Chapter Eight

Finance and Shaping the Future of Affordable Housing

Kenneth Gibb

Introduction

This chapter is concerned with the necessary contribution of finance, funding and subsidy to the delivery of more affordable or generally lower cost housing. It is informed by Derek Ballantyne's earlier paper (Ballantyne, 2016), by work with Duncan Maclennan for the Joseph Rowntree Foundation, a more recent comparative project for the European housing Partnership (Gibb and Hayton, 2017) as well as comments by various members of the working group at various points over the life of the project. After this brief introduction, there are four main sections: we set out a core group of principles for thinking about finance and subsidy (and this section draws extensively on Ballantyne's contribution); second, we consider a series of challenges and barriers found in the three countries studied; third, we look at a wider set of possibilities for innovation; fourth, there is a short conclusion.

"Housing finance is a critical element in any housing system."

A Challenging Backdrop

Housing finance is a critical element in any housing system. It can help improve outcomes but it can also be part of the problems faced, especially given that finance itself is a sector that is affected by other wider factors and drivers. The increasingly overused political language of housing *crisis* has a convenient media currency but the salient housing problems we observe in the UK, in Canada and Australia are really overlapping chronic problems that periodically combine with external shocks and specific government policy change e.g. on social security, to generate high salience dysfunction. High, and in some cities, gravity-defying, housing cost burdens are the product of many things: underlying strong demand, scarce land, mortgage lending policies, sustained historically very low interest rates, endogenous speculation arising from market conditions, tax and monetary policies that promote and sustain these inequalities forcing longer commutes and freezing regional migration as housing costs prohibit migration. We can readily see that finance plays an important part in underscoring many of these destabilising factors.

Developing coherent and progressive housing policies for the future requires we understand (and can marshal data in an organised way), the interconnections of how housing systems work and how they evolve. Housing is a system of connecting elements – land, finance, investment product choices, infrastructure, the existing built environment, social security and tax, interdependent housing tenures, private, not-for-profit and public sector stakeholders, trade bodies and politics. We have to locate the nature, challenges and reform scope for housing finance specifically in this problematic and systemic context. Making housing work better and deliver more affordable outcomes is also tied into other complex systems such as transport, labour market trajectories, urban-regional economies and forms of multi-level governance. The scope for unintended consequences and perverse outcomes increases with these multiple connections.

Path dependency is not just about the undoubted importance of the existing housing stock in current market and housing sector outcomes and opportunities, it also reflects the significance of the body of live existing housing policies that have accumulated over time and set the parameters of what can happen in a housing system. Both English and Australian housing[1] in recent years has been beset by what Christine Whitehead calls 'initiative-itis', with a plethora of policy announcements and then further decisions which dilute or reverse earlier announcements before they fully take effect (e.g. the English government proposals for planning obligations to fund discounted new build for first time buyers – starter homes). These political reversals of approach are not helpful, reduce coherence, consistency and makes investment less attractive. They are, perversely, also a barrier to more durable housing reform.

Despite the rhetoric of our governments facing the chronic problems discussed elsewhere in this volume, we know that markets are not going to 'fix' anytime soon. For that reason intervention to support and promote sub-market renting and home ownership will remain key ways to improve outcomes. We know that the radical decline of capital subsidy for social housing in the UK (Scotland and Wales, to different degrees, excepted) and its general minimal presence in Australia and Canada creates a different set of affordable housing offers: shallower subsidy for 'affordable' or mid market rent, more reliance on leverage and sweated equity (including re-financing), the search for public-private funding partnerships and for cross subsidy across a diversified range of activities. However, much of this is either pro-cyclical and therefore vulnerable to downturn, or in the case of affordable products like mid market rent in Scotland, new products that are just beginning to test the market that reflect as much the new realities of a large and growing rental market as they do a genuinely long term affordable alternative[2].

