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Poverty and social exclusion: review of international evidence on affordable housing supply

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Summary

- Housing can play an important role in preventing and ameliorating poverty, but it can also reproduce and exacerbate existing disadvantage. Its impact on poverty depends on how the housing system shapes availability, cost, quality, location and security of accommodation.
- The UK system has long prioritised homeownership and demand-side public investment, while the shrinking of the social rented sector undermines what once was a particularly effective element of the welfare state. The system also increases spatial segregation, affecting social exclusion.
- The provision of genuinely affordable housing has been protected in Wales more than in England, but there are opportunities for improvement.
- Lessons can be learnt from other European countries, where the social rented sector competes with the private rented sector, creating a 'wider affordability' system that encourages higher standards and curbs excessive housing costs. Increasing affordable housing supply may thus not only deliver short-term gains, but improve long-term housing affordability and reduce housing market volatility.
- There are connections between affordable housing supply and policy areas covered in other reviews, for instance:
 - **Fuel poverty:** The wider affordability of housing is closely associated with its energy efficiency.
 - **Transport disadvantage:** Housing location and access to transport, employment, and key services matter in relation to affordability. Trade-offs between affordability of housing and the affordability of transport can undermine efforts to tackle poverty and social exclusion.
 - **Food insecurity; Digital exclusion; Household debt:** Housing costs bear significantly on household resources, affecting expenditure on other essentials as well as risks of falling into debt.
- The review concludes with some promising actions, including:
 - Prioritising boosting social housing provision, to overcome current challenges and create the conditions for long-term systemic change.
 - Promoting regulation, quality standards and tenant protection in the private rented sector.

Background

The Wales Centre for Public Policy (WCPP) was commissioned by the Welsh Government to conduct a review of international poverty and social exclusion strategies, programmes and interventions. As part of this work, the Centre for Analysis of Social Exclusion (CASE)¹ at the LSE was commissioned to conduct a review of the international evidence on promising policies and programmes designed to reduce poverty and social exclusion across twelve key policy areas. This report focuses on affordable housing supply.

The key questions addressed in each of the twelve policy reviews are:

- What effective international poverty alleviation policies, programmes and interventions exist?
- What are the key or common characteristics/standards and features of these different approaches?

The questions are addressed by providing:

- The Welsh context of each policy area and main initiatives being undertaken by the Welsh Government;
- Detailed information on the relationship between the policy area and poverty and social exclusion;
- A summary of evidence of lived experience, which could help to understand how people may experience and respond to policy interventions;
- An overview of the international evidence of policy effectiveness (including case studies); and
- Challenges and facilitating factors associated with policy implementation.

In addition to the twelve policy reviews, we have produced an overview report which summarises the key evidence from each of the individual reviews, highlights connections between different policy areas and reflects on all the evidence to make a number of policy recommendations, or promising actions, within each of the twelve

¹ The Centre for Analysis of Social Exclusion (CASE) at the London School of Economics and Political Science (LSE) was established in 1997. It is a multi-disciplinary research centre exploring social disadvantage and the role of social and public policies in preventing, mitigating or exacerbating it. Researchers at CASE have extensive experience in conducting policy reviews covering evidence in the UK and international literature.

areas. Please refer to the Annex for detail on methodology, including how the twelve policy areas of focus were chosen.

This work forms part of a suite of reports produced by WCPP as part of its work on poverty and social exclusion for the Welsh Government. As well as this work by CASE, there are two reports on the nature, scale and trajectory of poverty and social exclusion in Wales – one focusing on quantitative data and evidence, and a second focusing on lived experience evidence (Carter, 2022a; 2022b). WCPP also commissioned the New Policy Institute to conduct a review of international poverty alleviation strategies (Kenway et al., 2022) which examines overarching governmental approaches to tackling poverty.

Introduction

This review focuses on policies promoting housing affordability in the private and social rented sector and, in particular, on supply-side policies, for which international comparison can be especially instructive. The review focuses on policies **supporting a ‘dualistic model’ (e.g. boosting homeownership; restricting access to social housing) and policies supporting a ‘social market model’ (e.g. regulating and subsidising the private rental sector; widening access to social housing).**

In line with the rest of the UK, in the last 20 years Wales has witnessed growth in the private rented sector and a fall in social housing – the former grew from 7% in 2001 to 14% in 2019 (JRF, 2020), the latter fell from 20% in 1997 to 16% in 2019 (Statistics for Wales, 2019a). While the size of the social rented sector has remained relatively stable over the last ten years, its composition has changed. Between 2009 and 2017, the proportion of social housing owned by local authorities fell from 8% to 6% while the proportion rented from Registered Social Landlords (RSLs) increased from 8% to 10%. This is predominantly due to the large-scale voluntary transfers of stock from local authorities to RSLs. While building by local authorities essentially stopped in the middle of the last decade, it recently started again with 138 local authority new builds completed between 2017 and 2019. In the same decade, 9,789 new RSL dwellings have been completed. Both the overall proportion of social housing and the share owned by local authorities are comparable to those in England, while Scotland has a larger social housing sector (22%), and both Scotland and Northern Ireland have a larger share of housing owned by local authorities (12%) (Statistics for Wales, 2019a; ONS, 2019). Over the same period, owner-occupation fell from 76% in 2001 to around 70% in 2019, remaining stable since 2012.

House prices have been increasing in Wales at a faster rate than in other UK nations (by 16.7% over the year to June 2021), confirming an upward trend that since 2015

has Wales only coming behind England in average house prices (ONS, 2021a). Meanwhile, increases in earnings have lagged behind house prices (ONS, 2021b). While this suggests that affordability has worsened in Wales overall, new dwellings have remained less affordable with a ratio of house prices to earnings 44% higher for new dwellings than for existing dwellings. Disparities across areas remain, with median prices ranging from £46,250 (within Rhondda Cynon Taf) to £600,000 (within Cardiff) (ONS, 2021c).

