

**ULI Land Use Policy Forum Report**

# **Housing for Moderate-Income Households in the European Union and the United States**

**Prepared by  
John McIlwain**

**Paris  
21–22 January 2003**



**Urban Land  
Institute**

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ULI—the Urban Land Institute is a nonprofit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors education programs and forums to encourage an open international exchange of ideas and sharing of experiences; initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

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Richard M. Rosan  
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## Acknowledgments

I would like to thank the forum participants (please see the list of participants on page 25) for their time and input at the forum. Their knowledge, experience, and commitment to affordable housing is exemplary. I also wish to thank Marta Goldsmith for organizing the forum and for her review and support of this report. Both Nancy Stewart and Carol Bell provided invaluable editing and advice, and Anne Morgan was the graphic artist, giving the report its final polish. Any errors—unintentional as they may be—are the responsibility of the author alone.

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# Policy Forum Summary

The 2003 ULI European Land Use Policy Forum, “Housing for Moderate-Income Households in the European Union and the United States,” considered the issue of access to housing for moderate-income households among countries in the western European Union. A group of 18 participants looked at the issues of how access differs among countries, and the impact of national housing markets and policies. In the U.S. in recent years, housing that is accessible to moderate-income households (often referred to as “workforce housing,” to describe housing that is affordable to essential community workers such as teachers, nurses, police, clerical workers, and retail clerks) has become increasingly elusive in areas where housing demand has soared—and with it, prices and rents for owner-occupied or rental homes. This lack of affordable housing has pushed such housing farther and farther out to the urban fringe of U.S. cities. The forum considered how this U.S. experience is similar to yet differs from that in western Europe.

## Introduction

ULI convened 18 experts in Paris for two days in January 2003 to discuss the growing shortages of workforce housing in western EU countries and the United States. What is known as “workforce housing” in the United States is called by different names in Europe, including “intermediate housing” and “key worker housing.” There are also differing definitions. Some consider these terms to mean housing for families with at least one full-time worker, which is how the National Housing Conference in the United States uses the term. ULI has focused on a subset of this larger population—namely, families with incomes sufficiently high to exclude them from social housing but insufficient to enable them to afford decent housing in the communities in which they work. This definition is sometimes further narrowed to “key workers” that are critical to certain local business or to providing essential community services.

ULI has been studying this issue in the United States because, among other reasons, it is a land use issue. Rachele Levitt explained that most market-rate housing built today generally is on the outer fringes of U.S. urban areas, generating ever-increasing sprawl. Forum participants commented that sprawl was not so much of an issue in the EU; the concerns revolve more around issues of community economic development and sustainability, such as the ability to attract and keep businesses and to provide local services.

There was some initial skepticism regarding what the forum could achieve given the differences among the countries represented. Guy Portman, the forum chair, noting this, commented that skepticism of this sort has limited discussion about residential development across national lines. In his view, the forum was a great opportunity to begin changing the situation by opening a dialogue. Likewise, Claude Taffin concluded his opening presentation on overall EU housing trends by saying, “Maybe there are fewer disparities among countries than I thought, but the disparities within countries are growing.” The shortage of workforce housing appears concentrated particularly in the EU capital cities and a few other regions or larger cities, while housing in areas outside the capitals is generally considered to be affordable. The situation is much the same in the United States, if one changes “capital cities” to “major cities,” with reference especially to those in the high-growth areas of the West, South, and Southwest.

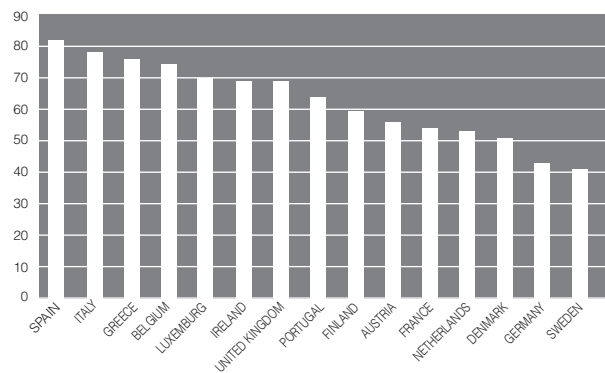
## The Housing Overview

Taffin opened the session with an overview of key worker housing in Europe. He warned that the statistics presented in his remarks should be used with caution, as they typically are compiled differently in different countries. Except as noted, Taffin presented the slides shown as charts in this report.

## Homeownership versus Rental

A primary difference among countries is the rate of homeownership. According to the information Taffin provided (chart 1), the homeownership rate ranges from more than 80 percent in Spain to just over 40 percent in Sweden. In the United States, the rate currently is just over 68 percent. Variations among countries are caused by different national policies and cultural preferences.

**CHART 1. PERCENTAGE OF HOMEOWNERS IN THE EU**



### Germany

Some 60 percent of the housing in Germany is private, market-rate rental housing, generally of high quality and widely accepted. Rental housing is less expensive than owned housing, and there is no government push to get people to buy homes. It was said that Germans are used to paying a high percentage of their incomes for housing, so there are those willing to spend the extra amount for for-sale housing, but only if it is of higher quality (which adds even more to the cost of ownership). It was suggested that Germany may be overprotecting tenants, and that it may be time to balance these protections with incentives for ownership, because the protections have reduced profits and, perhaps, housing production.

### England

There is a heavy bias toward homeownership in England. This was reinforced by the sale of much of the social housing to its occupants during the 1980s. It was reported that rental housing, whether social or market rate, is perceived to be of lower quality, and that tenure has become a proxy for income and status. The private rental sector is struggling to overcome this longstanding bias. Julie Cowans reported that despite the fact that rental housing is less expensive, many feel that it is just “burning money,” given the high rate of appreciation in home prices. Home value appreciation commonly is seen as a retirement nest egg. The overregulation of rental housing, especially through rent controls, also has contributed to the decline of the rental sector.

### The Netherlands

Tax laws in the Netherlands allow a mortgage interest deduction, which provides a real incentive for ownership. In addition, banks recently have expanded their facilities for lending to homeowners. Housing for homeownership is built mostly by the private sector, though it is expensive and is frequently rented if it cannot be sold. Most rental housing is produced by housing associations, although the private sector is beginning to produce luxury rentals due to growing demand by the same demographic group that is moving into the U.S. luxury rental market—empty nesters.

### France

Rental housing is less expensive than ownership and many people rent by choice. Renting is well accepted, and generally rentals provide more space and rooms for the same cost as ownership. Many people in France tend to look for single-family homes with a bit of land to buy, in part because it can be hard to find a place to rent. However, if single-family housing is built to look like ownership housing, it can be readily rented instead of sold. In the 1990s, some subsidies for homeownership were eliminated, with the effect that the rate of homeowners under 40 declined (though the economic crisis at the beginning of the 1990s also may have been a factor).

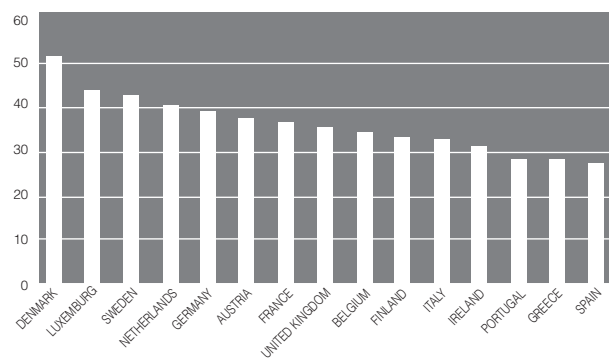
## The United States

There has been a longstanding national policy to promote homeownership in the United States, and banking and tax laws favor homeownership. Owning a home of one's own has long been the "American dream." Currently, record low interest rates and the weak stock market are fueling a homebuying surge. The children of the baby boomers,<sup>1</sup> known as echo boomers, constitute an even larger demographic cohort reaching the age of household formation this decade, and the huge influx of immigrants over the past decade also will be moving into the market. For these and other reasons, home sales in the United States are likely to remain strong for some time.

## Size, Age, Production, and Population Growth

Taffin noted that families in the northern regions of Europe tend to invest more in housing, presumably because of the colder weather that forces them to spend more time inside, and also, perhaps, because of the greater wealth of northern countries. The result is that houses tend to be larger in countries in northern Europe. (But they are not as large as U.S. homes, where the average number of square feet per person is 765<sup>2</sup>—71 square meters—or 36 percent more space per person than in Denmark.)

**CHART 2. AVERAGE NUMBER OF SQUARE METERS PER PERSON IN HOMES IN EU COUNTRIES**

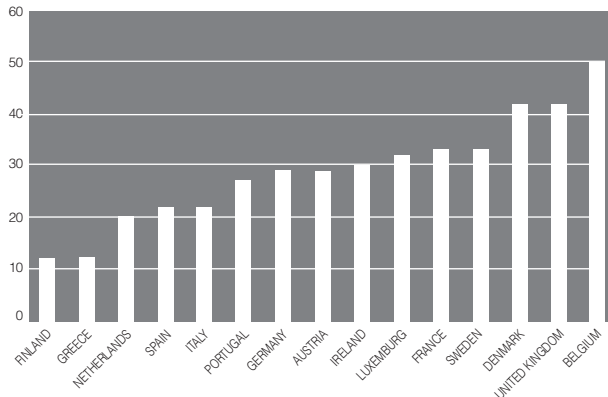


<sup>1</sup>The baby boomers are the generation born following World War II, from 1946 to 1964. Today, the cohort is estimated to encompass 85 million adults ages 58 to 40, the largest single generational group in the United States until recently.

