

KEY POINTS

- Housing unaffordability is more serious in developing Asia than in other parts of the world. In solving the problem, developing Asia can draw lessons from the United Kingdom's successes and failures.
- Among the successes, developing Asia should look at the recent housing associations' efficiency in building and maintaining affordable housing. The wide range of financing and land provision schemes are also worth exploring.
- To fund housing associations in developing Asia, international loans may play a pivotal role to stimulate private sector investments, given that fiscal capacity is limited.
- In developing Asia, major housing associations should be created and nurtured to be the main players. Smaller housing associations should not be ignored, either. They are more agile and flexible in responding to smaller, diverse types of housing needs.

Affordable Housing Policies in the United Kingdom and Their Lessons for Developing Asia¹

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INTRODUCTION

Development professionals and researchers in developing Asia are quite familiar with informal settlements, particularly in the region's many burgeoning "megacities," and the substandard housing typical in those communities. Unlike other development problems, such as primary education or sanitation, economic growth does not make housing problems easier to solve.

The long experience and diverse experiments of the United Kingdom (UK) in providing affordable housing offer some insights for developing Asia. Policies present various positive and negative examples, particularly in the successful role that housing associations can play. In recent decades, such associations have been the main providers of affordable housing—moving away from local government provision—operating as private bodies that aim to deliver public goods. This shift was initially criticized as a form of privatization, yet, decades later, it has effectively provided affordable housing without placing a financial burden on local governments. This policy brief, after a quick diagnosis of the housing problem in developing Asia, discusses the UK experience in housing policy, with emphasis on the lessons that can guide Asian policy makers. It then focuses on the role of housing associations in recent decades, followed by the financing mechanisms offered by the UK government.

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HOUSING AFFORDABILITY IN DEVELOPING ASIA

Rapid urbanization is the fundamental cause of housing unaffordability in cities in developing Asia. Indeed, urbanization of developing Asia has proceeded much faster than in developed countries in other regions, frequently fueled by economic growth. Three decades ago, about 33% of Asians lived in urban areas, but that is now nearly 50% and is projected to reach 64% by 2050, based on United Nations (UN) forecasts. That means, 3.3 billion people in cities (UN Department of Economic and Social Affairs 2018). This unusual speed of urbanization has caused various urban problems and among the worst housing shortages of anywhere in the world. Indeed, to meet ever-growing housing needs, according to a UN-Habitat (2011) estimate, Asia needs additional 20,000 housing units per day.

In the developing world, a combination of domestic migration to a few major cities and higher birth rates was behind this rapid urbanization. In developing Asia, this latter factor has nearly disappeared, but domestic migration remains a powerful single source of population growth in cities. As young, more enterprising people concentrate in cities—boosting economies in these urban agglomerations—further urbanization will continue contributing to economic growth in the region's countries in the coming decades. However, with that trend will come further housing shortages.

Migrant populations have, on average, lower incomes than existing urban residents, meaning they can barely pay for the most basic needs, such as food (Lozano and Young 2014). In turn, newcomers to cities cannot afford decent houses and thus their housing needs do not trigger immediate supply from the housing industry (Collier and Venables 2014). Besides, the housing industry in the developing world itself is inefficient, as Dasgupta, Lall, and Lozano-Garcia (2014) point out. One of the causes of this is prevalent informality in the real estate market (Brueckner and Lall 2014). Governments of developing economies lack the fiscal capacity to provide sufficient urban infrastructure such as water, sewage, public transport, and road systems, so not all locations close enough to centers of employment can be fully utilized for development of decent housing. As such, informal development fills this gap and contributes to the inefficiency of the housing industry. That inefficiency, in turn, causes supply shortages, which then encourages more informal settlements, creating a vicious cycle.

However, housing unaffordability is not equally serious in all cities. Partly due to differences in developable land and institutions around the housing market, but largely due to differences in migration to urban areas, housing affordability is mainly seen in a small number of major cities in each country (Quigley and Rosenthal 2005; Skaburskis 2004). In such urban areas, even people in the middle or higher classes face housing shortages, so the housing industry tends to cater to the middle class. Because the right to housing of “in-migrants” and other low-income groups is not well protected, their neighborhoods become likely targets for complete demolition to make room for development of higher-income settlements. When

this occurs, the original residents are almost entirely replaced by wealthier residents (Lees, Shin, and López-Morales 2016).

The lack of affordable housing in developing Asia is qualitatively similar to that in other parts of the developing world, but it is quantitatively more serious (UN-Habitat 2001). Helble, Lee, and Gia Arbo (2020), in a rare study of housing that covers most major cities in developing Asia, find that the housing price-to-income ratio based on median income is 18.21 in the region's 57 largest cities. That is, the median price of a house is 18.21 times as much as the median annual income of a household. Consequently, residents with low incomes end up in informal settlements, creating some of the world's largest informal settlements. Orangi Town in Karachi, with 2.4 million people, for example, is one of the biggest informal settlements in Asia and in the world (Habitat for Humanity 2020).

Housing unaffordability is exacerbated by a lack of formal financing that can fill the gap between high prices and low income. Both low- and middle-income households are affected by this shortfall. Measured by mortgage-to-gross domestic product (GDP) ratios, financial depth, and outstanding housing loans, commonly used indicators of financial inclusion, financial mechanisms for housing finance in developing Asian economies are underdeveloped.