[1] See: http://www.tandfonline.com/doi/abs/10.1080/02673037.2015.1044948

[2] Mid market rent is a Scottish affordable rent project based on an upfront capital grant, initial rents at or around the rental ceiling for personal housing allowances and targeted at key workers. Focused on new build homes, and operating the new indefinite Scottish private tenancies,the sector is already highly competitive with the traditional private rented sector and may be feeding back into social housing management thinking.

We cannot overstate the importance of austerity and ongoing budget deficit and debt questions. The UK recently moved quickly to deregulate[3] in order to shift housing association debt off the public balance sheet when it was reclassified by the UK's Office of National Statistics. It is highly unlikely that a UK government, also confronting Brexit uncertainties, will commit to large scale capital funding of low cost housing if that debt is in large part going to add to the debt on the UK balance sheet. In a nutshell, this is why partnership with the private sector and third sector foundations, as well as provider refinancing (e.g. by vehicles like affordable/social REITs) and new housing credit institutions located off the public sector balance sheet, remain so widely discussed.

The theme on metropolitan pressured markets has highlighted high demand, speculation and unaffordability. Salvi del Pero et al (2016) provide an overview of affordable housing among OECD member states. They focus on the concept of *overburden* i.e.. the share of the population in the bottom quintile of the income distribution spending more than 40% of disposable income on mortgage costs or rent – this is similar to the 30:40 Australian concept of housing stress. They found: (p.4):

- Just under 15% of tenants and 10% of mortgagors pay more than 40% of (disposable) income on housing
- The housing cost *overburden* is much higher among low-income households: just below 40% for private tenants and mortgagors
- Middle income households also face affordability pressures: just under 9% of such mortgagors are overburdened across the OECD
- Homelessness statistics indicate that across the OECD between 1 and 8 people in every 1000 do not have 'regular access to housing'
- 15% of low-income households are overcrowded.

The OECD affordable housing database[4] (OECD, 2017) is a useful new resource with which to assess comparative aspects of affordability and non-affordability (and policy objectives and instruments). OECD data indicates the differential performance for the UK, Canada and Australia. The UK has one of the highest private renting shares of overburdened households (in excess of 60%), but a more moderate relative level for social renting and mortgaged owners (both around 35%). Canada's rate of overburden is, unusually, higher for mortgaged owners than private tenants (broadly 50% and 45%) and in Australia, the same patterns prevail but at a lower rate (40% and 30%, approximately).

Clearly, these figures apply to the bottom fifth of the income distribution and, moreover, data for social renting is only available for the UK. Also, it is the case that the data obscures from the critical issue of access to home ownership and higher downpayment conditions now operating in the UK (in particular). But for all that, the widely-accepted overburden dimension is clearly a significant problem for private rental tenants and, though less so, for burdened mortgagors. Looking at this overburden concept by housing tenure across the OECD, it is clear that social housing makes a difference and reduces the proportion facing an excessive burden; mortgage burdens are more varied but can be high whereas unaffordability is highly prevalent in the rental market.

The combination of housing shortages and excessive housing cost burdens as evidenced in the earlier chapter on the housing stories in our three main countries studied sets the scene and leads us to ask whether housing finance and subsidy mechanisms can be better deployed to promote more affordable supply and ultimately more manageable cost burdens.

Principles

It is in this context that the analysis found in Derek Ballantyne's 2016 paper for the Shaping Futures project is so useful. The paper distinguishes between financing new build and on-going operations. Our focus is mainly on the former though clearly operational finances may be organised in certain circumstances to provide collateral for investment through leveraging sweat equity. At the same time, initial commitments to fund development may also have operational consequences – so there is an inherent interdependence between new build and operational considerations.