<sup>2</sup>The National Center for Policy Analysis, citing information from Katie Fairbank, "Moving on Up: Convention to Cater to National Appetite for Bigger Homes," Dallas Morning News, January 14, 2000; <http://www.ncpa.org/pd/economy/pd011900g.html>, accessed February 16, 2003.

There are wide variances in the age of the housing stock in EU countries. Finland has the least amount of prewar housing stock, while Belgium has the most, with almost half of its housing built prior to 1945.

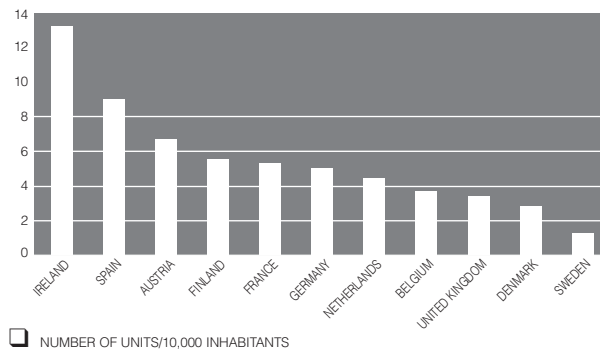
**CHART 3. PERCENTAGE OF HOUSING BUILT BEFORE 1945 IN EU COUNTRIES**



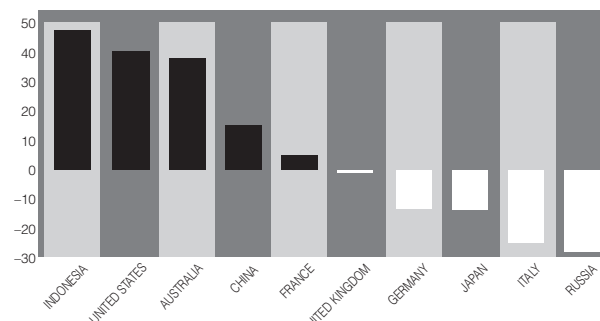
The rate of new housing production also varies widely in EU countries. Relative to its population, Ireland has the most active housing production. When the correlation between production and population growth was considered, Taffin observed that much of the new production was to meet the demand of internal migrations. He also said that the U.K. and Sweden are building about half the amount of housing they need. In the case of Sweden, the reason may be that in 1992 the country's leaders thought they were finished with housing problems and so closed their Ministry of Housing. Only today are they beginning to consider establishing it again.

Perhaps the largest difference between the United States and the EU countries is in the rate of population growth (chart 5). The United States is a young country, growing at the rate of 30 million people each decade. This growth, focused largely in the South, West, and Southwest regions, has created local housing shortages that are driving up prices far faster than wages.

**CHART 4. NEW HOUSING BUILT IN EU COUNTRIES IN 2000**

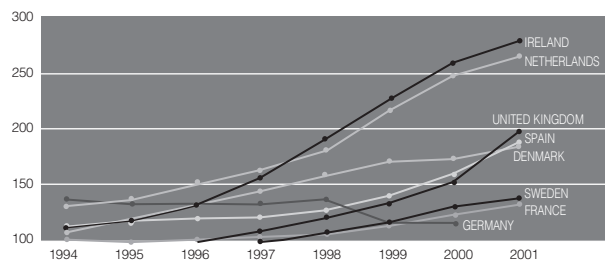


**CHART 5. POPULATION GROWTH IN PERCENTAGES**



Source: Presentation by Hamish McRea to the ULI European Real Estate Investment Conference, January 23, 2003.

**CHART 6. HOUSE PRICE TREND (1994–2001) IN SELECTED EU COUNTRIES (100 PERCENT = 1994)**



Source: United Nations.

The price of housing has been rising, though at different rates, in all the EU countries since 1994—except notably in Germany, where prices have fallen in the past few years. The figures shown in chart 6 are national averages. Prices within each country can vary greatly between the larger cities and the rest of the country. (Chart 7 shows the wide variation in U.S. housing prices.)

A question was raised as to whether rising house prices in Europe can be correlated with high production rates and the age of the stock. The answer is unclear, though there may be some correlation between price increases and production rates. For instance, Ireland has had steep price rises and high production, while Sweden has had relatively lower price increases and low production—though both have relatively older stock.

Taffin commented that he believes rising prices may be more the result of increasing land costs than high production rates (though the U.S. experience is that high production increases the demand, and therefore the cost of land, especially in urban environments). He believed as well that improved housing quality was a factor in the increase in its cost. It is notable in this regard that the average house in France has been getting smaller, even as more people move to single-family homes in the suburbs. In the United States, where the majority of the population has lived in the suburbs since the 1970s, housing has been getting larger for decades. The average size of an American home has grown from 1,645 square feet in 1975 to 2,265 square feet in 2000, an increase of more than 37 percent,<sup>3</sup> which surely accounts for a significant portion of rising prices in the United States.

Forum participants believed that there was not a key worker housing shortage throughout the EU countries, but rather, as mentioned above, they thought shortages existed largely in the capital cities and a few other major towns. These are the areas where the cost of housing is highest within each nation, though there are variations in the reasons or causes for the pressure on prices in each country.

<sup>3</sup>Elizabeth Chang, “Zeroing In,” Washington Post, Outlook Section, p. 2, February 16, 2003.

### The Netherlands

For many families in the Netherlands, the main barrier to buying an affordable home is the net cost for starter homes and the cost of moving up to the next home. Costs are largely driven by a lack of supply, which makes it hard to get people out of social housing.

### England

The cost of housing in London and other major cities is so high that moderate-income families need more than lower interest rates to afford a home. The average age of the first-time homebuyer in England has risen from 27 to 35, a sign of people getting priced out of the market. The reason is similar to that in other countries—not enough homes are being built. Homebuilding has slowed to the point that it takes 20 years to build what was once built in one year. Compounding the problem is the fact that the homes being built are mostly larger units that are not affordable for first-time buyers. At the same time, public sector salaries remain low and are not rising fast enough to keep up with the rising cost of housing.

### Germany

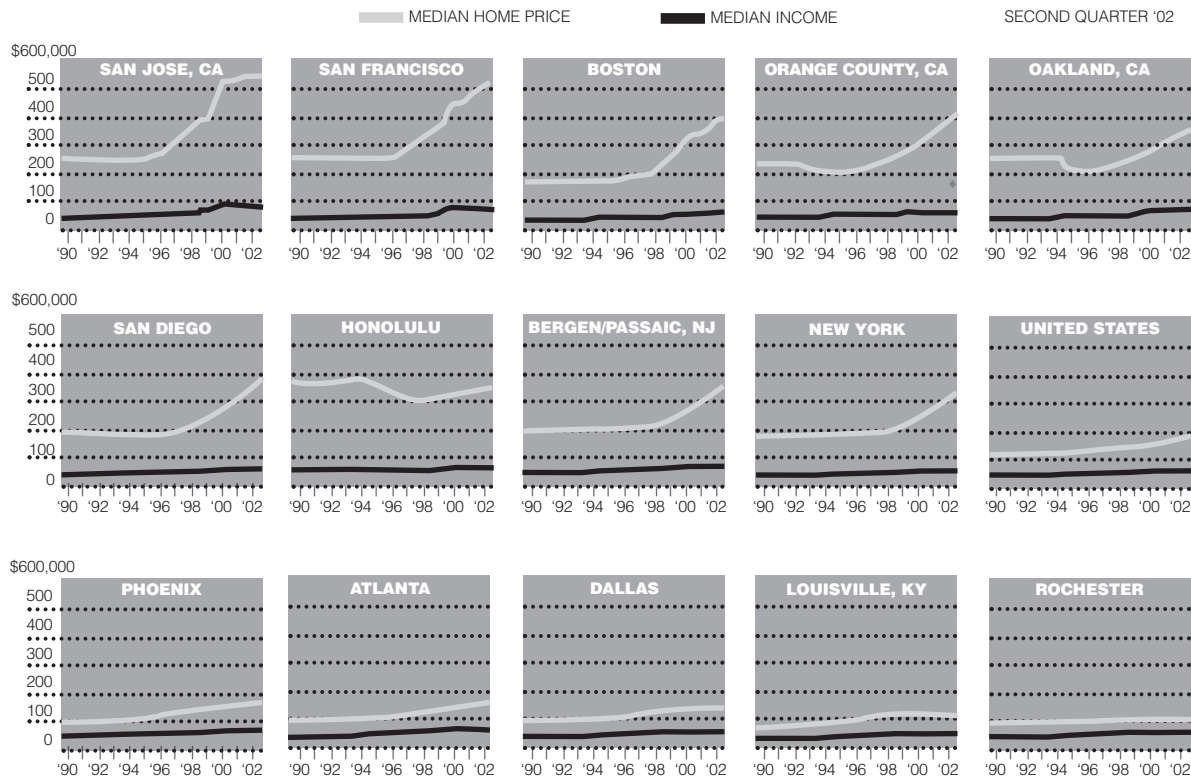
There has been an overall decline in housing prices in Germany, and a sharp decline in east Germany. Despite the dominant trend, there are places in west Germany where the prices are rising rapidly. It was reported that it costs 8 to 9 times the average income to build a house in Germany (others said that this ratio in England and France is 3 to 4, and in the United States it is 2 to 3, except in high-cost areas). The cost of land is reportedly around 25 percent of the total cost, but it varies from location to location.

