



# Affordable Housing for Low-income Families\*

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## Introduction

Countries use a variety of housing policy measures to pursue social policy objectives, such as assistance with housing costs to prevent material deprivation and, more broadly, access to affordable housing to promote social inclusion. This Policy Brief aims to provide an overview of two such housing policy instruments, social housing and housing allowance, focusing on six EU Member States (Austria, Italy, Hungary, the Netherlands, Sweden and the United Kingdom). It also addresses the extent to which housing allowances benefit individuals and households lower down the income scale.

## Background

**The six countries have had varying experience regarding housing market trends during and after the global financial crisis**

The global financial crisis had a strong impact on the housing market in all European countries. From 2007 house prices declined almost everywhere, but by 2013 the market had bottomed out in most Member States and appears to be recovering since then, albeit with marked differences between the countries.

In 2015, the annual increase in house prices in real terms (i.e. relative to the general rate of inflation) was 12% in Hungary and Sweden, 5% in the UK and around 3% in the Netherlands and Austria. In Italy, the house price index has continued to fall (-3% in 2015 as compared to -7% in 2013). House price volatility has been most limited in Austria, where during the 2005-2015 period the annual house price index fluctuated within a narrow range (from around 0% to around 5%), and most significant in the UK, where the housing sector was severely affected by the global financial crisis. At the same time in most countries household disposable incomes decreased especially in those hit hardest by the crisis, such as Hungary.

### Keywords:

**affordable housing,  
low-income families,  
housing allowance,  
social housing**

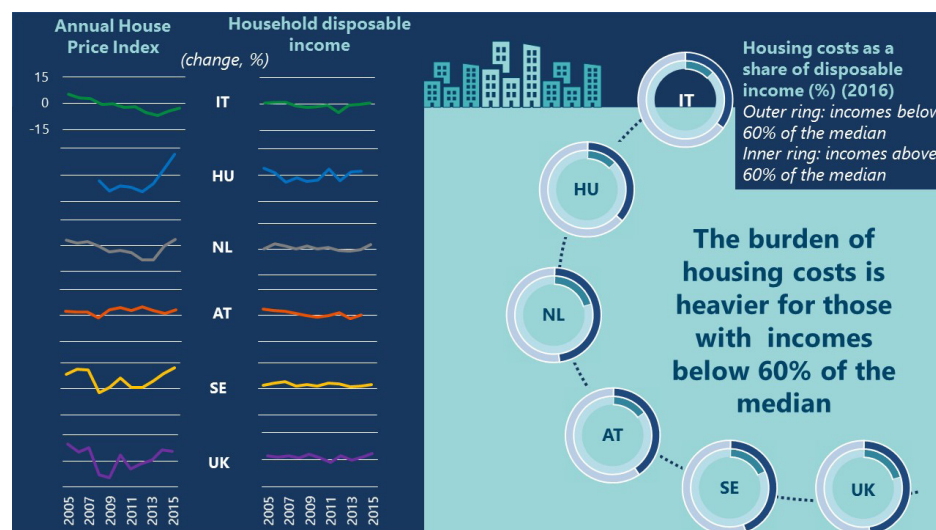
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**Housing affordability has become a growing problem in the post-crisis landscape**

As access to affordable housing in the private market has become more difficult for a growing number of low-income households, this also increased demand for social rented housing. Housing costs, which represent a considerable share of disposable income, have also become increasingly burdensome particularly for less affluent households.

**Graph 1: Housing costs as a share of disposable income**



Source: Own illustration based on data from European Central Bank Statistics, OECD National Accounts Statistics and Eurostat Database, EU-SILC.

Note: Rate of change (%) of the annual house price index, relative to the general consumer price index; Annual growth rate (%) of household net disposable income.

**A significant share of low-income households, up to 43% in the Netherlands, struggles to meet housing costs**

Housing costs reached 25% of disposable income in the Netherlands and in the UK in 2016.<sup>1</sup> In Austria, Hungary and Italy, housing costs relative to disposable income are below, and in the case of Sweden the same as, the EU-28 average (22%). As might be expected, the burden of housing costs is heavier for those with incomes below 60% of the median (the at-risk-of-poverty threshold). Housing costs 'overburden'<sup>2</sup> is also more prevalent among the poor. The proportion of households affected ranges from between 33% and 34% in Hungary and Italy, to 39% in Austria and Sweden, and around 42-43% in the UK and the Netherlands. The share of households with arrears on utility bills follows a similar pattern: it is considerably larger among low-income households in all countries.