Housing costs have been identified as a key contributor to the rising living costs that are a driver of poverty in Wales (JRF, 2018; 2020). Among the poorest fifth of working age adults, 42% were spending more than a third of their income on housing – an increase from 36% in 1994-97 (JRF, 2018). Despite slow private rent increases and times of real-terms reductions in housing costs over the last ten years, poverty rates amongst private renters remain higher in Wales than elsewhere in the UK, at around 41% (JRF, 2020). Private renters are also more likely to be overburdened with housing costs compared to other tenures: 39% spend over a third of their income on housing (JRF, 2018). During the Coronavirus pandemic private rental prices grew by 1.5% in Wales in the 12 months to May 2021, a higher rate of increase than in England and Scotland but lower than in Northern Ireland (ONS, 2021b).

Tenants in the social rented sector are also more likely to be living in poverty compared to private renters and owner-occupiers, with a poverty rate stable at around 48% since 2016 (Welsh Government, 2021) – a level much higher than any of the other nations of the UK (JRF, 2020). Social housing tenants are also disproportionately more likely to live in material deprivation (46%) compared to private renters (31%) and owner-occupiers (7%) (Carter, 2022a). Across the UK, there is evidence that the depletion of the social housing stock has been felt most keenly by young people. While in 1997, 15.3% of 20–34-year-olds lived in the social rented sector (excluding those living in their parents' social rented home), in 2017 only 10.1% (around 680,000 young people) lived in their own social rented house (Mulheirn, 2019). Reduced access to the social rented sector leaves young people with a choice between paying market rents or staying in their parents' house. As a result, social renters are on average older than private renters (52 years old compared to 40 years old in the private rented sector), but younger than owner occupiers (57 years old) (ONS, 2019b).

Policy context

Affordable housing delivery has been a priority for the Welsh Government. This is understood as including social rented housing, as well as housing with prices or rents above those of social rent but below market prices and rents, and including housing units provided under schemes which may lead to full ownership (e.g. shared ownership, Help-to-Buy) (Statistics for Wales, 2021). Wales has delivered 80% of new homes at genuinely affordable social rents, compared to just 11% in England (UKHR, 2020). The quality of social housing has also increased in the last decade with 92% of council housing compliant overall with the Welsh Housing Quality Standards in 2019, compared to just 40% in 2013 (UKHR, 2021). Between 2007 and 2019, 3,619 social dwellings were sold via the Right to Buy (RTB) and Right to Acquire (RTA) schemes – prior to RTB being abolished (Statistics for Wales, 2019b). Most sales of social housing were through these schemes, which accounted for 69% of sales in Wales in 2017/18 (ONS, 2019).

The UK Housing Review 2021 shows that Wales recorded the highest output of 2,940 affordable homes in 2019/20 among the UK nations, with 3,100 remaining for 2020/21 to meet the 20,000 affordable housing target (Stephens et al., 2021). However, this performance includes 8,503 Help-to-Buy homes which are unattainable for many low-income households who cannot afford homeownership (Stephens et al., 2021). There is good evidence that Help-to-Buy is not a progressive scheme (Bucelli, McKnight and Summers, 2020; Provan et al., 2017; Stephens, 2021) and that while it accounts for a large portion of public investment, it does not boost homeownership among low-income households and generates deadweight. For instance, Finlay et al. (2016) estimate that 35% of recipients would have bought a similar home without the subsidy. Overall, the level of need still outstrips supply – the Welsh Government’s Independent Review of Affordable Housing Supply (Pamment et al., 2019) estimated an annual need of between 3,000 and 3,900 affordable homes, higher than current delivery levels.

The Welsh Government has a number of policy instruments available. The Housing Finance Grant is a revenue subsidy scheme for social housing providers in Wales which aims to boost capital investment by £250 million in total and is an alternative to capital grants. To support affordable housing provision in Wales, the Innovative Housing Programme was launched in 2017, with the current round focusing on Modern Methods of Construction to increase the scale and pace of social housing delivery. Moreover, while Wales has lower level of control over Discretionary Housing Payments (DHP) than in Scotland, local authorities can use DHP to support families struggling with housing costs – although JRF (2020) notes that awareness is low. A

Tenancy Hardship Grant focuses on providing support for households who experienced financial hardship during the Coronavirus pandemic and is available alongside DHP for renters who fall into arrears. However, while providing immediate relief, the loan does not relieve the burden of increasing debt for those in arrears (see the review focusing on household debt for a discussion of debt arrears).

Other contextual factors include the lifting of the Housing Revenue Account Borrowing Cap which the UK Government announced in 2018, and was effectively lifted in Wales in 2019. This can boost local authorities' opportunities to support delivery of new affordable housing supply. However, not all local authorities were maximising their borrowing capacity prior to the lifting of the cap and barriers remain, for instance in the form of medium/long-term funding certainty, available skills and capacity, and land availability (Pamment et al., 2019). The Welsh Government has also been active in the area of rent policy for social landlords, with rent levels fixed at CPI+1% as the maximum increase allowable for the next four years.

Relationship to poverty and social exclusion

Housing availability, costs, quality, location and security are factors that can exacerbate poverty and social exclusion. Housing can play a preventative and ameliorative role in relation to poverty, but the extent to which this is possible is shaped by the balance between housing supply and demand, the impact of mortgage interest rates, social housing provision, policies regulating the affordability of the private renting sector, as well as broader social security policies that bear on housing costs and the disposable income available to families. Labour market factors, household composition, changes to social security benefits and rising housing costs all form part of the picture that sees income from employment as not sufficient to lift household income above the poverty line for many. Rising housing costs among low-income households have also led to a widening gap between before- and after-housing costs measures of income poverty (Yang, 2018).

