

**Safeguarding target-group-
specific housing supply
A European comparison**

Final Report

Supported by the “Stiftung für
Forschungen im Wohnungs- und
Siedlungswesen“

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Darmstadt, 15th March 2005

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Introduction

Social rental housing in Germany is normally defined as housing that is subject to rent control and access restrictions by reason of subsidisation. The access restrictions are normally described as occupancy commitments in Germany. A special feature of the German regulations is that rent control and occupancy commitments are limited in time. Housing which is basically open to all households, but which is owned by providers with a particular social responsibility, can be referred to as social housing in the wider sense. In Germany, the municipal housing companies can be numbered amongst this group. Prior to the abolition of non-profit-making status, the non-profit-making housing companies also belonged to these providers. However, only housing subject to subsidy-related commitments is counted as part of the social housing sector in Germany.

The question of safeguarding a housing stock subject to access restrictions arises in Germany because the number of social dwellings is falling from year to year. While there were still 4 million publicly subsidised rental dwellings in the former West Germany according to the 1978 housing sample, the figure had fallen to only 2.7 million by the time of the 1993 building and housing sample. Figures from official surveys are no longer available for the following years. However, according to a questionnaire amongst the individual states, stocks came to only 2.1 million units at the end of 1997 (ARGE Kirchhoff/Jacobs, 2001, 47), since when the figure has fallen still further. For the year 2002, the stocks of publicly subsidised rental housing are estimated at 1.7 million (see Section D.4.1.1). It should be noted that only housing subsidised under the 1st subsidy method is considered as publicly subsidised, and not housing that has been subsidised by any of the other subsidy methods. These housing stocks have never been separately recorded in any of the official surveys. The numbers for social rental housing are therefore greater than those of publicly subsidised rental housing. In 1978 there were around 4.2 million, and in 2002 about 2.1 million social rental dwellings. The proportion of the social sector has therefore fallen from 18.4 % of total housing stocks in the year 1978 to only 7.3 % in 2002.

The decline in stocks of social rental housing is a consequence of the German subsidisation system, under which subsidised housing is subject to rent and access restrictions for a certain time period only. This time restriction must be seen in conjunction with the decision not to aim for a specific target group supply through subsidisation of housing construction by non-profit-making housing companies, which as companies are subject to permanent social obligations, as in some other countries, but by means of housing construction subsidisation in which all providers are included. In such a system, the commitments must be linked to subsidised housing. The commitment period in this case was restricted to the period of public subsidisation, which normally comes to an end with the scheduled repayment of the public funds. In the early post-war years, the loan conditions resulted in scheduled repayment periods of up to 90 years. Over the course of time however, the periods became increasingly shorter. Investors were also granted from the very beginning the facility of repaying the loans prematurely. On expiry of the commitments, the housing changes to the private rental sector, where it can be rented without any special restrictions.

The rapid decline in social housing stocks is also a result of falling completion figures and declining subsidisation levels. The drop in new construction figures initiated by the reduction of the housing shortage in the first half of the 1970's would still have led to a decline in social housing stocks, even with constant subsidisation levels, due to the expiry of the commitments. A compensation for the expiring commitments would only have been possible by an increase

in subsidisation levels. In actual fact, the percentage of subsidised rental housing in relation to completions has however fallen.¹ This decline is attributable above all to the recovery of market forces. In view of forecast demographic developments, which estimate a new construction requirement lower than past completion figures, it seems neither sensible nor possible to compensate for the decline in social rental housing stocks by means of new construction. This option is in any event not viable in the contracting markets that can be observed in many regions. Other measures than new construction are therefore necessary in order to safeguard housing stocks subject to access restrictions. The question as to the measures needed to preserve a target-group-specific housing supply must be preceded by that of what extent this supply is to have. The answer to this question depends in turn on the establishment of eligibility and the housing allocation procedure. The supply possibilities in the other supply segments also have an important role to play.

In the former East Germany, the situation looks somewhat different than in the former West Germany. Since social housing has only been built here since the reunification of Germany in the year 1989, the stocks in this segment are correspondingly low. Since the subsidised stocks are also significantly younger, the expiry of the commitments also does not present such a great problem. In the former East Germany, the access restrictions established by subsidisation are also augmented by the Occupancy Commitment Act, under which a portion of the available municipal and association housing, for which old debt relief was claimed, is now also subject to commitments. These access restrictions, which in most cases extend to the year 2013, apply to about half of the housing stocks of these providers.

In view of the expiry of commitments relating to social housing, the housing managed by the municipal housing companies is becoming increasingly important. This housing is referred to as social housing in a wider sense, since a particular social obligation can be assumed here on the part of the provider. Without such a responsibility, these companies would have no political justification. Non-profit-making companies, which are subject to special obligations on the grounds of their legal form, no longer exist in Germany since the abolition of their non-profit-making status. There are no up-to-date figures available on the stocks of the municipal housing companies. In 1993 in the former West Germany, approx. 1.4 million dwellings were owned by these providers. However, these included around 0.6 million dwellings which were classified as publicly subsidised. It is not known how these stocks have developed since then, although they may well have changed due to new completions and sales. In the former East Germany, the municipal companies in 1993 held a stock on just on 2 million dwellings.

The questions as to the desirable extent of social housing stocks, appropriate entitlement to accommodation, the correct housing allocation procedure and suitable measures for safeguarding of housing stocks subject to occupancy commitments can be examined from various viewpoints. This paper will attempt to examine how other European countries have tried to maintain a housing stock subject to access restrictions. The investigation covers Belgium, Germany, France, the Netherlands, Austria and Sweden, the countries having been selected in order to cover the widest possible range of strategies. Besides countries with a social sector in the stricter sense, those with a social sector in the wider sense should also be included. There should also be differences with regard to the social housing quota, the subsidisation strategies and the composition of the social sector. Belgium was included because it has a very low social housing quota. France was of interest because, in contrast to other countries, it intends to increase its social housing proportion, instead of reducing it. The Netherlands has the highest proportion of social housing amongst the selected countries, and has more or less entirely

¹ While the proportion of approvals in social rental housing construction was still 32 % of completions (rented and owner-occupied) in the 1950's, it had fallen in the 1990's to just 14 % (see Table D.10)..

given up the subsidisation of housing construction. In Austria on the other hand, the subsidy quotas are extremely high due to the purpose-oriented public revenue earmarked for house building subsidisation. Sweden attempted from the very beginning to avoid a separate supply segment for low-income and disadvantaged households, and has therefore practiced housing construction subsidisation which is intended to be neutral toward all the different supply segments.

Since an appropriate housing supply for the target-group households can be pursued in many different ways, the extent of social housing stocks required in order to achieve this aim is also determined by the other instruments of housing policy. It can therefore depend for example on the tax treatment of rental housing stocks as to what extent low-income households can find appropriate and affordable housing in the private rental sector. In addition to the main features of the social rental housing sector, we will therefore also describe the housing policy context in which the social sector is embedded. Nor should it be forgotten that the task and the design of housing policy is also influenced by many external factors, such as the employment situation, income levels and social security systems, although these factors are not examined within the scope of this study.

The current investigation therefore comprises two parts. The first part consists of a comparative analysis of the social rental housing sector in the countries under consideration. In this context the different definitions of the social sector in the countries concerned will be examined at first. This will be followed by a description of the housing policy context in which the social sector operates. The next comments concern the access entitlement, the allocation practice and the occupancy structures of social housing. In a further section, we will describe the measures applied in an attempt to ensure a target-group-specific housing supply. The conclusion of the comparative analysis takes the form of recommendations on German housing policy. The second part of the investigation consists of studies of the individual countries. The country reports start with an overview of the essential features of the relevant housing policy. The actual comments begin with a historical outline of the housing policy, followed by a description of the three supply segments: the private rental housing sector, the social rental housing sector and the owner-occupied sector. In addition to subsidisation regulations in general, rent law and the applicable tax regulations will also be reviewed. The individual country studies conclude with a description of the housing benefit system.