### France

The fastest price rises are in the resale prices of existing homes outside of Paris, and Portman noted that it is important to look at local markets below the regional level. The wide variations in prices for homes around France are largely a result of differing land costs, as construction costs generally are the same throughout the country.

**CHART 7. METROPOLITAN AREA HOME PRICES AND MEDIAN INCOMES IN THE UNITED STATES**

Since the mid-1990s, home prices in many areas—particularly in California and the Northeast—have increased more sharply than incomes. Below are some metropolitan areas where the gap is widest.



Source: New York Times, November 4, 2002.

## The United States

U.S. housing prices have been rising as well, and, as in the EU countries, there are wide regional differences. Price increases are associated with all rapidly growing U.S. cities, as well as northeastern cities such as New York and Boston. Of greater concern is the fact that since the mid-1990s, home prices in many areas—particularly in California and the Northeast—have increased more sharply than incomes. Chart 7 shows some metropolitan areas where the gap is widest and where the gap is narrower than the United States as a whole.

## Housing Supply/Demand

Mark Stephens noted that 50 years ago all European governments were faced with large housing shortages from war and decades of urbanization, and responded with heavy government intervention. It is unlikely that there will be a return to the days of serious shortages, due to three factors listed by Taffin: the slowdown in European population growth, the increase in Europe's wealth and in family purchasing power, and easier access to homeownership due in part to many new forms of home lending. Taffin does not believe, however, that Europe's housing needs will decrease as much as expected, for the following reasons:

- More people are living longer and staying longer in their homes, resulting in small households living in large dwellings. A contributing factor is constraints on buying and selling homes (the complexity of the process and the high fees—see Transfer of Ownership, on page 17), and a general lack of adequate social housing for small, older households.
- More people are living alone because men and women do not feel they need each other as much as before. Women, in particular, have greater financial power and independence than in past generations and are more often choosing to live alone. Taffin uses the term “de-cohabitation” to refer to the trend of couples getting divorced or separating and living alone.
- Because of severe budget constraints, housing subsidies have become increasingly concentrated on the most vulnerable populations and on the revitalization of distressed urban areas.

■ There continues to be a high level of immigration into the EU countries.

■ The concentration of population in large cities has resulted in competition in town centers between housing and other uses, with the resulting higher costs and less land available for housing.

■ There has also been a “social marking” of space: the middle class has determined it wishes to live only in space perceived to have good security, transportation, and schools, which limits the number of places where housing can be built, constraining supply. An example of the social marking of space in the U.K. was given: In some older cities, social and private housing is being abandoned while a few miles away are areas in which demand for housing exceeds the supply. The areas of abandonment have decent housing and, although crime and safety are issues, the primary concern is that these areas no longer meet the rising expectations of the middle class. The expectations for desirable housing and lifestyles are changing faster than the communities themselves can change, leading people to leave and look elsewhere. This is often seen as more of an urban regeneration issue than a workforce housing issue, even though cities such as Nottingham are looking to attract moderate-income working families back into the city.

The situation for housing was also made worse by Europe's recent strong business cycle, which produced gains in investment in offices and commercial properties, drawing investment away from housing. The result has been a decline in housing production, but a continuing demand for housing, causing a supply/demand squeeze that is likely to continue for some time. Stephens noted that there is a relationship between new household formation and the number of new units being produced and therefore available for consumption—more houses allow more households to be formed. This creates something of a circular problem, predicting supply and demand.

## England

Cowans pointed out that in England, despite considerable demand, supply has lagged because of high costs and constraints on development imposed by local planning boards.

## **The Netherlands**

The production of new housing has been low because local areas have not planned for the development of enough land, with the result that there is a real shortage of housing, especially moderately priced starter homes.

## **France**

It was reported that the strong business cycle of recent years has actually hurt housing development: investors have been able to achieve higher returns by investing in office and commercial development rather than in housing, which has limited the amount of housing developed. In addition, high stock market returns have given more people funds to buy housing, increasing demand at the same time that supply has been limited.

# **Intermediate Housing**

## **The Nature of the Problem**

Awareness of the issue of intermediate housing has risen only recently in EU countries; Taffin noted that little research is readily available on it at this time. Stephens agreed, saying it is an issue that has crept up on the EU countries. The shortage of this housing in both the United States and the EU countries is the result of housing prices rising faster than incomes (see, for example, chart 7 for the relationship of U.S. housing prices to median incomes).

Rising expectations and the social marking of space—called social intangibles, which can have a serious impact—add to the challenge of providing decent, affordable housing for the moderate-income workforce. Developers are now selling lifestyle, not just housing, and although the U.K. may have more lifestyle magazines than other countries, the experience is much the same in the other EU countries.

## **The United States**

The shortage of intermediate housing has been growing rapidly in the United States, as has been documented in a series of reports issued by the National Housing Conference ([www.nhc.org](http://www.nhc.org)). ULI has been addressing this issue during the past several years, as it is of considerable concern to most cities in the United States and to U.S. developers who wish to provide affordably priced

housing to a rapidly growing sector of the market. Marta Goldsmith commented that the simplest policy would be to raise wages. Because that approach is politically unpalatable in the United States, there is a need to provide intermediate housing at affordable prices in places near jobs and services to support the economic vitality of communities and minimize the impact of sprawl.

Lifestyle is a fundamental part of marketing housing in the United States, and as markets are becoming increasingly complex, made up of different groups—empty nesters (people generally in their 50s, still working, but whose children have left home for school or jobs), baby boomers (the generation born between 1946 and 1964), generation X (now in its late 20s and 30s), and echo boomers (the children of the baby boomers, now just moving into their early 20s)—each group with its own mix of lifestyle expectations. Unlike European countries, the United States is experiencing the largest population growth in its history, and, perhaps as a result, its neighborhoods are relatively stable, with acceptable schools and safety (although there are still large areas of older eastern cities that were abandoned in the period from the 1960s through the 1980s). In most communities, when families move out of one area in search of areas more compatible with their lifestyle goals, the housing they leave is soon filled with other families—showing how much greater the demand is for housing than the supply.

## **France**

Social (SLM) housing built during the 1950s and 1960s in Paris and other cities was originally occupied by moderate-income working families as poorer families left the cities. It was designed to accommodate over 60 percent of the population. Lower-income families largely occupy this housing today. Intermediate housing has become a problem in the Paris region, near the borders with Germany and Switzerland, and in a few other cities. Young working families just starting out and older workers with larger families have difficulty finding housing they can afford in these places. Elsewhere, housing is generally affordable to working families and adequately provided by the private market (although Portman pointed out that even the private market in France is supported by subsidized financing). Because the lack of affordable housing is so regional in nature, it was thought that it would be best handled locally.

## England

The best information for the U.K. is that some 40 percent of all new housing needs to be affordable to the moderate-income workforce. Michael Oxley said that the current term in the U.K. is “key worker housing,” indicating that it is seen as a labor market and recruiting problem, not as a housing problem. Cowans noted that the shortage of key worker housing is not a cause of urban sprawl, as it is in the United States, because there is so little building going on in the U.K. Instead, it is triggering urban regeneration, with cities such as Nottingham seeking to attract key workers back into the city.

In London, for instance, the economy is perceived to be threatened, as it is hard to find affordable housing within two hours of London. People will not travel more than two hours to get to work, making it difficult to find the nurses, police officers, and firefighters that the city needs, and the employees that businesses need. Some families who cannot afford to move in closer just stop working. Likewise, it is expected that at some point jobs will move out of London; that they have not already done so may be the result of immigrants (who have been willing to accept lower-quality housing and neighborhoods) filling jobs and easing the pressure on hiring for the time being.

The U.K. has severe constraints on greenfield development; a shortage of subsidies for brownfield development (although hope was expressed that such funding may be available soon); NIMBYism; and regulatory obstacles to infill development. The Blair government has focused on developing higher-density mixed-income housing, 50 percent of which would be affordable. The cost of this policy will be high, however, causing much discussion on both sides of the issue.

## Meeting the Need

Stephens reviewed six basic alternatives to providing intermediate housing:

1. Low-income housing tax credits are provided to developers in the United States to develop moderate-income housing. An advantage of this approach is that the developer can sell the credits to private investors to raise the equity needed for development, which brings private capital to this market. Although the program has worked well in the United States for some 15 years, and is very popular, family incomes are limited to 50 or 60 percent of the local area median income (AMI), as determined each year by the federal government. As a result, many workforce families are excluded, as they have incomes of more than 60 percent of the AMI and need higher incomes (in some areas as high as 120 percent of the AMI) to be able to obtain housing in the area. So, while the program is a good model, the income limitation, as applied in the United States, prevents it from serving much of the workforce. A program based on the U.S. tax-credit program, known as the Housing and Regeneration Tax (HART) credit, is presently being considered in the U.K. Other examples of the use of tax subsidies are programs in the Netherlands and France, discussed below.

