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LAND FOR SOCIAL AND AFFORDABLE HOUSING IN ITALY

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Abstract

The problems involved with the availability, quantity, quality and price of social and affordable housing have been neglected for a long while in Italy, but are widely dealt with in current debate and planning tools. Three major questions are discussed: *i*) how to obtain the land on which to build SH, *ii*) what kind of action to promote and *iii*) which financing tools to use.

An analysis of best practices in a few medium to large cities illustrates some of the current planning innovations and their costs and benefits in the provision of land and buildings for social housing: *perequazione* (TDR and land readjustment), negotiations for planning gain, linkage polices and density bonus incentives, inclusionary zoning.

As a result of new rules, strong intervention in property rights addresses the production of mixed tenure projects by the private sector housing market itself. But a new national law is needed in order to strengthen requirements on commercial developers, such as planning fees and obligations to create mixed estates and enforce inclusionary zoning.

Keywords

social and affordable housing, land banking, expropriation system, TDR, land readjustment, negotiations, inclusionary zoning

LAND FOR SOCIAL AND AFFORDABLE HOUSING IN ITALY

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1. Land and Public Housing

The problems involved with the availability, quantity, quality and price of social and affordable housing have been neglected for a long while in Italy, but are widely dealt with in current debate and planning tools (Oliva, 2007). Three major questions are discussed: *i*) how to get the land where to build SH, *ii*) what kind of action to promote and *iii*) which financing tools to use.

Two different approaches emerged after the war to deal with the housing problem.

Initially central government financed housing policies directly from INA Casa and Gescal (an acronym that means ‘Workers’ Housing Management’ *Gestione Case Lavoratori*) funds, with the state taking a portion of workers’ salary and employers’ revenues to provide social housing. In fourteen years the so-called *INA Casa* plan produced 335,000 low-cost housing.

During the ‘economic miracle’ (in the 60’s and 70’s), the legislative framework changed profoundly and so too did the actors. In 1962 a new law allowed municipalities to buy land at lower than market prices for the construction of social and affordable housing through the PEEP plans (‘Plan for economic and popular housing’ *Piani di Edilizia Economica e Popolare*). The Plans have been largely applied up to the 70’s, then slowly abandoned, even though still legally in force. PEEP are decided by the local authority that acquires raw land via compulsory purchase (expropriation) at a largely lower price than the market (as assessed by law). The local authority transforms the land into serviced land, which means that is connected to road infrastructure, public water, energy supply and sewerage.

The locality can construct SH by itself, with the support of state or regional funds; it can sell the serviced land freehold, or make it available as leasehold or a long land lease for at least 99 years, but only to entitled SH providers – that is co-operative associations and the Institute for Social Housing, now called *Ater* (founded at the beginning of the century, and primarily operating in the construction of public housing).

Land prices have always been quite high and for that reason the Peeps are usually located on the outskirts of a city, hardly ever provided with an adequate public transport service, and in most cases with poor quality of materials, design and high density. SH is definitely separated from private housing and the Peeps are often considered *ghettos* from the urban and social point of view.

The law provided for three types of housing: *convenzionata* (under ‘convention’ agreements), *agevolata* (‘assisted’) and *sovvenzionata* (subsidised). The first concerns standard shaped houses to be sold at an agreed price that covers the sole costs. The second is aimed at first time buyers who enjoy smaller loans (the difference being paid by the Administration), and are exempt from paying the costs of urbanization. The third (subsidised) involves public social housing for rent which the national government pays for through the Regions and Municipalities. Tenants are selected from a list in which economic conditions, family size, and type of employment are priority items, and there are also some cases in which a five-year residence certificate in the area is required. Only *sovvenzionata* can really be considered as

genuine public Social housing, the other two are Affordable housing (mainly for sale with limitations).

It is of primary evidence that the main aim of traditional Italian housing policies is to reduce land costs and deliver affordable houses for home ownership to social groups who, though economically unable to acquire a free market residential unit, are able to repay long term mortgages because of their fixed incomes.

The 1978 ‘Ten year residential housing plan’ opened the last season of organic government funding for housing. It consisted of a set of measures to support the acquisition of land for social housing and to recover public housing accommodation, performed entirely by government, and private sector accommodation with ‘convention’ and ‘assisted’ intervention. This experience was over by the end of the 1990s, when the levy for the Gescal fund ceased and when the costs of expropriating land for social housing became too great for reduced municipal finances.