Comparative analysis

Within the scope of the comparative analysis, we will first look at the definition of the social rental housing sector and the social housing quota. The next step will then describe the housing policy context in which the social sector acts. Finally we will describe the social rental housing sector, examining the eligibility, housing allocation procedures, the occupancy structure and the measures applied for the establishment of occupancy commitments. The terms social rental housing, social housing and housing of the social rented sector are used below synonymously.

Definition and extent of the social rental sector

The social rented sector is not defined uniformly in the countries under consideration. In **Germany**, this sector includes housing subject to rent control and access restrictions due to subsidisation, and where the commitments are restricted in time. Once the commitments expire, the housing becomes part of the private rental sector, and can then be rented without any particular restrictions. Housing subsidisation is available to all types of investors. Recipients of subsidies include private households and profit-making companies, as well as municipal housing companies and housing cooperatives. Until the abolition of non-profit-making status in the year 1990, also house building by non-profit-making companies was subsidised. Due to the time limit on the commitments, the proportion of social housing in relation to total housing stocks in the former West Germany has declined sharply over the course of time, from 18.4 % in the year 1978 to only 7.1 % in 2002. Besides social housing, the housing of the municipal housing companies can also be regarded as subject to social commitments in a wider sense. Current information on the levels of such stocks is however not available. The last official figures available are those for 1993. According to the author's estimates (see Section D.5.8) there were in the year 2002 about 1.4 million dwellings in the hands of municipal housing companies, of which 1 million were not classified as publicly subsidised. The non-publicly subsidised stocks of these companies thus comprised 3.6 % of the total housing stock in the former West Germany. In the former East Germany, about 2 million dwellings (31 % of the total stock) were owned by the municipalities in 1993. For a major part of the municipality's own housing in the former East Germany, access is restricted under the provisions of the Occupancy Commitment Act. Municipal stocks in the former East Germany in particular will have changed due to new construction measures and sales.

In **Belgium**, social housing is provided exclusively by housing companies specially registered for social housing. In contrast to Germany, the housing of these companies is subject to permanent commitments; there is no time limit to the social commitment. These companies are organised as joint-stock companies and are largely owned by the municipalities, provinces or regions. Housing construction subsidisation is the responsibility of the three regions. Rent and tax law however continues to be governed at a national level. The financing of social housing is carried out as a rule through the relevant regional housing society. The subsidisation programmes of the regional governments are also implemented by these institutions. The proportion of social housing has remained relatively constant over the course of time. In 1981 and in 1997, 7 % of social housing was subject to social commitments (see Table B.1). It should be taken into account in this respect that the level of social housing stocks depends not only on new construction activity by the sector, but also on the extensive sales to tenants, who have the right to purchase their housing. The companies however can decline such a sale if this would endanger their financial situation or the declared social objective.

As in Germany, social commitments in **France** are also founded on state subsidisation. In contrast to Germany however, the overwhelming proportion of social housing is provided by specific companies. 91 % of social housing belongs to the HLM (moderate rent) sector,² 8 % is owned by the SEM (semi-state) companies³ and only 0.7 % comes from other providers, which also includes natural persons. HLM companies are subject to special regulations, they must be certified and approved by the Ministry and are only allowed to make a certain amount of profit. There are essentially two groups of providers, the public law corporations, which belong mainly to the municipalities and départements, and the private joint-stock companies,

² Habitations à loyer modéré.

³ Sociétés d'économie mixte.

which are owned by private companies, trade associations, savings banks etc. The SEM companies were also founded by the municipalities, who must also hold at least 51 % of the company shareholding. They can however act more freely, since they are not subject to the regulations of the HLM sector. In many cases, they were originally founded for the implementation of urban renewal measures. The subsidised housing of the HLM and SEM companies is subject to permanent commitments, while for the private providers the social commitments are restricted in time. Private owners of old property can also apply for subsidies from the National Home Improvements Agency (ANAH)⁴. Since this subsidisation also involves a limited time commitment, this housing is also considered part of the social sector. However, there is no information available on the numbers of such housing. The proportion of HLM housing increased from 13 % in the year 1978 to 16 % in 1996. This was augmented by the social housing of the other providers (mainly SEM companies), who supplied 2 % of the housing stocks (see Table F.1). In contrast to Germany, social housing stocks in France have therefore increased over the course of time. This is due to two reasons: on the one hand, the unrestricted commitment period for HLM and SEM housing, and on the other, the concentration of subsidisation on these companies. In France, social housing makes up an average of 18 % total housing stocks, although there are major variations amongst the regions. The problematic development of some social housing estates is also attributed to the low level of social housing stocks in these areas. In order to counteract this trend, the LOV-Act⁵ was passed in 1991, which obliged towns with social housing stocks of below 20 % to draw up housing plans, which also contained targets for social housing construction. When this law failed to have the desired effect due to the lack of powers of sanction, the target of achieving social housing stocks of 20 % in all towns and cities was adopted into the Urban Solidarity and Renewal Act (SRU)⁶, which was passed in 2002 and provides more effective sanction mechanisms.

In the **Netherlands**, the social sector consists of the housing belonging to the state-approved non-profit-making providers, which are made up essentially of the housing associations,⁷ although substantial stocks were also held in the past by the municipal housing companies⁸. Since most of the municipally-owned companies were converted into housing associations in the 1990's, there are presently hardly any municipal housing providers remaining. The housing associations may assume the legal form of an association or a foundation. In the case of associations, the tenants are members of the association, and can exert a direct influence on decision-making. There is no income-related access restriction to social housing. The non-profit-making providers are however intended to supply primarily those households who because of their income or other difficulties cannot find appropriate housing themselves. The proportion of social housing to total stocks increased from 12 % in the year 1947 to 41 % in 1990, since when it declined again to 36 % in 2000 (see Table N.1). Until the abolition of house building subsidisation in 1995, all new construction by non-profit-making providers was in fact subsidised, as were also most of the completions in the private sector. No access restrictions were involved in the subsidisation of either sector. The Housing Allocation Act (Huisvestingwet) however gives the municipalities the authority to link the allocation of housing to municipal housing permit. The Housing Allocation Act applies not only to social housing, but also to all housing whose rent or price falls below a certain upper limit. The criteria to be fulfilled for the granting of housing permit can largely be established by the municipalities themselves.

⁴ Agence nationale pour l'amélioration de l'habitat.

⁵ Loi d'orientation pour la ville.

⁶ Solidarité et renouvellement urbains.

⁷ Woningcorporaties.

⁸ Gemeentelijke Woningbedrijven.