Figure 1: Housing Finance:
The Essential Elements (Ballantyne, 2016)

Equity ▸ Cash / operator surpluses ▸ Capital grants ▸ Investors / housing funds ▸ Cash	**Construction costs** ▸ Built form ▸ Technologies ▸ In-kind contributions
Land / density ▸ Location ▸ Public contribution ▸ Planning benefit ▸ Asset re-use	**Financing** ▸ Low-cost funds ▸ Extended amortization ▸ Deferred capital / interest ▸ Alternative capital sources

[3] Sometimes described more neutrally as 'regulatory reform'
[4] http://www.oecd.org/social/affordable-housing-database.htm

There are essentially four elements that impact the cost of housing production, and therefore the affordability of this housing (see figure 1). Most affordable and social housing models seek to have an impact on one or more of these factors (equity, construction costs, land/density and financing itself). Under each of these headings or quadrants one finds a combination of private sector led or public led mechanisms that can assist delivery of affordable housing. But it is clear that however one approaches the question, somewhere there will be an opportunity cost and therefore a required subsidy of some form (grant, revenue, personal subsidy, land, guarantees, in-kind support, etc.) required to deliver below market cost provision either in terms of production delivery or at the point of consumption (or both). The market will not provide it without some element of financial support, be it subsidy or coercion (e.g. planning obligations) so that the minimum required rate of return on cash invested can be procured.

Ballantyne suggests that a variety of mechanisms can be used to reduce the cost of building housing. The effectiveness of these measures will vary over time and among the jurisdictions studied. Most financial models focus on equity, land and financing. Construction costs are more difficult to reduce. Materials and labour are not generally variable in a particular geography. New construction technologies have improved housing quality but have not reduced housing delivery costs significantly but nonetheless do have an impact on housing operations costs – particularly in energy consumption and production. Perhaps the most likely way to make gains with construction costs is through large scale consortia operating as monopolists (ie buyer power) to bargain down procurement costs. To be truly effective however this does require a significant element of standardisiation in what is built and that is not always acceptable to members of such consortia, inhibiting their effectiveness.

The past and current financial models in the countries in focus examined by Ballantyne include one or more of the following elements:

- Low cost land / public provision of land[5]
- Capital grants for land acquisition and / or construction
- Planning and permit concessions[6]
- Equity (including grants, project delivery support, low cost equity investment)
- Low cost financing (construction financing and long-term debt)
- Tax concessions (construction, financing and investment)

Ballantyne's analysis raises a couple of further important points that need to be confronted. First, he argues that the search for financial innovation (e.g. Gibb, et al, 2013) is probably not going to uncover radical new untapped opportunities. We know what is possible and that fundamentally the different stakeholders have to co-operate around the irreducible fact that private sector participation, including construction interests, requires a given rate of return for the risk confronted. It is about putting the connections and the incentives to work in local contexts and institutional settings. Inevitably, politics and current priorities determine the resources available but thereafter those resources need to be used effectively in whatever way they are co-ordinated. In the UK case, we saw this with the distinction between the overall capital spend programme for social housing (the key political decision) as opposed to the more technocratic micro decision about how that funding would be allocated according to grant rates and allocations across different programmes. It is true that there are important idiosyncratic national examples of affordable housing funding that take us further, such as in France, Austria or in the USA, but barriers to their speedy translation to other settings are considerable and often insurmountable. (Gibb and Hayton, 2017)

The second point is related – the bullet list of elements above all have public financing implications directly or indirectly. Scarce public resources must be well used where their impact is greatest. While governments may not always recognise the very existence of tax concessions we can hardly support redistributive and progressive reforms to the housing sector that purport to increase efficiency if we do not at the same time recognise the continuing need to maximise public value for money.

Recurring and Intensifying Problems

Figure 1 suggested focusing on equity, land, financing and construction costs. We can use these principal elements to group together the recurring and in some cases worsening problems that affordable housing finance faces. Box 1 summarises an evidence review (Gibb and Hayton, 2017) that outlines the main barriers to expanding affordable housing supply suggesting that the politics and political economy of housing supply are major considerations. Who gets what, how they protect their share in a context of growing wealth inequality and the increasing importance of housing assets within personal portfolios and the ability to earn rentier and rent-seeking profits – generate major political constraints on the shape of housing policies and also their redistributional content.

