



WORLD PERSPECTIVES ON SOCIAL HOUSING

Policy Suggestions for the Future of Public Housing
based on Canada, the UK and the Netherlands

Betsey Martens

with support from NAHRO's International
Research Committee

7/16/2015

2015

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“The nation’s stock of public housing is deteriorating and shrinking and is in need of basic maintenance and modernization. This slow death-by-attribution wastes valuable federal housing assets and risks the loss of both high quality and deteriorating units alike. In addition, it penalizes residents.”

Bipartisan Policy Commission Report on Housing 2014

This paper is a project of NAHRO’s International Research & Global Exchange Committee (IRGE). It examines public housing preservation and repositioning strategies in Canada, the UK and the Netherlands to help inform our current preservation agenda in the U.S. as expressed primarily through the Rental Assistance Demonstration Program. This paper is written from the perspective of practitioners, current and former PHA executives whose experience implementing public housing

programs spans decades. The paper frames five policy questions and suggests that the best practices from all four countries create the basis for a very compelling next generation public housing policy.

PART 1: Executive Summary

This paper is inspired by our engagement with colleagues in the UK, Canada, and the Netherlands. The more we've talked with them about the challenges of managing public housing in their countries, the more the differences between our systems dissolved and we found that we are all wrestling with similar themes:

- The worry and the reality of federal disinvestment.
- The constant threat of devolving housing policy and funding to the state.
- The desire to diversify in order to supplement public funding.
- The frustration of managing an aging portfolio with limited access to capital funds to make improvements.
- The successes and challenges of merging housing associations.

Embedded in every conversation was a desire to know the future of policy for all of us. To the extent that our national housing policies have traveled very similar paths, NAHRO's IRGE Research Committee has engaged deeply with these three countries. While their housing programs, politics and geography are arguably different than ours, there is enough similarity in program construct so that their experience can be instructive, if not *predictive*, for us.^a Our willingness to engage and learn about each other provides a bit of a crystal ball for everyone.

THE QUESTIONS

The questions that inspired this paper are those that have been persistent and nagging in our housing policy dialogue and practice:

- 1 Is the Rental Assistance Demonstration (RAD) the right answer to a chronically under-funded public housing program?
- 2 Are we expanding RAD before we understand its lessons?
- 3 Is consolidation right for our communities, and will RAD, or other HUD initiatives, force it?
- 4 What would happen if the federal government is successful in devolving housing policy to the states? And, is a national affordable housing policy essential?
- 5 What would it take to convince the general public that an investment in some is a win for us all?

^a IRGE emphatically acknowledges the market and cultural differences between the U.S. and the comparative study group and suggests that the value in looking beyond our shores is not to adopt another system whole cloth, but to better understand our own choices and find inspiration for what could work differently here. This paper is primarily focused on public housing as an asset, and doesn't do justice to the impact that public housing transformation can have on neighborhoods and the impact that neighborhood vitality has on public housing's success. Just as there are differences across countries, there are also differences within housing markets at state, county, city and neighborhood levels. As such, "street level" local, community based solutions are essential considerations in any RAD conversion approach.

THE COUNTRIES

The countries that form the comparative basis of this paper all had a unique experience to offer:

Canada: the expiration of public housing operating subsidies, and de-federalization



Canada's long history with public housing is currently threatened by the Canadian government's decision to let all social housing operating agreements expire at the end of their multi-year contracts that range in length from 15 to 50 years. Having already marginalized its federal commitment by transferring most of the responsibility for the national program to the provinces, Canada is poised to take the more drastic step of supporting the policy of total disinvestment.¹ Early contracts have already begun to expire and all contracts will have expired by 2039. The Canadian Housing and Renewal Association (CHRA) predicts that up to two-thirds of the existing social housing stock is at risk once the subsidies end and housing providers increase rents to offset the lost subsidy.²

United Kingdom: transfer of public housing to the 'private sector', and consolidation



The United Kingdom has more than 20 years' experience in converting their public housing from municipal ownership to a model of blended public-private finance with private ownership, primarily by non-profit housing associations.³ A key dimension in the privatization process has been the process of mergers and acquisitions, concentrating the majority of the inventory into fewer organizations and doubling the average size of a housing organization in the last 10 years.⁴

The Netherlands: complete federal disinvestment in a national system, and consolidation



Beginning in 1995 the Dutch government began a process of disinvesting in its social housing sector with a goal of intentionally reducing the inventory of social housing and, by extension, minimizing the investment on the part of the national government.⁵ This experience of complete disinvestment and deregulation has given rise to much innovation in the delivery of housing, as well as some unintended consequences when entrepreneurship runs rampant in a mission-driven industry.⁶

Detailed answers to the five questions above are in the full report, and extensive detail about each country's housing program is in Appendix A of the full report.

THE CONCLUSIONS

From a significant amount of reading and review of the literature, our conclusions are that **RAD appears to be the right course** for us as long as the program remains voluntary, unfolds slowly and the federal government remains engaged and provides ongoing regulatory controls that achieve a more reasonable balance of risk to regulation.

Mortgage finance is a common practice for all three reference countries, whereas US PHAs will find it a new concept that requires a new set of skills.

Private finance in the UK has been well deployed to create significant improvement in their public housing inventory and the federal government's backing of the mortgage debt has helped to keep loan default to a minimum and created a strong bond rating for the sector as a whole. By contrast, the Dutch government has fully divested itself of involvement with the financing of the Dutch social housing system which has led to some destabilization in the sector and even some serious default situations for which the entire housing system is paying for.

The **expansion of the RAD demonstration needs to be slow** enough so that the unintended policy consequences that will inevitably emerge can be addressed and program changes made before the next wave of inventory converts. If RAD converts the maximum of 180,000 units, we would be comparable, at 15% of the public housing inventory, to the UK's first generation of

public housing conversion that involved 18% of their inventory.

By contrast, the Dutch learned the hard way that a fast and radical transition of financial systems can create consequences that have drastic implications, especially when the transition doesn't allow time for the sector to learn and adapt. Canada is experiencing something similar as they rush quickly towards a time when long-term operating subsidy contracts will not be renewed, testing the belief that when the co-terminus mortgage debt is paid off, operating subsidy should no longer be needed to keep public housing units affordable. Public housing managers in Canada do not feel prepared for a future without operating subsidy and are scrambling to extend the support and/or come up with alternate ways to sustain themselves.

The Dutch and the Canadian housing systems have always included a strong component of **private, mostly non-profit, ownership of public housing** and most reports indicate good performance by those owners.⁷ The UK has been moving towards a more private, also mostly non-profit model, since 1988 and registered landlords (registered providers (RPs)) seem to be doing a good job of stewarding the assets and improving property management systems.⁸ There is some question about whether mission and rents have been compromised. The Chartered Institute of Housing analysis says not, but an active organization called Defend Council Housing provides some evidence to the contrary.⁹

The UK and Dutch housing portfolios are quite a bit larger than the U.S. average. Dutch public housing portfolios average 5,000 units and the UK averages 1,420 units; compared to an average of 352 units in the U.S. The evidence in the UK and the Netherlands suggest that **some consolidation of agencies and portfolios could be healthy for our industry**, but there are many cautions.⁴ Based on extensive evaluation in both countries, the primary finding is that cost savings and operating efficiencies are not realized through consolidation and, unlike the private sector, housing associations frequently fail to deliver the promised results from merging.

Canada's experience with **devolving national housing policy** to the provinces has left their public housing inventory in a precarious situation with the federal government's refusal to reintroduce federal funding to shore up public housing's essential operating subsidies. Absent a cohesive and strong national policy and a national data-set, the non-renewal of contracts has far less resistance than it otherwise would.