Housing impacts a range of social exclusion dimensions. On the one hand, inadequate housing is itself a form of material deprivation and since housing is distributed largely in line with economic resources, social housing is an important means to ensure disadvantaged households have access to decent dwellings. On the other hand, bad quality housing bears on a range of health and subjective well-being outcomes (WHO, 2018; WHO Europe, 2007; Marmot, 2010; Clapham et al., 2018). Both housing quality and stability are linked to education outcomes: an inadequate environment to study and damaging frequent moves, for instance

resulting from unmanageable housing costs, make it harder to sustain education (Mueller and Tighe, 2007; Brennan et al., 2014). They can also affect social participation, as poor-quality housing can increase social isolation and reluctance to invite friends and family home, while instability can disrupt social networks. These are also essential for informal recruitment channels (Gibb et al., 2016), while negative health outcomes bear on employment performance and opportunities.

Rising geographical segregation reflects the increased ability of higher income households to outbid lower income households in accessing better housing options in more 'desirable' neighbourhoods (Musterd et al., 2017). This in turn can curb the ability of disadvantaged households to access quality services and employment opportunities and can expose these households to environments with other undesirable qualities (e.g. high crime rates, pollution). Segregation, together with the hardship experienced by low-income families overburdened with housing costs and living in low quality environments, entrench disadvantage across generations.

However, affordable, secure, decent-quality housing, in a healthy job market could make a substantial contribution to increasing disposable income, preventing material deprivation and maintaining work incentives. For example, there is evidence that the social rented sector has historically played this function, reducing poverty traps in comparison to the private rented sector (Tunstall et al., 2013).

A range of policies could be considered in relation to these dynamics, e.g.:

- Investment in the supply of social housing;
- Rent regulations;
- Demand-side subsidies (e.g. housing allowances); and
- Policies to increase homeownership at the lower end of the distribution.

As mentioned above, this review focuses on policies on supply-side policies, for which international comparison can be especially instructive. Decreasing public expenditure on supply-side housing measures and increasing public expenditure on demand-side measures is a well-recognised phenomenon in the EU, for instance, and one that has been linked to challenges in promoting access to affordable housing (Caturianas et al., 2020).

Relationship to lived experience of poverty and social exclusion

Housing insecurity, poor quality housing and the inability to meet ongoing housing costs can severely affect physical and mental health (Pevalin et al., 2008; 2017; Singh et al., 2019). They can trigger feelings of personal failure, embarrassment, isolation, uncertainty and of lacking control over a key aspect of daily life. Burdened with high housing costs, households resort to coping strategies that exacerbate vulnerabilities in a range of areas explored in other reviews (e.g. household debt, food insecurity, fuel poverty). These challenges can further create tensions within families and, where severe insecurity culminates in forced displacement, it can lead to outright loss of essential social networks.

Countries that have been promoting homeownership as the norm, like the UK, may see specific tenure aspirations. Research in this area has largely focused on the experiences of middle-class young people, for whom the expectation of homeownership has been perceived to be higher than for more disadvantaged groups (Preece et al., 2020). Homeownership is likely to create a greater sense of security, say in comparison to private renting, but the way in which changing housing tenure trends are shaping expectations and aspirations has not been thoroughly investigated. At the same time, there is evidence that, for instance, associations found between different tenure types and mental health outcomes are largely driven by the fact that different tenures serve populations experiencing different levels of disadvantage; and housing type in and of itself is not likely to be the driver of mental health outcomes (Baker et al., 2012). This means, for instance, that low-income households who do own their own homes may still experience worse health and well-being outcomes because of a lack of some of the protection offered by social housing, while also potentially being burdened by unaffordable mortgages (Beer et al., 2011).

At the same time, private renting is shown to take a significant emotional toll on low-income tenants (McKee, 2019). Limited legal protections within the private rented sector are reflected differently in the experiences of tenants depending on how housing insecurity intersects with vulnerabilities in other domains of life, such as:

- Greater stress and challenges are experienced by those faced with precarious employment;
- Limited resources that require difficult choices in cutting essential expenditure;
- A lack of alternatives due to caring responsibilities; and
- Insecure incomes connected to cuts to social security.

Evidence exploring the perspective of people with lived experiences of homelessness (Uscreates, 2018) shows broad concerns with the inadequacy of the UK safety net, particularly as shortfalls in housing-related payments within Universal Credit, relative to housing costs, cause tensions between tenants and landlords. In the private rented sector, vulnerable tenants are aware of the lack of legal protection connected with low regulation and tenure security. They may refrain from reporting inadequate housing for fear that landlords will increase rents or evict them through ‘no fault evictions’ (Citizens Advice Cymru, 2017). Instead, those with greater economic resources and better paid, secure employment are likely to be less vulnerable to the insecurity in the system because they are better able to cope with shocks that would require them to find alternative accommodation. Especially for young professionals, the insecurity in the sector may be of little or no concern and the private rented sector can be the tenure of choice, allowing greater flexibility in comparison to homeownership (Morris et al., 2017).

At the same time, there is a substantial body of research exploring how the shrinking of the social rented sector, and the increased segregation that it produces, entrenches residents’ experiences of marginalisation and stigmatisation (Lupton, 2004; Wassenberg, 2004). Good quality and stable housing can help to mitigate the impacts of poverty (JRF, 2018) and social rented housing was found to have significant potential as a source of support for those on low income. However, evidence of lived experience showed that this sector is plagued by poor quality housing and a lack of housing stock (JRF, 2018).² These experiences often intersect with those of shame more generally associated with poverty and with the specific stigma attached to claiming benefits (Walker et al., 2013). People in neighbouring areas often hold negative and stereotyping images of residents on these ‘deprived estates’ and neighbourhoods, and the broader media have been shown to perpetuate these narratives and stigmatising representations of people living in the sector (Shildrick, 2018; Slater, 2018; Hastings, 2004). Residents sometimes share these negative images, but can also be active in challenging these stereotypes, supported by local community groups and community-based media (Hastings, 2004).

² Provan and Power (2018) note that Right-to-Buy not only reduced the amount of desirable properties available in the social rented sector, but also increased the stigma attached to being a social housing tenant.