[5] This may involve public sector landowners, seeking to maximise value, acting as partners earning an income return from their involvement or perhaps simply a ground rent in return for a below market transaction price for the land

[6] A key battleground in current policy debates in the UK re. land value capture, the use of CPOs and compensation for landowners, land trusts and the case for an affordable housing land use class.

Going back to Ballantyne's quadrants diagram, equity includes organisational income surpluses and implicitly revenue subsidy and personal income-related subsidy. It also involves capital grants from government and equity investment from the provider or partners. Austerity and budget cuts have of course loomed large for nearly a decade and housing is particularly struck because of the political attractiveness of cutting capital budgets and the added impetus to shave back large social security budgets, even though the latter have increasingly come to underpin the operational delivery of affordable housing in countries like the UK. This has in turn led to a search for different if not new ways of supporting housing through large-scale state-backed guarantees and contingent liabilities for both housing association bond finance and owner occupation through loan guarantees and shared equity products.

The broader issue is the simultaneous decline of capital programmes and per unit grants in England (not so much for grant rates in Scotland and Wales). Inevitably this leads to spreading grant further with shallower subsidy. In the UK, it has also implied more diverse tenure offers from providers e.g. low cost and outright sale for home ownership. The second challenge in this area is the covenant and borrowing limits associated with provider capacity to borrow against its own unencumbered housing stock and assets, something made worse in England by rent controls cutting social rents for 4 years.

Land is an asset that can also be used and we hear repeated calls for greater use of unused or redundant public land for housing though this can come up against the test of best value for the taxpayer (and hence the argument for landlowners to play different roles in housing projects such as equity investors or partners seeking long term income returns). At the same time, there is the challenge of making the best possible use consistently of affordable planning obligations. These differ across the UK and different sector actors view the problems in opposing ways – some would favour statutory certainty and clarity to help with land purchase decisions; others want to keep the system as local and context-specific as possible. It is hard not to see the recent changing environment for section 106 agreements (a planning instrument that provided a quota of affordable housing, locally determined, within larger private developments in areas of local need), not as part of the *initiative-itis* mentioned earlier. Certainly, the efficiacy and quantitative significance of affordable housing supply through this route has been considerably curtailed in England.

Box 1:

Barriers to Affordable Housing Supply in Western Europe

Non-affordability is symptomatic of wider problems in different parts of the housing system. Major barriers to increasing supply include:

- Land market failure.
- Inadequate public funding available to drive programmes to meet unmet housing need.
- Limits to or political constraints on planning-led solutions.
- Low supply responsiveness as a result of the above points and also general supply delivery problems (e.g. planning delays) and the industrial or business logic of private housing developers, which interacts with the wider planning system for new housing.
- Specific finance failures e.g. an unwillingness to invest in or lend to affordable housing provision perhaps due to a lack of credible provision alternatives (at least as perceived by finance) or risks associated with changing provision of personal subsidy.
- The unwillingness of many social and affordable providers to develop in the face of a perceived high risk environment.
- The capacity of special interests, who benefit from the status quo, to impede or resist change.
- Tighter mortgage regulation creating a more conservative environment for first time buyer loans.
- Wider market constraints caused by previous or current policies and practices promoting gentrification across wide swathes of city housing markets, which serves to build inflationary pressures and lock lower income households out of these housing markets.

Source: paraphrased from Gibb and Hayton (2017) *Overcoming Obstacles to the Funding and Delivery of Affordable Housing Supply in European States*. European housing Partnership, pp.24-25.