Prime Minister Stephen Harper's conservative administration has been moving Canada away from its history of supporting a strong system

of social support, and according to some critics, dismantling important social programs that took decades to develop.¹⁰

This orientation towards social democracy versus capitalism is crucial to understanding the **greater popularity of public housing in the U.K. and the Netherlands**. Despite an evolving orientation in those countries towards housing for the neediest, public housing has been perceived and positioned as a successful and desirable form of housing tenure, versus the often marginalized and demonized product public housing is in the U.S., and to a large extent Canada. In our society, affordable housing challenges much of what we hold dear in an American society which, in short, dictates that the housing we get is the housing, and the neighborhood, we've earned.¹¹ It's likely that affordable housing is too much like the game of Chutes and Ladders in which the **perception** is that people land in nice homes in nice neighborhoods *without having earned it*. And worse yet, perhaps, is the public's perception that the people who have been leap-frogged are the ones who pay for it.¹² A fundamentally greater political popularity for public housing may well turn on the way we perceive social democracy in our country.

A new public housing preservation policy that blends the best practices, lessons and experience learned from all three countries would have these elements:

- A strong, cohesive and comprehensive **national commitment** to a balanced housing policy that preserves public housing on a permanent basis.
- A **capital regeneration program** in public housing that allows either loans or grants, with the proviso that conversion to private finance should always remain voluntary.
- A **fully funded** RAD program that would not become an excuse for further federal disinvestment in the asset.
- **Federal government guarantee of mortgages** that are collateralized by public housing in order to protect public housing from the volatility of market risk.
- Loans and grants that are accompanied by a **permanent commitment to operating** subsidy.
- A much increased level of **deregulation** in order to provide some much-needed innovation, but with federal government involvement in some broad controls
- An understanding that **consolidation** will help with the generation of new inventory, but won't necessarily create operating efficiencies.
- A context and neighborhood sensitive approach that promotes and aligns HUD's goals with local strategies to affirmatively further fair housing
- A firm commitment to resident engagement and the opportunity for community-building and prosperity-building as a result of our new investment in public housing.

A greater level of detail and analysis can be found in the full report.

RENTAL ASSISTANCE DEMONSTRATION PROGRAM

Initially authorized by Congress under the FY 2012 HUD Appropriations Act, the Rental Assistance Demonstration program (RAD) is a voluntary preservation tool to stabilize at-risk public housing. RAD has two components. The first component of RAD allows PHAs and owners to convert projects funded under the public housing and Moderate Rehabilitation (Mod Rehab) programs to long-term, project-based Section 8 contracts. Under this component, public housing agencies and Mod Rehab owners can elect between two forms of Section 8 Housing Assistance Payment (HAP) contracts: Project-Based Voucher (PBV) or Project-Based Rental Assistance (PBRA), at current subsidy levels.

For conversions of public housing, the funding is limited to current capital and operating fund levels for the converting development. Up to 185,000 units are currently (as of Dec. 16, 2014) allowed to convert their rental assistance under this component. The second component allows owners of projects funded under the Rent Supplement, Rental Assistance Payment, and Mod Rehab programs to convert Tenant Protection Vouchers to PBVs. There is no cap on the number of units eligible for conversion under the second component.

RAD was developed to address both the yearly loss of an estimated 10,000 public housing units and a 2010 estimated \$25.6 billion national back log of capital needs for public housing.

PART 2: Critical Policy Questions Explored

This section explores each of the 5 policy questions in greater depth, providing more policy context from the subject countries. Appendix A includes an even greater level of policy and program detail.

1

Is the Rental Assistance Demonstration (RAD) the right answer to a chronically under-funded public housing program?

The idea of a “right answer” for RAD needs qualification. To the extent that the UK experience is the closest parallel to RAD, this paper uses the 4 indicators that the UK Office of the Comptroller and Auditor General uses in its evaluation reports: improvement of the asset; involvement of the private finance sector; expansion of landlord choice and participation for tenants; and separation of landlord and strategic housing functions.⁸ Results based on the first three are studied here.

The United Kingdom has more than 20 years’ experience in converting public housing from municipal ownership to a model of private ownership and private finance. The privatization of public housing in the UK began with the Right to Buy (RTB) program.¹³ While local councils have always had the ability to sell their housing to their tenants, the incidence of sales was extremely rare until the early 1970s. As did the Reagan government, the Thatcher government embraced the concept of an ownership society which brought with it a strong ideology of a “transfer of capital wealth from the state to the people”.¹⁴ The program was immediately popular. After three years of tenancy, tenants

could buy their home after three years of tenancy at a 35% discount of market value. After five years the discount goes up by 1% for every additional year of tenancy, up to a maximum of 70%. Houses and flats have slightly different discounting schemes.^b

The program evolved to include a bulk sale of council housing to Registered Providers in a program generically referred to as the real estate stock transfer program. In the first phase, through 1997, fewer than 450,000 homes were transferred. In the second phase, after 1997, close to a million transfers were registered. Most of the impact research has focused on results from this second generation of activity. According to the 2009 Chartered Institute for Housing (CIH) report on the impact of stock transfers “(m)ost such transfers were aimed at addressing seriously dilapidated housing, stemming neighborhood decline and sometimes remedying a legacy of humdrum housing management.”¹⁵

^b The maximum discount value to purchase a home is the lower of 70% of value or £77,900 or £103,900 in London boroughs. For flats, tenants get a 50% discount for tenancy between 3 and 5 years, after which the discount goes up by 2% for every additional year, up to a maximum discount of the lower of 70% or £77,900, or £103,900 in London boroughs.

Real estate stock transfer is a close parallel to RAD and could be a good predictor for us of the unintended consequences of a future system if we take into account one fundamental difference. Council housing has a historic association with mortgage debt and in the stock transfer process housing associations were not learning to manage to net operating income, whereas the US system has been detached from a NOI discipline. The need to create a systemic readiness for debt management is profound.

Both the US and the UK systems experience the double jeopardy of a failing inventory and diminishing access to capital funds to improve it. In both cases, removing the government from the Deed of Trust is the basis for the refinancing program. In the UK, however, portfolio managers have not been wondering whether private finance is a good idea. They have been practicing with it.

To date, more than €19.1 billion has been invested in improving public housing in the UK.

Stock Transfer Basics

Stock transfer (ST) is the voluntary transfer of ownership of some or all of municipally-held rental housing to a private registered provider, in return for a payment, unless the stock has a negative value. Transfers must be approved by the Secretary of State and the new owners must be registered with the Social Housing Regulator, the Homes and Communities Agency (HCA). A provider can be either not-for-profit or for-profit. A Large Scale Voluntary Transfer (LVST) involves the transfer of 500 units or more. It can include a request to the central government to write off its housing debt. Government support for overhanging debt is not available for small transfers.

The application process is significant and involves a series of analyses to demonstrate that the asset and the organization will be

improved by the transfer. These metrics become the basis for the Stock Transfer Promises. One of the key questions is - who will own and manage the asset, and how will they engage their customers. See Appendix A for detail about RP configurations.

Once the application process has been approved and a transfer value has been established, the final step is to take the proposal to the tenants for a vote. Council managers can, and should, educate tenants about the pros and cons of the proposal to transfer, but they cannot influence the outcome. Tenants have the final say in the process. In pre-2005 transfers, 40% of the proposals were voted down. Since 2005 a strong majority of tenants have supported transfer.

Reinvestment Findings to Date

There has been a significant volume of evaluation of more than 20 years of the program. The findings are quite encouraging.¹⁵ The CIH report highlights that, generally, HAs have outperformed on their promises, and promises kept are vastly greater than those that have been delayed or deferred as measured by:

- Stock upgrades exceed the standards promised to the tenants
- Average investment was €70K per unit
- Stock upgrades exceed the Decent Homes Standard (DHS) by a degree that most owners describe as “much higher” than DHS due to installation of security features, the adoption of more demanding energy efficiency ratings, and investment in environmental improvements.
- All of the stock transfer case studies report meeting or exceeding their non-construction ballot commitments.
- Regeneration agendas have been successful, particularly so in the amount of demolition and replacement activity that exceeded expectations; however
- Most new owners have found that their transfer plans were underfunded, with rising construction costs offsetting falling interest rates.