In fact public housing policies have practically come to a complete halt over the last twenty years, with exception made for the many and varied municipal experiments largely implemented with limited means. If we add to this decades of policies designed to promote home ownership and the liberalisation of rents, the picture that results is grave to say the least: a diffuse and singular need on the part of people obliged either to turn to a prohibitively expensive free market or to make do in some way.

2. Home ownership and Housing Demand

After a long silence of some years, housing demand has become a subject for discussion again, even if this renewed collective interest (on the part of public opinion, national and local politics and forces in society and in the economy) presents aspects which appear paradoxical. As is well known, Italy is one of the countries in Europe (Pozzo, 2008) with the highest levels of home ownership (around 80%). Total dwellings number more than 27 million, although those occupied number 22 million (almost the same number as that of the households). 73% of occupied housing is home ownership, while rented housing accounts for 18% (the remainder is “other title”), a total that amounts to a little more than 4 million housing units. These include less than one million social housing units, with appreciable variations in different parts of the country. The *agevolata* and *convenzionata* housing contributed greatly in increasing the ownership rate in Italy from a low of 51% in 1971 to a high of 73% in 2006. Both program units are supposed to be resold at the original price plus cost of living increases, but are usually sold at a higher price because the controls for resale have been loose for a long while and banks have provided mortgages for sums superior to the official price. This favouring of ownership has been extended in past years to the offering to the tenants of social housing the opportunity to buy their units at extremely low prices.

In addition to this, the country is just emerging from a long period of expansion in the property market and the construction sector (recently ended due to the changes in conditions on credit markets) in which the residential sector played a central role.

This only appears to be a paradox, however, because in reality the rigidity of the supply based entirely on home ownership is clearly inadequate to respond effectively to a complex and growing demand for what is estimated at around one million new housing units destined primarily to the rental market. It must be considered that approximately 25% of families currently in rented housing have incomes of less than 10,000 euro per year, and that, while low, the rent accounts for more than 33% of income. 40% of families in rented housing have

incomes of between 10,000 euro and 20,000 euro per year and rents account for 25% of income. Increases in rents over the last twenty years have been very large, with a national average of 50% rising to 85% in large towns and cities and to peaks of 105% in Naples and almost 200% in Milan and Rome. It is therefore quite clear that not only the poorest groups in conditions of extreme housing difficulty are suffering hardship, but also middle income groups in free market rented housing in the major urban areas. In this context some groups such as young married couples, single income families and students have started to encounter difficulties in gaining access to their first home. They are people who because of their income or for other reasons are not eligible for public social housing, but who cannot afford to purchase a home and are suffering from the substantial increases in rents. Furthermore the rental market in many cities is distorted and filled by temporary demand, such as that from universities.

It is no longer possible to address the different needs, their geographical and social diversity by using a single lever, the traditional lever of public (social) housing. Action must be taken by using a variety of policies in the community, focused in particular on the objective of increasing and diversifying the supply of rented housing.

3. Social and Affordable Housing in current policies

Since the 1990s planning experiences have been characterised by extensive co-operation between the public and private sectors, which has translated in practice into planning instruments belonging to the family of “complex programmes” designed to recover and redevelop large urban areas. The opportunity for this type of intervention was provided by the abandonment of industrial areas and the move of abandoned urban services (barracks, railway junctions, markets, slaughter houses) away from city centres. This has provided a large supply of land available for redevelopment with projects proposed and managed mainly by the owners of the land. National and regional urban policies adopted an integrated approach which builds relationships with the private sector by using “negotiated programming” instruments supported by community and national funds. Although the public objectives of the programmes do not include a significant increase in the supply of public housing (except for the ‘*Contratti di Quartiere*’ ‘Neighbourhood pact projects’), the approach to social housing has nevertheless changed profoundly on the basis of these practices in recent years.

This change has concerned two aspects: the nature and definition of social housing, which has broadened considerably, and the prominent role of urban development and redevelopment in making land available for the construction of social housing.

