond purchasers.

**Models that harness borrowing capacity of local authorities** – Local authorities form joint ventures or LLPs with partners which lever in private sector investment alongside local authority borrowing. The Scottish Government mitigates the local authorities' financial risk via the mechanisms described in the Table 4 in the Appendix. All or some of the units are eventually sold, most probably into owner-occupation.

Figure 4: Affordable Housing Stock in Europe

Country	Date	Units of Affordable Housing <sup>10</sup> (Thousands)	Private Investment Opportunity?	Commentary <sup>11</sup>
Austria	2015	890*	Limited	No official definition of social housing. 60% owned by municipalities and public companies, but municipalities have withdrawn from new construction since 2009. The main sector is currently the Limited-Profit sector, which includes cooperatives and companies. A smaller part of subsidized housing is provided by for-profit providers.
Belgium	2015	292	Limited	A variety of providers are involved in the social housing sector: municipalities, public companies, foundations, co-operatives and not-for-profit organizations. The system varies considerably between the Flemish, Flanders, and Walloon regions.
Croatia	2015	40	Limited	
Czech Republic	2015	22*	Limited	There is no common definition of social housing because of the high level of governmental decentralization. Municipalities are the principle providers, but since 2009, private providers are also eligible to develop social housing using state subsidies. Housing is allocated according to municipal policy, but all is subject to regulation regarding rent rises.
Denmark	2013	615*	Limited	Social housing consists of housing for rent provided at cost prices by not-for-profit housing associations. They are legally regulated by the state, but owned and organized collectively by the association members.
Estonia	2015	11	Limited	Due to the high rate of privatization of social housing, the vast majority of the stock is owner-occupied. Although the legal framework allows for other types of providers of social housing, municipalities are currently the only providers.
Finland	2015	335*	Limited	Loans with interest subsidies from the Housing Finance and Development Centre of Finland (ARA) are used to develop social housing, and are rented at cost-based rents, to tenants selected on the basis of social and financial needs. About 60% of all ARA-subsidised rental dwellings are owned and managed by municipal authorities. Limited profit housing companies play a complementary role. Dwellings are released from regulation after between 10 and 45 years.
England	2015	4,954*	Yes	See report.
France	2015	5,398*	Yes	See report.
Germany	2013	1,539	Yes	See report.
Hungary	2015	132	Limited	Social housing funded and built by municipal government. No opportunity for private sector investment.

\*\* Scanlon, K., Fernández, A.M., and Whitehead, C.M. (2015), 'Social housing in Europe', *European Policy Analysis* (17). pp. 1-12.

\*OECD (2016) *Affordable Housing Database*

10. *Housing Europe (2015) 'The State of Housing in the EU', Housing Europe, the European Federation for Public, Cooperative and Social Housing, Brussels*

11. *Housing Europe (2016)*

Figure 4: Affordable Housing Stock in Europe (Continued)

Country	Date	Units of Affordable Housing <sup>10</sup> (Thousands)	Private Investment Opportunity?	Commentary <sup>11</sup>
Ireland	2011	144	Limited	The main providers of social housing are the local authorities. Approved not-for-profit, voluntary housing associations and co-operative housing societies own a small proportion (about 18%) of the social housing stock but are expanding their role.
Italy		1443	Yes	Since 2007, investment of private sector capital is allowed to construct social housing for rental, sometimes supported by government subsidies or concessions. However, there is a high degree of regional variation regarding policy and provision.
Lithuania		Not available	Limited	Municipalities are the sole providers of social housing, both in terms of funding and construction.
Luxembourg		2	Limited	
Malta		16	Limited	The government and Church are the main providers of social housing.
Netherlands	2015	2,481*	Yes	See report.
Poland	2015	1,163*	Limited	Providers of social housing are mixed, ranging from municipal authorities to co-operatives.
Portugal		118	Limited	Municipalities are the main providers of social housing in Portugal, but housing co-operatives, co-financed by the State, also provide housing at controlled costs. There are no private landlords involved in social housing provision.
Romania		125	Limited	Municipalities are the sole providers of social housing, both in terms of funding and construction.
Scotland		595	Yes	See Table 4 for models of provision.
Slovak Republic		127	Limited	Municipalities are the sole providers of social housing, both in terms of funding and construction.
Slovenia		39*	Limited	
Spain	2011	307**	Limited	Housing is a guaranteed right under the constitution, but is almost entirely dedicated to the owner-occupation market. Construction, renovation and buying are subsidized by the State through reduced interest loans to providers. In exchange for this, dwellings complying with a number of conditions concerning size and quality are allocated at prices below market to people with revenues below certain income ceilings.
Sweden	2015	795	Limited	'Social housing' doesn't exist as a concept but as rental dwellings, owned by municipal housing companies that are organized as joint-stock companies. In most cases, the local authorities hold all the shares. The tight state regulation of the sector means that there is no possibility for investors to get involved.