Balancing the upbeat report from CIH, the criticism of stock transfer stems from a central concern that registered providers (RPs) are not as mission-aligned as Council management, and therefore:⁹

- RP rents are higher.
- Tenants have fewer tenure protections under RPs, leaving having enjoyed an *assured* tenancy and moving now into a relationship of *secured* tenancy. Evictions have increased by 1.7%.
- RPs have been merging and the new RP is not bound to the stock transfer promises made at the time of transfer if the new RP gets into financial trouble.
- Transfers are inefficient compared to the cost of simply granting the funds to a Council government.
- Concern that, at some point, the program will become compulsory and no longer be voluntary for council governments.

A search for criticism published since 2003 has been difficult to find, although Defend Council Housing remains active and continues to publish reports on these same critical themes.

Conclusion

RAD was developed **primarily** as a mechanism to easily remove HUD from the Deed of Trust in order to access private finance. For many larger housing authorities with increasingly deferred maintenance and declining support from the federal government, a radical solution like exiting public ownership was necessary.

The primary lessons from the UK’s program are that private investment in the form of mortgage debt has been working well, and, important to note, in some part because there has been a government guarantee behind the debt and in some cases because capital grants accompany the loan funds so that very low

rental income can keep the asset sustainable. On the whole, the transferred assets are doing quite well and the vast majority of tenants are satisfied with transferred units. Worries about insufficient capital reinvestment, tenant services, public stewardship, and mission creep have not materialized in the UK system.

As we anticipate the expansion of RAD, we should be cautious about the fundamental

differences between our experience and our British colleagues with respect to real estate management. The British system has been rooted in the principles of balancing net operating income against debt obligations. This is not the case for the vast majority of public housing managers in the U.S. who have been entirely reliant on a HUD program that fills gaps, albeit in arrears, between income and expenses without regard to mortgage debt.

2

Are we expanding RAD before we understand its lessons?

The two central questions that we explore here relate to the potential for default on borrowed funds collateralized by public housing, and the role of the private sector as owners and managers. The UK and Dutch experience is helpful to both questions.

The UK stock transfer system has developed slowly, taking the first 10 years to transfer 16% of its inventory and the next 7 years to transfer a total of 1.3 million units, or 31% of its inventory. Interestingly, the early adopters of stock transfer were small councils and portfolios (1988-1997), while the second generation phase of transfers (1997-current) have involved the large, urban council estates. There are 3 million units still in the care of council governments.

By comparison, the Dutch conversion to an entirely private-finance program was very sudden, which has proven to be a challenge for the system. Beginning in 1995 the Dutch

government began a process of disinvesting in its social housing sector with a goal of intentionally reducing the inventory of social housing and, by extension, minimizing the investment on the part of the national government. Ideas that hatched in the late 80s and were implemented in 1995 caused a massive policy redirection in which the federal government began to intentionally reduce the size of the social housing sector. A collision of events drove a radical change. One part economic crisis, one part reconsideration of the welfare state and one part a new desire to gain access to the EU prompted a new policy of disinvestment.

Compelled by changes in the economic entrance requirements to participate in the EU, the Dutch government wanted to reconfigure its balance sheet, prompting a radical operation called *Bruteringsoperatie*, or “grossing up”. The Dutch government began to cut all financial

ties with HAs by forgiving all debt in return for a discounted and capitalized summation of future operating subsidy obligations. The state got to offload €17B in liabilities and the HAs got complete financial freedom and deregulation. From then on HAs had to subsidize social rents with more entrepreneurial activities like mixing incomes and adding commercial activities. The most common form of capital rise is to sell aging

stock to tenants and use the sale proceeds to build new.

This experience of complete disinvestment and deregulation has given rise to much innovation in the delivery of housing, as well as some unintended consequences when entrepreneurship has run rampant in a mission-driven industry.⁶

In the UK, HAs are now poised to be the largest provider of social housing.¹⁵ Many academics have watched and evaluated how well the HAs are managing.⁴ From the CIH analysis, we find that the experience of private ownership has been generally positive.

In addition to facilitating regeneration of the asset, a secondary interest for many local governments was to replace “command and control” style of management with customer-focused, inclusive ways of working. A desire to change the organizational culture was a subsidiary, but no less important, part of the choice to pursue transfer.

As we look at the UK data, two caveats are important. There is debate about whether the UK experience can truly be called “private” since owners are both regulated and registered. The second caveat is that many new HAs are reconstructed versions of the former council housing management, and the majority of the HA owners are mission-aligned.

As of 2009 social housing management was allocated as follows:

Council housing management	24%
Arm’s Length Management Orgs (ALMOs) ^c	23%
Traditional housing associations	27%
Stock transfer housing associations	26%

It will be important to look further at the distinction between the US and the UK model because some PHAs are engaging private sector partners for both development and management.

With that in mind, the CIH study found the following:

- There is an emerging trend for creation of HAs as subsidiaries of existing HAs.
- The subsidiary relationships are meant to maintain closer local ties with tenants.

^c An ALMO is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock. Ownership of the housing stock itself normally stays with the local authority.

- Housing management styles have changed in parallel – a neighborhood management approach, more active and interventionist ways of working with tenants.
- Management improvements are borne out by Housing Corporation and Audit Commission (federal) measures.
- Operational staff see the transfers as beneficial; transfer HAs were generally seen as “more business-like, less political and more sensitive to commercial considerations”.

- Many are adopting Board payment schemes; moving closer to private than third sector.
- Tenant involvement is increased.
- Transforming organizational culture has been a high priority.

Bear in mind the important tenant perspective communicated by the Defend Council Housing group.

Conclusion

With the expansion of the RAD program to 180,000 units, the demonstration will involve up to 15% of the public housing portfolio. This number is right on par with the UK’s experience of transferring 18% of its public housing inventory over 10 years. The Netherlands, on the other hand, invoked change quickly and its systems are still reeling

from change. A slow and studied expansion of the system is prudent.

The question of public ownership of public housing is a central question for PHAs. The experience from the UK, Canada and the Netherlands offers insight for our consideration.

3

Is consolidation right for our communities and will RAD, or other HUD initiatives, force consolidation?

The UK and the Netherlands both have long histories of merger, consolidation and acquisition. Consider this data:

- In the 10 years from 1997 to 2008, in the Netherlands the number of housing associations declined by more than 50% and the average number of dwellings per organization increased from around 3,000 in 1997 to 5,600 in 2008.
- In England the average size of housing associations doubled in the past 10 years.

- The average size of a Dutch housing association is > 5,000 units
- The average size for an English association is 1,420 units (up from 800 in 2001)
- The activity level of “transfers of engagement” between 1976 and 2005 was about 1% of the sector per year

By contrast, the vast majority of PHAs (88.8%) in the U.S. own fewer than 500 units while only 24 PHAs have more than 5,000 units. There are economic and political reasons to

explain the difference in agency size, and certainly the greater densities in a smaller geographic footprint in the UK and NL make a big difference in program delivery and administration. However there are lessons from a sector that has been very active in merging.

Unlike private sector merger activity, mergers in the UK housing sector have been friendly, non-hostile. But unlike the private sector, many mergers have not produced the results they intended. This assessment, by University of Birmingham Professor David Mullins formed the basis for his 2010 landmark article, *“Change for the Better? Making Sense of Merger Activity in the UK and the Netherlands”*.⁴

Mullins’ primary focus was to understand the motivations, cost, efficiencies and organizational results that accompanied mergers. His study examined results through 3 lenses: stakeholders and stakeholder satisfaction; housing production; and operational cost.