Evidence of policy effectiveness

Intervention	Strength of evidence	Effectiveness
Policies supporting a ‘dualistic model’ (e.g. boosting homeownership; restricting access to social housing)	Good	Limited effectiveness (related to a reduced safety net function of a shrinking social sector)
Policies supporting a ‘social market model’ (e.g. regulating and subsidising the private rental sector; widening access to social housing)	Good	Effective (albeit challenging to implement in contexts characterised by high levels of poverty and inequality)

There is a rich international comparative literature exploring different housing regimes. Recent concerns with the UK housing market have elicited a number of publications drawing on international comparisons (Shelter, 2018; Stephens, 2019; Whitehead and Scanlon, 2007; Scanlon and Kochlan, 2011). This literature often classifies the UK system as a ‘dualist regime’ (Kemeny, 2006), where:

- Homeownership is supported via subsidies and favourable legal treatment;
- The private rented sector is both unsubsidised and rents are unregulated; and
- Access to the social rented sector is restricted to disadvantaged groups and its size controlled by the government, with limits on borrowing and public subsidies.

In comparison, countries which are classified as falling under a ‘unitary’ regime (e.g. the Netherlands, Denmark, Germany, Sweden, Austria and Switzerland) have:

- Lower rates of homeownership;
- Social tenancies which are not allocated strictly on the basis of means;
- A private rented sector that is in many cases highly regulated, and sometimes (e.g. in Germany and Sweden) subsidised, so that developers provide housing at a pre-agreed sub-market rate in return for a public investment subsidy.

The next sections explore the effectiveness of policies subsumed under these models in relation to poverty and social exclusion.

Policies supporting ‘dualistic’ housing systems

In the UK, **private rental housing** is not treated favourably in terms of taxes and subsidies in comparison to other countries (Whitehead, 2016; 2018). This is largely because of the greater policy focus on promoting homeownership. Higher housing costs associated with the private rented sector (JRF, 2020) can make it harder for low-income households to build up assets which could support them through income shocks later in life. In a comparative study across European countries, Clair et al. (2019) showed that housing precariousness is consistently higher among private renters than owners in all countries. There are substantial country differences, however, and while in the UK the mean precariousness score is double for private renters what it is for owners, in some countries the gap between these groups is smaller. In some countries the level of precariousness among private renters is lower than the level among owners in other countries. Evidence thus shows that renting can be a less precarious type of tenure than it currently is in the UK depending on the policies that regulate and support it.

Homeownership is not a panacea for precariousness and poverty (Clair et al., 2019, Searle and Köppe, 2014; Wallace et al., 2018). Outright owners and owners with mortgages face different risks in relation to debt and poverty, while low-income homeowners are often unable to invest in their homes and their homes are more likely to be in poor condition than, for instance, those of social housing tenants (Wallace et al., 2018). Moreover, across OECD countries, benefits of measures such as mortgage interest deductions and tax reliefs accrue among higher income households, and are shown to generate adverse effects on housing affordability, particularly in countries with rigid or limited housing supply (Andrews and Caldera Sanchez, 2011).

Moreover, comparative evidence (OECD, 2020a; Salvi del Pero et al., 2016) also shows that policies to facilitate homeownership, for instance through subsidies (e.g. grants or loans) to **first-time homebuyers** largely provide support to people who would have been able to purchase a home *without* the subsidy – this reflects assessment of schemes such as Help-to-Buy in the UK (Provan et al., 2017; Crisp et al., 2017). Shared equity and shared ownership schemes are overall more progressive and reach more disadvantaged households (OECD, 2020a). Wang et al. (2019) found that shared equity schemes in the US can provide stable housing and an affordable path to homeownership for lower-income households. These models represent a very small fraction of the housing stock in all countries in which they are present, and there thus is room for expansion. However, in the UK concerns have

emerged regarding shared ownerships and challenges faced by dwellers who fall behind in their rent payments, are burdened with costs such as ground rent and service charges, and face issues with buying further shares to own a greater proportion their property.

Overall, from the perspective of addressing poverty and social exclusion, policy approaches prioritising homeownership can thus be problematic not just because most **schemes are poorly targeted, but because they can in fact exacerbate issues with housing affordability**, boost demand and contribute to higher house prices and volatility, while **possibly crowding out support for other forms of housing**, by accounting for a significant share of government spending (OECD, 2020a).

The social rented sector has shrunk in the last few decades in many countries with few exceptions (OECD, 2020b). In a dualist system such as the UK's there is evidence that the social rented sector was a particularly effective element of the welfare state and mitigated the impacts of high levels of income poverty (Stephens and Leishman, 2017; Bradshaw, 2008; Tunstall et al., 2013). The large social rented sector served a 'safety net' function, providing an adequate standard of housing and security, and protecting a minimum level of disposable income (Fitzpatrick and Pawson, 2014). Recent years, however, have witnessed divergence across UK nations as England in particular has shifted from a safety-net to an 'ambulance model' of housing (Stephens, 2019), where social housing is seen as a 'temporary refuge' in emergencies (Hills, 2015, 133).

A large social rented sector is necessary for it to play a safety net function, but has in fact faced reductions in new build and shrinkage of the stock, while allocation policy has witnessed increased targeting, and the introduction of fixed-term tenures which decrease security. While devolved administrations including Wales have acted to retain a safety net model and Scotland has taken steps to strengthen it (Stephens, 2019), this trend is common to other dualist systems, such as the US, Canada, New Zealand or Australia, where for instance reforms have led to ending tenure security and increased the concentration of disadvantaged households within the sector (Fitzpatrick and Pawson, 2014; Stephens, 2008; Murphy, 2020).

Overall, this suggests that in dualist systems **social rented housing plays a vital role in providing stable, safe and affordable accommodation. For the sector to play this function, trends towards the retrenchment of social housing should be countered and priority should be given to boosting social housing provision, ensuring security of tenure and improving quality**. Many 'dualist' countries have seen increasing support for supply-side interventions, for instance with schemes aimed at improving supply of affordable housing through non-profit

providers. In Australia third sector community housing providers have been emerging but their role and capacity for expansion remains limited (Pawson et al., 2019). Recently, a cost-rental scheme has been piloted in Ireland (see Case Study 1).