Governments in the region are responding to these problems in various ways with mixed success. The Philippines taxes idle land to encourage development. Viet Nam requires new developments to include affordable housing. Many governments offer low-interest loans for housing development (ADB 2019). Governments across countries, meanwhile, commonly use a progressive rate of property purchase tax to slow property price inflation. There are some success stories. In the People's Republic of China and Malaysia, residents are more or less satisfied with public housing (e.g., Li et al., 2019; Mohit and Nazyddah 2011).

Nonetheless, even though these policies certainly help, they do not seem to fix the fundamental problems of housing unaffordability in the region.

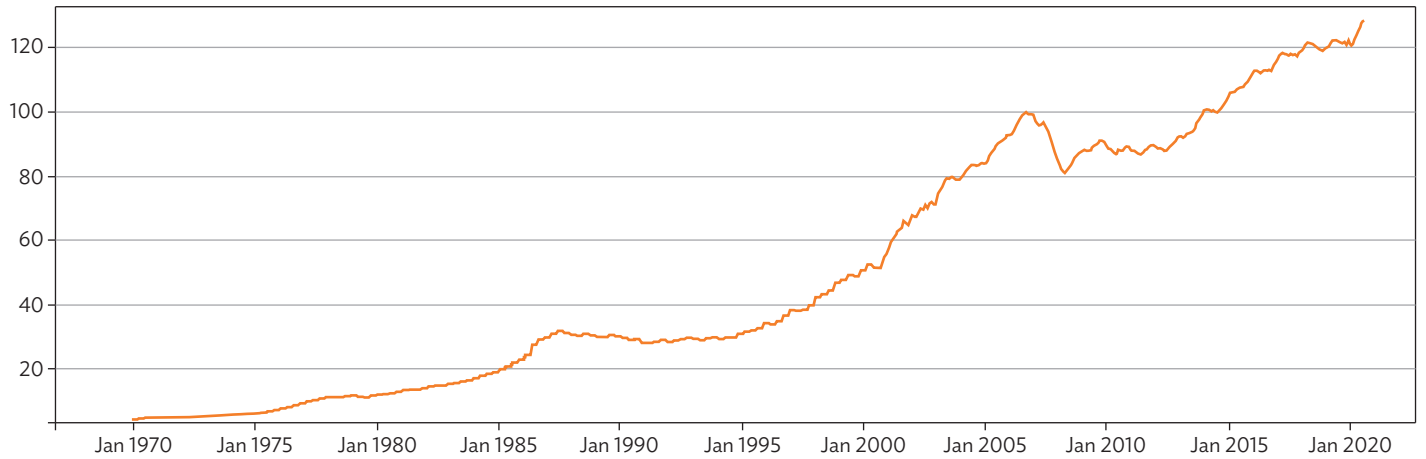
AFFORDABLE HOUSING POLICY IN THE UNITED KINGDOM

Housing affordability in the UK

Since the 1970s, there have been repeated property booms in the UK. Although prices have sometimes briefly declined, as in the oil crisis of the mid-1970s or in the wake of the 2008 global financial crisis, in the long term, prices have increased and affordability decreased dramatically (Figure 1).

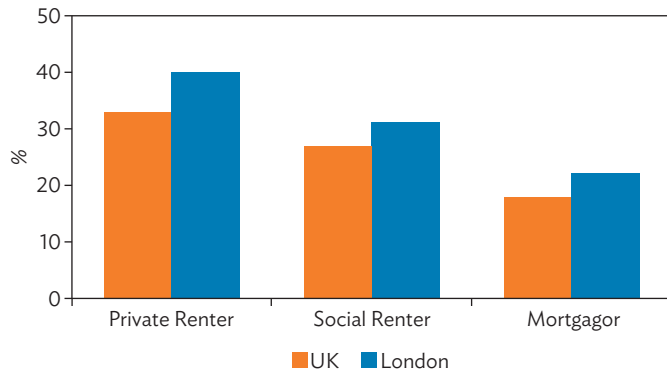
Consequently, housing affordability has been one of the main issues urban dwellers face in the UK. On average, private renters in the country pay 33% of their household income, while those in London pay 40% (Figure 2). Such difficulties leave as many as 61% of private renters with no savings at all, which means that those renters are unlikely to buy houses and continue to pay high rent for many years.

Figure 1: Historical House Price Index



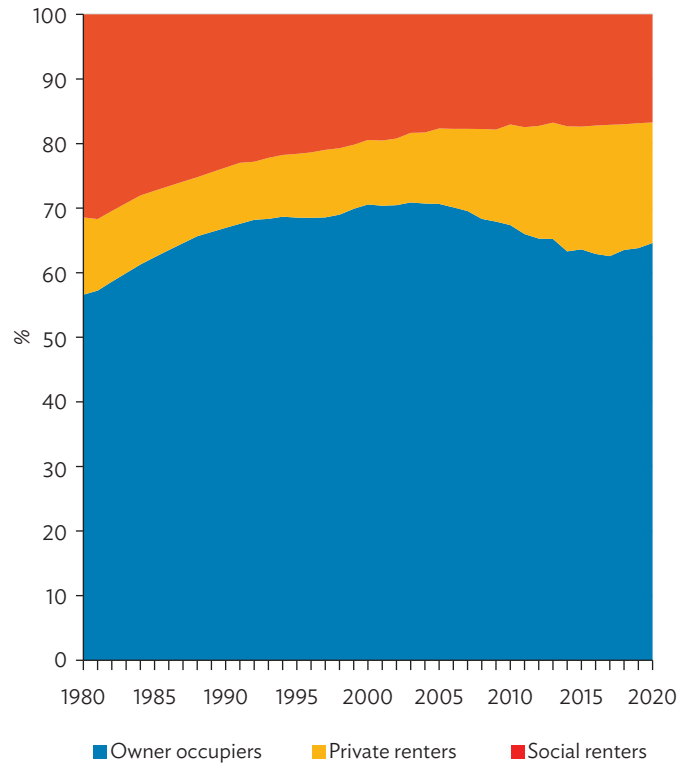
Source: UK House Price Index. <https://landregistry.data.gov.uk/app/ukhpi> (accessed 18 December 2020).