The key question for Mullins, and for us, is – **do large organizations function better than smaller ones?**

Mullins’ main conclusion is that the

“... the relationship between the size of housing associations and their performance is not straightforward. This is partly because large and small associations are generally trying to do different things in different ways and have contrasting strengths and weaknesses; thus judgments about whether mergers and concentration of ownership in third sector housing is a change for the better are dependent upon considerations of underlying purposes and success criteria.”

A second conclusion is also cautious –

"A similarity between the housing associations and the private sector is that mergers frequently fail to deliver the promised results. Organizations often do not operate in a more efficient, effective or more customer-focused manner after a merger. Still the process of mergers in the third sector is ongoing,..... [and therefore] ... what are the forces underpinning this development and what are the impacts?"

Different but similar pressures from the English and Dutch government inspired most of the merger and acquisition activity. A desire among HAs to be able to better compete in a new business environment of private finance and asset regeneration compelled them to join together to try to gain better market position and undertake less risk. The Dutch HAs are, in general, much less regulated, much more entrepreneurial and more hybrid compared to the English HAs. Thus, mergers in the Netherlands are seen as a response to regulatory freedom. In England, mergers are seen as a defense against regulatory oppression.

The primary motives for mergers among **Dutch** HAs were:

Better market position	76%
Increase professionalism	73%
Improve service delivery	67%
Improve financial sustainability	41%
More efficient back office	40%
Handling and spreading risks	14%

The primary motives for mergers among **English** HAs were:

Efficiency agendas
Creating economies of scale and better staying power
Retirement of a CEO
Greater development potential
Investment partnering
Federal government encouragement to merge for improvement and/or survival following an Audit Commission inspection

Research studies in the UK about the outcomes of mergers have been inconclusive. An early study about outcomes of group structures was unable to find evidence of cost savings apart from those associated with tax or procurement.¹⁶ This led to the following suggestions:

- Focus instead on social and other outcomes and on effective management
- Avoid the syndrome of “one size fits all housing associations” because different functions work better at different scales.

Dutch HAs report that most of their objectives were met. The only objective where there’s a discrepancy between objective and result is in

“efficiency”. A Dutch audit in 2005 shows that larger Dutch HAs have higher operating costs, due mostly to carrying a higher ratio of staff per unit. A 2008 study in England by Indepen (using a different methodology) finds operating cost efficiency by using a simple metric of comparing # of units to net operating cost.⁴ For traditional HAs they found a cost increase of 9.2% for every 10% increase in units where the stock transfer HAs had an increase of 9.8% for every 10% increase.

This is a very important area for further consideration, given the extent to which the desire for efficiency is cited in U.S. conversations about consolidating.⁴

The Dutch Housing Ministry commissioned a 2006 study on merger outcomes. In addition to the successes listed above, the study offered these negative outcomes:

- Losing touch with local governments, markets and neighborhoods
- Becoming too strong compared to other associations and local stakeholders
- Becoming less accessible
- Offering a lower level of service delivery
- Operating with less efficiency due to larger overhead and increased internal bureaucracy

The one consistent conclusion for both English and Dutch HAs was that mergers positively contribute to greater production of new units.

Conclusion

The UK and Dutch HAs operate with significantly bigger portfolios than those in the U.S. for a number of reasons. The NL HAs used mergers as a response to regulatory freedom and British HAs used mergers as a defense against regulatory oppression – both conditions which are substantially different than what we experience in the U.S. Additionally, there are greater building densities in generally smaller geographic footprints in both countries which make consolidation much more feasible. However, the evaluation research suggests a number of important things to consider.

Top among those might be that the research related to outcomes and success of mergers is still largely inconclusive. These benefits appear to be certain: larger housing associations produce more new homes, seem to partner better with local governments and offer a

wider array of services. Smaller associations perform well in terms of service delivery and tenant satisfaction. Evidence also suggests that smaller associations have lower operating costs.

In the US the push for consolidation comes in part from HUD's desire to achieve greater operating efficiency in their relationship with PHAs (the fewer the better) and the presumption by program critics that larger organizations would produce greater customer service at a lower cost. The jury is very much out on that question based on the European experience. Given the significant difference in portfolio size between Europe and the U.S. some greater exploration of collaboration and consolidation could serve our industry well. However, if the motivation is to save money through consolidation, there is no evidence to support that conclusion.

4

What would happen if the federal government is successful in devolving housing policy to the states? And, is a national affordable housing policy essential?

Canada is one of the few countries in the world without a national housing policy. Canada has a long and complicated history of federal-provincial responsibility-sharing for social housing. The Canadian government's recent insistence that it will not step in to help provinces fund operating agreements once the initial agreements expire threatens to unravel a housing system that took 50 years to create. Housing advocates are working hard to resurrect a national housing policy to avoid a

massive dismantling of Canada's social housing infrastructure.¹⁷ Social housing policy in Canada now consists of a checker-board of 13 provincial and territorial policies, and innumerable local policies.

The parallels between Canada's housing policy history and that of the U.S. are strong. Two years before the U.S. passed the Housing Act of 1937 Canada passed the Dominion Housing Act in 1935 and then the National Housing Act in 1938. U.S. and Canadian housing policy

thinking developed with similar components: a public housing program with a capital subsidy and an operating subsidy to allow for rent based on income, known as rent-geared-to-income (RGI) in Canada.

However, the two policies diverge at three key points in history.

In 1949 the National Housing Act was amended to create joint federal-provincial responsibility for constructing public housing that would be owned and managed by the provincial government and its municipalities, with shared responsibility for operating subsidies.

In 1986 full responsibility for delivering social housing was transferred to the P/Ts. This early program construct of joint responsibility for the program unwittingly paved the way for the federal government to ease out of its share of the obligation, which is currently underway.

In 1993, the federal government froze expenditures for social housing and restricted its future financial support in this area to 1993 levels. That decision gave rise to the further policy implication that operating agreements, at expiration, would not be renewed.

Up to 365,000 low-income households in social housing that pay subsidized rents may be at risk of losing their homes in the absence of renewed funding.² Of these, considering current funding rates, it is estimated 200,000 households will be left in inferior housing and/or unable to afford rent.

The remaining 179,000 households of the total 544,000 of households in social housing with existing operating agreements pay rents that allow for self-sustaining social housing projects, even after operating agreements end.

To date, housing providers through their own internal economies, revenues and refinancing have been able to continue providing subsidies for the rent geared to income tenants. Many provinces and territories have committed to initially supporting the social housing units after federal funding ends, although they have made it clear this is likely to be unsustainable as they do not have the fiscal capacity, as does the federal government, to support the future levels of expenditure.

Despite this, there is a significant number of social housing units that have come off federal subsidies and have either had the rent raised (evicting existing RGI tenants) or have been sold. It is extremely difficult to assess the number of units lost because of the lack of a national data-set housing under federal agreements. It is clear, though, that units once offering housing for vulnerable Canadians are becoming fewer and fewer, as the need and waiting lists for social housing continue to grow.

At this point, Canada has seen a relatively small amount of housing lose federal funding, so these interim measures have been helping to stem the losses and evictions. The units coming off of operating agreements rises significantly between now and 2025. The gradual erosion of funding has possibly delayed the government and even the sector itself from taking earlier

action. Unlike the Netherlands, this decision was made years ago. And unlike the UK, no assistance, planning or transition programs have been implemented by the Canadian government. We expect the high numbers over the next decade will increase the urgency associated with the loss of federal funding.

During a 2007 visit to Canada the United Nations Special Rapporteur for Human Rights made this similar and striking observation and called on the Canadian government to reconsider. In a sweeping series of recommendations, this one was highlighted:

“The Special Rapporteur calls for Canada to adopt a comprehensive and coordinated national housing policy based on indivisibility of human rights and the protection of the most vulnerable. This national strategy should include measurable goals and timetables, consultation and collaboration with affected communities, complaints procedures, and transparent accountability mechanisms.”