In **Austria**, the social rented sector is defined as housing provided by the municipalities and the non-profit-making housing associations. The latter require state approval, which must be linked to a substantiated housing requirement. More than half the housing associations take the legal form of a cooperative, while the remainder are joint-stock companies. Almost all the housing of the non-profit-making associations was subsidised by means of state subsidisation programmes. The municipalities' own housing on the other hand was built largely without state subsidisation. As in Germany, house building subsidisation is linked to a temporary rent control and access restriction. On expiry of the subsidy-related commitments, the non-profit-making commitments still continue to apply for the housing associations, although these do not include any income-related access restrictions. This is not the case with municipal housing, which assumes a housing policy responsibility on the part of the owner. In addition to public and non-profit-making housing, there is also private housing, which is also subject to subsidy-related rent and access restrictions, although still not counted as part of the social sector. Up to the time of "provincialisation" of house building subsidisation in 1989, private providers however only received funds for the construction of company flats. Since then however, several provinces have also opened up their general subsidisation programmes to private investors. The number of dwellings subsidised in this way is however very low. The proportion of public and non-profit-making rental housing to total stocks of main residences has remained relatively stable over the course of time, ranging from 19.7 % in 1981 to 20.6 % in 2001. The quota of the municipal housing companies fell at the same time from 10.3 % in the year 1981 to 9.3 % in 2001, while that of the housing associations rose from 9.4 % to 11.3 %. A further 2.2 % of main residences in 2001 were company flats (see Table Ö.1).

In **Sweden** there are no housing stocks subject to access restrictions. The task of supplying needy households is in Sweden the responsibility of the municipal housing companies. The housing owned by these companies is however not subject to any social commitments, and is open to all households. Nor do the rents differ from those of the private sector. The lack of any access restrictions and the uniform rents are designed to prevent a separate segment for the actual target groups of housing policy, since this would inevitably lead to segregation and stigmatisation. The proportion of municipal providers in relation to total stocks increased from 6 % in the year 1945 to 23 % in 1970, after which it rose only slightly, to 25 % in 1990. Current figures on the proportion of public rental housing are not available.

In summary it can be said that with the exception of Germany, none of the countries under consideration is faced with the problem of shrinking social housing stocks, and that with the exception of Belgium, the proportion of social housing stocks is lower in Germany than in any other country. The comparison of social housing quotas is a problematic undertaking. On the one hand, the information often refers to different periods, while on the other, the commitments of the sector also differ greatly. In order to give a rough outline however, such a comparison has been made in Table V.1, although the figures for Germany refer only to the former West Germany.

In Germany (West), social housing stocks, at 7 %, are about the same as in Belgium. In a comparison with the Netherlands, Austria and Sweden, it seems appropriate to include for West Germany the stocks of the municipal housing companies which are not publicly subsidised. Nevertheless, this still produces for West Germany a quota significantly below the figures for the other countries under consideration. The low social housing proportion is due to the time restrictions of the commitments in Germany, without which the quota in West Germany would be much higher. This produces the conclusion that overall new construction of social housing in the countries under consideration has differed much less than might be indicated by the different social housing quotas.

Table V.1
Proportion of the social sector to overall housing stocks

Belgium	Germany (West)	France	Netherlands	Austria	Sweden
1997	2002	1996	2000	2002	1990
7 %	7.1 % (10.7 %) ¹	18 %	36 %	20.6 %	25 %

¹ The figure of 10.7 % is obtained if one also takes into account the non-publicly subsidised housing of the municipal housing companies.

Source: Tables B.1, D.3, F.1, N.1, Ö.1 and S.1

In the other countries under consideration, the proportion of social housing is only higher because social housing belongs to certain providers who are subject to permanent social obligations. In Belgium, social housing is provided only by non-profit-making companies. In the Netherlands and Sweden too, the social sector is restricted to certain types of providers, so that the housing of these providers belongs permanently to the sector. However, due to the lack of income-related access restrictions, social housing here cannot be compared with that in Germany. The connection between social house building subsidisation and certain types of companies has also led in France to the fact that the overwhelming proportion of subsidised housing is subject to permanent commitments. The proportion of subsidised private owners is in this case minute. A similarly close connection between subsidisation and non-profit-making providers as in France also existed in Austria up to the time of “provincialisation” of housing construction subsidisation. If one disregards the company flats, subsidisation funds were until this time only granted to the non-profit-making housing associations and the municipalities. Although the commitment periods required for subsidisation are limited in time, as in Germany, these commitments are followed by non-profit-making commitments. These commitments do however not provide for any further income-related access restrictions. Non-profit-making commitments were also existent in Germany until the abolition of the non-profit-making status in 1990.

The social rental sector in the housing policy context

Needy households, which cannot be supplied by the social sector, are generally forced to resort to the private rental sector. To this extent, the supply of these households also depends on the situation in this market. The terms and conditions prevailing in this sector are described below.

Table V.2
Proportion of rental housing to total housing stock (in %)

	Belgium	Germany West	France	Netherlands	Austria ¹	Sweden ²	
	1997	2002	1996	2000	2001	1990	2001
Private rental	23	48	22	12	22	20	
Social rental	7	7	18	36	21	25	
Total rental	30	55	40	48	43	45	41
Ownership	67	45	54	52	49	55	59
Other	3	-	6	-	8	-	-

¹ Private rental housing also includes the subsidised housing of private owners.

² Owner-occupied property also includes the associations which are very similar to ownership.

Source: Tables B.1, D.3, F.1, N.1, Ö.1 and S.1

Before reviewing the situation in the individual countries, an overview of the private rental housing stocks in the countries under consideration is first given in Table V.2. The other sectors are also shown for better judgement purposes. It should be noted that the figures do not all refer to the same dates.

If one compares the proportions of private rental housing stocks, then two countries stand out from the rest: Germany (West) with a very high proportion of 48 % and the Netherlands with a quota of only 12 %. All the other countries show proportions ranging between 20 % and 23 %. If we consider the rental housing sector in total, then Germany (West) and Belgium stand out: Germany (West) with a very high figure of 55 % and Belgium with a very low proportion of only 30 %. In the other countries under consideration the figures lie between 40 % and 46 %. While the low private rental housing stocks are compensated for in these countries by relatively large social housings stocks, this is not the case in Belgium.

In **Belgium**, the most important sector is the owner-occupied sector. In 1997, 67 % of Belgians lived in their own home. The predominance of this sector can be attributed to a housing policy which since its beginnings at the end of the 19th Century has always placed the main focus on the subsidisation of ownership. This orientation of housing policy has been brought about largely by the political and ideological dominance of the Christian People's Party, which rejected mass new construction of social rental housing. Housing construction was therefore left mainly to the disposition of owner-occupiers, which is now becoming an increasingly acute problem in view of the high ownership quota already achieved and economic and demographic restructuring. The private rental housing sector, at 23 %, lies at about the same level as France, Austria and Sweden. Since the proportion of social housing is very low, Belgium however has the lowest rental housing stocks amongst the countries under comparison. A look at the development of the private rental housing sector shows a steady downward trend, with the proportion of privately rented housing to total housing stocks falling from 31 % in the year 1981 to 23 % in 1997 (see Table B.1). Private rental housing is owned principally by natural persons, who in 2001 held 86 % of the housing in this sector. The number of dwellings supplied by the individual providers is very low. In 1991, every owner held an average of less than three dwellings. Reasons for the decline in the proportion of private rental housing can be found both on the supply and the demand side. The tax treatment of rental income is significantly worse than in Germany: there is no loss compensation between the different types of income, and transfer of ownership is subject to a heavy registration charge (land transfer tax). The main reason must however be seen in the fact that private rental housing is not considered a worthwhile form of housing. The main problems of the private rental housing sector are the poor quality of the housing, the greatly increased prices, particularly in the lower market segments, and the insecure rental conditions, which are a consequence of the short-term rental contracts. For this reason, anyone who can afford to do so switches to owner-occupied property, including households who on the basis of their income are not even in a position to maintain the property. However, this is not a viable alternative for most low-income households. The proportion of high-income households in private rental housing stocks has therefore fallen significantly, while the percentage of low-income households has risen sharply. A filtering process, in which affluent tenants create the demand for newly constructed rental housing, and in this way vacate older rental housing for lower-income tenants, cannot function in this way. The maintenance of housing is put at risk by the inability of tenants to pay higher rents. Nor is the demand boosted by any form of housing allowance system. Various measures have been adopted since the 1990's in order to improve the situation on the rental housing market. In 1995, a tax was imposed on vacant and neglected buildings. This tax is intended not only to increase the housing supply, but also to make a contribution toward stabilising the quality of the living environment. The recently enacted regional housing codes

also defined minimum quality standards, whose observation is supervised by the regions. A value-added tax (VAT) reduction was also agreed in 2000 for work on existing buildings, which was originally limited to two years, although this has since been extended.