Figure 2: Housing Cost-to-Income Ratio in the United Kingdom and London, 2019



Source: Authors' compilation based on data from MHCLG (2020a, 6).

Figure 3: Change in Tenure Type in the United Kingdom, 1980–2020



Note: Data up to 2007 are based on calendar year. Data for 2008 onward are based on tax years in the source. For consistency in presentation, we allocate each tax year's numbers to the year on which the first day of the tax year falls.

Source: Authors' compilation based on data from MHCLG (2020b).

A sufficiently large stock of public housing, which is called social housing in the UK, can host the lower segment of private renters. Unfortunately, the UK's social housing stock is not as large as it used to be; in 1980, it accounted for 31.4% of all housing stock, but just 16.7% in 2020. In the meantime, renting from private landlords increased from 11.9% to 18.7%, with private rental homes outnumbering social rentals since 2012. Owner occupancy increased fast with the implementation of a right-to-buy scheme that began in 1979. However, after peaking at 70.9% in 2003, it has been generally decreasing, although recovering slightly in the last 3 years (Figure 3). As such, the queue for social housing is growing for low-income households. Increasing numbers of lower middle-class households suffer high rents in the private rental market. The UK has been responding to this situation with various measures, but we have not yet seen a major reversal of the trend.

Key measures for affordable housing

Central- and local-level governments in the UK, as well as charity organizations, have implemented various policies to ease housing unaffordability. While mortgage tax relief and rent control, as found in many other countries, used to exist, they do not at present. The present key measures are reviewed below. Measures that use housing associations as the main actor are explained in the next section.

Social housing. What is called public housing in some countries is currently called social housing in the UK. This is a type of rental housing where the rent is determined based on the tenant’s conditions, needs, and local conditions; thus, it is substantially lower than the market rate and a stable tenancy is usually guaranteed. The landlord of these housing units is called a “social landlord,” and is either a housing association or a local government. Due to the general shortage of social housing, it is estimated that more than a million qualified households are on the waiting list. Originally, social housing was created for Army veterans, but, after World War II, the labor government built 800,000 council housing units to compensate for the war-time destruction, marking the real beginning of social housing. At that time, social housing was built, owned, and managed by local governments. Because local governments are called local councils in the UK, the local government-owned public housing is called “council housing.” Council housing was welcomed by the public, especially those who benefited from it (Lupton et al. 2009)

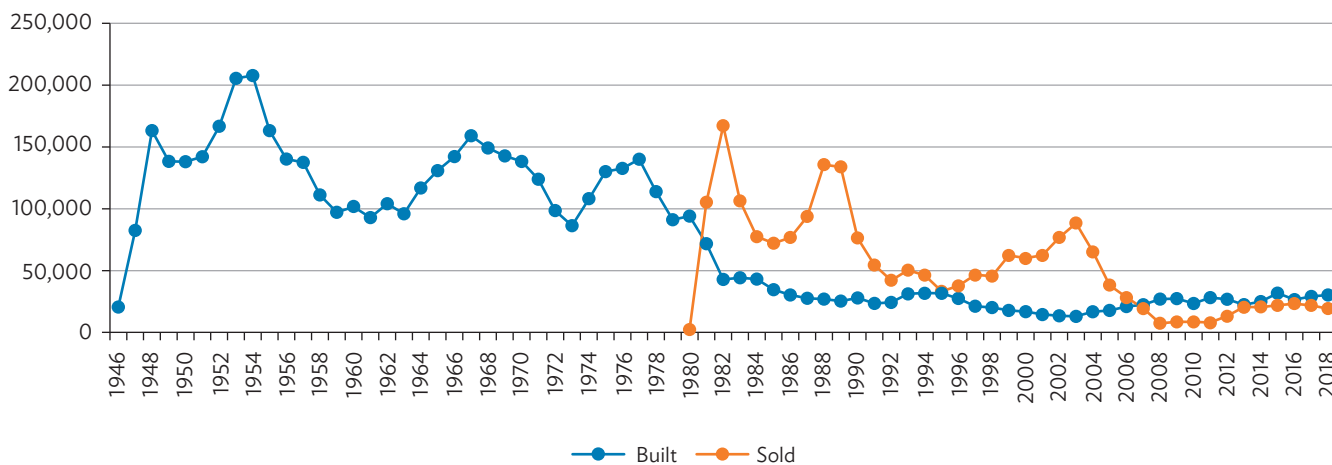
A few decades later, however, negative perceptions emerged, such as concentrated poverty, corruption, and physical decay of buildings. The Conservative government under Margaret Thatcher

made two major changes: right-to-buy and greater involvement of housing associations. Currently, housing associations hold more social rent housing than local councils; hence, council housing is a subset of social housing. This change marked the beginning of a new era in which housing associations are the main providers of affordable housing, as explained later in this brief. However, their provision of new social housing is not as ample as that of the UK government in the post-war era (Figure 4).