Many believe that the downloading of programs to the provinces allowed the government to absolve itself of accountability for housing its vulnerable citizens, and indeed, pave the way for a steady erosion of inventory. The absence of a national policy, and consequently the absence of any national data, has prevented any accountability for that question. Estimates are that Canada subsidizes 48,000 fewer units than it did in 1998. And while there are hopes that these units continue to perform in the market as affordable, there is no way to know.

The Canadian government took the Special Rapporteur’s report seriously and has been convening meetings about re-establishing a national policy but to date, nothing has emerged.

CHRA is running a full-scale campaign to intervene on behalf of the re-establishment of a national vision.

Dutch housing is unique in our comparative group for being highly deregulated. As described above, the 1995 action by the federal government to divest itself of financial obligation to social housing gave rise to an unprecedented amount of freedom and creativity. Within the context of innovative freedom, six responsibilities were required:

1. to rent dwellings to lower income groups;
2. to contribute to the housing of elderly, disabled or people who are in need of special care or supervision;
3. to maintain the quality of their properties;
4. to involve the tenants in management and policy;
5. to ensure the financial security; and
6. to promote the livability in neighborhoods and quarters.

An unexpected component of financial disinvestment and freedom has been the 2012 levy that the federal government, as part of its austerity measures, has imposed on social housing. Now, instead of being a recipient of state appropriations, social housing providers are appropriating funds to the state.

While many good initiatives have come from a deregulated environment, there are important lessons learned. With their new mandate, Dutch HAs began a life as social entrepreneurs and risk-taking entities. This opened the door to a number of very public miscalculations and misdeeds on the part of housing leaders.

Of the 400 active Dutch social housing organizations, there have been 15-20 major mismanagement incidents. These fall into three categories, of which only the first is considered in this paper:

1. Excessive risk-taking in project development
2. Financial mismanagement and speculation
3. Fraud and self-enrichment

Incidents of fraud, self-enrichment and financial mismanagement are, sadly, inherent in every system, and are not the focus of this paper. However, the risk profile posed by the new regime very much is.

Risk-taking behavior evolved from the necessary involvement in market activities outside of the social rental sector, including new home construction, and the development of complex urban renewal projects. Even within the bounds of their own sector, there was a widely held belief that privatization would impose a degree of market discipline.

The nature of the exact market discipline measures was ignored; such was the strong belief in the righteousness of the market.

In a report to the Dutch parliament about what went wrong in Dutch housing, Rudy de Jong summarized:⁶

“The social housing sector became independent of the government from the 1980s, without government control being replaced by sufficient discipline from the market or from society. This happened to coincide with a period of euphoria on the property market, with rising housing prices that looked like they would never end, from which a lot of parties sought to benefit. Too many social housing organizations gave in to the lure of easy profits. Other social landlords, under the leadership of a charismatic director, behaved more like a kind of *philanthropic institution* than a social enterprise serving a public goal. The new arrangements and the governance structure of the new system were unable to come up with a satisfactory answer and showed significant shortcomings.”

In a later, October 2014, report to Parliament the sector behavior was characterized as “.. Sun King ambitions and behavior, resulting from megalomaniac projects, speculative real estate and land transactions, creative accounting, self-enrichment or fraudulent conduct.” While the evaluators held the Dutch housing association leaders directly accountable, also to blame is an insufficient regulatory system and government leaders looking the other way.

The recommendations from both parliamentary reports suggest the following pattern of remedies:

- An annual report on the state of public housing
- More influence for municipalities
- More power for tenants

- Strengthened internal governance, accounting and auditing
- HAs should return to core mission and limit non-mission activities
- HAs should be allowed to go bankrupt, but banks should have a greater say in that decision

Conclusion

This paper suggests two interpretations of the concept of devolution. The first is the devolution of program responsibility to states, and the second is a devolution, or rather abdication, of regulation and attention. In both cases, for Canada and the Netherlands, the outcomes have created shock in the public housing systems and created enormous risk to customers and owners alike. The risks related to the transition of the Canadian public

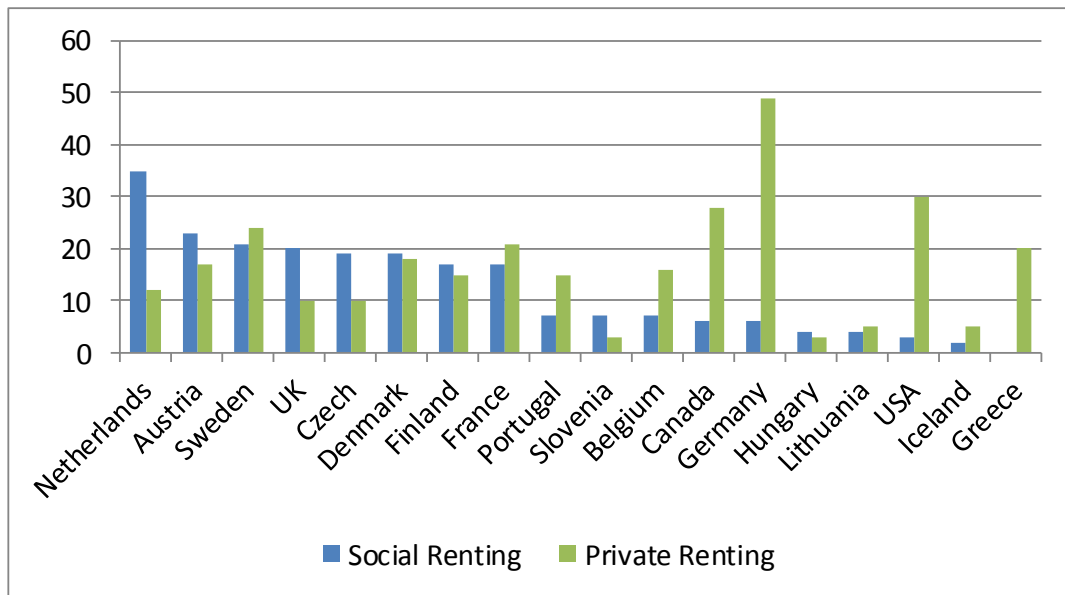
housing system to a new form of operating self-sufficiency aren't entirely understood yet. But, the concept that a very large and complicated system such as public housing could have been dismantled so quickly is noteworthy by itself. And, the system risks of having transitioned the Dutch market into the private financial sector are worthy of our serious attention as we transition our own programs into RAD.

5

What would it take to convince the general public that an investment in some is a win for us all?

This final question invites the greatest challenge in comparing inherently different systems. The U.S and Canadian models are very different in public support and popularity compared to the Dutch and British. This has everything to do with a welfare state vs a capitalist approach.

The degree to which public housing plays a key role in the housing delivery system is dramatically different in Europe, generally, than in the U.S. and Canada. The chart below shows that the Netherlands leads the European Union in their investment in social housing, with the UK not far behind.



Despite relatively much larger market share for public housing in the UK housing advocates are taking deliberate action to develop greater public support for social housing. Accelerated housing advocacy is also occurring in Canada.

Production of social housing has slowed considerably in the UK in the last decade. Some observers attribute the lack of housing supply to diminished support for the program. However, policy researchers in the UK have found that most people agree that the private rented sector is failing to provide a stable and affordable option for those who don't have enough income for home ownership or have too much income for social housing. This perceptive understanding underlies new research that says there is a silent majority of support for social housing among British citizens that gives lie to the claim that social housing support is waning¹⁸. In anticipation of a much-needed new wave of social housing, a large survey of the British public shows that

stigma associated with social housing does not equate to opposition to the product. The results show that 87% of Brits think that government has a role in solving the housing crisis currently confronting British society. A clear majority of 57% of respondents think that building more social housing is a good idea. The researchers make a strong point of clarifying that dissatisfaction with perceived problems in the current system should not be read as a denouncement of all future effort.