- 1 Housing costs refer to the monthly costs connected with the household's right to live in the accommodation and includes the costs of utilities, regular maintenance and repairs, structural insurance, services and charges, taxes on the dwelling, rental payments, mortgage interest payments (net of any tax relief) and gross of housing benefits (Eurostat, 2017).
- 2 When housing costs exceed 40% of disposable income, this is termed 'overburden'.

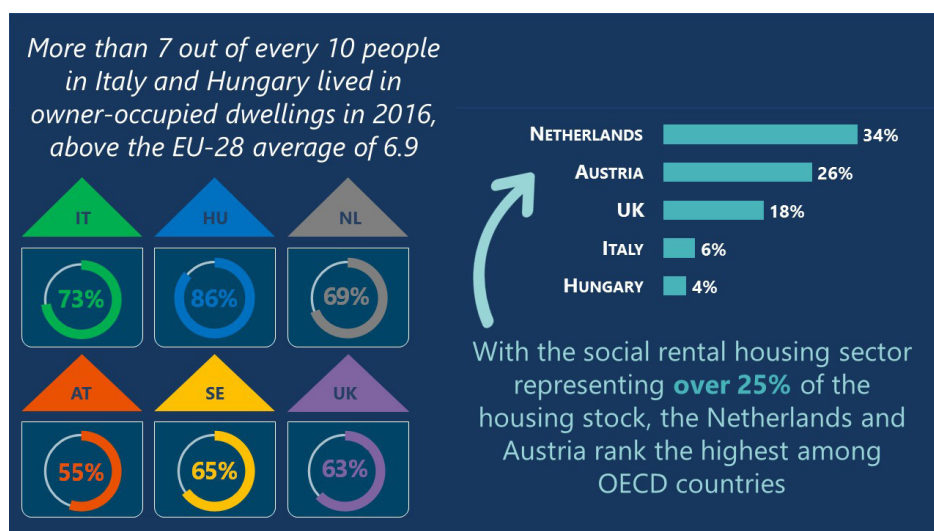
## Provision of social housing

An important policy instrument to ensure access to adequate affordable homes is social housing, provided in the form of rental housing usually with sub-market rents and allocated according to need. Although there are considerable variations across the six countries regarding the scale of provision as well as in terms of ownership and eligibility criteria, overall, those with lower incomes tend to be overrepresented among social housing tenants (Scanlon et al., 2015).

**Recent changes in the Netherlands aim to increase affordability of social housing for the lowest income groups**

Austria, which shows a nearly equal split between home ownership and rental housing, has a large subsidized rental housing sector, with housing associations and municipalities supplying dwellings at cost-rents (Mundt and Amann, 2015). Similarly, the Dutch housing market is characterised by a highly subsidised and regulated social rental sector that accounts for 34% of homes mostly run by third sector organizations (OECD, 2016). Rent is capped in this sector at a lower amount than the one applied to the private sector, and since 2011 an income ceiling is applied when allocating social housing. The 2015 Housing Act aims to further increase access for people with limited financial means by allocating social housing to 95% of those who qualify for housing allowance (Ministry of Economic Affairs, 2015).

**Graph 2: Owner-occupied dwellings vs. social rental housing sector**



Source: Own illustration based on data from OECD Affordable Housing Database and Eurostat Database, EU-SILC.

With close to 5 million homes, the UK social rental sector is one of the largest in Europe in terms of absolute size (OECD, 2016). It represents 18% of the total national housing stock. Managed by local authorities and housing associations (registered social landlords), these homes are provided to specific eligible households that cannot afford to rent in the private market.

In comparison, social rental housing remains very limited in Italy and Hungary (6% and 4% of the entire housing stock). Their housing markets are characterised by high rates of home-ownership, which, in the case of Italy, was fuelled by strict rent control legislation in the late 1970s (Baldini and Poggio, 2010), while in Hungary this is a consequence of the widespread privatisation process during the 1990s (Hegedűs, 2011).

The distinction between social housing and the private rental sector is blurred in Sweden (Bååth, 2015). Municipal housing companies, which own about half of the rental sector, aim to provide housing for all regardless of income; therefore, income thresholds do not apply in the allocation of municipal dwellings. Furthermore, rents in the private and public sector are more or less the same due to the so-called utility value principle (i.e. rents are set in comparison with similar tenancies in the given area). The weight of the rental sector as a whole has declined as a result of the increased liberalisation and deregulation of the housing market (Holmqvist and Turner, 2013), a development that has clearly favoured home ownership, now at around 65%.

## Housing allowance

Housing allowances are usually means-tested, serving the purpose of helping low-income households meet housing costs. In Italy, Austria, the Netherlands and the UK, they are designed to support tenants, while in Hungary and Sweden, eligibility is extended to home owners too, provided they meet the income and other eligibility conditions.