2. Mortgage interest subsidies or grants for downpayments can be provided to key workers or new recruits in high-cost areas. An advantage of targeting subsidies like this solely to key workers, and only using them in certain high-cost areas, is that it reduces the costs when compared with subsidizing all families in a particular income group. There is, however, the problem of equity among workers. If it is applied only to certain public employees, then other public employees and certain private employees in a similar housing bind do not get assistance. Likewise, it gives an advantage to certain regions at the expense of others. These inequities require tough political choices to be made, even if they are justifiable. In France, for example, the government has subsidized mortgage financing for a wide range of home buyers and rental housing developers (see discussion in the Housing Finance section, page 13).

3. Subsidies that encourage and support savings have been advocated, but do not provide a short-term solution—they are helpful only when sufficient funds have been saved by a family, which can take several years. So this approach does not solve immediate housing problems, and there are unresolved issues regarding the tax treatment of these subsidies. This was considered a possible approach, but no examples of this type of program in the EU were identified. In the United States, several nonprofit organizations have been experimenting with programs of this type (commonly known as individual developments accounts or IDAs) on a very limited basis, targeted to low-income families only.

4. A few employers have been providing assistance to their employees, either by helping them buy homes or by building rental housing and leasing it at below-market rents to their employees, both in EU countries and the United States. An example is the industrial park that Prudential is building in the U.K., in which it is including first-time homeowner and moderately priced rental units, along with retail facilities. Employer-provided housing can be a valuable tool, but few companies are able to do this, or believe it important especially in a period of high unemployment. The only companies likely to be interested in such programs are ones not able to move jobs to other locations with lower-cost housing, or offshore—an increasingly small percentage of EU and U.S. companies.

5. Reducing the value added tax (VAT) (or local real estate taxes in the United States) on the cost of home renovations would be helpful in increasing the supply of decent and reasonably priced housing. This would work well in the U.K., although it has not been used to date. It may not work in other EU countries as there is an EU floor of 5 percent on the VAT.

6. The supply and cost of land are a fundamental issue (see discussion below). Providing land for intermediate housing is an important way that local governments can help increase the supply of affordable housing, but it raises many issues and is often politically challenging. Many communities resist further development of any kind, and can be especially reluctant to have their local government acquire land for moderate-income housing.

Taffin argued that solutions to the EU countries' intermediate housing issues will require new policies at all levels: the EU, country, province, region, city, and town. This multilevel approach is similar to what many are arguing for in the United States. There has been talk in the EU about focusing more on regions within EU countries rather than on countries as a whole, because the crisis in housing affordability for the workforce is concentrated mostly in the capital cities and the metropolitan regions around them. Stephens observed that this focus on the capital regions is true for most major social issues in the EU, and thus for the EU bureaucracy generally.

Also, within each country, the mix of policies will vary. For instance in France, as Portman noted, private developers are building moderate-income housing, which is not the case in all countries. It was pointed out as well that the social rental sector might play a larger role in France than in the U.K., as social housing has been seen as a safety net in the U.K., acceptable primarily to the poorest families, while it has served a far wider range of incomes in France (see below). In fact, in the U.K., moderate-income working families would shy away from living in housing developed by housing councils or nonprofit organizations; they are even reluctant to live in privately developed rental housing.

Forum participants agreed on the need for supply-side support where there are shortages or prices are rising rapidly. Not everyone shares this view, as Taffin noted that the World Bank, for whom he is doing work, believes the best way to provide affordable housing to all is through homeownership, demand subsidies, and upfront grants, without support for building supply. The limits of supporting only demand are shown by the experience of the Netherlands, where, according to Peter Noordanus, there is a shortage of supply despite the government's support for demand through tax subsidies focused on homeownership. This bias has resulted in insufficient investment in rental housing, which, compounded by the government's failure to make sufficient land available, has resulted in unaffordable housing, especially for moderate-income families. The lesson from this experience, said Noordanus, is to spur demand *only* if spurring supply growth at the same time. (Studies on the impact that housing vouchers have on supply in the United States have tended to confirm this experience.)

In short, it was felt that a form of subsidy is needed that is shallower than that provided by most countries for social rental housing. Such a subsidy would need to be spread across a wider range of incomes and allow a higher average income than most social housing subsidies.

Goldsmith also encouraged participants to look at methods other than subsidies to encourage the construction of moderate-income housing. Hans van Tartwijk suggested that it would be possible to use the real estate cycle to acquire large amounts of housing during recessions at low prices and hold it for sale later as markets tighten up. He suggested that banks could create financial instruments to raise the capital and spread the risk. A challenge for this concept is how to allocate the risk and the profits among the bank, the investors, and the landowners. When Herbert Möllenkamp noted that his group was working on just such a plan, it was suggested that ULI could help further develop the concept. An example might be the acquisition of housing by the city of Baltimore in the United States, although Baltimore's program has met with mixed success to date. Michael Pitchford pointed out that, under current law, U.S. regulators would not permit commercial banks to put together such investments.

### **France**

Portman and Taffin described a French intermediate rental housing program that uses tax incentives to encourage individuals to invest in and own moderately priced rental housing. This program, begun in 1984, provided incentives for all rental housing but these were limited to 10 percent of the total investment. The housing produced was standardized: generally one-bedroom flats were built in Paris, two-bedroom apartments in the lower-cost suburbs, and three-bedroom apartments in the countryside. As an excess of this type of housing was built, prices fell and investors lost money when they sold the units. To avoid this problem, the program was changed, and targeted to a somewhat higher, or intermediate, income group that covers almost 80 percent of the population. The program currently allows an investor to take depreciation of 8 percent a year for the first five years, and 2.5 percent a year over the next five years, as long as the property remains rented in accordance with the terms of the program. Mortgage interest is also deductible. The property must remain rented for at least

nine years; the fact that a 50 percent tax must be paid on all capital gains from sales is an incentive to keep the property rented and discourages its sale.<sup>4</sup> The program has been successful in spurring production of intermediate housing, producing 30,000 to 55,000 units a year (out of a total of some 300,000 new rental and homeownership units produced annually). There are still problems, however, and the program currently is under review by the government. In particular, the rents permitted under the program effectively limit production to less expensive areas, where a lot of rental housing already is being built. In these markets, the program provides housing with rents generally 10 to 20 percent below the market rate. In Paris and other tight markets, however, where the program is most needed, the permitted rents are too low to cover the cost of production, given higher costs of land and construction. The government will need to raise the permitted rents in tight markets to make the program effective. France has also tried a system of upfront grants to builders, requiring the homes be sold to moderate-income families at reduced prices. This grant program was ended in the early 1990s because it was considered too expensive.

### **England**

In the U.K., social housing associations are providing some intermediate housing in London and a few other places, but how much is not clear. There is also beginning to be some employer-assisted housing built. And the Joseph Rowntree Foundation is building New Osbalwick on the edge of York as a demonstration project to show that moderate-income or key worker housing is a good investment. The results of this experiment are not yet in.

### **The Netherlands**

There is, at present, a program to build new housing using tax incentives, a concept borrowed from the U.K. Unfortunately, said several participants, every ten years the government seems to come up with a new program to make building simpler and faster, with the unfortunate result that it becomes slower and more complex (which seems a general problem in all countries). A recent program, called Article 10, subsidized the production of housing by not taxing income or gains. Now that the program is ended, the amount of this housing is declining as it is sold off.

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<sup>4</sup>This program is somewhat similar to the accelerated depreciation permitted under the U.S. tax code for low-income housing during the 1970s, and for all rental housing from 1981 to 1986. A major difference between the French and the U.S. tax codes, however, is that in France the amount of the capital gain is the difference between the original cost and the sales price, while in the United States it is the difference between the original cost, reduced by the amount of all depreciation taken, and the sales price. On the other hand, U.S. tax rates on capital gains are much lower than in France.

## Land

The high cost of land, especially in or near the EU capitals and other large cities, is one of the biggest obstacles to delivering affordable workforce housing, as it is in the United States. The cost of construction is much the same throughout a country, and the cost of land is the single largest variable, followed by obstacles such as building codes, impact fees (in the United States), or other fees, and delays caused by required approvals. This is true in both the EU and the US. In town centers, in particular, there is intense competition for land among uses, most of which are able to attract prices higher than all but the most expensive housing can attract. Another factor that raises the cost of land is referred to as the “social marking of space”—that is, the people who can afford to choose where to live drive up the prices by selecting housing with the attributes that make a location desirable to live in, such as safety, good schools, convenient transportation, and good services. Because such attributes are likely found only in certain parts of a city or its environs, only land in those locations is considered desirable for housing. This further limits the amount of residential land and raises its price. The result of competition with other land uses and social marking is that land costs for housing are high in most large cities.