Case Study 1: Cost rental schemes in Ireland

A cost rental scheme has been piloted in Ireland since 2019. It offers not-for-profit housing, long-term, secure tenure with rents charged to cover only the costs incurred in delivering, managing and maintaining homes. In order to operate effectively, usually some form of subsidy to providers is required, e.g. the provision of low-cost finance, preferential access to land and loan guarantees. While the scheme is yet to be evaluated, OECD assessment (2020) of this type of cost-based approach shows both strengths and weaknesses in relation to their impact on poverty and social exclusion. On the one hand, they can improve the sustainability of the sector by taking into account the actual costs of developing, operating and maintaining the stock and they can be an element of a ‘wider affordability’ model by signalling real costs and shaping the price formation in the private rental market. On the other hand, they may fail to provide a genuine affordable alternative because rents do not reflect households’ effective ability to pay. Policies to reduce the cost of land may need to be in place where land prices are high. Policies may also be designed to broaden the quality aspects that are taken into account when setting rents – for instance including aspects related to energy efficiency. This can contribute to overcoming owner-tenant dilemmas and split incentives explored in the review on fuel poverty (namely, the fact that landlords as property owners are responsible for paying for upgrades but are unable to recover the savings which accrue to tenants through lower energy bills).

Across a number of countries, mechanisms to achieve ‘value capture’ through the planning system have been introduced, and experimentation with ‘inclusionary zoning’ (e.g. requirements to include affordable housing within planned residential developments) is widespread (Calavita and Mallach, 2010). There is a vast literature on inclusionary zoning that underscores both successes in supporting affordable housing supply (Gurran et al., 2018) and trade-offs, as these policies risk constraining overall supply and inflating prices. However, a number of quasi-experimental studies (predominantly in the US) find no significant adverse effects on housing supply (Mukhija et al., 2010; Hamilton, 2021) particularly where cost-offsets are offered as incentives for participating developers (Mukhija et al., 2015). Voluntary schemes negotiated at the local level are shown to be less effective in producing affordable units (Hamilton, 2021). Evidence is mixed on their potential to decrease

segregation and promote neighbourhood integration (Rothwell and Massey, 2010; Kontokosta, 2014).

‘Social market’ models of housing

A different approach to housing provision can be found in countries that historically have been subsumed under a ‘unitary regime’. The housing mix is different across these countries (see Table 1). For instance, the Netherlands is characterised by a particularly large social housing sector where providers are largely housing associations, while Germany has a large, but also atypical, private rented sector (see Case Study 2). Some countries with a strong ‘universalist’ approach to provision, like Sweden, see the distinction between social housing and other tenures as especially blurred (Scanlon et al., 2015). What is of great interest in these countries is the **extent to which their housing system facilitates what has been defined a ‘social market’** (Stephens et al., 2003; Kemeny et al., 2007).

Table 1: Overview of housing stock shares in selected EU countries

Country	Home-ownership	Private rental	Social housing	Notes
Austria	37%	30%	25%	17% limited profit housing association; 7% municipalities
Denmark	49%	26%	31%	
Germany	43%	45%	3%	5% cooperative housing; 5% other municipal housing (post lock-in period)
Netherlands	57%	13%	29%	
Sweden	41%	14%	17% (public rental)	24% cooperative housing
Switzerland	37%	53%	3% (public rental)	5% cooperative housing
Wales	70%	14%	16%	6% local authorities, 10% registered social landlords

Source: Housing Europe (2021); Statistics for Wales, 2019a

Case Study 2. Private and social rented housing in Germany

In Germany, the private rented sector is the ‘standard option’ among all segments of the population. Social housing is also atypical in Germany: in exchange for public financial support, housing developers agree to rent their dwellings at an affordable price for a given period of time (traditionally around 30 years). As this ‘lock-in’ period ends, market rents can be charged. In practice, however, where owners are not-for-profit, as cooperatives or municipal housing companies, rents remain below market-level.

Recent years have seen more dwellings coming to the end of their ‘lock-in’ period than the number of new units which have been added, creating shortages. Meanwhile, a decline in temporary subsidies has seen a shrinking of the social housing sector, but this is occurring in a softly regulated rental market, with high levels of tenure security. In fact, rent control reforms in the 1970s balanced restricting the scale of rent increases and greater tenure security with measures encouraging investment in the sector, such as generous landlord tax treatment, the ability to offset losses from landlord activities against other income, and a generous depreciation allowance that boosts the rate of return from net income.

The main problems are in high-demand cities (such as Berlin), where private rents are increasingly unaffordable and dwellings are in short supply (Poggio and Whitehead, 2017). This has led to the introduction of local rent ceilings in high pressure areas. Evidence around these stricter forms of rent control in different contexts is mixed, and the literature highlights some possible negative effects on supply, mobility, and insider/outsider dynamics, whereby those who live in rent-stabilised properties and benefit from below market rents stay for much longer than those in market rented properties (Mense et al., 2019; Jenkins, 2009). As ‘insiders’ are not necessarily disadvantaged households, strict rent regulation does not achieve hoped-for distributional goals.

In social markets, the interaction between social and private rented housing decreases housing costs and segregation, showing the key role those supply-side interventions can play in facilitating wider housing affordability (see Case Study 3). Analysis of these systems highlights some key elements supporting them, for instance in relation to policies that govern land release. As an example, German local authorities are allowed to cap land values at pre-permission prices at the time planning permission is granted, with the right to acquire land at reasonable costs and

to capture part of the 'planning gain'. This contrasts with the UK system which overwhelmingly benefits the landowner and envisages more complex procedures to secure part of the planning gain to help fund social housing and infrastructure. In this direction, recent calls to reform the *1961 Land Compensation Act* are important (HCLGC, 2018) as they would allow this balance to change and make funds available to boost infrastructure and affordable housing building.