**Whereas social housing is available for both low- and middle-income households, housing benefits are limited to those with low income in Austria**

In Austria, which has a relatively high share of public expenditure on social protection in percentage of GDP (around 28.3%), housing benefits tend to play a limited role (Mundt and Amann, 2015). Instead, supply-side grants for provision of affordable housing are of greater importance. Means-tested housing benefits exclusively support households with low incomes although they do not aim at securing a minimum income of recipient households. In fact, to further distinguish it from the minimum income schemes, four out of nine regions have restricted eligibility to those with an income above a certain threshold (i.e. housing benefit is only available to those who are employed or were employed in the near past) (Mundt and Amann, 2015). In general, housing allowance amounts to housing costs (rents and building charges) that exceed what are deemed to be 'reasonable housing expenses', which in turn usually equal 25% of household income (capped at a certain limit).

Graph 3: Housing allowance characteristics

Housing allowance	Housing sector	Target group	Government Spending (% of GDP)	Housing allowance as share of total household income
<b>Italy</b> Rent supplement	Rent	Low and medium income	0.02%	< 0.05%
<b>Hungary</b> Home maintenance support	All	Low income	0.06%	0.4%
<b>Netherlands</b> Rent benefit	Rent	Low income	0.45%	0.8%
<b>Austria</b> Housing benefit	Rent	Low income	0.16%	0.2%
<b>Sweden</b> Housing allowance	All	Families with children, young people, pensioners	0.45%	0.8%
<b>UK</b> Housing benefit	Rent	Low income	1.41%	2.5%

Source: Own illustration based on information from Figari et al., 2017 and OECD Affordable Housing Database (on government spending).

In the Netherlands, rent benefit is the most important subsidy that provides assistance with rents to both private and social tenants, provided they meet the income criteria that vary across household types. The level of the benefit increases with rent up to a ceiling, currently set at EUR 710 per month for tenants in the regulated rental sector (Government.nl, 2016). Tenants also benefit from caps in rent increases, set each year by the government and linked to inflation. As of 2013, landlords can increase the regulated rent at a higher rate than inflation (the law establishes a maximum increase depending on the income of the tenant), however, low-income households are compensated for this through the rent benefit so as to ensure that social housing remains affordable.

**The UK spends the most on housing allowance among OECD countries and the benefit has a considerable weight in family incomes**

The housing benefit is one of the main social assistance benefits in the UK, both in terms of government spending and number of claimants (Hood and Keiller, 2016). From 2010 onwards, tightening of public expenditure has led to spending cuts affecting social benefits and other programmes related to housing provision or affordability (Schwartz, 2011). Nevertheless, with 1.4% of GDP spent on housing allowances, the UK still ranks highest among OECD countries (OECD, 2016). In 2016, housing allowance contributed about 2.5% of total household disposable income. As of 2016, eligibility for the benefit is based on having low income and savings below £16,000. The maximum amount a household can receive is capped and depends on location and household composition. In 2013, an additional 'bedroom tax' or 'under-occupancy charge' was introduced that led to a reduction in housing benefit by 14-25% depending on the number of spare bedrooms. Since 2013 housing benefit has been phased out, to be merged into a single Universal Credit benefit, together with other means-tested benefits.

With social housing playing a minor role in Italy and Hungary, housing allowances are the main instruments to support persons in need with their rent and housing costs.

**In Italy and Hungary, where public provision of housing is very limited, housing allowance is the main housing policy helping low-income families meeting their housing needs**

In the case of Italy, housing allowance (*Sussidio Casa* or *Contributo al canone di locazione e per le spese accessorie* after 2013) is provided in the form of a proportional rent supplement to tenants with registered contracts and with low and medium income, with households having to pay at least 14% (very low-income households) or 24% (the rest of eligible households) of rent themselves. The housing allowance is administered at the municipal level and depends on the local budget allocated to the rent supplement. In some regions, this might lead to the rent supplement being transmitted on a voucher-like basis, especially if the budget is low or the number of applications high. In this case, instead of a proportional rent supplement, regions transfer a fixed amount or limit the group of beneficiaries to those with higher needs (Baldini and Poggio, 2010). As the assessment of eligibility for the rent supplement involves a relatively lengthy process in Italy, this often results in long waiting periods for the allowance to be actually distributed.