As concerns the first aspect there has been an accelerated renewal of national housing policies in recent years, which has resulted in some inconsistencies due to the change of government. The renewal originated with a new definition of social housing:

‘a property unit for residential use, permanently rented, which performs a function in the general interest, in safeguarding social cohesion, to reduce the housing hardship of disadvantaged individuals and family units that are unable to obtain rented housing on the free market.’ (ministerial decree of 22nd April 2008)

Attention is focused above all on the rental sector and on greater diversification than in the past of rented housing for people excluded from the free market. At least four types of rent can be identified: *social* (for the income bracket below 14,000 euro per year); *moderate* (for incomes up to 23,000 euro per year); *agreed*, on the basis of a locally set standard costs;

convention, based on agreements between private sector landlords and individual local authorities. The latter rent is only a little less than that found on the free market because only the first of the two components – cost of construction and cost of the land – is set, while, as is known, the cost of land can account for a substantial proportion of the final value. Difficulties on property markets in recent months have persuaded many private sector developers to choose to construct housing for sale under “convention” agreements (where the price is set on the basis of a similar procedure), because, although the profit is lower than with a free market sale, this type of housing ensures a higher number of potential purchasers (co-operatives) and the convention agreements with municipalities benefit from local fees exemptions.

Finally, the legislation explicitly allows the possibility of using public sector (municipalities and *Ater*), private sector or third sector (enterprises, co-operatives, foundations) entities to construct housing. It is precisely in this respect that the main political differences have emerged one year later.

An initial law (2007, Prodi government) allowed the investment of private sector capital to construct social housing for rental, with the possibility of government contributions or concessions (e.g. tax exemptions, allocation of land or properties, planning concessions) provided that the tenancies were granted at a “sustainable rent” for a term of not less than 25 years.

According to the new national housing plan (2008, Berlusconi government), which introduced a strong orientation towards public-private partnerships, ‘social’ housing also includes that destined to temporary tenancies of not less than 8 years (compared to 25 previously) and even to ownership. Finally this approach favours private sector property developers above all and does not provide government with guarantees, because it does not bind the developer to provide genuine and substantial quotas of rented social housing for a reasonable time period.

Finally “planning premiums” (i.e. essentially an increase in density capacity and sometimes upzoning) are provided as concessions to property developers when developing rental units.

We know that in other countries planning legislation allows volume incentives to enforce SH construction in private housing developments: in recent times, commercial developers are interested in this solution because it enables them *i*) to share the risk of development with the providers of social housing, *ii*) to increase the commercial volume to build and *iii*) to speed up production (de Kam, Groetelaers, Korthals Altes, 2008). Generally speaking, however, in Italy we perceive a lack of robust rules for public/private collaboration and market competition (Curti ed, 1999).

As concerns housing redevelopment schemes, the new regional policies have moved away from expropriations (due to economic, social and political costs) towards the acquisition of land and building rights: when we consider that in Italy no land banking policy has ever been pursued and that most development projects in larger cities are on brownfield sites, more expensive to be expropriated than greenfield areas, we understand that current national and local shortfall make it impossible for LA to produce SH effectively. This is the reason why our attention must be focused on new tools to provide land, buildings and social policies to satisfy SH demand, especially for rent.

Planning compensation deals - *perequazione* mechanisms (similar to the TDRs – transfer of development rights – experimented with in the USA) are used as part of redevelopment projects. They involve the compulsory grant of land for free destined to facilities and to social housing by developers in exchange for permission to build. Land destined to social housing use is considered public interest land and is therefore likened to minimum mandatory ‘standard’ of square metres per inhabitant for social amenities such as schools, parks, parking lots, etc. Although similar in nature, the law states that the social housing ‘standard’ must be

in addition to other amenities, because the new social housing itself generates a need for public facilities and amenities. On the other hand, social housing differs from other social amenities, because it can be located on private land or supported by private sector funding which is matched by government, regional and local finance. Responsibility for social housing lies with the public sector which can use different methods to develop land for social housing, such as negotiations with developers and/or competitive selection procedures.

Other solutions for negotiations between municipalities and developers are more direct and involve as compensation for private sector planning permission the grant to the public sector of a quota of the total buildable land that can be marketed commercially to provide the municipality with finance, either implemented *in situ* or transferred elsewhere (by both the municipality and the developers).

Planning practices are spreading in Italy on the basis of both these new orientations which involve the destination of quotas of surface areas (land or floor space in buildings) for social housing as part of the process of implementing plans. These planning experiences make use of a variety of rules and tools which include not only the *perequazione*, but also, negotiations for planning gain, linkage policies and bonus incentives (Curti ed., 2006).

The promotion of the competitive mechanism as well as of negotiations are the most effective tools to achieve 'Inclusionary Housing' (OECD, 1992, Calavita, 1997) as part of the development process in a planning system.

Inclusionary Housing (IH) programs are land use regulations that require developers of market-rate residential development to set aside a small portion of their units, usually between 10 and 20 percent, for households unable to afford housing in the open market. Alternatively they can choose to pay a fee or donate land in lieu of providing units (Calavita and Mallach, 2009).