It was also argued that national planning policies have created artificial land shortages by unduly limiting areas where housing can be developed. Zoning more land in or near cities solely for residential development, including related services, could reverse the shortage. Richard Petty discussed the idea of creating separate land use classes for certain kinds of housing; such classes might have reduced parking requirements and increased density, effectively reducing costs.

Some EU cities are looking at putting housing on top of gas stations and supermarkets to capture air space. This is similar to the approach by the city of Los Angeles, which is still under tremendous growth pressure and is virtually built out. It is also landlocked, surrounded by the ocean, mountains, and desert. A new plan has been developed to rezone deteriorated retail and industrial corridors, among others, and require housing to be built above street level retail in these zones. It is expected that this will revitalize both the local retail as well as the surrounding neighborhoods.

Land banking was also discussed, and there are examples of social entrepreneurs who have bought challenging land, fixed it up, and then sold it as part of an urban regeneration model. There are private investors, as well, who will hold land for long periods for profit. It was suggested that governments should hold land in this way, though this raised concerns about nationalizing land. In France, the government created land banks for each of the six “new towns” that were planned around Paris as part of the 1964 plan. Land bank corporations acquired formerly agricultural land that was newly zoned for the new towns, and then sold it to developers as it became ready for development. The sales price was limited to the original cost of acquisition, plus carrying costs. This practice generally was successful, although the corporations are now largely out of land and one has in fact closed down.

Forum participants considered adjusting local land or real estate taxes to encourage intermediate housing, on the theory that tax reductions are more politically palatable than subsidies. An example would be reducing taxes on the sale or use of land for intermediate housing. This has been considered in France but not implemented to date.

### The United States

In the United States, the urban renewal program, created in 1949, allowed local governments to acquire land and resell it to private developers. The program has had mixed success and is controversial. In some cases, large parcels of land were acquired in poor communities and the land sold for middle-class redevelopment, resulting in massive displacement of solid but poor neighborhoods. In other cases, land has been held undeveloped for decades and become a cause of blight. It was commented that it is often easier for a government agency to acquire land than to sell it, as there is always the prospect that the land may be worth more when it is redeveloped. Politics and corruption have also been factors undermining the success of government land banking.

Planners in the United States have been advocating increased density as a way to offset high urban land costs. This approach has met considerable opposition in many established communities, where local residents and the political leadership consider additional development undesirable. As a result, projects in these communities take a long time to gain approval, adding to costs. This experience mirrors much experience in the EU, according to forum participants.

## **The Netherlands**

People in the Netherlands, an already densely developed country, have, unlike elsewhere, accepted density—as van Tartwijk said, “We have already gone way over the limit.” Luxury housing has only the smallest of gardens, and air space is being developed, as all retail development now is required to have housing above it. National planning directed from the Hague has determined what land is to be developed. This land then is sold to local governments, which has resulted in high land prices, as local governments have been responsible for building the required infrastructure, and include these costs plus the acquisition cost in the sale price. (This allows the local government to finance infrastructure costs through the development rather than through local general funds. The outcome is similar to the use of impact fees in the United States, which are charged to developers theoretically to offset the cost to a locality of building infrastructure to serve the development.) This government-controlled method of land development often supports the building of affordable housing, as the government may mandate that a certain percentage of the housing developed be social housing. No method of regional land banking has been developed.

## **The United Kingdom**

Cowans described a provision that allows housing corporations and partnerships to buy land, override local planning requirements, and make 20 to 40 percent of the developed housing affordable. It is unclear how well this new provision will work.

## **France**

France has had a lot of experience with public land planning. The government’s current policy is to increase density and mix incomes; at the same time, it is moving away from zoning at the national level. Although decentralization has proceeded much further in other countries, France is beginning to catch up. One of its goals is to revitalize cities, but the tight controls that have been put in place have increased land prices. One possibility that is being considered is to create large public institutions to buy land and bank it for various uses. Unfortunately, past experience has been that public institutions are good at buying land but not at selling it, perhaps because they have no real incentives to sell. Managers also often think that it is better to sell later, once something occurs to make the land worth

more. Mayors in France have the right to buy land that comes on the market, and where they have land banks, this right is generally delegated to them. Such land often has been transferred to social housing companies, and has produced a lot of social housing.

## **Housing Finance**

It was observed that one way to increase access to homeownership is to increase the percentage of a home’s value against which a purchaser can borrow—*increase*, that is the loan-to-value (LTV) ratio. There are limits imposed by law on LTV ratios in many countries, however. In other countries, such as the U.K. and the United States, government or private guarantees of mortgages with high LTV ratios have allowed them to rise, in some cases to 100 percent. Stephens noted that high LTV ratios have been facilitated for years in England by private indemnity guarantee companies, and the approach has worked well. In the United States, LTV ratios for moderate-income or workforce housing have been rising under government programs and certain special bank programs to the point where concern has been expressed that families are being put at risk of buying and then losing their homes.

Credit was thought to be generally quite available for home mortgages in the EU and the United States. Participants expressed interest in the U.S. Community Reinvestment Act (CRA), which requires banks to make loans in all areas where they take deposits as a way to ensure that credit is available in lower-income communities. This policy has been successful and is carefully monitored by bank regulators. Most participants were of the view that this sort of government regulation was unneeded in the EU, and would be unpopular given the drive away from regulation. Taffin commented that in theory there is no need for this type of program in France because of the national fund that guarantees banks against losses on mortgages. This fund was created in 1993, and as the economy improved, banks did not use it because it was complex and they preferred negotiating directly with their borrowers. Likewise, the Netherlands has had a system of subsidized lending in place for 25 years, so credit is not an issue. The U.K. response was more mixed. In the past, local authorities would give loans when banks would not, so access to credit was not considered an issue. For that reason, the system has been deregulated on the assumption that banks

are willing to lend in low-income communities. Today, however, it appears that some banks may be moving out of these communities, which would create an issue.

### **France**

France was called a paradise for borrowers, as mortgage rates are held down effectively even when the general cost of money rises. Loan terms tend to be long in France, also reducing the annual cost. There are different levels of subsidies for loans for social housing and intermediate housing, but the amounts available for subsidies are limited. Loans are available for new construction, but a private landlord can also qualify for subsidized financing to convert an apartment building to intermediate housing.

### **The Netherlands**

The mortgage market in the Netherlands was described as highly traditional compared with, for instance, the U.S. market. Pension funds are thought to be a potential source of financing for middle-market housing, as they have had big losses offshore in the past few years and are now looking to invest again in Holland. So far, however, their residential investments have been mostly in top end housing. This is a narrow market, and fund managers need to be shown that the middle market is both broad and profitable.

### **The United Kingdom**

The U.K. home mortgage market is quite flexible, with a wide range of mortgage products available to help people buy homes. For instance, there are mortgage products that allow a family to acquire a home with an interest rate as low as 1.5 percent for the first 18 or more months, and rising thereafter. This flexibility may be leaving many families in a vulnerable position. The predominant form of home financing in the U.K. today is floating-rate mortgages (the same as adjustable-rate mortgages in the United States). If interest rates rise, the result could be falling home prices at a time of flat income growth, and considerable losses in family wealth. As in other countries, institutional investors seem slow to invest in the residential sector. Cowans reported a conversation with an investor who, when asked why his firm did not make residential investments, responded that such investments involved people and, if you evicted them, it brought bad press, unlike evicting a corporation.

### **Belgium**

Belgium has various regional financing systems. In Brussels, for example, special loans are made at 2 to 2.5 percent to lower-income families with two or more children. The loans are made by a society with the participation of the public authority, which pays the interest subsidy. Eight hundred of these loans are made a year in Brussels, at a cost of some 20 million euros a year.

### **The United States**

A wide variety of loans also is available in the United States. Pitchford described U.S. underwriting standards as ranging widely. The percentage of income permitted to be used for interest and principal can run from 28 to 40 percent. There are also adjustable-rate mortgages, as well as downpayment assistance programs (both loans and grants). The greatest creativity or flexibility is focused on the moderate-income workforce.

## **The Secondary Mortgage Market**

Forum participants differed in opinions as to whether the adoption of the euro and the increasing integration of the EU financial markets would lead to the development of an EU secondary mortgage market, and the creation of a “EuroMae”—an EU company that would purchase mortgages from banks throughout the EU in much the same way that Fannie Mae and Freddie Mac do in the United States. Most participants did not expect the EU mortgage markets to be integrated, even though they agreed that adoption of the euro would make pricing transparent. Most believe that differences in national laws among the EU countries are much greater than differences among individual state laws in the United States. They believe this will make securitization of EU mortgages too complex to be profitable, and that a EuroMae might violate tougher EU antitrust rules. The U.S. participants believed that variances in national mortgage laws could be accommodated, given the growing sophistication of the commercial mortgage-backed securities market today, though they had no view on the antitrust issues. It was pointed out that there is already some securitization in local EU mortgage markets, as well as in nonmortgage markets, but not on a large scale.