The Hungarian home maintenance support, introduced in 1993 and provided on a normative basis from 2004 until 2015, was an important supplementary social assistance benefit to compensate for regular housing expenses (Albert, 2015).<sup>3</sup> Although coverage was relatively high – the benefit was paid to 412 thousand recipients in 2014 – the monthly amount was low and kept constant (CSO, 2015). As of 2015, compensation for housing-related expenses, along with two other social assistance benefits, are granted under a new benefit scheme called “settlement support by local authorities” (Ministry of Human Capacities, 2015). The monthly amount and the criteria for this provision are regulated by local decrees (only an upper limit on the amount is set nationally, equal to the minimum old-age pension). Municipalities have to cover the expenses from their local budgets. So far, little is known about the adequacy, coverage and take-up of this new benefit scheme, but there is some indication that the provisions have become more limited and their allocation less transparent (Mózer, 2016).

**Housing allowance appears to be most narrowly targeted at low-income families in Sweden, while its effect on poverty was largest in the UK**

In Sweden, housing allowance is comprised of three separate schemes: (1) housing allowance for families and children and for young people aged between 18 and 28 years, (2) housing supplement for pensioners, and (3) housing supplement for people receiving a disability pension. These benefits can be granted to households of all tenures, provided they are registered and permanently residing in the dwelling for which the allowance is applied for, and meet conditions for income and housing costs. The level of the housing allowance depends on income and capital, the number of persons in the

3 Prior to 2004, the provision of the home maintenance support was dependent on local government decision.




household, the size of the dwelling and housing costs.<sup>4</sup> The housing allowance is targeted at those with low income, in particular, single-parent households, while the housing supplement for pensioners provides an important safety net for older people with low pensions. In 2015, 55% of all housing allowance was paid to households with women as the sole breadwinner (Swedish Social Insurance Agency, 2016). Women are also the predominant recipients of the housing supplement for pensioners.

In terms of targeting, Sweden stands out with 92% of all housing benefit received by the poorest 20% of the population in 2016 (Figari et al., 2017). The corresponding figures range from between 68% and 63% in Austria and the Netherlands, to a markedly low percentage in Italy and the UK (35% and 26% respectively).

Results from microsimulation analysis using EUROMOD by Figari and colleagues (2017) also confirm the important safety-net role attributed to this benefit and its relatively wide coverage in the UK, and to a lesser extent in the Netherlands and Hungary. The observed weak impact in Austria hints at the rather limited role housing benefit tends to play there, whereas in Italy the very low poverty-reducing impact could be explained by the low benefit amount and the small size of the eligible population group living in rental accommodation. Changes between 2007 and 2016 indicate that this anti-poverty effect has decreased in Sweden, improved in the UK while no significant change can be observed in the Netherlands, Austria and Italy.

#### Graph 4: Impact of housing allowance on poverty

Source: Own illustration based on data from Figari et al., 2017.

Housing allowance 	Share received by the poorest 20% of the population		Poverty reducing effect	
	2007	2016	2007	2016
<b>Italy</b>				
Rent supplement	15%	35%	-0.06	-0.07
<b>Hungary</b>				
Home maintenance support	88%	N.A.	-1.55	N.A.
<b>Netherlands</b>				
Rent benefit	65%	63%	-2.33	-2.21
<b>Austria</b>				
Housing benefit	53%	68%	-0.46	-0.43
<b>Sweden</b>				
Housing allowance	87%	92%	-3.64	-1.59
<b>UK</b>				
Housing benefit	30%	26%	-4.59	-5.47



*The impact of this housing policy on poverty in 2016 was strongest in the UK – with over 5% point reduction in the at-risk-of-poverty rate*

<sup>4</sup> Housing costs include rents, cooperative or association fees, monthly housing expenses such as heating costs, and in the case of home owners also mortgage payments.

## Take-away messages

- As house prices and rents remain high, affordability stays out of reach for many low-income households. Although middle-income families have also been increasingly affected in the aftermath of the global financial crisis, affordability is clearly worst for those with the least resources.
- Housing costs represent a significantly larger burden for poor households reducing spending on other necessary items, such as food or clothing. Declining housing affordability, especially among lower-income groups, also brings to light a number of problems related to inequality and social mobility that have important implications for the whole society.
- In addition to the problem of insufficient supply of social housing, social rental units are often not of suitable quality, lacking adequate space and offering limited cost control for families (e.g. in Hungary, many social rental units are in need of substantial repair). This highlights the importance of housing rehabilitation programmes – including those improving energy efficiency – and related funding instruments at EU, national, regional as well as city level.
- Research on the distributional effects of housing allowance in the six countries confirms that this benefit is generally targeted at lower-income households. However, housing allowances may drive up rents by increasing housing demand in a market with limited supply. Landlords may also capture a sizeable share of housing allowances by raising rents when they know that tenants receive housing allowances, as has been the case in the UK.
- Provision of affordable housing is a crucial component of social inclusion. There are large variations across countries in how this issue is approached. Overall, the systems surveyed here could benefit from better targeting, faster administration of benefit schemes and improvements in social housing.



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