It is well known that the integration of the social housing into socially and functionally mixed new settlements can hopefully reinforce the twin goals of public welfare and social cohesion. A mix of residential units for sale and for medium to long term rent is necessary to balance private investment return with the public purpose to create such social complexity, unfortunately missing in traditional 60's and 70's public housing neighbourhoods.

4. City planning and inclusionary zoning

Apart from the national and regional normative framework and financial support, it is at the local level that the crucial objective of providing land and finance for SH is implemented. Housing policy has become a local concern, linked to urban development and improvement policies, in addition to welfare policies.

A brief summary is given below of the situations in a few cities which treat social housing in different ways within planning processes.

MILANO

At present Milan has a total of approximately 75,000 public housing units (out of a total of 650,000 housing units), with a waiting list of approximately 32,000 applications. Another 300,000 families and individuals are seeking accommodation at rents not to be found on the free market.

Only 470 public housing units were completed between 1995 and 2001 by means of "complex programmes" in abandoned areas which produced a large number of constructions for sale

under convention agreements and hardly any social housing for rent at low prices. It is to note that two of the major redevelopment projects for more than 2.200 dwellings do not contain provisions for either social or affordable housing (for rent and for sale at social prices).

In 2005 the municipality launched the plan, '20.000 housing units for disadvantaged groups' on more than 40 plots of publicly owned land to be offered to developers at zero cost to construct housing with controlled rents and university accommodation, half of which for rental (at least 10,000 units). After two years (2007) the plots were put out to tender, reduced in number to eight, for a total of 3,000 units and the minimum quota of rented housing was 25%. At the end of the selection procedure the winning projects will produce 1,680 housing units, of which only 530 (31%) for rental.

It is a modest result which confirms that policies pay little attention to community needs, because no positive results for the construction of rented social housing were achieved even with the sacrifice of land for public services already publicly owned.

As a matter of fact, in Milan City the strong pressure of private investors caused an exceptional redevelopment of brownfield and greenfield sites in the last decade as well as huge private returns, but poor contribution to public amenities, SH included (AaVv, 2009).

SESTO SAN GIOVANNI

Sesto San Giovanni is a large populous urban centre (80.000 inhabitants), to the north of Milan, which for almost a century was known as the "factory town". After the production plants closed down, this huge private sector urban land resource (two million sq. m.) was redeveloped for new housing, commercial and services estates. Almost half have been completed, while no agreement has yet been reached between the municipality and developers for the former Falck steelworks.

The current total supply of public rented housing consists of 2,450 housing units, while the requirement for the three year period in progress is for approximately 2,800 housing units against approximately 1,200 units planned (mainly with public sector funding).

The plan (approved in 2004) identified a minimum quota of 20% of the residential gross floor area in urban redevelopment areas to be destined to the construction of social housing employing the following means:

- convention agreements for a percentage of the gross floor area and consequent commitment to rent at agreed price for a minimum period of 12 years (now raised to 20), to persons belonging to groups identified by the municipality;
- construction of social housing and transfer of the building to the municipality;
- transfer to the municipality of buildable land for social housing;
- cash payments for release from plan obligations (i.e. payment in cash of the value of the land or buildings not transferred).

The condition which makes the different forms equivalent is that the financial attraction of each is rendered the same. It is therefore possible to even agree mixed solutions with property developers as projects arise with the transfer of buildings or, to a much lesser extent, the transfer of buildable land.

FIRENZE

The city of Florence abandoned traditional PEEPs (public social housing plans), some time ago preferring to obtain rented housing by means of municipal planning.

The 2004 structural plan introduced the assignment of a quota of social housing of not less than 20% of the net floor space resulting from the largest urban redevelopment projects (those with dimensions of more than 2,000 sq m. of net floor space). While this percentage remains the property of the developer it is destined to housing under three different types of “convention” agreements.

The first is defined as ordinary. The percentage destined to rental is assigned to permanent rented housing on the basis of a convention agreement with the municipality which establishes the criteria for setting rents which are approximately one third lower than those agreed locally. The application of the agreement results in exemptions from contributions and tax obligations.

Under the second, alternative, type the quota of residential housing is let at agreed rents with temporary tenancy agreements of not less than twelve years. The temporary nature of the rent is balanced by the payment of a financial contribution to the fund for the development of rented housing. Exemptions are also granted with this type of agreement.