In Canada, a newly formed "Vote Housing For All" network represents the use of political involvement to get the message out that housing is a right. A National Week of Action on Housing was held in September 2015 to increase awareness of affordable and social housing as an election issue in the fall elections. A Housing For All video, Housing for All one pager, and tips for meeting with federal election candidates are some of the tools created by the group to inform and

educate elected officials and the general public about the issue.

Studies have been prepared by the Canadian housing organizations such as the Societe' D'habitation Du Quebec(SHQ) to analyze the positive economic and social impacts of social housing on Canadian society. One of the findings shows for each dollar spent by SHQ in the form of subsidies, \$2.30 was injected into the Quebec economy.

The Netherlands has less to teach us on the question of gaining public support because social housing in such a fundamental part of society. Almost everyone in the Netherlands has a friend, co-worker, parent or grand-parent who lives in social housing. Having a personal connection to the product leads to much greater acceptance.

The different and unique international approaches to building support for public housing are worthy of a follow-up paper.



The question is not how to become like our European counterparts. Instead we have tried to use their experience and lessons to help us think about our own public housing system and how it can continue to function well, if not prosperously, in the future.

By design from its very early roots, our country invested in a belief in the supremacy of ownership and the inviolability of private markets.¹⁹ Our housing system resoundingly reflects those two beliefs. Increasingly, new affordable rental housing projects that come

before local review boards have trouble with neighborhood resistance.¹²

It's quite likely that the resistance rarely abates over time because affordable housing development flies in the face of much of what we hold dear in an American society. In an achievement t society, the housing we own or rent and the neighborhood we live in is the result of conscientious commitment to having worked our way up the ladder of housing choices. We start in a room in a house; we graduate to our own apartments made affordable by age, amenities and quality (or lack thereof); we rent a nicer apartment; our hard work and careful savings let us buy a small condo; we then buy a small house in a transitional neighborhood, and finally – finally! – we buy our single family home in a very nice neighborhood. It's a prize *and* an investment, into which we've poured our entire wealth, and in many cases our greatest expression of self.

What affordable housing proposes is much like Chutes and Ladders. It's the ladder straight from the tiny apartment right to the nice neighborhood *without having earned it*. And worse yet the public's perception is that the people who have been leap-frogged are the ones who pay for it.

This assessment invites our deeper consideration of a fundamental change in the way affordable housing is financed and delivered. We need to transform our industry from one that might be considered culturally deviant to one that would be perceived as

more main stream. This is a topic for the next paper.

PART 3: Policy Conclusions

Our four countries are undeniably different in culture, politics and geography. The Dutch social housing system is the largest in Europe and is a cultural centerpiece, if not point of pride. The UK system is Europe's fourth largest and is also well established in the British culture. The Dutch HAs are, in general, much less regulated, much more entrepreneurial and more hybrid compared to the English HAs. Canada and the U.S. are much more similar in policy evolution and scale. Canada straddles the bridge between Europe's welfare state philosophy and the U.S. capitalist society, yet its system is very close to ours. **From this base of differences, we've explored five questions in this paper:**

1	Is the Rental Assistance Demonstration (RAD) the right answer to a chronically under-funded public housing program?
2	Are we expanding RAD before we understand its lessons?
3	Is consolidation right for our communities, and will RAD, or other HUD initiatives, force it?
4	What would happen if the federal government is successful in devolving housing policy to the states? And, is a national affordable housing policy essential?
5	What would it take to convince the general public that an investment in some is a win for us all?

The primary lessons from the UK's program are that private investment in the form of mortgage debt has been working well, and, important to note, in some part because there has been a government guarantee behind the debt and in some cases because capital grants accompany the loan funds so that very low rental income can keep the asset sustainable. On the other hand, private investment in the Dutch system without a strong role for the federal government has sent the social housing system into chaos. Canada's experience in devolving their program to the provinces, and in a proposal to non-renew operating subsidy contracts provide an essential policy landscape for us. **The experience of all three lead to these conclusions:**

- A strong, cohesive and comprehensive national commitment to a balanced housing policy is essential;
- The current strategy of private sector involvement via RAD to help maintain the current public housing infrastructure is a good direction, but should not be an excuse for further federal disinvestment in the asset;
- The federal government should stand behind the mortgages that are collateralized by public housing and protect public housing from the volatility of market risk;
- The capital investment in public housing should include a blend of loans and grants; and
- These loans and grants should be accompanied by a permanent commitment to operating subsidy.

The UK has pursued a slow and methodical pace of change, and as a result has been able to make critical policy and program changes when unintended consequences popped up. The Dutch transition, which allowed time for neither implementation adjustments nor infrastructure readiness, has sent the sector into a schism.

- A slow and studied expansion of the RAD system is strongly advised.
- A much greater level of deregulation will provide some much-needed innovation, but the federal government needs to maintain some broad controls.

The UK and Dutch HAs operate with significantly bigger portfolios than those in the U.S. for a number of reasons. There are greater building densities in generally smaller geographic footprints in both countries which make consolidation much more feasible. However, the evaluation research suggest that these benefits appear to be certain: larger housing associations produce more new homes, seem to partner better with local governments and offer a wider array of services. Smaller associations perform well in terms of service delivery and tenant satisfaction. Evidence also suggests that smaller associations have lower operating costs. The jury is very much out on that question based on the European experience. However, given the significant difference in portfolio size between Europe and the U.S. –

- Some level of consolidation should be explored, with the understanding that consolidation does not create operating efficiencies.

With its focus on preservation of the asset, this paper did not delve into the role of resident involvement in any of the change process. However, the lessons and experience from all three countries affirm that –

- The driving force in preservation policy should be a firm commitment to resident engagement and the opportunity for community-building and prosperity as a result of our new investment.

RAD's future, with lessons applied from several countries with different and longer experience, suggests a positive next generation for public housing.

AUTHOR'S NOTE

When we look at any country's social housing program, it is inevitably through the lens of our own experience. No matter how carefully the interpretation arrives, it is inherently flawed by a cultural bias and misunderstanding. However, this paper seeks to find corollary lessons from a common practice of federal disinvestment and privatization. To the extent that this paper draws from a review of comparative literature, versus detailed analysis, it focuses on similarities rather than differences. A much more detailed analysis of the programs in the UK, Canada and the Netherlands would begin to surface significant differences.

This is not an exhaustive study by any means and is intended to invite a deeper look at the important parallels that we, as practitioners, see in the experience of our colleagues.

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APPENDIX A

Policy and Program Background by Country

CANADA

Canada's long history with public housing is currently threatened by the Canadian government's proposal to let all social housing subsidy contracts expire at the end of their 30 year contracts. Having already destabilized the industry by transferring the national program to the provinces, Canada is poised to take the more drastic step of total disinvestment. Early contracts have already begun to expire and all contracts will have expired by 2039. The Canadian Housing and Renewal Association (CHRA) predicts that 61% of its affordable housing inventory will be at risk.

The parallels between Canada's housing policy history and that of the U.S. are strong. Two years before the U.S. passed the Housing Act of 1937 Canada passed the Dominion Housing Act in 1935. Canada's landmark social housing legislation came in 1938 with the passage of the National Housing Act.²⁰ The first ten years of the program were devoted to war-time housing and in 1948 the first social housing that focused specifically on market correction was built.

In 1949 the NHA was amended to provide for joint federal-provincial program responsibility in the construction of publicly owned and provincially managed housing for low-income families, the disabled and the elderly. Early subsidies came in the form of long-term mortgages issued initially to either provincial/territorial or municipal housing corporations. In many instances, the mortgages were accompanied by long-term operating subsidies to make up for rent revenue that was insufficient to cover expenses. The long-term operating

commitment allowed residents to pay a percentage of their income in rent, which became known as rent-geared-to-income (RGI). Implicit in these agreements was the idea that when mortgages were paid off, operating subsidies would no longer be needed.