Pitchford noted that U.S. banks sell most mortgages instead of keeping them in portfolio for two reasons: it helps the banks balance duration risk (by keeping their assets and liabilities roughly comparable in duration or average life); and they have found that they can make more profit from the fees associated with making new mortgages using the funds received from selling old mortgages than they can from holding mortgages in portfolio. He thought that profit pressures on EU banks may incline them to follow the path of U.S. banks in this regard, leading in turn to the creation of an EU secondary mortgage market.

The efforts in Basel, Switzerland, under the auspices of the Bank for International Settlements, to harmonize international credit rules were discussed. It was noted that Germany and France were concerned that this effort might lead to the adoption of U.S. market ideas and result in rising credit costs. Some participants felt that any resulting increase would be small, although it was recognized that issues of credit flow, cost, and risk assessment were sensitive national matters.

## **Inclusionary Zoning**

Inclusionary zoning—a policy requiring some portion of a new development to contain housing priced at a level below the market rates—was viewed as an important tool in providing workforce housing. The challenge is how, in a market-oriented economy, to get the private market to build affordable housing in high-cost cities where it is needed. Some form of subsidy is generally needed, but direct government subsidies often are not available for workforce housing due to shortages of government funds and political issues regarding the distribution of subsidies.

Inclusionary zoning is, in fact, an indirect form of government subsidy. A local government that requires affordable units in a development needs to provide a private developer with an incentive to offset the cost of these units. In the United States, this incentive or offset often takes the form of increased density, thus allowing additional market units to be added to the development. This has led some commentators to view inclusionary zoning as a form of cross subsidy internal to each development, based on the assumption that the developer raises prices on the market-rate units to cover the cost of

the affordable units. This is hardly ever the case in practice; it is the rare developer in a rarely free market that is not already pricing all market units at the full market price, and thus is unable to raise prices to cover additional costs. Instead, a developer either will factor the costs into the price of the land or will absorb the cost of the affordable units if sufficient profit is expected from the market units. If the overall profitability of developments in a locality is not sufficient to induce developers to include affordable units, then the local government has to adjust other requirements to make the development profitable. This is normally done by allowing added market units, lowering taxes or fees, or providing land at a reduced cost.

Inclusionary zoning can take a number of different forms. The U.S. states of California, Massachusetts, and New Jersey all have mandatory statewide inclusionary zoning rules of one kind or another, as do a number of counties and cities. Many inclusionary zoning requirements are imposed at the local level, sometimes on a voluntary basis or through negotiation by the local jurisdiction. Munich, Frankfurt, and Chicago were cited as examples of cities with voluntary or negotiated inclusionary zoning programs. Such requirements may be established by local ordinance, as in the case of Arlington County, Virginia, in the United States, or may simply be a policy of the local administrators or mayor, as in the case of Chicago.

A variation is the imposition of a fee (often called a “linkage fee”) on developers of commercial or market-rate properties, the proceeds of which are used by the local government to build affordable housing. Martine Feron reported that in Belgium, office developers are frequently required by the local government to pay such a fee, or to provide some local benefit, though not always housing. This requirement has not had a big impact in providing needed housing.

Portman observed that while local authorities in all EU countries generally are the force behind voluntary or negotiated inclusionary zoning, national or regional laws often guide it. In France, he added, there is strict federal regulation of local inclusionary zoning, which reduces the “arm wrestling” between the local mayor and the developer.

A question was raised as to the right percentage or mix of income groups. Möllenkamp commented that mixing incomes was the philosophy in the Netherlands, but he wondered about the U.S. experience. The standard approach in the United States for many years was to limit affordable units in a mixed-income housing development to no more than 20 percent of all the units, and to spread them throughout the development and all unit types. This thinking has been challenged recently, and a number of the major public housing developments built under the HOPE VI program have had a variety of mixes. Some have targeted as high a proportion as 40 percent of the units to low-income families, with another 40 percent targeted to moderate-income families, and the rest rented at market rates. This approach has worked where there has been strong management and tenant selection, and where the location has been desirable, such as near a major downtown—which was the case with projects in Atlanta and Chicago.

There were examples mentioned of local jurisdictions that had negotiated a mix of incomes with developers. For instance, the town of St. Maur, an older town southeast of Paris, negotiated with developers undertaking the redevelopment of the town center to include social and intermediate housing along with the market-rate housing. Also, the new towns that surround Paris have been planned and developed to include housing for a mix of incomes.

### **Belgium**

A new law requires all cities to make 20 percent of their housing affordable. Anne-Marie Fribourg explained that not every development has to contain affordable housing in it, but it is the responsibility of the local government to see that this percentage is achieved in the locality. Both newly developed housing and existing housing that is converted to affordable housing can be used to meet this requirement. And though a private developer is not required by law to provide affordable housing, the politics of most localities are such that, after some negotiation, most developers do in fact include affordable housing, the amount being the product of negotiation.

## **Democracy/Efficiency/Regulations**

The regulatory approval process and the role of local community input were identified as significant contributors to the high cost of development in EU cities. These two issues have been identified by ULI as major issues in U.S. cities as well, and ULI local district councils in several cities have been exploring ways to streamline the approval process and balance community input with the need for certainty and the timeliness of approvals.

Despite a general policy among EU countries to decrease the overall regulatory control over the economy, none of the participants was able to cite successful examples of deregulation of the development approval process. In the United States, there have been some limited successes. A notable example is that the overall approval process in the city of Los Angeles has been made more efficient due to strong and committed leadership from the responsible department head. In addition Goldsmith reported that there are examples of local governments creating special kinds of zoning and fast-tracking approvals for affordable housing, which is known in the United States as “green taping.”

Allowing for community input also adds more cost and uncertainty than desirable. The forum participants believe that community input is valuable and needed, but too much democracy has been inserted into the approval processes. Because most of the development of intermediate or key worker housing of necessity occurs in dense, already developed communities, it is to be expected that local residents will have concerns regarding congestion, school crowding, traffic, and the like. These concerns need to be understood by developers and local officials, and reasonable efforts made to reduce the negative impacts of new developments. On the other hand, these issues are often used by community activists to stop all development, even when it will provide much-needed housing that is affordable to people working in the community, such as teachers, nurses, police officers, and firefighters. It is at this point that the overly democratic processes need to be rebalanced. This is an issue as much in the United States as it is in the EU countries.

### **The Netherlands**

There is a three-level planning process: national, regional, and local. This gives communities several opportunities for input and to object to a development, which was judged to be too many.

### **The United Kingdom**

The time required to move from raw land without proper zoning to a building permit is nine months in a best-case scenario, and up to five years in the worst case. For example, it has taken the Joseph Rowntree Foundation over two and a half years to obtain the needed approvals for a 500-unit development. There is no legal requirement for a developer to consult the public, but it is necessary to do so as the public is given notice of a development at both the general and the detailed planning stages, at which points the public has the right to challenge the development. Once obtained, a planning permit is good for five years, which generally allows sufficient time to get into the ground. There was a sense that the local planning committees have become overly NIMBYist—that is, too inclined to stop all developments due to bad outcomes in the past. Planning, as Cowans said, “has lost the verb.”

### **France**

It takes at least three years to change zoning. The process is long and the community can begin challenging only once permission has been obtained. In addition, the state has four months to determine if the approved zoning change is legal. This adds a lot of risk and cost in the approval process for developers, as there is constant replanning and redesign of developments. A new law was passed in an effort to change this, but it still allows challenges at the end. Marseilles and several other cities are in the process of developing a long-term planning strategy for city growth. They have been engaging the public with sophisticated computerized simulations and projections in a kind of “Sim City” approach. City officials believe this strategy is working well and hope that it will reduce citizen opposition to development. It was noted that the French are a skeptical people, so developers are waiting to see if this does in fact improve the process.

### **Germany**

Regional authorities control the approval process, and in a number of regions it is not necessary to obtain approval if land has been designated for the type of building proposed. In Berlin, however, obtaining approvals still takes a long time.

## **Transfer of Ownership**

Concern was expressed regarding obstacles to buying and selling homes in most EU countries. The obstacles include both regulations and taxes. The complexity of the process, and its cost in fees and taxes, were judged to be so high as to discourage people from moving. As a result, people often stay in homes too large for them after their children are gone, and families are unable to move to better homes as their incomes improve, freeing up homes for families just entering the market. This outcome prevents “trickle down,” through which the construction of expensive market-rate homes frees up homes at the lower level and makes them available to families of moderate incomes.

The taxes on the transfer of homes in France, for instance, though down to 6 percent from 9 percent, are still high and make transfers expensive and the system rigid. The result is that homeowners move on average once every 15 to 20 years, while renters move every five years. In Belgium, the tax incurred on moving is 12.5 percent. The German tax system provides advantages for first-time homebuyers only. There is no tax break for any subsequent homes that families buy, and they pay a tax on the gain any time they sell. This discourages moving and has reduced the demand for home production. In the U.K., transfer taxes have acted as a brake, slowing the rate at which people move; families move once every seven years on average. In the United States, the process of buying and selling homes has become easier, but there still is much that can be done to reduce the cost. Including local taxes and broker fees, it can cost 8 to 10 percent of the price of a home to sell it and buy another in the United States. Despite this cost, families in the United States move once every three to four years on average, although the move rate is slowing down as housing costs continue to rise rapidly. Most U.S. families do not have to pay capital gains on the sale of a home.