\*\* Scanlon, K., Fernández, A.M., and Whitehead, C.M. (2015), 'Social housing in Europe', *European Policy Analysis* (17). pp. 1-12.

\*OECD (2016) *Affordable Housing Database*

10. *Housing Europe (2015) 'The State of Housing in the EU', Housing Europe, the European Federation for Public, Cooperative and Social Housing, Brussels*

11. *Housing Europe (2016)*

**CONCLUSIONS**

It is perfectly possible for the state to procure and provide affordable housing that is developed and subsequently financed with private capital. The incentives for private capital can come from tax credits or state subsidy, linked to long-term guarantees, or requirements that the stock be let at below-market rates. No two approaches are exactly the same, since they reflect the existing tax structure and local custom and practice. This is not a hindrance to private sector capital, although it is probably true that those involved in this market have to develop a particular specialism and, at heart, have to be in sympathy with the social objectives of the various programs.

One thing is very clear, the reversion of the affordable stock to full market rent at the end of a period, or indeed, its sale to private owners, is a powerful incentive for ultra-long-term investors. With the emergence of the global savings glut in recent years, there are many more potential long-term investors than there used to be. Governments in the OECD, faced with the need to provide increased levels of social housing against a backdrop of constrained public finances, could easily work with this long-term capital to meet a social need and open up new investment possibilities. We hope that the material in this ViewPoint will stimulate some creative thinking in this area.

APPENDIX

Figure 5: New models for housing financing in Scotland

Model	Name of Institution	Who Provides Funding?	Who Owns Housing?	Who Operates Housing?	Will it Finance New Build Rental Housing?	Issues
Leasing	Bellerophon	Annuity fund	Joint public/private limited liability partnership owns housing	Local housing associations, with option to buy out private sector	Yes, it will fund more social housing	
Leasing	M&G	Investment fund	Investor	Housing associations	Yes, affordable and private rented	Investment only takes place after planning permission secured
Direct purchase	Resolution Foundation	Institutions	Investors	Housing associations	Market and affordable	Model is a demonstration exercise to show financial viability
Direct purchase	Halcyon City Living	Institutions	Investors own,	Developer and partners operate		Scheme looking for possible government guarantee of income or shortfall
Aggregated bond	Carduus	Bond investors (city institutions)	Housing associations or their subsidiaries	Housing associations or their subsidiaries	Some - % of funding will go to refinancing existing debt, which in turn can facilitate new build	Proportion of funding will go to refinance existing obligations
LA harnessing	Rettie Resonance	PWLB via local authorities	Public-private SPV	Local authorities or housing associations operate	Yes - mid-market	Profit deferred until sale of units
LA harnessing	National Housing Trust – original model for councils and developers	Usually PWLB lending via local authorities on lending to LLP	SPVs comprising the developer	Scottish Futures Trust and local authorities		

Source: Scanlon, K., Whitehead, C., Williams, P. and Gibb, K. (2013) 'Building the Rented Sector in Scotland'

Figure 6: Large-Scale Municipal Housing Sell-Offs in Germany during the 2000s

Housing Association Purchased	Number of Residential Units	Purchaser	Type of Purchaser	Price in Billion Euros	Year
Viterra	138,000	Deutsche Annington	Private equity	7.00	2005
Gagfah	82,000	Fortress	Investment management	3.50	2004
GSW	66,000	Cerberus/Goldmann Sachs	Investment management	2.11	2004
Eisenbahner-Wohnungen	64,000	Terra Firma	Private equity	2.10	2001
ThyssenKrupp Wohnimmobilien	48,000	Morgan Stanley/Corpus Immobiliengruppe	Real estate fund and real estate holding company	2.10	2004
WCM	31,000	Blackstone	Real estate fund	1.39	2004
NILEG	28,500	Fortress	Investment management	1.50	2005
Viterra (Teilbestand)	27,000	KGAL/Mira	Asset management, investment fund	1.00	2004
Baubecon/BGAG	23,000	Cerberus	Investment management	n/a	2005
Gehag	18,000	Oaktree	Investment management	0.55	2004

Source: CBRE Research (2017)

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