Case Study 3. 'Social market' systems in Europe

Social market systems in central European and Nordic countries (Germany, Austria, Switzerland, Denmark, the Netherlands and Sweden) are characterised by large shares of housing let at below-market rents, often by non-state landlords, non-profit organisations and sometimes partially owned by local authorities. Access is not restricted to the most disadvantaged and rent structures are sensitive to demand. These integrated rental markets (in which there is less difference between private and social renting) see social renting competing for tenants against profit landlords, resulting in a fall in real rents and lengthening waiting lists for social rental housing, which stimulates increases in supply.

There is evidence that integrated 'social markets' equalize acceptable living standards and produce better housing quality (Borg, 2015). Good quality dwellings, affordable rents and adequate security of tenure attract a wide group, including better-off households, making renting competitive with owner occupation while decreasing segregation. This also shows that different systems are better able to contain increasing housing costs associated with private rental housing, as 'social markets' can keep rents low at a systemic level (Kemeny et al., 2007).

Transferability needs to be considered carefully, since in contexts characterised by high levels of poverty and inequality, some degree of rationing social rented sector provision may be necessary in order to provide an adequate safety net (Stephens et al., 2003). Nevertheless, the wider affordability that characterises these systems can be considered as a long-term goal, which in the short-term requires increasing supply of good quality social housing, together with actions in the social security system to provide adequate social protection.

Comparative evidence has indicated the way in which **unitary regimes characterised by a 'wider affordability' model have played a protective role during the global financial crisis.** Norris and Byrne (2017) compare Austria, which has a unitary regime characterised by a large social rented sector, with 80% of

households qualifying for entry, to Ireland, which like the UK has a dualist regime. Authors show that in Austria increased social sector housebuilding helped to mitigate the impact of falling private housing output during the global financial crisis. Competition between the social and private rented sector in Austria contributes to depressing rents and raising standards. The affordability and attractiveness of rented housing in Austria also means that households are not pushed into marginal homeownership (homeownership that is insecure and unsustainable because of high levels of indebtedness) which helps prevent boom/bust market cycles.

In contrast, Ireland's residualised social housing sector drove volatility within the private housing market. Here, low levels of social housing provision necessitated extensive public spending on housing allowances for private renting households which further fuelled demand and inflated rents and house prices. Moreover, in Austria, the role of private finance in funding the social housing sector bolstered its resilience, while in Ireland (where funding for social housing was almost entirely derived from central government grants), large cuts of around 80% in the social housing output in the late 2000s increased the fragility of the sector. As noted above, Ireland has introduced supply-side policies to boost the type of competition between the rental sector and homeownership which characterises unitary systems (see Case Study 1).

Recognising these differences between housing regimes does not imply overlooking the way in which housing systems have been changing in recent years. Unitary systems have undergone a 'dualisation' to different degrees: some, like in Germany, despite diverging from their historical unitary model, saw the rental sector retain its capacity to compete with homeownership (Stephens, 2020). In Austria, the social housing sector has maintained and possibly escalated its importance (Mundt, 2018). The volume, price, and quality of social housing make it competitive with private housing.

Cross-country comparison of European countries shows that the degree of residualisation of the social rented sector is lower in countries whose allocation systems remain less targeted and still aim at broader income groups (Angel, 2019). In other countries like Sweden and the Netherlands, the dualisation of the housing system has been more dramatic (Christopher, 2013; Hoekstra, 2017; Stephens, 2020). van Duijne and Ronald (2018) showed how increasing dualisation in the Netherlands affected a range of social outcomes. They explored these in Amsterdam in particular, where rates of social rented housing declined from close to 60% in 2000 to 44% in the mid-2010s and homeownership increased from 11% to 30% in the same period. Segregation and class differences in tenure deepened, with greater polarisation of social and private housing. They demonstrated social rented housing as being residualised, undermining its role in relation to housing affordability, towards

which it contributed both directly (by providing access to low-cost housing to a large part of the population) and indirectly (by dampening private demand and private rent prices).

EU policy has had an influence on housing policy in many of these countries because, while social housing is considered a service of general economic interest (SGEI) making it exempt from state aid regulation, this exemption is limited to ‘disadvantaged citizens or socially less advantaged groups’. This has shaped recent policy in unitary countries, such as the Netherlands and Sweden where SGEI regulation clashed against wider eligibility conditions for social housing, contributing to increasing liberalisation and dualisation of the housing system in these countries. Experts have recommended scrapping the targeting associated with the SGEI exemption, recognising the distortionary effects of EU law undermining the social market and wider affordability function of these systems (Caturianas, 2020).

Challenges and facilitating factors

A summary of the challenges and facilitating factors relating to policies that aim to address poverty and social exclusion by promoting affordable housing supply is provided in Table 2.

Table 2: Challenges and facilitating factors

Challenges	Facilitating factors
<ul style="list-style-type: none"> • Boosting housing supply requires considerable investment, while efficient spending needs to overcome barriers to construction such as the lack of incentives for local authorities and developers, or inadequate resourcing of local authority planning departments. • The housing system does not operate in isolation from the wider welfare system. Slow wage growth or cuts to social 	<ul style="list-style-type: none"> • Synergies between affordable housing and other potentially competing planning objectives can be maximised (e.g. combining environmental and affordable housing goals); where these other planning goals present a barrier to affordable housing development, ways to offset negative impacts should be evaluated. • Some political momentum exists at UK level in considering actions that

security undermine its safety-net function and impact housing affordability.

- Political commitment needs to be long term for systemic change to take place, while political and public pressures may also divert policy focus and investment to homeownership.
- Several institutional actors ultimately affect housing outcomes. Beyond actions taken by devolved administrations, HM Treasury, Department for Work and Pensions and Bank of England policies all affect housing.
- Delivery of affordable housing is sometimes blind to trade-offs between the affordability of housing and adequate access to transport and key services. Delivering affordable housing in affordable places is an idea that requires cooperation between sectors – for instance because planning is a function of local authorities, and transport is function of the Welsh Government.

would facilitate the adoption of supply-side measures in Wales: from supporting local authorities and housing associations in the delivery of affordable housing, to reforming the planning system, land supply and compensation.