Right to buy. The right-to-buy scheme gives tenants of council housing the legal right to buy the house they are renting at a discounted price. This scheme has turned millions of former council housing residents into home owners, effectively pushing them up to the middle class. Local governments always had the right to sell their council houses, but the tenants did not have the right to initiate the purchase. The idea of right to buy was originally proposed by the Labour Party in the 1959 election, but was eventually implemented by Conservative Prime Minister Margaret Thatcher in 1979. The sales price was normally discounted by between 33% and 50%. The local authority also had to offer a mortgage with no deposit. A greater discount was given to tenants who had lived longer in council housing. Obviously, this policy has been extremely popular among council tenants.

The central government restricted the local government’s use of income from sales of council housing to the payback of their debts. Only after all debts had been cleared could the local government use the income to build council housing. This restriction substantially reduced council housing stock. In 1982 alone, 200,000 houses were sold under this scheme.

Figure 4: Social Housing Built and Sold in England, by Year



Note: The data for the number of social housing units sold are based on the tax year, that is, from 6 April in one year to 5 April the following year. In the chart, we allocated each year’s number to the year on which the first day of the tax year falls. The data for the number of social housing units sold begin in 1980, when the right-to-buy scheme formally commenced. The data for completed houses are by calendar year.

Source: UK Government. England Historical Calendar Year Series. Live Table 678: Social Housing Sales: Annual Sales by Scheme for England: 1980–81 to 2018–19; Live Table 244 Housing building: permanent dwellings started and completed, by tenure.

The discount rates have been changed multiple times. Although minor details are beyond the scope of this brief, the maximum discount in London is currently 80,900 pound sterling (£).² To stop further reduction in social housing stock, 2018 legislation requires the local authority to build one affordable housing unit for the sale of one.

This scheme certainly contributed to an increase in home ownership. However, the substantial reduction in social housing means that there are more qualified applicants on the waiting list for those units. Because abolition or even reduction of this scheme would not be popular among the tenants of social housing who aspire to buy someday, this scheme is politically difficult to reverse. In fact, instead of being reduced, the scheme has expanded to housing association tenants, as explained later.

Because the reduced stock was partly compensated by local authorities' rent from private landlords and payments of housing benefits, the government is actually paying more than it used to, while the waiting list for social housing is growing longer (Copley 2014). It is also commonly believed that sales are mainly in desirable areas of cities, lowering the general desirability of social housing stock.

In addition, clear evidence suggests that the main benefit of this policy—greater house ownership rates—is only temporary. Collinson (2013) finds that a third of right-to-buy houses are now owned by private landlords, many of whom use those houses for rental incomes. This trend is not surprising given a combination of factors. Retirees live longer but they do not have pensions as good as their predecessors. Naturally, they look for stable income streams, and a rental home is an obvious candidate. A buy-to-let mortgage is easily available to them because, by retirement age, they have finished or have nearly finished payback of their mortgages. This situation effectively creates a barrier to the first-time buyer because the first-time buyers should wait until they build credit scores and save deposits comparable to what rental home investors have. This competition contributes to the increase in property prices, raising the barrier even more. The outcome is that an increasing number of houses is being sold to those who already own one, slowly lowering the home-ownership rate.

Housing benefits. Housing benefits are similar to what is called housing vouchers in other countries. They are effectively cash that a beneficiary can use for housing costs, such as rent in private rental homes and service charges in private and social rent homes. The UK government is currently integrating housing benefits with other benefits under the integrated program of Universal Credit. The housing benefit is set at the rate of the local housing allowance rate, so the rate differs in different areas of the country. Housing benefits can be paid to (i) people over retirement age, and (ii) people in supported, sheltered, or temporary housing.

Because housing benefits take the form of cash, it is the most market-friendly and flexible delivery method for housing aid.

The transaction cost for housing vouchers is incomparably lower than that for social housing and does not require management of properties. However, because the benefit inflates the purchasing power of beneficiaries, benefits end up creating additional demand, which in turn increases rent in the market. Private renters who are not receiving benefits are the biggest losers in this situation. The government also loses in the long run in a buoyant property market, which has been the case in the UK. As the property market booms and rents increase accordingly, the government must pay an increasing amount of housing benefit to maintain the same benefit.

Section 106. Section 106 of the Town and Country Planning Act 1990 allows local governments to negotiate with private developers more flexibly outside of regular planning mechanisms. A local government can give permission to a development project that is not permissible under normal circumstances on the condition that the developer contributes to social causes. The contribution can take the form of cash contributions and contributions to schools, transport infrastructure, and other local infrastructure. This contribution can also be part of the development for use in affordable housing of various forms.

HOUSING ASSOCIATIONS

What is a housing association?

Housing associations are nonprofit organizations that provide social housing in the UK—such associations currently occupy a larger share of social housing than local governments. Although they are private organizations, because of the public nature of their work, the UK government offers various support, including, but not limited to direct subsidies. Some housing associations offer a wide range of social housing types, while others specialize in certain segments of the population, such as people suffering from substance misuse/abuse, the formerly homeless, and asylum seekers. The history of such associations goes back to the 19th century, with earlier associations, such as the Guinness Trust and the Peabody Trust, continuing to this day.