Germany (West), at approximately 48 % (2002), has the highest proportion of private rental housing amongst the countries under consideration, although much of this is former social housing, which only came into the private rental sector following expiry of the social commitments. Housing of municipal providers not subject to commitments due to subsidisation is also counted as part of the private sector, although in other countries such as Austria and Sweden, this belongs to the social sector. But even if this former social housing and the non-subsidised municipal housing were deducted, Germany would still have by far the largest proportion of private rental housing. In contrast to the other countries under consideration, this sector has also undergone positive development: while the proportion of private rental sector in the year 1978 was 44 %, this had risen by the year 2002 to 48 %, although this increase is also partly due to the expiry of social commitments (see Table D.3). If we consider the rental housing sector in its entirety, this also shows a remarkable stability. Between 1950 and 2002, its proportion in the former West Germany fell only slightly from 61 % to 55 %, indicating that rental housing in Germany clearly enjoys greater acceptance amongst tenants than in Belgium. Other than in the other countries under consideration, it also appears to be a lucrative form of investment for investors. This high acceptance amongst tenants can be attributed mainly to the good tenants' security and the moderate rent levels, resulting from the rent law and the favourable tax treatment. On the other hand, taxation has also had positive effects on the profitability of this form of investment, which suffers hardly any adverse effects from the rent law. The rent law is apparently so well balanced that it can ensure owners an adequate return, without subjecting tenants to incalculable rent increase risks. The favourable tax treatment arises on the one hand from the depreciation facilities for new construction, which although frequently changed over the course of time, were considered as very advantageous in conjunction with the high, tax-free increases in value achieved in the past. The tax exemption of these increases in value, which is restricted to housing in private hands, has also made it possible to refresh the depreciation basis of older housing, long since fully depreciated, which must also have had a positive effect, particularly for the target-group households. The same probably applies to the possibility available in many cases of deducting investment in modernisation immediately as maintenance costs, equivalent to immediate depreciation of this investment. This treatment must have contributed to the fact that even lower-income households can be offered relatively good quality housing. An essential requirement for the positive tax effects described was the unrestricted loss compensation between the different types of income, by means of which losses from rental and leasing could be offset against positive income from other sources. Although these loss compensation possibilities have been restricted in the meantime, the tax treatment of rental housing can still be regarded as a generous, general subsidisation of supply with the focus on investment in existing stocks.⁹

In **France**, the proportion of private rental housing declined between 1963 and 1988 from 38 % to 21 %, although it has recovered somewhat since this time. In 1996, 22 % of housing was privately rented. The rapid decline in private rental housing stocks, which continued until the second half of the 1980's, can be attributed to demolition, sales to owner-occupiers and a low level of construction activity. For this development the lacking profitability of investments in new construction and existing stocks is hold responsible, which in turn can be attributed to the rent law and tax regulations (Oxley, Smith, 1996, 137). In comparison to Germany, the compensation of losses between the different types of income is handled much more restrictively.

⁹ Whether this subsidy was also efficient is another question.

In France, losses from rental and leasing have only been able to be offset against positive income from other sources since 1993, and the maximum qualifying figure is still limited to 10,700 Euro. Various laws have been passed since 1984 to stimulate private investment, which provided amongst other things for increased depreciation possibilities. Agreement on a reliable rent law was only achieved in 1989. Until 1982, tenants' security and rent setting in the "free sector" (*secteur libre*) was hardly regulated at all. Very short-term rental contracts were common, leading to great insecurity amongst tenants. Depending on the market situation, housing was subject to repeated short-term rent freezes and rent increase restrictions. With the 1982 Rent Act, the free sector was also included in rental and tenant protection regulations. A minimum contract term was introduced for private rental housing, and extension of the contract could only be refused on certain grounds. Rent setting and rent reviews were placed in the hands of a commission, made up of tenants, owners and municipalities. The new rent act brought private rental house building almost completely to a stop. Many rented dwellings were also sold to owner-occupiers. Rent law was therefore reformed again in 1986. Landlords were given the right to give notice to tenants on expiry of the contract without having to state grounds. The rents for newly rented housing were not subject to any commitments, but could be contractually agreed, the same also applying in the case of contract extensions. This resulted in substantial rent increases, which represented a problem even for medium- and higher-income households. The government reacted to the problems in 1989 with a further Rent Act, which continues in effect to the present day. The term of rental contracts was set at six years. Free agreement of the rent is now only possible in the case of new rental contracts. For extended contracts, the rent is established on the basis of comparable housing, and for existing contracts, it can be increased in line with changes in the building price index. Even after expiry of the contract, cancellation is only possible in justified cases.

In the **Netherlands**, private rental housing, like social housing, was until 1989 subsidised by means of annual operating cost grants. The grants covered the difference between the rental income and the cost rent. The major part, although not all, private rental housing was subsidised in this way (see Table N.3). In 1989, the operating cost grants for private rental housing were replaced by a fixed subsidy. For social housing although the grants continued to be given until 1995. However, they were no longer determined by means of the cost rent, but by a procedure which placed the investment risk more in the hands of the investors. The operating cost grants for social housing were also discontinued in 1995. Housing construction was then subsidised for a limited period by a significantly lower fixed subsidy, although this subsidisation has since been stopped completely. The reform of housing construction subsidisation was part of a reform process which was intended to lead to decentralisation of the housing policy and a strengthening of market forces. House building subsidisation was not linked to an access restriction. However, all private rental housing below a certain upper rent limit is subject to the Housing Allocation Act (*Huisvestingwet*). This gives the municipalities the right to link tenancy with municipal housing permit. Private rental housing is subject to the same rent level regulations as social housing. These regulations have since been incorporated into the Dutch Civil Code, while before this time they were defined in the Housing Rent Act (*Huurprijzenwet woonruimte/HPW*). Fundamentally, the rent can be freely agreed between the parties, although the tenant has the right to have the rent reviewed by an independent rent tribunal to decide whether it is appropriate. This is determined on the basis of a house rating system, in which the housing is allocated a points value in relation to its properties and characteristics, which is then multiplied by a financial amount per point specified by the government. By the trend-related rent increase the government also specifies the maximum permissible rent increase. In a similar way to the Housing Allocation Act, housing above a certain rental value is not subject to rent level regulations, but can be rented out at market prices. The proportion of privately rented housing is very low, amounting to only 12 % in the year 2000.

In view of the fact that private rental housing stocks remained the dominant sector until into the 1960's – making up 60 % in 1947 and still 47 % of housing in 1960 – this decline can only be characterised as drastic. In the 1950's and 1960's, many old, private stocks were occupied by low-income households, who could not afford the higher rents for the better social housing. The decline in private stocks can be traced back to low completions, demolition and sales to owner-occupiers, housing associations and municipalities. Many sales were brought about by the extensive urban renewal projects carried out in the 1970's and 1980's. Since the renovation of whole complexes was regarded as more cost-efficient than individual building renovation, support was given to the housing associations in buying up and modernising old buildings. Many formerly privately rented dwellings thus became part of the social sector. The low level of completions can be attributed to various factors. First amongst these are the high subsidy quotas and the preference given to the housing associations and municipalities in the allocation of funds, by which a major portion of demand was directed into the social sector. The rent level and allocation regulations can also be identified as a reason for the low level of completions in the private rental housing sector. Nor can it be excluded that the tax treatment of owner-occupied property, which is regarded as one of the most generous in Europe, also led to a diversion of demand into the ownership sector.