Various attempts have been made to reduce the effect of these difficulties and costs. For example, The Joseph Rowntree Foundation experimented with offering homes in a form of mixed tenure. The initiative allowed families to buy a partial ownership interest in a house while the foundation owned the remaining interest. A family paid rent to the foundation for the portion of the home still held by the foundation. The program allowed families to adjust periodically their owned and rented portions of the home. While the experiment was deemed a success, few families rented. Most stayed with 100 percent ownership because they considered it expensive to rent when home values were rising so fast. The government also found this split ownership to be too complicated. There have been experiments with partial ownership, and buying and selling interests back and forth, in the Netherlands as well, but few people were interested or participated. In France, there have been experiments with leasing land to homebuyers, and then selling it to them later. This proved complex, and was really just a way of reducing home prices and selling off houses that could not otherwise be sold. It was noted that shared ownership can work, but unfortunately people tend to buy when prices are high and rising, not when they are low or falling when they could make a better long-term deal for themselves.

## Reducing the Cost of Housing Construction

One aspect of affordable housing is the cost of its construction. Land is generally considered the main differentiator in the cost of housing from one location to another. The ability to reduce the cost of the actual construction is considered important for all areas. There have been continuing efforts in most countries to achieve reductions in the cost of construction, from the use of new technologies and materials to changing the construction process to shorten the time and reduce labor costs. Local building code requirements also are an issue in many areas, especially where they, in the judgment of some, require homes to be overbuilt—i.e., unnecessarily large or built to higher standards than needed.

### The U.K.

There has been a major effort in the U.K. to rationalize the construction process to reduce its costs. This effort was initiated in 1998 by the publication of *Rethinking Construction* by the Construction Task Force, chaired by Sir John Egan and commissioned by Deputy Prime Minister John Prescott. The publication has spurred a series of demonstration projects throughout England. The goals include encouraging builders and other stakeholders to talk to each other; studying best practices; and opening the books of projects to help others to understand the true costs. One specific goal was to get social housing agencies and the private sector to engage in a dialogue, especially because the social agencies have been faster in putting new technologies into use. There was concern that many private builders are not interested in long-term results; it was said that they want to build and sell homes, not hold and rent them, and that they will put up most anything that will sell, especially cheap first-time houses, as this is a strong market. One participant noted that builders were uninterested in what they built; they could just as easily be making and selling mothballs as homes for families. The James Rowntree Foundation has tried new technologies, but experienced a lot of problems with them. There are efforts to set up factories to build homes and components of them, but lenders' skepticism regarding the durability of what is being built has inhibited movement.

### France

France made a major effort in the 1970s to rationalize the system used by large homebuilders to meet supply problems. In the 1980s, however, as families became more affluent, people looked for more traditional homes, which led homebuilders with efficient systems to go back to the older, slower, more traditional ways of building. Portman said that his company, which builds intermediate housing, has looked at new technologies, but has had problems getting investors—who thought they did not look like real housing—to accept them. He was skeptical about the impact of new technologies.

## Germany

Adolf Voelker noted that Germany has found that homes can be built efficiently in a uniform style and that they will be accepted. The factors that make housing expensive are being examined. Regulations, roads, and the needs of an average house—such as balconies—are under review. The country also is looking at how to bring in foreign suppliers and builders. The market has been opened to Dutch and Swedish suppliers and the competition has helped lower prices.

## The United States

Pitchford was also skeptical of new technologies, many of which he reported have been tried in the United States. Though some have been successful, a number of them—such as plastic plumbing—have not stood the test of time. He also cautioned against experimenting on the poor—i.e., using experimental technologies in social housing.

## The Netherlands

The experience with building inexpensive housing in the Netherlands was reported to be good, especially for lower-income families. The lessons learned in this area, however, have not been used to reduce the cost of building housing for middle-income families.

# Conclusion

The forum's goal was to provide a comprehensive overview of the issue of workforce housing. It was clear from the discussion that this issue generally is viewed as increasingly important in the EU and the United States. Portman summarized the discussion as follows:

- There are differences between the quality and the quantity of housing, and though statistics can forecast supply and demand, the world is more complex. There is a shortage of affordable housing in some places and inappropriate products being produced in others, both of which lead to rises in housing prices.
- Regional markets within nations have major differences, and the workforce housing shortage is concentrated in the major cities in most nations except the Netherlands, which is dense throughout.
- There are big differences in the housing stock between ownership and rental housing. In some regions and countries, barriers to the development of private rental housing lead to shortages of affordable workforce housing.
- Cost is an issue but so is supply, especially the land supply, and there have been different policies across countries to address this. It was reported that in the U.K. a company has been land banking for 20 years, in the Netherlands there has been close public control that has been overtaken by the market, and France has tried a variety of ways to supply land for affordable housing with more or less private involvement.
- There are alternative ways of supporting the development of workforce housing through subsidies, but, because they are limited, other means must be found as well, such as inclusionary zoning and reducing costs.

No conclusions were drawn about how best to address these shortages. There is much work still to be done on this issue, and this forum and report are only initial steps.

# Appendix

## Social Housing

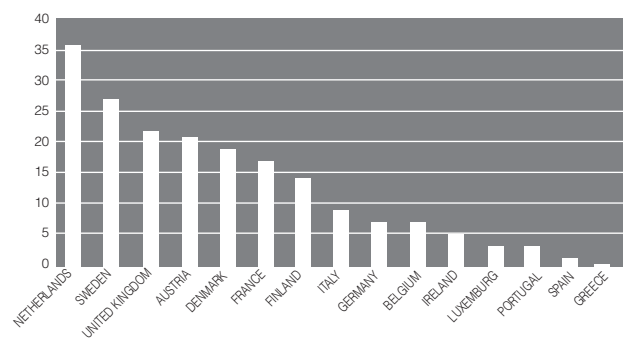
The discussion of workforce housing occurred in the context of the long history of and current trends in social housing in the EU countries. Workforce housing issues overlap social housing issues, as many working families have incomes low enough to qualify for, and may in fact live in, social housing in the EU countries, as is the case in the United States. There is, however, an element of the moderate-income workforce with incomes that either do not qualify for social housing or are placed so low on priority lists as to effectively exclude families from any form of housing subsidies, even though they cannot afford desirable housing in the communities in which they work. Most forum participants were of the view that it was unlikely that eligibility for social housing would be expanded to include this moderate-income working population, and in some countries, such as England, it was felt that these families would not consider social housing attractive, despite its lower cost.

Following World War II, countries such as England and Germany had severe housing shortages. Elsewhere, as in France, affordability of housing was the more central issue, especially in cities, as the 1950s and 1960s were years of heavy urbanization. Consequently, most EU governments became heavily invested in subsidizing housing. Recently, the amount of social housing has remained fairly stable, except in the U.K. and Germany. In the U.K., the amount of social housing has declined due to the decision to sell social housing at a discount to residents to promote homeownership. The priority in Germany has been to build up the overall supply of housing rather than to meet long-term affordability needs. For this reason, the government is allowing housing to pass into the private market, without affordability restrictions, when social loans are paid off. This trend—

called by one participant “the melting away of social rental housing”—echoes the slow decline in the United States in certain kinds of privately owned but publicly assisted housing that is becoming market-rate housing as contracts for government assistance expire.

There are wide variations among the EU countries in the amount of social housing provided (see Taffin’s chart A1). Over 35 percent of the rental housing in the Netherlands is social housing, while at the other end of the spectrum, Greece provides virtually no rented social housing.

**CHART A1. PERCENTAGE OF SOCIAL RENTED HOUSING IN THE EU**



The type of social housing has varied from country to country. Spain, for instance, has focused on owner-occupied housing, while the Scandinavian and northern EU countries have been providing social rental housing. There are also differences in the roles played by the state, local, and regional governments, and in the use of local authorities, social housing associations, and private landlords.

Complementing these variations are differences in the targeting of social housing. For example, in the U.K., the lowest-income groups are most heavily represented in social housing. The social housing population drops quickly among higher incomes. The government’s policy is to give priority to the homeless and other families with the most severe needs, providing housing as a safety net. Lower-income families are not as heavily represented in social housing in Germany and the Netherlands, and the families in social housing cover a wider spectrum of incomes. France has an even lower representation at the

lowest income levels and includes a yet broader income group, although it was noted that this is changing as lower-income families replace families with enough income to move elsewhere.

Taffin showed in chart A2 how the access to social housing in France significantly reduces the rent-to-income ratio (RIR) and increases the amount of income a family has available to it after paying rent, compared with market-rate housing in France, east and west Germany, and the Netherlands.