Housing associations used to play a smaller role, while local governments were the main providers and managers of social housing. However, their importance grew substantially, owning more than 80% of all social housing stock now. Their importance grew after the “Large Scale Voluntary Transfer” of 1988, which was a transfer of council housing to housing associations and a core program of the Conservative government’s strategy to reduce local governments’ role in social housing. Transfer before 1988 was often a difficult process, because tenants were often against the transfers. A law then removed the tension by stipulating that the transfer would be possible only when voted for by residents. By 1997, over 300,000 local government-owned social housing units had been transferred to housing associations. In fact, local governments were pressured for Large Scale Voluntary Transfer by the government of Prime Minister Margaret Thatcher, which banned local governments from using local taxes to subsidize social

² £1 equaled \$1.37 on 5 February 2021.

housing. The Thatcher government also diverted a new social housing construction budget from local governments to housing associations. Alongside support for the associations, the right-to-buy scheme, explained above, reduced local government-owned housing stock. Gradually, housing associations became the main providers of new-build social housing.

Legally, housing associations take various forms: industrial and provident societies, trusts, cooperatives, and companies. Some of these are registered charities, while others are not. They are also called Registered Social Landlords or private registered providers of social housing. Housing associations do have paid staff, but the decision-making power ultimately lies with the committee, whose members mostly comprise unpaid volunteers. The members of the board include residents, representatives from local authorities, representatives of business communities, and local politicians.

Among housing associations, 23 have a special status called “strategic partnership.” Eight of them enjoy priority to acquire government-owned land. There is also ring-fenced funding for them (£1.7 billion during 2019–2023, for example) (Wilson 2020).

What types of affordable housing do housing associations provide?

Housing associations have built over 40,000 units per year in recent years. Housing associations do build houses for sale and rent in the normal market to raise more funds, but such houses comprise less than 15% of the total. The absolute majority of houses they build are for various forms of affordable housing. Affordable rent occupies the biggest share, which in the 2017–2018 tax year accounted for nearly half of all new homes, with social rent accounting for much less, at little more than 10%. About 30% of homes were for affordable home ownership (National Housing Federation 2019).

Social rent. Since Large Scale Voluntary Transfer, housing associations have become the main providers of social housing. This is also the most recognizable part of housing associations’ work. The terms for social rent are similar to those for rent in council housing. A qualified tenant is usually offered a starter

tenancy, usually 12 months. Once the tenancy is over, the tenant is usually offered an assured tenancy (lifetime tenancy) or fixed-term tenancy, which is usually longer than 5 years (Government of the UK 2020).

Right to acquire. Since 1996, housing association tenants have had the “right to acquire” their homes for a slightly lower price than the market value once the rent period has exceeded 12 months. In 2015, the right-to-acquire scheme was expanded and its conditions became analogous with council housing tenants’ right-to-buy scheme. The loss caused by the discount is compensated by a government payment to the housing association. For one sale under this scheme, the housing association must acquire a new unit, but the tenure type of the new unit is at the discretion of the housing association. A housing association can choose not to sell only under special circumstances such as homes in rural areas or homes for special needs tenants, in which case the housing association must offer the tenant an alternative property.

Affordable rent. Affordable rent is set at 80% of market rent and is offered by housing associations. When the Home and Communities Agency accepts a housing association’s proposal for the use of income from affordable rent, housing associations are allowed to convert currently vacant social housing units into affordable rent units. Affordable rent homes can be converted to shared ownership if housing associations and tenants agree (Wilson and Bate 2015).

London Living Rent. The London Living Rent is a scheme provided by housing associations financed by the Greater London Authority to help middle-income households save rent toward the purchase of a house under the right to shared ownership. To allow tenants to save, the rent is 30% less than the market rent. The tenancy lasts between 3 and 10 years, after which the tenants are supposed to have saved enough to make the initial payment for right-to-share ownership. This is a realistic aim because the initial payment is now 10% of the property value. This scheme is not for households in the lowest income bracket. Households with income substantially higher than the median household income are eligible as long as they are currently renting in London and do not have sufficient assets to buy a home in their local area (Mayor of London 2020).

Shared ownership. A shared ownership property is one in which the resident owns only part of the total value of the property—like a shareholder owns part of the total value of a company. A qualified resident can initially buy 10% (previously 25%) and choose later to buy any percentage of the value beyond that (10% increments, previously). The tenant must pay rent for the share that he/she does not own, but the annual rent is at 2.75% of the value of the landlord’s share, with an annual maximum rise of Retail Price Index +0.5%, which is substantially lower than the market rent. Because the tenant does not need to pay the whole value of the property, shared ownership is an easier route to home ownership. However, it is still ownership, so those who do not have a stable income cannot afford it. Any household that does not own a house and that has an annual income of less than £90,000 in London and £80,000 for the rest of England is entitled to buy a shared ownership property.

Table: Homes Built by Housing Associations, by Tenure Type

Tenure Type	2017–2018 Tax Year	2018–2019 Tax Year
Social rent	4,502 (10.8%)	5,193 (11.4%)
Affordable rent	20,173 (48.5%)	18,652 (41.1%)
Affordable home ownership	11,119 (26.8%)	14,305 (31.5%)
Market rent	1,232 (3.0%)	2,193 (4.8%)
Market sale	4,430 (10.7%)	5,071 (11.2%)
Total	41,556 (100.0%)	45,414 (100%)

Source: Authors’ calculation based on data from Table 2 of the National Housing Federation (2019).

Given that the UK's median household income was only £30,773 in 2019 according to the Office for National Statistics (2020), the annual income criteria are sufficiently high for the majority of households to apply.