In **Austria**, private rental housing is defined as housing owned by natural persons and legal persons, who don't have the status of non-profit-making. Private rental housing also includes housing that has been subsidised, and is therefore subject to social commitments. Most housing in this sector consists however of old buildings constructed before 1914. Hardly any private rental housing was built in the period between the two World Wars. The generally low level of rental housing construction was carried out essentially by the municipalities and housing associations, the majority of this being the responsibility of the municipalities. Even after the Second World War, relatively little rental housing was built by private investors. This applies both to privately financed and subsidised new construction. The low proportion of privately financed completions can be attributed to the high subsidisation quotas. According to estimates, about 80 % of rental housing construction in the post-war period was subsidised. The low involvement of private providers in subsidised rental housing construction was due to the fact that up until the time of "provincialisation" of house building subsidisation in 1989, with the sole exception of company housing, private investors were not subsidised at all. This company housing, which is recorded in Table V.2 largely as "Other" housing, made up only 2.2 % of total housing stocks in 2001. In the course of provincialisation, legislative responsibility for house buildings subsidisation was transferred to the provinces, following which some provinces also opened up their subsidisation programmes to private investors. Since then, the proportion of private rental housing has again risen slightly, although this increase can be attributed to the greater utilisation of subsidy funds by private investors. It is interesting to note in this connection that the eligibility to subsidised housing is framed very broadly (see below). The proportion of private rental housing fell from 27.5 % in the year 1971 to 17.6 % in 1991, and has since risen again to 19.8 %. The high proportion of subsidised housing, which has drawn away a large part of the demand from privately-financed rental housing construction, can be attributed to the fact that a part of state income is earmarked for house building subsidisation (see below). Old housing, which makes up the major portion of private rental housing stocks, was after the Second World War for a long time regarded as the most important market segment for the accommodation of low-income households. These stocks were therefore also the subject of comprehensive rent level regulations, which were associated with the usual problems of under-occupancy, hoarding and sub-letting. Upper rent limits continue to apply for old buildings, although these are now so broadly framed that they largely conform to market rents. New construction completed subsequent to 1953 is however not subject to the rent level regulations of the rent law, and market prices can be agreed here. The

rent regulations governing the maintenance and improvement of housing, which continue in effect today, were also crucial for the function of these old building stocks as a supply reserve for low-income households. Part of the rent, the so-called rent reserve, is set aside for maintenance. Rent increases intended for measures above and beyond this purpose can only be implemented through legal proceedings. On the other hand, the tenant has the right to carry out normal improvement measures to the housing by himself, for which he can also be reimbursed on leaving the accommodation. In this starting context, special importance was attached to modernisation subsidies. These programmes could be used not only by owners, but also by tenants. Despite the negative effects described, the rent law is also credited with positive effects. The rent level regulations allowed preserving a large stock of affordable and simple housing over a long period of time. The relatively low earning power and the maintenance regulations also helped to stabilise the very diverse ownership situation with its investment behaviour orientated toward the use value. Demolition levels were lower than in other European countries, extensive renovation was left undone and the measures were carried out with the residents and housing stocks in mind. To this extent, the rent law also had positive effects on urban renewal (Kainrath, 1988, 172).

The proportion of private rental housing in **Sweden** fell from 52 % in the year 1945 to only 21 % in 1980. Between 1980 and 1990, the figure decreased further to 20 %, although the rate of decline slowed down considerably. The number of private rental dwellings even increased slightly between 1980 and 1990 (see Table S.1). The fall in the proportion of private rental housing can be accounted for by demolitions, conversion of property to association housing and the low level of completions in this sector. Two reasons can be identified for the low new construction figures: the preferential treatment of the municipal housing companies and associations with regard to subsidisation in the early post-war decades, and the system of rent setting described below. A radical change in Swedish housing policy took place immediately after the war. While house building subsidisation in the pre-war period was still concentrated on the most needy households, the declared objective now was to provide good housing for all households by means of general housing construction subsidisation. Since the housing crisis of the 1930's pointed to fundamental weaknesses in private housing supply, the associations and the municipal housing companies in particular were to play a central role in housing production. These companies were therefore given preferential treatment when it came to subsidisation. A reorientation then took place with the reform of house building subsidisation in 1974. Since this time, subsidisation has been allocated according to the neutrality principle, according to which private and public rental housing, cooperative housing and owner-occupied housing, should all enjoy equally favourable tax treatment. The objective of subsidisation was seen as reducing housing costs to ensure the affordability of modern, sufficiently spacious housing for average wage earners. The following years saw a substantial slowing down in the decline of the proportion of private rental housing. The fact that this did not bring about any recovery in the private rental sector must be put down to the system of rent setting. The rents negotiated between the tenants' organisations and the non-profit-making municipal housing companies are also binding on the private rental sector. The negotiations attempt to achieve cost-coverage at the company level, which is intended to be achieved by rent levels in line with the use value. Over the period from 1970 to 1980, a sharp increase in the ownership quota (excluding associations) from 34 % to 41 % was also observed, which may also have influenced the development of the private rental housing sector. In Table V.2, the cooperative housing has also been classified as owner-occupied property. This classification can be justified by the fact that this form of housing is very similar to ownership, in that the cooperative housing right can be sold at market prices. It is also accepted by banks as security when granting loans. In this connection, it should also be noted that partial ownership of multi-family buildings is not allowed in Sweden. The generous supply subsidisation could not be financed

in the long term, and was reduced considerably after 1993. The neutrality objective however continues to be pursued. The reason for curtailment of house building subsidisation was the major tax reform of 1990, whose main aim was to reduce the heavy income tax burden. The reform was financed both by reducing expenditure and increasing VAT. The reduction of house building subsidisation was however not only justified with fiscal reasons. In view of the supply level achieved, subsidisation to the previous extent was also no longer considered necessary. The subsidisation was also increasingly judged as inefficient, and was held responsible for undesired developments. The reduction of subsidisation resulted in renewed housing shortages in some growth regions, which are even regarded as endangering the growth process. In response, two special subsidisation programmes were instituted for areas suffering from housing shortages. The municipalities were also legally obliged to compile housing supply plans at least every four years.

Access to social housing

This section concerns access to social housing. We will first examine how the eligibility is defined in the countries under consideration, and what the proportion of households with entitlement is. The next step will explore the ratio of households with access to social dwellings. Since the target-group supply depends not only on the access restrictions, but also on how and by whom housing is allocated, the following section deals with the different allocation practices, and goes on to examine the occupancy structures created by the eligibility and allocation practices.

Definition of eligibility and proportion of eligible households

In Germany, access to social housing goes only to households who fulfil certain requirements. The most important criterion in this respect is the observance of income limits. In the countries under consideration, and in addition to Germany, income-related access restrictions also apply in Belgium, France and Austria, although not in the Netherlands or Sweden.