- The international literature shows that while cooperatives are a small but growing form of provision in some countries, in others (e.g. Sweden, Denmark) they represent a large share of overall provision and play an important role in boosting affordable housing supply. They also ensure residents' engagement, as well as keep costs down.

Conclusion

Housing can play an important role in preventing and ameliorating poverty, but it can also reproduce and exacerbate existing disadvantage. Its impact on poverty depends on how the housing system shapes availability, cost, quality, location and security of accommodation. The UK system has long prioritised homeownership and demand-side public investment, while the shrinking of the social rented sector undermines what once was a particularly effective element of the welfare state. The system also increases spatial segregation, affecting several dimensions of social exclusion. The provision of genuinely affordable housing has been protected in Wales more than in England, but there are opportunities for Wales to improve provision. Lessons can be learnt from other European countries, where the social rented sector competes with the private rented sector, creating a 'wider affordability' system that encourages higher standards and curbs excessive housing costs. Increasing affordable housing supply may thus not only deliver short-term gains, but improve long-term housing affordability and reduce volatility in the housing market.

Transferability to Wales

Wales has already shown policy divergence from Westminster in this area through a greater protection of the social rented housing sector (e.g. by abolishing Right to Buy), and the provision of affordable housing delivery has been a priority for the Welsh Government. Aspects of welfare, which are not devolved, play a limiting role by intersecting with housing policy and high levels of poverty make the creation of a 'social market', boosting wider affordability, difficult. At the same time, available short-term solutions focusing on increasing supply of social housing may lead to long-term systemic change.

Promising actions

This section concludes with **promising actions** to consider in the Welsh context as emerging from the analysis of the international literature.

- 1. Priority should be given to boosting a social housing provision which is genuinely affordable, secure and high-quality.**
 - Scarcity of social housing leads to forms of rationing, increases competition for homes and increases costs in the private sector.

- Short-term solutions focusing on increasing the supply of social housing may lead to **long-term systemic change – creating the conditions necessary for the system to increase ‘wider affordability’**.
 - There is evidence that systems that promote wider affordability across the housing system reduce costs and volatility, increase quality standards and reduce segregation.
- 2. **Promoting regulation, quality standards and tenant protection in the private rented sector** can both promote greater affordability in the private rented sector and contribute to a wider affordability system.

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Annex: Methodology

Definition of poverty and social exclusion

For the purposes of this project it was agreed that a multidimensional concept of disadvantage, including social as well as economic dimensions, would be adopted. The Bristol Social Exclusion Matrix (B-SEM) (Levitas et al., 2007) provides the theoretical structure that underpins the selection of policy areas. The B-SEM uses the following working definition of social exclusion:

“Social exclusion is a complex and multi-dimensional process. It involves the lack or denial of resources, rights, goods and services, and the inability to participate in the normal relationships and activities, available to the majority of people in a society, whether in economic, social, cultural or political arenas. It affects both the quality of life of individuals and the equity and cohesion of society as a whole.” (Levitas et al., 2007, p.9).

It is structured around three main domains and ten sub-domains (see Table A1).

Table A1: B-SEM domains and sub-domains

A. Resources:	
A1: Material/ economic resources	Includes exclusion in relation to income, basic necessities (such as food), assets, debt and financial exclusion.
A2: Access to public and private services	Relates to exclusion from public and private services due to service inadequacy, unavailability or unaffordability. The range of services encompass public services, utilities, transport, and private services (including financial services).
A3: Social resources	Reflects an increasing awareness of the importance of social networks and social support for individual well-being. A key aspect relates to people who are separated from their family and those who are institutionalised.

B. Participation:

B1: Economic participation	Includes participation in employment – which is not only important for generating resources but is also an aspect of social inclusion in its own right. Whether work is a positive, inclusionary experience depends partly on the financial rewards it brings, and partly on the nature and quality of work. Work is understood broadly and includes caring activities and unpaid work.
B2: Social participation	Comprises participation in common social activities as well as recognising the importance of carrying out meaningful roles (e.g. as parents, grandparents, children).
B3: Culture, education and skills	Covers cultural capital and cultural participation. It includes the acquisition of formal qualifications, skills and access to knowledge more broadly, for instance digital literacy inclusion. It also covers cultural and leisure activities.
B4: Political and civic participation	Includes both participation in formal political processes as well as types of unstructured and informal political activity, including civic engagement and community participation.

C. Quality of life:

C1: Health and well-being	Covers aspects of health. It also includes other aspects central to individual well-being such as life satisfaction, personal development, self-esteem, and vulnerability to stigma.
C2: Living environment	Focuses on the characteristics of the 'indoor' living environment, with indicators of housing quality, inadequate housing and exclusion in the form of homelessness; and the 'outdoor' living environment, which includes neighbourhood characteristics.
C3: Crime, harm and criminalisation	Covers exposure to harm, objective/ subjective safety and both crime and criminalisation. This reflects the potentially exclusionary nature of being the object of harm, as well as the exclusion, stigmatisation and criminalisation of the perpetrators.

Notes: the descriptions of the sub-domains are the authors' understanding of what each sub-domain includes based on Levitas et al. (2007).