Can more funds from the private sector be made available for affordable housing? Despite the importance in recent years of UK named bond issues, private placements and aggregator funds, there remains a sense that interest remains comparatively modest from private sector sources, certainly in terms of the (slowly changing) relative lack of appetite for investment in private renting (including new developments) despite a succession of attempts to coax them in by governments going back to the 1980s. Similar struggles have occurred in terms of banks and pension funds and initiatives like social REITs, which try to overcome the funders reluctance to get involved in social/affordable housing management.

It used to be said that much social and affordable housing investment was counter-cyclical but in the current environment, it has become necessarily pro-cyclical and reliant on cross subsidy and rising rents and prices. This creates vulnerability and actually limits scale over the economic cycle.

Possible Ways Forward

One of the themes running through *Shaping Futures* has been the benefits of diversification – and this goes back to the previous project, *New Times, News Business*. However, while venturing into different cognate areas of work, diversified forms of housing or community economic business may work in specific cases, it may not always cohere provider strategies to stakeholder interests and indeed there may not be a compelling financial argument, if the specifics of the organisation make it less attractive. In other words, it is a context-specific principle and one that might be trumped by specific governance and other imperatives. In research conducted recently (Gibb, et al, 2016), we looked at the social housing landscape in Scotland and there was no clear evidence that diversification was necessarily a strategic imperative or indeed made sense operationally. Arguably, the pressures and conditions apparent in England, including the decision to cut social rents and operate in an environment rapidly retreating from funding social housing with capital grants (though this may now be changing), are significantly different from the more insulated picture in Scotland. Even so, all of the UK will have to deal with the perils of Universal Credit on tenant incomes – so the pressure to diversify may yet arise in Scotland. In any case, not all providers do wish to 'stick to their knitting' and just carry on to do housing management of social housing. New revenue streams, cross subsidy, market renting and for sale, business like care homes as well as different tenure mixes, economic development and partnership working – all may make perfect sense and contribute to future affordable housing development via provider equity.

Larger providers can and do effectively use reserves, re-finance, leverage and sweat equity to support their borrowing. This requires balancing how far one wishes to take on debt and capacity to repay, the timing of the debt's repayment and covenant rules. Again, this is one avenue for providers who have assets and financial strength but it is not going to be as relevant to many providers who do not have such resource, track record and capacity. Rather it is likely to be a source of future concentration within the sector (as in the absence of other funding streams, it makes a case for mergers). Stock transfer from public housing to a non-profit is a form of sweated equity, taking the net existing use value of the transferred stock to unlock re-investment and also free up management (and tenants) to change direction.

Arguably, the pressures and conditions apparent in England, including the decision to cut social rents and operate in an environment rapidly retreating from funding social housing with capital grants are significantly different from the more insulated picture in Scotland.

In England, councils' ability to borrow for housing investment (including in theory to support other landlords too) has only in 2018 been released from external controls imposed by central government for public spending reasons[7]. Alongside this it has long been argued that capital spend by councils on housing investment should not count as public spending but should be treated as a stand alone income-generating (i.e. housing rents repay capital costs) public corporation. In the UK councils have never won that argument[8] but Scottish councils do not face government-imposed external borrowing requirements[9]; nor are they deterred by council house sales (recently abolished). Their ongoing investment plans for new homes, in part funded by government grant, are constrained only by the prudential borrowing framework and the council's own corporate capital spend and debt repayment priorities. Should councils have their housing capital budgets taken out of the public spending control system? There is no direct accounting issue equivalent to the UK's in Australia. State governments have no evident interest in borrowing for affordable or sub market housing capital investment. Rather, accountancy arguments in Australia apply more to the appraisal of public housing assets and the treatment and balance sheet effects of public housing transfers[10].

[7] And it is too early to tell the impact of this widely supported reform.

[8] Which is why some English councils are experimenting with local housing companies which is allowing more housing to be built though it is largely affordable and not social.