The current Conservative government has been actively promoting shared ownership. The government's plan was to deliver 135,000 shared ownership properties by 2020/21. Although the planned number has not been met, partly because of the shifted focus of housing policy from shared ownership to a wider range of affordable housing, as indicated by the Ministry of Housing, Communities, and Local Government (MHCLG) (2017), the policies certainly increased the supply. According to Cromarty (2020), there are 157,000 shared ownership homes in England, less than 1% of all housing stock in the 2018/19 tax year, and shared ownership properties accounted for 34% of new affordable housing. The Affordable Homes Programme 2021–26 seems to show the government's renewed enthusiasm for shared ownership in the form of right to shared ownership, so the shared ownership program is likely to continue playing an important role in affordable housing supply in coming years.

Shared ownership properties can be built by a private developer, often as an outcome of the section 106 agreement. Section 106 is a mechanism whereby a developer receives permission to develop a normally impermissible type of property on condition that they make a contribution to the public good, often in the form of affordable housing. However, most shared ownership properties are built and managed by housing associations.

Right to shared ownership. A new extension of right to buy announced in 2019 is right to shared ownership (MHCLG 2020c). It works in the same way as regular shared-ownership homes explained above. What is less favorable than the regular right-to-buy scheme, however, is that the new scheme is based on the market price of the property, not the discounted price, as in the right-to-buy scheme. The government intends to negotiate with housing associations to make existing homes available under this scheme. The scheme is available for almost all new rented homes delivered through the Affordable Homes Programme 2021–26. Exceptions include local authority homes; homes in designated protected areas and rural exemption sites; and specialist homes for older, disabled, and vulnerable people.

Supported housing. Housing associations offer four types of supported housing: (i) sheltered housing for older individuals, (ii) rehabilitation for individuals with substance abuse problems, (iii) supported housing for people with disabilities, and (iv) job and skills training alongside housing for young or homeless people.

Financing mechanism of housing associations

The maintenance of existing housing stock is paid from its own income, that is, rent and service charges payments. On the other hand, government bodies offer grants to build new houses. Depending on the location, the government body responsible for funding varies. The Greater London Authority offers grants for houses in London, the Homes and Communities Agency for those

in the rest of England, and the Northern Ireland Housing Executive for houses in Northern Ireland. In Wales and Scotland, the Welsh and Scottish governments are directly responsible for funding. However, not all housing associations are treated equally. Those that have achieved “partner status” through Partner Program Agreements tend to be favored in bidding procedures. Housing associations also borrow from banks and building societies and issue bonds to build.

Direct commissioning. The government's direct commissioning of new social housing was the main financing mechanism in the heyday of council housing in the post-war era. In the mid-2010s, multiple indications suggested that the government would substantially increase direct commissioning, but such an indication never materialized (Wilson 2020). Although the UK government has a much lower budget deficit than other governments in the developed world, it would not be easy, in the near future, for them to fully return to direct commissioning on a scale comparable to the post-war era.

Affordable Homes Programme. This is currently the biggest affordable housing program, under which housing associations are eligible to apply for grants. Among all houses built by housing associations, 60% or more are financed by the Affordable Homes Programme (National Housing Federation 2020). The program, which aims for at least 180,000 homes between 2020 and 2026, has funding of £12 billion. A third of the funding will go to London, where the housing shortage is the most severe and the remaining to the rest of England and administered by Homes England.

Nearly half of the planned houses will be owner-occupied, but not ownership via regular market transactions. Various affordable housing routes will be provided. The shared ownership, explained earlier, is the main route, and there are several other smaller programs, including home ownership for people with long-term disabilities, older persons shared ownership, and rent to buy.

The other half will be for rentals, both social housing and affordable rent. Affordable rent is below 80% of the rent in the normal market. Other housing types managed by housing associations are also funded by this program.

To obtain this fund, a housing association should demonstrate that its development is compatible with the goals of the program, as well as several other technical requirements such as compliance with modern methods of construction, national design guidelines, and their efforts for sustainable homes.

The Affordable Homes Programme has two funding routes: continuous market engagement and the multiyear strategic partnership scheme. Under continuous market engagement, housing associations should separately apply for funding from each scheme. Strategic partnerships are longer-term collaboration mechanisms with housing associations that have specific capacity and good track records. Once the partnership is established, the housing association will receive funding for multiple years. The partner associations are allowed to make decisions about the

process as long as they deliver what they promised. Continuous market engagement is based on highly practical criteria such as cost efficiency and ability to deliver. Strategic partnership has more general and wider criteria such as value for money, strategic priorities, deliverability, and whether they contribute to the government's home-ownership objectives.

Housing guarantee scheme. The housing guarantee scheme is aimed at providing access to low-interest loans for the development of homes for social rent, affordable rent, and shared ownership in England. It is achieved by letting the government underwrite the loan application for such projects. The target set in 2020 is to underwrite a loan worth £3 billion to deliver 17,000 new homes in the next 3 years (MHCLG 2020d). Under a similar scheme in the past, housing associations could borrow at interest rates of 2% or lower when the regular market rate was 3.5%. Similar outcomes are expected for the housing guarantee scheme (Brady 2020).

Community Housing Fund. Community-led housing is housing that a community group builds in response to local housing unaffordability and other problems, and the majority is led by local governments. If local influence can be proven, other types of organizations can be the lead. The community groups are not experienced in housing development, so they have to find appropriate partners. Housing associations as well as private developers can be those partners. Funding for such housing is provided by the Community Housing Fund, so the fund can be counted as one of the financial sources for housing associations. The scale of the Community Housing Fund is not enormous, however; in 2020, only £163 million was allocated for it.