Table V.3
Income-related access restrictions to social housing (in Euro)

Household size	Belgium Flanders 2003	Germany since 1994	France 2003	Austria Vienna 2003	Netherlands 2002	Sweden
1	15,756	12,000	13,257 - 15,248	30,600	(13,938)	none
2	24,946	18,000	17,703 - 22,788	45,600	(19,007)	
3	26,259	22,100	21,290 - 29,874	51,600	no access re- striction, but definition of target groups	
4	27,572	26,200	25,701 - 35,666	57,600		
5	28,885	30,300	30,234 - 42,435			
6	30,198	34,400	34,071 - 47,751			
further persons	1,313	4,100	3,800 - 5,321	3,360		

Source: Tables B.10, F.12, N.8 and Ö.8 and Section D.5.2.1

Table V.3 gives an overview of the applicable limits. It should be noted that the figures quoted are those applying in normal cases, and that variations apply for certain housing and target groups, which will be examined in more detail later. With regard to eligibility, the countries under consideration can be divided into two groups: those with, and those without income-related access restrictions. The classification of Austria is somewhat problematical. Although income limits apply here, they are so high in comparison to other countries that they

serve to exclude practically nobody, and it therefore seems more appropriate to include Austria with the Netherlands and Sweden in the group of countries without income-related access restrictions.

In **Austria**, standard national income limits applied up to the time of provincialisation of house building subsidisation in 1989. The levels were however so generous, that in the middle of the eighties, 95 % of all households enjoyed an entitlement. Following transfer of housing policy authority, the income limits were initially reduced by the western states, although they were soon substantially increased again in order to prevent an exodus of medium-income households. To this extent, all of Austria can still be regarded as having a very broadly-framed entitlement to accommodation. In addition to falling within the income limits, applicants must however be able to substantiate their urgent need for housing. Table V.3 shows the limits applicable in Vienna for the subsidised housing of the housing associations and private providers. These figures are 20 % above the limits that apply for municipal housing, and 43 % above those applicable for housing subsidised between 1967 and 1974 through the “Wiener Wohnbaufonds” (Vienna house building fund). Even the last two amounts however, at 21,420 Euro for single persons and 31,920 Euro for two-person households, are significantly higher than the figures for the other countries. The high income limits are regarded as an effective instrument for the avoidance of segregation. Following expiry of the subsidy-related commitments, the housing associations are still subject to non-profit-making regulations. Under these regulations, the task of the non-profit-making providers consists of providing housing for the wider sections of the population at prices below market levels. The law does not provide for any income-related access restrictions. The municipal housing companies are not subject to the non-profit-making commitments, although it is expected of the municipalities that they allocate their housing in line with social criteria even without subsidisation commitments. The above limits apply for the municipal housing of the city of Vienna, irrespective of any subsidisation commitment. In this respect it is interesting to note that a great deal of municipal housing was constructed without state subsidies, and has therefore never been subject to subsidy-related commitments. However, some municipalities have sold their housing stocks to non-profit-making housing associations. The highest proportion of municipal housing, at 27.6 % in 2001, was held by the city of Vienna. Throughout the rest of Austria the proportion was only 3.7 %. The housing of private providers coming out of the subsidy-related commitments, as in Germany, becomes part of the unregulated sector. Since these investors have only been subsidised since the provincialisation of house building subsidisation, the expiry of the commitments is still irrelevant in the case of such housing. The percentage of subsidised private rental housing has to date also been very low.

Under the Housing Act (Woningwet) of 1901, social housing in the **Netherlands** must be rented primarily to households who because of their income or for other reasons have difficulty in finding suitable housing. Normally however, the housing owned by the housing associations is open to all households. The social housings sector has also never been regarded as a segment reserved exclusively for low-income households. Housing estates with a high proportion of social housing have therefore hardly ever shown high concentrations of low-income households. The Heerma Memorandum of 1988 however saw unintended occupancy of social rental housing as a problem. Criticism was levelled in particular at the fact that many low-income households were living in expensive housing, and therefore had to be assisted with housing allowance, whilst many less expensive social dwellings were occupied by higher-income households. It was therefore proposed in the Memorandum that low-cost housing should be reserved for low-income households. This proposal was adopted in the Housing Allocation Act (Huisvestingwet) of 1993, under which municipalities and social housing providers must ensure that low-cost housing is allocated to lower-income households. This act

also gives the municipality the authority to link the allocation of housing whose rent falls below a certain upper limit with a municipal housing permit. This facility was first established by the Housing Allocation Act of 1947. The possibility of linking housing allocation with a housing permit is however not restricted just to social housing, but applies to all housing whose rent or price does not exceed a specified upper limit. The ordinance on the Management of Social Rental Housing (*Besluit Beheer Sociale Huursector*) of 1993 also specifies regulations for the allocation of social housing. Under this ordinance, an agreement must be made between municipalities and providers, in which the tasks of the housing associations in the supply of the target-group must be defined. The fulfilment of these tasks must be documented in the annual reports submitted to the government by the companies for assessment. Which households belong to the target groups is defined by annually adjusted income limits, which are set by the Housing Allowance Act. In 2002, the limits were 13,938 Euro for single persons and 19,007 Euro for multi-person households. There is no further differentiation according to household size, because the housing costs of children are considered to be covered by the child allowance. Although the income limits have been raised over recent years by an annual average of 2.5 %, the proportion of target-group households fell from 40.6 % in the year 1994 to only 31.3 % in 2002. The proportion of social housing to total stocks, which was 36 % in 2000, was thus higher than the proportion of target-group households to total households.

Social housing in the sense of housing subject to special rent control and access restrictions does not exist in **Sweden**. Here, the housing of the municipal housing companies can be regarded as the social rented sector. This housing is however open to all households. The rents too do not differ from those of the private rental sector. Since the municipal companies act as providers of housing for all households, they are in direct competition with the private providers. The absence of access restrictions and the standard rents are intended to prevent a separate segment developing for the actual target groups of the housing policy, since this would be unavoidably associated with segregation and stigmatisation. Public and private rental housing are intended to be complete substitutes. Nevertheless, the supply of needy households remains one of the traditional tasks of the municipal housing companies. The social character of Swedish housing policy should therefore result above all from the comprehensive and uniform subsidisation of all new construction. In this way it was intended to ensure the affordability of not only municipal housing, but also all housing, for average wage earners. Low-income households are also supported by a housing benefits system.

As an **interim conclusion** it can therefore be said that the lacking or very broad income limits in the Netherlands, Austria and Sweden are founded mainly in the desire to avoid segregation. Since the pursuit of such a strategy presupposes a relatively high stock of social housing, the social housing quotas in these countries are also particularly high. Despite the high levels, the quotas still differ significantly amongst the three countries. The highest level is achieved in the Netherlands, at 36 % (2000), the lowest, at 20.6 % (2002) in Austria. Between these comes Sweden with a quota of 25 % (1990), although this figure is no longer up-to-date. An explanation for these variations can also be seen in the development of housing stocks. While the number of dwellings in the Netherlands increased between 1947 and 2000 from 2.1 million to 6.8 million (320 %), it only increased in Sweden between 1945 and 2001 from 2.1 million to 4.2 million (200 %). The lowest growth was observed in Austria, where stocks only increased from 2.1 million to 3.9 million (180 %) between 1951 and 2001 (see Tables N.1, Ö.1, S.1).

Since housing construction subsidisation in **Belgium** is a regional responsibility, the income limits here are defined by the regions. Table V.3 shows the figures for Flanders. In compari-

son to Germany and France, the figures for single- and two-person households are very generous. On the other hand, the increase in the income limit for further persons is very low, so that the access entitlement in Germany for households comprising five or more persons is higher than that in Belgium. In order to prevent segregation, 20 % of housing becoming available may be rented to households with higher incomes. The income limits are adjusted annually. There is no current information available on the proportion of entitled for the specified income limits. In 1992 in Flanders, approx. 48 % of households and 53 % of tenant households had access to the social sector. Over the course of time, the numbers of those with an entitlement has been restricted. In the 1970's, 75 % of all households still were entitled. With a social housing quota of only 7 %, the majority of households with access to social housing are forced to resort to the private rental housing market.