The third type is defined as extraordinary. The percentage destined for rental or a part of it is not built on. The developer signs a unilateral registered and notarised agreement, which transfers planning permission to build on the land to the municipality in perpetuity, while the latter has the right to contribute it to the rented housing fund and the developer also pays a cash contribution to the fund for the percentage of the housing that should have been destined to permanent rented housing.

The fund for the development of rented housing grants financial contributions and increases in the density for which planning permission is granted to developers who offer to construct housing destined to permanent rent. The municipality therefore invites public tender offers every two years from developers interested in this type of development.

BOLOGNA

The Emilia Romagna Region, of which Bologna is the capital, has been working for some time now on the draft of a regional law which basically provides for the following:

- municipal ‘structural plans’ must establish their total social housing requirements and consider them in relation to provincial planning, which can increase or reduce the quota to bring it into line with specific local conditions;
- 20% of total planned housing is destined to social rented housing;
- the ‘operational plan’ (a five-year implementation plan) identifies the areas to be transferred free of charge to municipalities that can be divided into land for permanent rented housing and land for other types of social housing. This selection, within the context of urban redevelopment, may be performed through competitive selection procedures or through negotiation. The land acquired is made available by municipalities at lower than market costs to organisations operating in the social housing sector (enterprises, foundations, co-operatives) in order to encourage the concrete construction of housing for rent at controlled prices or other forms of occupation which meet the diverse needs of disadvantaged groups.

These principles have been put into operation in Bologna by the new structural plan based on an original experience which covers another 34 municipalities, the Metropolitan Agency for Rented Housing to assist relations between tenants and landlords. The former may apply for affordable rented accommodation, while the latter are certain they will receive rent as a result of the creation of a guarantee fund to protect against risks of arrears and they can also count on substantial central government and municipal tax concessions.

5. Conclusions

Cities have started a number of experiments in recent years with results which are often not comparable, partly because they are regulated by a variety of different regional laws, but mainly because they are a response to different objectives and welfare policies. Nevertheless what they have in common is the abandonment of expropriation as an instrument to acquire land for social housing and an attempt to create a social mix. In several large cities (with the exception of Milan) current planning innovations pursue an inclusive city in which the relationship between accessibility, urban amenities and different targeted dwellings is a very close one. On the basis of transparent negotiations and formal agreements, commercial developers are asked to contribute to the supply of social and affordable housing. These cities practice a strong intervention in property rights, forcing the production of mixed tenure projects by the private market mechanisms.

The effective purpose is to build SH, but in some case land value recapture is addressed too:

‘By grounding IH in the practice of rezoning, we believe it possible to better integrate inclusionary housing into good planning practices and begin to recapture for the public good some part of the unearned increment in land values resulting from the exercise of public land use regulatory powers’ (Calavita and Mallach, 2009)

However, despite the interest in them, these experiences are still fragile because of the modest number of housing units produced and the form of inclusionary zoning which is actually practiced. In fact commercial developers continue to prefer direct construction of social housing to be then transferred to municipalities (which is responsible for rents) rather than convention agreements where they are bound to rent over a period of time, which may be limited, while they rarely grant land for social housing. The most widespread solution allows property developers less involvement in the management of housing assets and it lowers their costs as well as providing greater physical separation between private sector properties and social housing properties (thereby limiting the positive effects of inclusionary zoning).

In addition to this, developers in Italy are familiar only with building ownership units, and they are certainly not familiar with managing rental projects. The presence of non-profits would help, especially in the production of social housing but also, in partnering with market-rate developers required to build IH, but inexperienced in building affordable housing. They could also take over and manage rental units built by the private sector. Unfortunately, however, the genuine non-profit sector in Italy is minuscule (Calavita and Caudo, 2009), because in many cases the cooperative housing associations act as commercial developers.

The overall result of public-private partnership consists mainly in the construction of buildings (in this case housing) rather than in the creation of a public domain of land and properties and it reveals the weakness of public administrations as protagonists who set public policy agendas, given the structural scarcity of finance available to them.

To summarise it could be claimed: very little social housing units and no land.

For this reason, a national law should assess that local planning regulations:

1. introduce fees for all commercial developments in order to make funds available to LAs who intend to invest in SH for rent;
2. pay attention to strengthen requirements on developers, such as obligations in order to create mixed estates and enforce inclusionary zoning
3. balance a fair distribution of more and less profitable land uses (SH included) among different municipalities, in order to contribute to a higher living environmental quality.

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