Disposal of public sector land. In the UK, land in a good location for housing development is a scarce resource. Both private developers and housing associations often count land availability as one of their main obstacles to building more homes. This is why the government's release of government-owned land is welcomed by regular developers and housing associations. Under the Liberal-Conservative coalition government (2010–2015) and the current Conservative government, land can be paid for after construction has started, so the release of government-owned land schemes is a de facto financing mechanism for land acquisition for housing associations. The coalition government provided land for more than 100,000 homes in this way between 2010 and 2015. The current government set a target of 150,000 homes by 2020, but only 48,000 had been achieved by 2019. From 2015, the Home and Community Agency was responsible for the sales of land even if the ownership belonged to other departments and agencies. Although housing associations are eligible for the purchase in principle,

it was mainly private developers who purchased the land. The local government then negotiates with the developer regarding how many affordable housing units should be built. Housing associations can then find grants from other sources and participate.

Case Study: The Peabody Trust's Financing

The Peabody Trust. The organization that later became the Peabody Trust was founded in 1862 by George Peabody, a banker and philanthropist. It obtained and merged with organizations such as Gallions, Trust Thamesmead, Tilfen Land, and Family Mosaic, forming what we know as Peabody Group today. With around 66,000 properties in London and the South East housing 133,000 residents, it is one of the largest housing associations in the UK.

How is the Peabody Trust's work financed? Like most other housing associations, the Peabody Trust has four main sources of income: (i) fees for services, i.e., rent and management service fees; (ii) grants from the government; (iii) market sales; and (iv) debt-bond and loan, if necessary.

In the 2019–2020 tax year, its total operation cost of £505 million was covered by grants amounting to £103 million and total turnover of £662 million (£425 million of social housing lettings, £158 million of non-social housing activities, and £79 million of other social housing activities). From a business perspective, the Peabody Trust seems to be sustainable to generate enough turnover to cover its operation cost.

As a testament to its financial sustainability, the Peabody Trust has established a high credit rating and easy access to debt funding. As seen in Figure 5, it made a total £426 million of investment in 2019—£313 million for new home building and £113 million for maintenance of existing homes—largely with the help of its significant borrowing power from banks.

An example of the Peabody Trust's recent work: Silchester Housing. Silchester Housing is a 112-apartment development in Kensington and Chelsea, the most expensive borough of London. The local government transferred an old school site to the Peabody Trust without charge and offered £3 million of direct funding. The Peabody Trust raised £25 million through loans from the financial market and invested that sum to the development. In the development there are 43 one-bedroom units, 33 two-bedroom units, 23 three-bedroom units, 10 four-bedroom units, and 3 five-bedroom units. The local government required 84 units to be affordable homes: 45 rented homes and 39 shared ownership homes. The other 28 units were sold at market price. The development was finished in 2014 and all units were sold or rented.

Figure 5: Key Performance Indicators of the Peabody Trust (2019–2020 Tax Year)

<p>Operating surplus¹</p> <p>£197m (2019: £173m)</p>	<p>Development pipeline</p> <p>£1.4bn (2019: £1.1bn)</p>	<p>Gearing (debt: assets at cost)</p> <p>36% (2019: 35%)</p>	<p>Credit rating</p> <p>A3 A Moody's Standard (2019: A3) and Poor's (2019: A)</p>
<p>Total Group assets</p> <p>£8.0bn (2019: £6.8bn)</p>	<p>Investment in new homes</p> <p>£313m (2019: £365m)</p>	<p>Available debt funding</p> <p>£4.0bn (2019: £3.1bn)</p>	<p>Regulatory rating</p> <p>G1,V2 (2019: G1,V2)</p>
<p>Total Group turnover</p> <p>£662m (2019: £565m)</p>	<p>Investment in existing homes</p> <p>£113m (2019: £84m)</p>	<p>Unused property security</p> <p>£3.0bn (2019: £2.5bn)</p>	<p>Employment and apprenticeships investments</p> <p>£1.4m (2019: £1.0m)</p>

m = million, bn = billion.

¹ Before revaluation of investment property.

Source: The Peabody Trust (2020).

CONCLUSIONS AND POLICY RECOMMENDATIONS

With rapid economic development and even faster urbanization, people with middle or lower incomes in developing Asia's cities face increasing housing unaffordability. However, the housing market is not going to solve this problem, because house builders, with their limited capacity, tend to focus on serving households with higher incomes.

Most governments in developing Asia are doing what they can, but limited fiscal capacity seriously reduces the range of policy options. To see what governments can do, it is useful to look outside the region.

The UK has a long history of proactive housing policy and the wide range of policies it has implemented and the political-economic context of each policy helps us understand the nature of housing problems and points to innovative housing policies. Notably, the UK's experience suggests that economic development does not automatically solve the housing unaffordability problem—as an advanced economy, it is far from solving the problem. While the average physical conditions of housing units improve as an economy grows, income growth drives up the price of housing, making the housing affordability problem difficult to solve.

That said, the UK, with its fiscally sound government and a mature charity sector, is capable of experimenting with various innovative policies. Such diverse experiments make the country worth looking at. Its experiences can be summarized as follows:

- **Sales of social housing to tenants did not achieve the “home owners’ society.”** The sales immediately increased ownership rates, but ownership rates have been gradually going down since then. With rising prices of houses and increased life expectancy, houses are an attractive investment, such that the former social housing units sold to their tenants are slowly taken over by investors. When there is limit in providing new social housing, it is nearly impossible to recover the original level of social housing stock. Such a decrease in social housing is a lost opportunity for stable housing for future generations of low-income households.
- **Certain types and levels of privatization improve the efficiency of the affordable housing sector.** Bigger involvement of a housing association seems to be effective in flexibly responding to diverse housing needs. It is also believed that housing associations are more efficient in managing social housing stock. The Arm's Length Management Organization is known to be more efficient than local government in offering management and maintenance services to local government-owned social housing.