[9] The November 2017 Budget approved a degree of limited liberalisation of the cap for local authorities in high pressured areas in England. An announcement followed in 2018 finally abandoning the cap altogether

[10] See: https://www.ahuri.edu.au/__data/assets/pdf_file/0010/10711/AHURI_Final_Report_No273_Recent-housing-transfer-experience-in-Australia-implications-for-affordable-housing-industry-development.pdf

Recent debates inside (and outside) the Scottish Government have considered new ways to incentivise the delivery of housing land for the affordable and social sectors. Proposals aired during the consultation for a national planning review (now in the legislative process) have included:

1. National or regional land delivery vehicles that buy land, service and then sell it on ready for development and then recycle the funds to do more, possibly also playing a critical role in regeneration. The micro version of this is a revolving land fund doing essentially the same thing but on a much smaller scale.
2. Fiscal incentives such as community infrastructure levies or vacant/derelict land taxes or council tax (domestic local taxation) applied to unused sites[11].
3. Compulsory sales orders, wherein land owners are obliged to sell land parcels at market rates to facilitate development or land assembly[12].

Actual proposals in the proposed legislation are in practice less radical and more modest However, the reality of minority government means that amendments to the proposals may turn out to be more to the radical end of the spectrum[13]. Scotland has also taken a different road when it comes to contemplating support for institutional private rental investment. While Scottish locations could benefit from build to rent models, lending guarantees and repayable government stakes in such ventures, the Scottish Government is piloting long standing industry proposals to guarantee rental revenue from new developments for finite periods as a way of enticing institutions into this sector. Along with the new tenancy regulations that will move Scotland towards open-ended tenancies and rent restrictions in high pressure markets, Scotland will be an interesting test-bed of innovation and reform in the years to come within the private rented sector (and will sit alongside the new large scale investments underway in mid-market rents by non-profits and their subsidiaries).

In 2013 research for the Joseph Rowntree Foundation (Gibb et al, 2013) found examples of interesting innovations in affordable models in countries like Australia and the USA, as well as creative ways of using loan guarantees, social housing surpluses and designing benefit systems in different parts of Europe. Five wider themes were:

- An appetite for state-backed guarantees but these need to fit carefully and consistently with existing policies
- Encouragement for contestable supply & partnership between for profit and non-profit providers, often operating with blended subsidies from different tiers of government. Partnership might involve management and/or leasing roles for non-profit providers but sometimes they shared development risk. Questions remained about the governance of charitable entities in such models.
- Yet, European examples stressed 'collaborative solidarity' with non-profit providers operating as clubs to bail members out when required (the Dutch model (but also seeking to pool, manage and creatively use surpluses (e.g. in Denmark).
- The essential policy choice is the growth of affordable housing implied by shallow subsidy – for a given programme of funds to deliver more housing at lower subsidy or fewer units at a deeper subsidy.
- The key will remain in 'sweating' existing assets which will skew development to larger providers with the right balance sheet mix.

Derek Ballantyne's paper also suggests that the scale of intervention, of public spending commitments, is *fundamentally political* and is about whether and for how long states are willing to prioritise housing programmes. As we note in the conclusion below, there is no escaping making the case for more public funds and acknowledging that such a case has to be made against other well marshalled arguments made by other priority areas of social spending (perhaps in terms of more rigorously argued essential economic infrastructure which in part makes a more assertive case for housing as compared to other assets – see chapter 11 in this report). But as was commented on during the consultation with Shaping Futures partners, it is important to recognise that while we should support many diverse smaller scale initiatives because they work, we should not forget the need to find scale and to spread policies or models that work and to do so on a big enough basis to make a real difference. And that will require an equivalent public finance commitment (especially if it involves upfront capital funds).

[11] For current debates in Australia regarding replacing sales taxation with land taxes, see: http://blogs.unsw.edu.au/cityfutures/blog/2017/03/by-far-and-away-the-biggest-housing-tax-reform-prize-on-offer/

[12] Now proposed by the Scottish Land Commission (SLC) and coming forward into law.

[13] The land market and its reform is the more challenging and controversial area and is the subject of the always interesting work of the SLC.