The Canada Mortgage and Housing Corporation (CMHC) negotiated with provinces or territories (P/Ts) to determine the prorata share each would pay to cover operating agreements. In some cases the federal government paid 75% of the subsidy, in other cases 50% and in some rare cases related to native housing or rural housing 100% of the cost. The P/Ts, in turn, could ask municipalities to help fund their share. This early program construct of joint responsibility for the program unwittingly paved the way for the federal government to ease out of its share of the obligation, which it began to do in the late 1970s.

In 1973 the federal government changed its policy focus away from funding public housing (100% rent-geared-to-income) and turned its

attention, mostly, to affordable housing development sponsored by non-profits and co-operatives.²¹ CMHC continued to offer long-term mortgages of up to 50 years with an operating supplement. Affordable housing developed by non-profit organizations had a greater emphasis on a mix of incomes, with some units at market and below-market rents and a percentage as RGI units.

In 1986 two policy changes reframed the public housing program. Full responsibility for delivery of public housing, and its ownership, was transferred to the P/Ts^d, and the program focus moved away from mixing incomes in favor of the targeted provision of housing to households with “core housing need”. The definition and quantification of core housing need was the basis for determining resource allocation to the programs, now administered fully by the P/Ts. The federal government retained its role in national policy leadership, coordination and accountability.

In 1993, the federal government froze expenditures for social housing and restricted its future financial support in this area to 1993 levels. At its peak, federal investment in social housing was approximately \$2.1 billion and had created approximately 600,000 new units of housing. This decision essentially marked the end of a permanent sustainable federal investment to house very low income Canadians. Subsequent federal governments have introduced temporary 5-year programs to combat homelessness (1999) and affordable

housing (2001). Both programs continue, albeit renewed and rebranded, with no increases since they began, reducing the federal investment to approximately \$350 million today.

In recent years, the Canadian government has stated publicly that it would not reverse the existing policy and would neither renew contracts that are expiring – both for public housing and affordable housing – nor create a new program for funding social housing. The justification for the disinvestment is that the absence of a mortgage obligation should create naturally occurring affordable rents. This logic withers when we are reminded that two-thirds of the housing inventory received not only mortgage subsidy but operating subsidy covering the difference between RGI and cost, which on average was 75% of operating cost. The first contracts began to expire in 1999 and by 2039 all contracts will have expired.

As existing operating agreements end, up to two-thirds of all social housing projects will not generate sufficient revenues to cover their operating costs with no other funding in place.²² Equally, many social housing projects already face considerable capital repair and replacement liabilities, a repair crisis that will grow as social housing buildings age.

Up to 365,000 low-income households in social housing that pay subsidized rents may be at risk of losing their homes in the absence of renewed funding.² Of these, considering current funding rates, it is estimated 200,000 households will be left in inferior housing and/or unable to afford rent.

^d With the exception of three provinces – Alberta, Prince Edward Island and Quebec who refused to sign agreements on the transfer.

The remaining 179,000 households of the total 544,000 of households in social housing with existing operating agreements pay rents that allow for self-sustaining social housing projects, even after operating agreements end.

To date, housing providers through their own internal economies, revenues and refinancing have been able to continue providing subsidies for the RGI tenants. Many provinces and territories have committed to initially supporting social housing units after federal funding ends, although they have made it clear that this is likely to be unsustainable as they do

not have fiscal capacity on par with the federal government.

Despite provincial efforts, there are a significant number of social housing units that have lost subsidy and have either evicted their RGI tenants or been sold. The lack of a national data set makes it difficult to assess the exact number. CHRA maintains that growing waiting lists are an important metric in assessing the loss.

The units scheduled to lose operating agreements rise significantly between now and 2025.

UNITED KINGDOM

The United Kingdom has more than 20 years' experience in converting their public housing from municipal ownership to a model of private ownership and private finance. A key dimension in the privatization process has been the process of mergers and acquisitions, concentrating the majority of the inventory into fewer organizations and doubling the average size of a housing organization in the last 10 years. Much research has been conducted in the UK to examine the impact of privatization and scaling up of the housing sector.

Like the U.S., the history of social housing in the UK began with charitable organizations responding to deplorable housing condition. However, unlike the U.S. which migrated to a government-dominated approach to public housing, the tradition of non-profit involvement in the housing sector remained strong in the UK. Large foundations and trusts inspired much of the very early growth with a strong focus on ideals that initially responded to health and welfare concerns, and strict principles for behavior.

In the 1930s through the 1970s the majority of growth in social housing came from public housing that was created and operated by the local council government but funded federally. This asset class is known as council housing. At its peak, council housing constituted 33% of the rental market in the UK and in 1980 council housing comprised 90% of all social housing.

Several events came together to cause a shift in popularity, and an eventual significant decline, for council-owned social housing. In the late

70s, as mentioned above, when council housing dominated the market, there was a natural backlash against over-supply and a growing preference for homeownership.³ There began a trend of deferred maintenance and declining quality. Hostility towards council housing grew as a corollary to an increasingly positive association with ownership. All of those factors assured a future in which the viability of the sector would decline. The privatization of public housing in the UK began with the Right to Buy (RTB) program. Local councils have always had the ability to sell their housing to their tenants but, until the early 1970s, the incidence of sales was extremely rare. Much like the Reagan government, the Thatcher government embraced the concept of an ownership society which brought with it a strong ideology of a “transfer of capital wealth from the state to the people”. The program was immediately popular. After three years of tenancy, tenants could buy their home at 33% of market value. The percentage went up for every one year of tenancy. The discounts on sale maxed at 70% of value

To date, 1.5 million council homes have been sold, out of an initial inventory of 4.8 million. The most unfortunate aspect of the program was that rather than recapitalize and reinvest in the asset, the sales program shrank the inventory of social housing, and only the best stock in the best areas was lost.

With a housing shortage, and the inventories reduced by RTB and the persistence of slums, the UK housing policy was forced to move from general needs housing to a priority for

lower income households. In order to achieve a deeper targeting, a housing allowance was introduced in 1992. This allowance continues today and is known as the Housing Benefit (HB). The Housing Benefit is awarded to a household based on income, family size and cost of the unit (private vs public). This is very similar to our voucher eligibility calculation.

Until 2012, there was a parallel subsidy that accrued to the council as the owner of the housing. The Housing Revenue Account (HRA) was derived from the net of housing income less housing expenses. The council’s subsidy was directly related to the net: the better the performance, the less the subsidy. By 2007 the majority of council housing was in a negative subsidy position, making payments to Treasury instead of receiving subsidy. The HRA approach was long criticized for penalizing housing organizations whose management and inventory attracted tenants with higher income.¹⁵ The HRA was discontinued in 2012.

This, and the introduction of a more rigorous capital standard asset test known as the Decent Home Standard, was the last straw for an increasingly fragile sector. Many council governments found themselves unable to maintain their inventories, unable to finance improvements and unable to sustain operations. There were a number of choices available, the largest and most popular of which was the Real Estate Stock Transfer program.

In the first phase, through 1997, fewer than 450,000 homes were transferred. In the second

phase, after 1997, close to a million transfers were registered. Most of the impact research has focused on results from this second generation of activity. According to the 2009 Chartered Institute for Housing (CIH) report on the Impact of Stock Transfers "(m)ost such transfers were aimed at addressing seriously dilapidated housing, stemming neighborhood decline and sometimes remedying a legacy of humdrum housing management."

The mechanism for sale involves a petition by the council government first to the federal

government and then to the tenant body to transfer the asset and the management to a housing association (HA). In some cases the HA is newly formed just for the purpose of the transfer and in other cases the HA has been operating in the community already. The ballot has to detail the commitments from the new HA, specifying the exact benefits of transfer. The proposal requires a majority vote of the tenants in order for the transfer to occur.