- **Types of affordable housing in the UK are diverse.** This includes social homes, shared-ownership homes, and affordable rent homes, among others.
 - **Housing associations replaced the local government as the main actor in building and managing social housing stock.** A housing association is a nonprofit organization that builds and manages social housing and other affordable housing.
 - **The UK government implements diverse financial mechanisms to fund housing association projects.** The Affordable Homes Programme, housing guarantee scheme, and Community Housing Fund are representative. The UK government's disposal of public land is proven effective in two ways. First, it solves land shortage problems for housing associations and other housing developers. In the UK, where cities are mature and planning regulations are strict, there is serious shortage in supply of land for housing development. As such, disposal of government land is a very effective support for housing development. Second, disposal of public land works as a financing mechanism. Land is the single most expensive input to housing development. Because housing development takes a long time, it is always difficult for housing developers, and housing associations in particular, to finance land purchases. In public land disposal, the government allows the developer pay after some return from the development is achieved.
- These findings have implications for housing affordability in developing Asia, which are elaborated below.
- **Keep the social housing stock within affordable housing sectors.** Once the government or other organizations own a stock of public housing, it is better to keep the stock as public housing. UK experience tells us that, once privatization of housing stock begins, it is difficult to recover the stock politically and economically. In cities in developing Asia, continued urbanization and economic growth, both of which will increase land prices, will make it financially difficult to build new social housing—even more difficult than in the UK, so it is vital to keep the social housing stock, once built, to be kept within the control of the governments, international development agencies, or other organizations that can ensure the stock can stay as social housing.
 - **A housing association can be an efficient actor in building and managing social housing.** The government and its agencies do not have to be the sole owner/manager of public housing. Housing associations or other charity organizations might be more efficient at building and managing public housing stock. This was certainly the case in the UK. In developing Asia, where experience with housing associations is scarce, a cautious approach is even more important. Small-scale experiments with housing associations rather than an immediate, large-scale transfer of assets and responsibilities, are more desirable because an immediate, large-scale transfer might spur corruption and other unexpected problems.
 - **Support promising housing associations to grow.** The long-term sustainability of housing-association-based affordable housing policy relies upon the existence of a small number of large housing associations. They should be staffed by well-educated and experienced professionals, have experience in building and/or managing large housing stock, and have good track records of collaborating with national and local governments as well as international agencies. With them, the funders, international or domestic, can build long-term strategic relationships. As actors in the field, they might possess information that the government or international agencies do not, so their input at earlier stages of policy making can be extremely useful, too. In developing Asia, where housing associations are not numerous, the importance of the major ones is even bigger. Governments and international development agencies should create strategies to nurture promising housing associations to become major players.
 - **Nurture the diversity of housing associations.** While the small number of large housing associations are the main actors, they cannot fill all the gaps that are left between large projects. Just as small firms are more agile in responding to niche markets, smaller housing associations are better in finding smaller local needs. As small firms attempt to secure their niche by differentiating themselves from the majority, small housing associations will differentiate from one another, increasing the diversity of housing associations. The diversity will help reduce the possibility that short-term and small projects are canceled because housing associations are not willing. With diversity, it will be easier to find a reliable housing association for unusual projects. In developing Asia, while strategies to nurture a small number of major housing associations are essential, strategies to help sustain smaller ones are also important.
 - **Some voluntary organizations can be converted into housing associations.** There are numerous voluntary associations in cities in developing Asia. They do not have expert knowledge about housing, but they are knowledgeable about people and neighborhoods. They can engage in housing projects with external expert support at the beginning as community organizations in the UK do with support from established housing associations. With accumulation of experience in housing projects, they can be gradually converted into full-fledged housing associations. In assisting voluntary organizations to grow into housing associations, governments, international agencies, or other funders should list clear criteria. Strong leadership within the settlement and a good track record of collaborating with external bodies should be among the criteria. In developing Asia, there are many religious organizations, charity organizations, social clubs based on their origins, alumni associations, and various informal associations. Some of those can be converted into housing associations.
 - Financing mechanisms should be diverse and appropriate to each country's fiscal capacity and urban development

and planning regulations. No one size fits all, meaning that different approaches are needed in each country. For example, limited fiscal space for affordable housing projects in many Asian developing economies calls for an adaptation of land value capture schemes. Specifically, land pooling can significantly ease pressure on governments in financing affordable projects during land acquisition and construction. Such schemes are also an innovative alternative to solve traditional land acquisition issues and facilitate private participation for future urban planning. When diverse financing mechanisms are combined with diverse housing development schemes, affordable housing can respond flexibly to ever-changing urban conditions.

- In developing Asia, flexibility is extremely important to cities because the region's cities change faster than those in other regions. Most cities in developing Asia are experiencing economic growth and fast urbanization, for ever-changing housing conditions. It is thus not possible to predict future needs and preplan housing projects. Instead, the housing sector needs flexibility to respond to new problems. This should be built into various aspects of the housing sector and policy. And financing is where flexibility is needed most, as a precondition for anything else to happen.

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