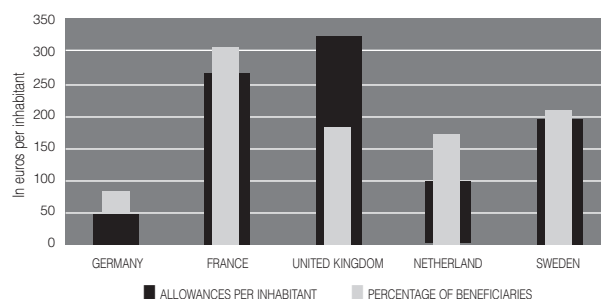
**CHART A2. GROSS RENT, NET RENT-TO-INCOME RATIO (RIR), AND RESIDUAL INCOME FOR MODERATE-INCOME HOUSEHOLDS IN GERMANY, FRANCE, AND THE NETHERLANDS**

	WEST GERMANY	EAST GERMANY	FRANCE (SOCIAL HOUSING)	FRANCE (PRIVATE SECTOR)	NETHERLANDS
<b>Gross Rent (€/month)</b>					
Moderate income	317	244	247	299	287
Others	378	283	268	416	335
<b>Net RIR (%)</b>					
Moderate income	22	16	11	24	28
Others	23	20	13	18	20
<b>Residual Income (€/month)</b>					
Moderate income	761	855	888	710	608
Others	1894	1876	1667	1987	1 402

Living in social housing results in moderate-income families having an RIR of only 11 percent, leaving them with 25 percent more income than other moderate-income families living in privately owned housing. Only private housing in East Germany was at all comparable in cost for moderate-income families. This benefit is especially important in a city like Paris where rents are high (although it is a benefit not readily available, Taffin quickly added, as families have to wait years for social housing in Paris, and when they do obtain an apartment, it is likely to be miles from the center of the city).

Taffin also described how the amount of subsidies and the number of people who qualify for them vary by country (see chart A3).

**CHART A3. HOUSING SUBSIDY: PERCENTAGE OF BENEFICIARIES AND AVERAGE ALLOWANCE PER INHABITANT**



The U.K. provides the most subsidy per family, though to a relatively small percentage (around 15 percent) of the population. France provides a somewhat smaller subsidy per family to a comparatively high percentage (25 percent) of the population. The five countries shown in the chart balance the amount of subsidies and their distribution differently, with Germany providing the least subsidy to the smallest percentage of its population (5 percent).

## Housing Allowances

Most of the discussion of workforce housing was focused on increasing the supply of housing affordable to moderate-income workers. The alternative is to support demand, through housing allowances or vouchers, which some felt needs to be considered an important tool for providing workforce housing.

There is a continuing debate between economists, on the one side, and housing advocates and developers on the other, as to how effective allowances are in areas where there is a shortage of supply. Economic theory suggests that allowances increase demand for housing, which, in time, should increase the supply. Existing research and experience as to the actual effect of allowances on supply where there is a shortage of housing have not supported this theory, according to forum participants from Germany, the Netherlands, and the United States.

## **France**

In France, for instance, there are housing allowances for some key workers. This system does not provide allowances for all workers, and is not as generous to moderate-income workers as it is to lower-income families. These allowances have worked well for rental housing, though when this approach was tried for homeownership, it was unsuccessful, with only 400 families signing up for it. There is a new program that makes grants to families looking to buy homes. The grants are paid out over time, not all at once. Reportedly, few families have used the program to date, as the grants are considered insufficient to make homeownership affordable in light of the recent rapid rise in the cost of housing in France.

## **The Netherlands**

Housing allowances have been used in the Netherlands and the Scandinavian countries, and while they are available to a wide income range, they do not pay the full rent. In the Netherlands, they have been used in connection with inclusionary zoning plans. It was noted that there have been problems with the abuse of these allowances by some.

## **Germany**

It was reported that comparatively little is spent for housing allowances in Germany.

## **The United Kingdom**

Allowances are a major part of the safety net in the U.K. They are focused mostly on the lowest-income population.

## **The United States**

U.S. housing policy at the national level has been shifting for the past 30 years to a heavier reliance on allowances, targeted to the lowest-income populations. At the present time, virtually no new social housing is being built for low-income families.

## **Germany**

Germany provides generally lower subsidies and offers them to less than 10 percent of its population. It was noted that the amount of social housing in Germany is deemed adequate, as German housing is generally affordable. The problem has been that there is an overconcentration of the very poorest families in social housing.

## **France**

France is at the other end of the spectrum, providing larger subsidies to over 25 percent of its population. In theory, over two-thirds of the population is eligible for social housing, but as a practical matter, families with incomes above the second or third decile are unlikely to be able to obtain an apartment. This is due to tighter budgets, and a focus on serving the most fragile populations and renovation of the ghettos rather than on the intermediate workforce population.

## **Belgium**

Feron reported that there is a shortage of social housing in Belgium. The country has a goal of creating 60,000 new units in the next four years, but because of a shortage of public funds, leaders are looking to see how they can involve the private sector in building and financing this housing.

## **The Netherlands**

There is also a shortage of social housing in the Netherlands, and it was suggested that part of the cause of this shortage may be the fact that it is of such high quality and so inexpensive, with additional services, that people are reluctant to move out even when they can afford to.

## **The United States**

Pitchford reported that in the United States there are some 1.2 million public housing units, owned by local authorities and funded by the federal government. All the rest of U.S. social housing is privately owned and built, although it is subsidized under a series of different programs mostly funded directly or indirectly by the federal government. The federal Low-Income Housing Tax Credit program is now 16 years old, and is the major federal program for the production of housing for families with moderate incomes. The program provides tax credits that can be used to offset the federal income tax of a corporation or individual that owns housing rented to families with incomes of no more than 50 or 60 percent of the local area median income. This program does provide some housing for families with very low incomes, but only if other subsidies are added to the tax credits.

# Policy Forum Agenda

## TUESDAY, 21 JANUARY

Hotel InterContinental Paris • Salon Tuileries—Mezzanine level

12:15 p.m. **Lunch**

1:00 p.m. **Welcome and Overview**

Guy Portmann, *Forum Chair, President and Directeur General, Groupe France Terre*

### **Introductions**

### **Forum Participants**

1:30 p.m. **ULI in Europe**

Rachelle L. Levitt, *Executive Vice President, Policy and Practice, Urban Land Institute, Washington, D.C., United States*

### **ULI's Interest in Workforce Housing**

Marta Goldsmith, *Senior Vice President, Land Use Policy, Urban Land Institute, Washington, D.C., United States*

2:00 p.m. **Supply and Demand: The Scope of the Problem**

*Speaker:* Claude Taffin, *Director, Economic and Financial Studies, l'Union Sociale pour l'Habitat, Paris, France*

### **Discussion**

- What is the scope of the need for moderate income housing in selected countries in western Europe?  
Is this need increasing?
- What percent of income do these households pay for housing and is this optimum?
- What is the nature of the supply?
  - Owner-occupied versus rental housing.
  - Location criteria within metropolitan regions—accessibility to jobs, transportation, amenities.
  - Condition of the housing stock.
- What are the primary barriers in various countries to meeting the need for moderate-income housing?

3:30 p.m. **Break**

3:45 p.m. **The Policy Environment**

*Speaker:* Mark Stephens, *Senior Lecturer/Editor, European Journal of Housing Policy, Department of Urban Studies, University of Glasgow, Glasgow, Scotland, United Kingdom*

### **Discussion**

- What level of government has the lead responsibility for ensuring an adequate supply of affordable housing?
- What are the key policy instruments used to provide an adequate supply?
- What significant changes have occurred in housing policies in recent years and what has the effect been?
- What role can and does the EU play in encouraging the development and retention of affordable housing for key workers?

5:15 p.m. **Recess**

7:30 p.m. **Cocktails and Dinner**

## WEDNESDAY, 22 JANUARY

Hotel InterContinental Paris • Salon Tuileries—Mezzanine level

8:00 a.m. **Breakfast**

8:30 a.m. **Review of Day One**

Guy Portmann

8:45 a.m. **The Role of the Private Sector in Providing Moderate-Income Housing**

*Speaker: J. Michael Pitchford, Senior Vice President, Bank of America, Charlotte, North Carolina, United States*

### **Discussion**

- What role does the private sector play in providing key workforce housing? How does it vary from country to country?
- Are there private financing tools that can help support the development and retention of housing for this group? Are these country specific or are they available in more than one country?
- Is most moderate-income housing developed by private companies or by government agencies?
- Are there incentives that can encourage the private development community to play a larger role in providing this housing?

10:15 a.m. **Solutions and Innovations**

Guy Portmann

### **Roundtable Discussion: Forum Participants**

- What new financing tools have emerged that can increase the supply of key worker housing?
- Are there urban design, architecture, or construction technology solutions that can reduce the cost of providing housing?
- What innovations have emerged that can bring down the cost of land, which is a major factor in providing affordable housing in key areas?
- Are there new and innovative policy initiatives that should be considered in other jurisdictions?

11:45 a.m. **Summary and Next Steps**

Marta Goldsmith

### **Roundtable Discussion on Next Steps**

- What are the key lessons that have emerged from this discussion?
- Are there model programs or projects that should be documented and more widely disseminated?
- Is further research needed?
- What can the United States learn from European housing practices and vice versa?
- What should ULI do next in this area?

12:00 noon **Adjourn**

# Policy Forum Participants

## Forum Chair

Guy Portmann  
*President and Directeur  
General Groupe France  
Terre, France*

## Speakers

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Charlotte, North Carolina, United States*

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