Conclusions: Integrating with other Themes

We can briefly summarise the main points made so far:

- What we see is less a housing *crisis* and more overlapping chronic problems that periodically combine with external shocks and specific government policy change that makes housing both salient and near the top of political agendas and public concern.
- We have argued throughout that the housing sector is best understood as a connected system. In turn, we should locate the nature, challenges and scope for reform of housing finance specifically in this systemic context.
- Path dependency is also important – not just the dominance of the existing often mature stock and built environment but also the local context and the legacy of previous housing policies and programmes, often inconsistent and sometimes incoherent.
- The contemporary housing affordability burden is real and widespread especially measured as the excessive burden placed on the bottom quintile of renters and also many owners. This and cut backs in welfare programmes is the context explaining the need for more, smart financial programmes to support affordable or low cost housing.
- Derek Ballantyne's paper reminds us about the universal irreducible components underscoring affordable new development or operational housing finance, that interesting innovations in other countries are often institutionally sticky and hard to transfer, and that innovation is increasingly scarce and not a silver bullet.
- Subsidy mechanisms for housing are problematic in an era of austerity and competition for scarce public funds – hence the shift to guarantees, to more creative use of land and new forms of private sector participation – although the appetite for private-led investment stubbornly remains less than policymakers desire.
- A range of options for models and instruments to support housing consistent with the general direction of travel are suggested but we note that in the end large problems need bigger scales of intervention and sustained commitment to public resources in a context of multiple and complex market failure.

The conclusion therefore is not about the need to build interesting new innovative financial mechanisms. Most of the things required are out there already. Perhaps what is still lacking is developing the private funding conduits discussed earlier but the key dimension is what we have elsewhere called the housing story. We need to make the case for a new smarter bigger scale of housing programme funded by a range of clever public interventions. What we can say here is that there are arguments we can articulate which have a resonance to the finance thread but make an essentially political point that a tipping point has arisen that requires a redistribution of scarce resources into the housing sector in the interests of the economy, society and the sustainability of our cities and metropolitan regions. We should marshal four specific arguments.

A first argument for more housing resources could be called the **prevention** argument. Can we marshal evidence that targeted housing investment across the housing system but particularly with respect to social/affordable housing interventions can reduce future social policy costs in terms of savings via reduced homelessness[14], addiction treatment, criminal justice system spending, health and social care costs, education outcomes, welfare spending, monetizing the value of better working labour markets. Careful and considered use of predictive analytics might be a way to make a lifetime cost actuarial assessment of the long term value of housing investment (lessons could be learned from the experience of work in this area from different aspects of preventative social policy work in New Zealand – see What Works Scotland 2017). An insight from Wellington seems to be that a necessary condition for moving to a greater analytical preventative approach requires both open transparent modelling and reporting but also the encouraging of an on-going public debate and culture that promotes long term public spending thinking and seeking best value.

A second argument might be termed the **costs of inequality** argument and would build on the arguments of Picketty and Atkinson. Housing plays an increasingly important role as a store of wealth is a key driver of and outcome of greater wealth inequality. The long term corrosive effect of the creation of wide swathes of outsiders unable to generate housing capital, NIMBY anti-development attitudes and what might be termed conservative housing movements[15] - raises the wider concern of declining social capital, unfulfilled housing (and household) careers. Atkinson (2015) in particular proposed a range of radical reforms to taxation and policy spending to reduce inequality and many of these would involve significantly changed terms for taxing housing. Just because it is part of the inequality problem – finding ways to make housing the conduit for reform while logical is politically very challenging, as recent experience in the UK over council tax reform indicates. Smart policies wanted.

[14] Compelling evidence on the 'cost to government' case for rehousing rough sleepers comes from this recently Australian study: https://theconversation.com/supportive-housing-is-cheaper-than-chronic-homelessness-67539

[15] a point made recently by Glen Bramley about the importance of the older equity rich suburban home owners who may be the single largest anti-development force in much of the UK.