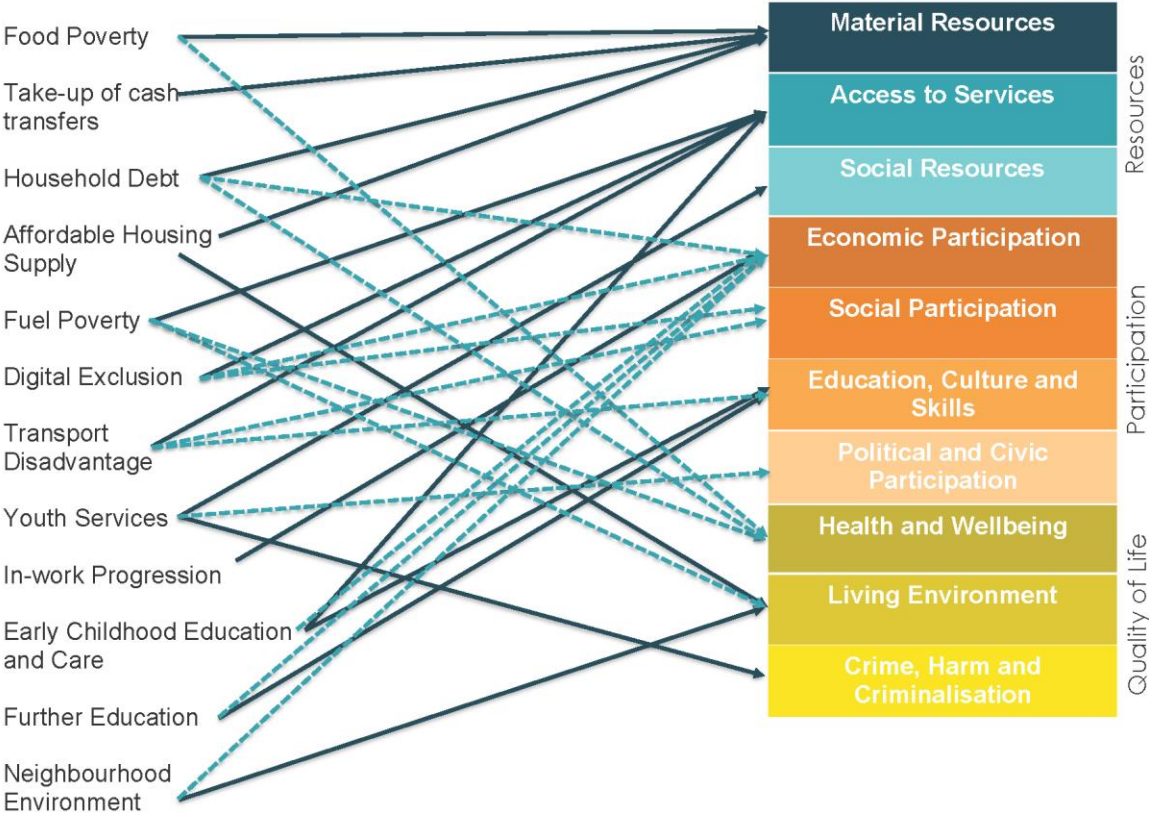
Selection of policy areas

The first step involved the research team identifying a long list of 40 policy areas with reference to the domains and sub-domains of the B-SEM. The long list was, in part, informed by a review of key trends in poverty and social exclusion in Wales, across the ten sub-domains, conducted by WCPP (Carter, 2022a); a consideration of the Welsh Government's devolved powers across policy areas; and meetings with experts. From this long list a shortlist of 12 policy areas was agreed. The shortlisting process took into account advice on priority areas identified by a focus group of experts, but ultimately the final list of 12 policies was selected by the Welsh Government.

The final set of 12 policy areas covers a broad spectrum within the B-SEM, and most are related to more than one sub-domain within the B-SEM (Figure A1). However, the final selection should not be considered exhaustive from a poverty and social exclusion policy perspective. This is because some important policy areas are not devolved to the Welsh Government and, therefore, were not included. For example, while adequacy of social security is a key driver of poverty the Welsh Government currently has no powers to set key elements of social security policy (e.g. rates and eligibility criteria for the main in-work and out of work benefits) and this is the reason why we focus on one aspect of social security, take-up of cash transfers, that the Welsh Government has power to influence.

Another factor was the project's scope and timescales, which limited the selection to 12 policy areas and meant that other important areas had to be excluded (for instance, social care, health care and crime). To make the reviews manageable, it was also necessary to identify a focus for each of the 12 policy areas. The research team identified a focus for each of the reviews on the basis of a brief initial scope of the research evidence and consultation with WCPP who, where relevant, consulted sector and policy experts. This means that there are likely to be additional policies which could be included in a poverty and social exclusion strategy by the Welsh Government *within* the 12 policy areas and *in addition to* the 12 policy areas reviewed.

Figure A1. The selected policy areas mapped to relevant B-SEM sub-domains



Source: prepared by the authors

Notes: The figure outlines the mapping of the 12 selected policy areas to the B-SEM matrix: bold lines show the relationship between each policy area and main B-SEM sub-domain(s), light dotted lines identify selected secondary B-SEM sub-domains the policies are related to (a full list of these ‘secondary subdomains’ is included in the specific reviews).

Review stages

In the ‘evidence of policy effectiveness’ section, while it was not possible to produce a full systematic review (although evidence from existing systematic reviews and meta-level analyses were included where available), a structured approach was adopted. This first involved an evaluation of the state of the relevant literature, focusing on whether effectiveness was assessed via methods standardly considered better suited to establish causality (e.g. on the basis of hierarchical grading schemes such as the Maryland Scientific Method Scale (Sherman et al., 1997) or the Oxford Centre for Evidence-Based Medicine’s (OCEBM) levels of evidence (Howick et al., 2011) such as randomised controlled trials (RCTs), meta-analyses of RCTs and other quasi-experimental studies. While RCTs are particularly powerful in identifying whether a certain intervention has had an impact in a given context, other forms of evidence, such as quasi-experimental and observational studies with appropriate

controls may be better suited, depending on the type of intervention, to establish the range of outcomes achieved as well as providing an understanding of distributional effects and allowing sub-group analysis (i.e. ‘for whom’ did the intervention work). In the process of assessing evidence, case studies were selected to further elaborate some of the key findings resulting from the review and to identify specific examples of promising policy interventions.

In a few areas, the literature review highlighted a lack of robust evaluations – the reviews underscore this and present the best available evidence found along with an assessment of the strength of the evidence. Where possible, an evaluation of the underlying mechanisms of change was also considered, allowing an explanation of not just whether, but why a certain intervention works, thus also facilitating the identification of challenges and facilitating factors, which is crucial in thinking about not just ‘what’ should be done but also ‘how’ it can best be implemented.

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- improved our understanding of the transferability of policies to Wales; and
- informed our consideration of implementation challenges and facilitating factors.

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