In **France** the access to social housing is determined by central government. For this purpose, the country is divided into three regions: Paris and its surrounding municipalities, the Ile-de-France (excluding Paris and surrounding municipalities) and the rest of France. Table V.3 shows the figures for the rest of France and for Paris. The limits shown however only apply for 60 % of newly subsidised housing. 30 % must be occupied by low wage earners, whose income may not exceed 60 % of the normal limit, and the remaining 10 % of tenants may have an income that exceeds the limits by up to 20 %. In this way, special consideration can be given to particularly low-income households, without endangering a healthy social mix. This mixed commitment however only applies to housing which was subsidised by means of PLUS loans¹⁰. These loans have only been available since 1999, when they supersede the PLA loans¹¹, for which the limits shown in Table V.3 also apply, but which provided for no mixed occupation. In addition to the standard subsidisation referred to, there are also two programmes with differing commitments: one with a narrower and one with a broader access restriction. The PLA-I loans¹² introduced in 1990 go to subsidise housing for households with an income of up to 60 % of the normal limit, while the PLS loans¹³ go to households with an income of up to 30 % above the normal limit. While the PLUS and PLA-I loans can only be made to HLM and SEM companies, other providers can also be supported by means of PLS loans. In order to prevent the eligible numbers shrinking without control, the income limits are adjusted annually. In 2002, about 60 % of the population were entitled to live in social housing (see Section F.4.5). The definition of the entitlement has changed over the course of time. In the early post-war years, there were no income limits at all. The aim of housing construction subsidisation at this time was to ensure the housing supply of workers, in order to support economic development. Income limits were first introduced in 1954, although they were so generous that about 80 % of households had access to the social sector. The consequence of this broad entitlement was that households with the lowest incomes were by the beginning of the 1970's under-represented in social housing stocks. In order to minimise the rent default risk, the housing companies had in fact favoured tenants with an average income when it came to housing allocation. As part of a major reform of house building subsidisation, entitlement to accommodation was therefore restricted: however, the aim was not to restrict access to a limited target group, but to ensure that the majority of the population continued to be eligible.

The income limits for **Germany** shown in Table V.3 were taken from the Housing Subsidy Act. This act has been in force since 2001, and replaced the 2nd House Building Act. The states may deviate from the income limits specified in the Housing Subsidy Act. In Hessen for

¹⁰ Prêt locatif à usage social (rental housing loans for social purposes).

¹¹ Prêts locatif aide (subsidised rental housing loans).

¹² PLA d'insertion (supplementary subsidised rental housing loans)

¹³ Prêts locative social (social rental housing loans). These replaced the PLA loans for private investors in 1997.

example, the figures were increased to 13,200 Euro for single persons, 19,800 Euro for two-person households and 4,510 Euro for every further person. Nordrhein-Westfalen, the most populous state, increased the limits for single persons by 3,000 Euro and for two-person households by 2,000 Euro. This increase was justified by the fact that the proportion of entitled households for the limits specified in the Housing Subsidy Act for one- and two-person households is lower than that for larger households (see Table D.13). It was also decided in Nordrhein-Westfalen to adjust the amounts in line with developments in living costs, which is to be applied for the first time in 2006, and every three years thereafter. The limits of the Housing Subsidy Act including the specific state adjustments apply not only to housing subsidised under this act, but also to housing which was still being subsidised under the 1st subsidy method of the 2nd Housing Construction Act. The old law differentiated between three subsidy methods: the 1st, 2nd and 3rd subsidy method, which was introduced in 1989, and was also referred to as “agreed” subsidisation. One particular feature of the agreed subsidisation is income-related subsidisation. Only housing subsidised by the 1st subsidy method is called as publicly subsidised. For publicly subsidised housing, the income limits of the 2nd House Building Act applied until 2001. Since the states were not allowed to deviate from these limits, the figures specified here were binding nationwide.¹⁴ Since 2002, publicly subsidised housing has been subject to the limits specified by the Housing Subsidy Act, which correspond largely to those of the old law. However, since the states are now allowed to deviate from these figures, and have indeed done so, it is no longer possible to speak of a standard national entitlement to accommodation in publicly subsidised housing or that supported under the Housing Subsidy Act. Housing subsidised under the 2nd subsidy method is open to households whose income may exceed the limits of the 1st subsidy method by a maximum of 60 %. Since these funds were used predominantly for the subsidisation of owner-occupied housing, the 2nd subsidy method was only of subsidiary importance for rental housing construction. Under the agreed subsidisation, the form of subsidisation and the definition of the eligibility were left up to the states. Under this subsidy method there thus developed a wide range of different subsidisation programmes, in which the range of income limits varied from those of the 1st subsidy method to figures which exceeded these limits by 20, 40, 60 or 80 %. In the initial years following its introduction, the agreed subsidisation was frequently regarded as a supplement to the 1st subsidy method, directed at households with a somewhat higher income. The extension of the criteria of access was intended to achieve a reduction of subsidisation in individual cases. Some years after the introduction of the agreed subsidisation, some states adopted the practice of replacing the 1st subsidy method by the 3rd subsidy method, and lowering the income limits. The new method in fact offered much greater flexibility in comparison to the 1st subsidy method, because it was not at all bound by the cost rent law (see Section D.5). The savings aimed for by the introduction of the 3rd subsidy method was intended to be achieved not only by extension of the entitlement criteria, but also by a reduction of the commitment period. The commitment periods under the 3rd subsidy method were in almost all cases significantly shorter than under the 1st subsidy method. Due to the linking to the loan period, the commitments under the 1st subsidy method extended to as much as 35 to 50 years. In the case of the agreed subsidisation, the term was usually no more than 20 years. Even under the new Housing Subsidy Act, the commitment periods are as a rule still shorter than under the 1st subsidy method. In Hessen, the commitments run for 20 years, and in Nordrhein-Westfalen from 15 to 20 years.

From a historical point of view, eligibility in Germany has also been concentrated more and more over the course of time on low-income households. Under the 1st Housing Construction Act of 1950, subsidisation was still directed at the construction of housing for the broad strata

¹⁴ States could only deviate from these limits in exceptional cases subject to approval. Such approvals could be given in order to avoid imbalanced population structures.

of the population. This gave preference to households whose income did not exceed the compulsory social insurance limit for white-collar employees, augmented by certain family allowances. This meant that about three-quarters of all households had access to social housing. In the 2nd House Building Act of 1956 the task was seen in overcoming the housing shortage and creating widespread home ownership by the subsidisation of house building for the wider population in general. The subsidisation was intended to provide an adequate housing supply for all strata of the population, and especially for those in search of housing who were unable to do so themselves. This meant a two-fold extension of the objectives over the 1st Housing Construction Act: on the one hand by the task of creating widespread home ownership, and on the other by the objective of giving special consideration to the needy in search of housing. The access entitlement was however hardly changed at all, so that the great majority of the population still continued to have an entitlement to accommodation. Because the income limits were only irregularly and incompletely adjusted to changes in income, the numbers of entitled households declined steadily over the following years. The tendency toward concentration of the eligibility on low-income households was also reflected in the declared objective of subsidisation under the new Housing Subsidy Act, whose purpose is no longer seen as the support of broad strata of the population, but in improving the housing supply of households who cannot provide themselves with adequate housing on the open market, and are therefore in need of support.