THE NETHERLANDS

Beginning in 1995 the Dutch government began a process of disinvesting in its social housing sector with a goal of intentionally reducing the inventory of social housing and, by extension, minimizing the investment on the part of the national government. This experience of complete disinvestment and deregulation has given rise to much innovation in the delivery of housing, as well as some unintended consequences when entrepreneurship runs rampant in a mission-driven industry.

The Netherlands (NL) has a long history with social housing. Compared to our experience of 148 years here in the U.S., NL has been evolving its housing policy for more than 600 years. It also bears saying at the start that the Dutch housing system strongly reflects a cultural value quite different than our own. Dutch society was founded on a mutual obligation to manage their dikes and water systems. Everyone in the Netherlands understands that if they had not developed early and continued collaboration, the entire country would be underwater. This strong ethic of social contract influences the architecture of their programs.

The first 500 years of housing history for NL is rooted in private non-profit delivery. Charitable foundations responded to the housing needs of their own members. In 1901 the government passed a new Housing Act which gave the state joint responsibility for developing affordable housing by providing capital in the form of subsidies, soft loans and land to the HAs. Housing Associations had to be organizations who used their resources exclusively in the interest of social housing and that did not pay out any dividends to third parties. This early and strong commitment to a public-private partnership had endured the test of time and remains somewhat, but fundamentally, unchanged.

Between 1901 and the early 1980s, the Dutch HA network grew the social housing sector to be the largest per capita social housing inventory in the European Union (EU) (32% of the total housing inventory is owned by HAs; and in Amsterdam the proportion is half of the stock). The Dutch have rarely questioned the premise that all people should be appropriately housed.

Ideas that hatched in the late 80s and were implemented in 1995 caused a massive policy redirection in which the federal government began to intentionally reduce the size of the social housing sector. A collision of events drove a radical change. One part economic crisis, one part reconsideration of the welfare state and one part a new desire to gain access to the EU prompted a new policy of disinvestment.

The most radical of the trilogy was a 1995 action called *Bruteringsoperatie*, or “grossing up”. Compelled by changes in the economic entrance requirements to participate in the EU, the Dutch government wanted to reconfigure its balance sheet. The Dutch government decided to cut all financial ties with HAs by forgiving all debt in return for a discounted and capitalized summation of future operating subsidy obligations. The state got to offload €17B in liabilities and the HAs got complete financial freedom and deregulation. From then on HAs had to subsidize social rents with more entrepreneurial activities like mixing incomes and adding commercial activities. The most common form of capital rise is to sell aging stock to tenants and use the sale proceeds to build new.

One of the early initiatives in their newly deregulated sector was to create two central loan funds to help them manage access to borrowing and risk in the collective portfolio. The first fund, known as the *Waarborgfonds* or WSW, is a guarantee fund that helps its member HAs to create better access to capital. The second fund, the *Centraal Fonds Volkshuisvesting*, (CFV), was established to collectively manage risk and monitor financial strength of the sector. Both loan funds are either directly (CFV) or indirectly (WSW) guaranteed by the central Dutch government, which requires two (2) things of Dutch HAs:

- that they serve people of low income or households who are marginalized by the market; and
- that profits must be reinvested in social housing.

With their new mandate, Dutch HAs began a life as social entrepreneurs and risk-taking entities. This opened the door to a number of very public miscalculations and misdeeds on the part of housing leaders. The most notorious was the acquisition of derivatives by the largest HA in the Netherlands, Vestia. As the scandal biopsy unfolded it became clear that the derivative purchase was far in excess of Vestia's market risk and the cleanup ended up costing the CFV and the government more than 2 billion euros; €700M of this had to be repaid by the other HAs in the collective.

Since then, the Dutch housing industry has been examining the underpinnings of an industry perceived to be out of balance. These lessons are essential for us.

THE UNITED STATES

US housing policy is currently transforming with a first-ever demonstration to substitute public housing funding for Section 8 project-based contracts in a program known as Rental Assistance Demonstration (see Insert on page 6). The US has had a federally-funded public housing program since 1937. The current program is under-funded and its 1.2 million units suffer an estimated \$27 billion backlog of deferred maintenance. With a Congress unwilling to appropriate funds necessary to maintain the assets in decent condition, the US is looking for new solutions.

US housing policy has its roots in the industrialization of the country. In the mid-1800s the country experienced mass in-migration and immigration, overloading the cities with thousands of workers looking for jobs and housing. Housing quality interventions were left largely in the hands of the charitable sector until the late 1800s when cities began creating health and safety standards for tenements. The first federal appropriation of funds for housing was in 1917 in concert with the US Shipping Act. Shipbuilder housing was needed on both coasts and 16,000 units of pre-public housing was created between 1917 and 1918.

In 1929 President Hoover refocused the nation's attention on housing. His work as Commerce Secretary gave him a profound understanding of the depth of housing's ability to fuel the economy and shape a society focused on the virtues of homeownership. His administration set the stage for the network that, today, continues to facilitate American homeownership. He is credited with inspiring the Federal Housing Administration, the Federal Home Loan Bank and the Federal

National Mortgage Association, all of which the Roosevelt administration enacted.

In the Great Depression the need for affordable rental housing eclipsed the homeownership agenda. Congress passed the US Housing Act of 1937 that authorized, and imagined, a public network of local housing authorities building and owning affordable rental properties. After the war, housing advocates got another shot at an ambitious program with the passage of the US Housing Act of 1949 that authorized the construction of 810,000 units of public housing over a six year period. Despite that commitment, the US has never fully embraced a public housing effort, torn between a philosophical commitment to an ownership society and a fundamental distrust of public sector involvement in housing. The public housing program limped along, producing an average of 20,000 units per year.

Prior to 1969 public housing operated on a flat rent basis, meaning that rents could float to coincide with operating costs of the housing. Mortgage payments were forgiven on an annual basis and rental income was required to cover only maintenance and operations. Little consideration was given to future

recapitalization needs. In 1969, Congress passed the Brooke Amendment that tied public housing rent to tenant income. This change marked the beginning of serious financial problems for public housing that plague the program today. Tenants pay 30% of their income in rent and the government, via a subsidy from HUD, pays the difference between tenant rent and their calculation of what it should cost to operate a property of its asset class. Funds for capital repairs and resident services come in separate streams of funding. All three streams of funding are woefully insufficient to the task.

In January 1973, President Nixon declared a moratorium on all housing activities involving federal subsidies saying “this high-cost no-result boondoggling by the federal government must end.” Ushering in a period of ideological belief in the supremacy of the private sector, Nixon created what is commonly known as the Section 8 housing choice voucher program. The legislation was signed into law in 1974, two days after Nixon’s resignation from office. The voucher program allows a participant to rent an apartment in the private market and

pay 30% of their income in rent. The landlord is reimbursed by the housing authority the difference between tenant rent and an adjustable fair market rent. The voucher program quickly grew into the largest US program with 2.1 million current customers compared to public housing’s 1.2 million.

The Section 8 program brought the private sector into the realm of affordable rental with a variety of project-basing programs. In 1986 the Low Income Housing Tax Credit program was created which further solidified a future US program that is largely public-private focused and concentrated on a less vulnerable population.

Most of the HUD initiatives since the last public housing unit was authorized in 1982 have been focused on remedying the many policy mistakes associated with the 1937 Act, but there are no policy initiatives aimed at adding further to the public housing supply. Instead the focus is on the tax credit program where customers need a portable voucher or a significantly higher income to gain access. Homeownership initiatives also continue apace.



Canada



Canada



United Kingdom



The Netherlands

AUTHOR DISCLOSURE

The author was an early advocate for the migration of public housing to a Section 8 platform and the author's organization, Boulder Housing Partners, is currently participating in the RAD program.

This paper was sponsored by the Rockefeller Foundation's Bellagio Center under the care of NAHRO's International Research Committee, with special thanks to Dave Baldwin.