There are important microeconomic and urban economic arguments that can be made for more housing investment, for instance, constraining new regional investment because of a lack of suitable housing for its anticipated workers, and also the housing circumstances of low income central city workers[16]. However, a third argument that can be made is a **macroeconomic** one (but arguably more than that). Alongside insufficient new supply is the excessive investment in less productive second hand stock, in part because of the tax advantages owner-occupied housing enjoys. An argument that goes back at least as far as to the 1980s (see, also O'Sullivan, 1984), it has been suggested that the tax privileged status of home ownership may help to explain over investment and hence crowding-out of more productive and diversified forms of investment and savings. While individuals may make better returns or hedge risks through capital appreciation, there is large-scale potentially investible resource lost to the capital markets from the personal sector because it is tied up in second hand housing. Could financial policy be more creative in encouraging more diversified portfolios and different more creative ways of investing in private housing, perhaps offering greater returns to new home purchase? This issue is complex and there is not a consensus on the crowding-out question but it clearly relates to the Duncan Maclennan's essential economic infrastructure argument.

A fourth argument is more about political economy and microeconomics. Within Governments, the case for additional housing resources is essentially a **cost-benefit analysis**. It is clear that certain sectors, for example, transport investment, have evolved over time a clear set of agreed parameters and variables with which to undertake such exercises and that, rightly or wrongly, there is widespread professional and governmental analytical support behind the variables and the magnitudes involved. Research in Australia[17] has made it all too clear that no one of these conditions - which parameters should be the focus, the CBA techniques used nor consensus around the size and scale of effects – apply to social housing. This is a considerable analytical shortcoming to the chances of the sector pulling its weight in public spending decision-making. Academics, analysts and the sector as a whole has to build such a consensus around established principles and empirical evidence as a matter of urgency. This line of argument is developed in detail in the penultimate chapter of this report.

These are arguments and possible routes to make a case for more/different resources for affordable housing investment. More resources are required but that political project requires convincing models, transmission mechanism and evidence. The housing story has to be communicated as effectively as possible but it must also have the essential policy ammunition underscoring it too.

References

Atkinson, AB (2015) *Inequality: What Can be Done*? HUP: Harvard, Mass.

Ballantyne, D (2016) *Shaping Futures: Current developments in social and affordable housing finance.* Shaping Futures Working Paper.

Gibb, K, and Hayton, J (2017) *Overcoming Obstacles to the Funding and Delivery of Affordable Housing Supply in European Cities***.** Policy Scotland: University of Glasgow.

Gibb, K, McNulty, D and McLaughlin, T (2016) Risk and resilience in the Scottish social housing sector: 'We're all risk managers', *International Journal of Housing Policy*, 16:4, 435-457,

Gibb, K, Maclennan, D and Stephens, M (2013) *Innovative Financing of Affordable Housing: International and UK Perspectives.* Joseph Rowntree Foundation: York.

McAuley, H (2017) *Predictive Analytics and Public Policy. New Zealand's "Investment Approach."* What Works Scotland: Glasgow

OECD (2017) New Affordable Housing Database. http://www.oecd.org/social/affordable-housing-database.htm

O'Sullivan, A (1984) Some Misconceptions in the Current Housing Subsidy Debate Policy and Politics, 12(2), pp.119-44.

Salvi del Pero, A Adema, W Valeria Ferraro and Frey, V (2016) *Policies to promote access to good-quality affordable housing in OECD countries* Working paper 176. OECD: Paris.

[16] http://blogs.unsw.edu.au/cityfutures/blog/2016/04/high-housing-costs-create-worries-for-city-tourism-and-hospitality

[17] See AHURI Inquiry on social housing as infrastructure: https://www.ahuri.edu.au/research/research-in-progress/ahuri-inquiries/evidence-based-policy-inquiry-53140