Only rough conclusions can be drawn on the proportion of households with an entitlement of accommodation. This is due on the one hand to the different subsidy methods of the old law, and on the other, to the fact that states are now allowed to deviate from the income limits of the Housing Subsidy Act. This possibility means that there are no longer standard, national income limits for housing subsidised under the 1st subsidy method and that subsidised under the Housing Subsidy Act. The proportions given below of households with access to the social sector refer to the income limits of the 2nd House Building Act, which were established in 1994 and carried over in 2001 in largely unchanged form into the Housing Subsidy Act. Due to the different subsidy methods and the authority of the states to deviate from these limits, the proportion eligible households is therefore underestimated. While in the former West Germany in 1978, 47 % of households still had access to publicly subsidised housing, the proportion had by 1992 fallen to only 32 %. Following the increase in the income limits in 1994, the quota then rose again to 40 %. In the former East Germany, the corresponding proportion was 61 %. By 1999 the figures had fallen to 37 % and 47 % respectively (R. Ulbrich, 2000, 34), and should since this time have fallen further.

In summary it can be said that the development of entitlement to accommodation in the three countries under consideration with an income-related access restriction has proceeded in a similar way. While access to social housing was hardly restricted at all in the immediate post-war period, it has over the course of time been concentrated more and more on low-income households. If we consider the income limits laid down by the Housing Subsidy Act, then access in Germany is currently more restricted than in Belgium and France. One reason for the low figures in Germany is the irregular adjustment periods. While the German income limits date from the year 1994, they are adjusted annually in Belgium and France. Nordrhein-Westfalen at least now provides for regular adjustment of the income limits, if only on a triennial basis. In Flanders the income limits for households with up to four persons are significantly above the levels of the Housing Subsidy Act, although because the supplementary allowance for additional household members is lower in Flanders than in Germany, the difference between the Flanders and German figures decreases with increasing household size, even becoming negative for households consisting of five or more persons. It must also be taken into account that in Flanders, 20 % of housing may be allocated to households whose income

exceeds the limits. If one considers the limits applied by the state of Nordrhein-Westfalen, then the above statements need only be modified with regard to single-person households, whose income limits in Flanders and Nordrhein-Westfalen are more or less identical. The income limits applicable in France for Paris and its surrounding municipalities are significantly above those of the Housing Subsidy Act. Apart from single persons, the limits for the rest of France are however lower than the German limits. It should however be remembered that in France 30 % of the housing subsidised from 1999 by means of PLUS loans must be allocated to households with an income of a maximum of 60 % of the normal limits and that there is also a separate subsidy programme for these households.

Ratio between entitled households and social housing

As an indicator of the supply level of social housing, we will examine below for each country under consideration the ratio of the proportion of eligible households to the proportion of social housing (see Table V.4a). This also includes those countries without any income-related access restriction. Since the above proportions of eligible households are based partly on superficial estimates, this process can provide nothing more than broad indicators, which sometimes also refer to different periods. It should also be taken into account that the figures for Germany are based on the income limits of the Housing Subsidy Act, from which the individual states may deviate at their discretion (see above).

Table V.4a
Entitled households per social dwelling

	Belgium 1991	Germany West 2002	France 1996	Netherlands 2000	Austria 2001	Sweden 1990
Proportion of social housing.	0.060	0.071	0.180	0.360	0.206	0.250
Proportion of households with entitlement	0.480	0.370	0.600	1.000	0.850	1.000
Entitled/social dwelling	8.0	5.2	3.3	2.9	4.1	4.0

The figures given in Table V.4a are not very conclusive, since the households with access to social housing also include owner-occupier households. However, the demand for social housing generally comes only from tenants.

In Table V.4b therefore, the ratios are derived from the proportions of entitled tenant households to the total number of households, and the social housing quotas. In order to determine this ratio, it was first necessary to calculate the proportion of entitled tenant households. For this purpose, the proportion of entitled owner-occupier households was deducted from the proportion of entitled households. The proportion of entitled owner-occupier households was derived by multiplying the proportion of entitled households by the ownership quota of entitled households. Since the latter is not available, it has had to be estimated.¹⁵ This process can of course give only a rough indication.

¹⁵ The ownership quota of entitled households was determined by means of a weighting of the overall ownership quota, which was taken from the German 2002 micro-census, in which the ownership quota was broken down into income quintiles and expressed as a ratio of the overall ownership quota.

Table V.4b
Eligible tenant households per social dwelling

	Belgium	Germany West	France	Netherlands	Austria	Sweden
	1991	2002	1996	2000	2001	1990
Prop.social housing.	0.060	0.071	0.180	0.360	0.206	0.250
Prop. entitled households	0.480	0.370	0.600	1.000	0.850	1.000
Ownership quota	0.670	0.446	0.540	0.520	0.491	0.550
Weighting	0.810	0.750	0.850	1.000	0.930	1.000
Ownership quota of entitled household	0.543	0.335	0.459	0.520	0.457	0.550
Proportion of tenants with entitlement	0.220	0.246	0.325	0.480	0.462	0.450
Entitled tenants/social dwelling	3.7	3.5	1.8	1.3	2.2	1.8

The number of entitled tenant households per social dwelling fluctuates between 1.3 in the Netherlands and 3.7 in Belgium. A relatively high figure of 3.5 is also achieved in Germany (West). In France, Austria and Sweden there are 1.8 to 2.2 households with entitlement for every social dwelling. If one includes municipal housing in West Germany, the result improves to a figure of 2.2. If in the Netherlands one takes the ratio of tenant households belonging to the target group and social housing, then there are only 0.7 households for every social dwelling.¹⁶ This means that there is in the Netherlands significantly more social housing than tenants belonging to the target groups. In the view of the Housing Ministry, this is a good reason to reduce the social housing quota (H. Priemus, 2003, 334). It was therefore planned to sell 500,000 social housing units over the period from 2000 to 2010, although the target figure has since been reduced to 275,000 units.

It should be noted that the relationship between entitled households and social housing will deteriorate in Germany in future due to the expiry of commitments, while the situation in the other countries will tend to improve, if one disregards the Netherlands, which intends to sell a part of its social housing. The supply of social housing in Germany is therefore comparatively poor. The overwhelming majority of tenants with access (70 %) are thus forced to resort to the free rental housing market. In Belgium the proportion is even 73 %, although it is significantly lower in France (45 %), the Netherlands (26 %), Austria (55 %) and Sweden (44 %).¹⁷ The supply in Germany and Belgium thus depends largely on the conditions prevailing on the free rental housing market. As has been shown above, this segment functions better in Ger-

Quintile	ownership quota	ownership quota/43.2
1	28.3	0.66
1-2	33.5	0.78
1-3	36.6	0.85
1-4	39.2	0.91
1-5	43.2	1.00

In this way, a specific weighting factor could be derived depending on the proportion of eligible households. It is assumed that this weighting is identical in all countries under consideration.

¹⁶ For this purpose the target-group households not belonging to the ownership sector in 2002 (see Table N.9) were divided by the numbers of social housing in 2000 (see Table N.1).

¹⁷ In the last three countries referred to, all tenant households have a entitlement to accommodation, due to the absence of any income limit.

many than in the other countries, mainly because there is here a comparatively high number of higher-income households who provide the demand for rental housing.

It should also not be forgotten that the low level of social housing stocks in Germany is not due to neglect of new construction of social housing, but to the expiry of social commitments. This can be readily seen from the social housing quotas of the past. For instance, the proportion of social housing in Germany in 1978 was still 18.3 %, while in Belgium it amounted to 7 % (1981), in France to 13 % (1978), in the Netherlands to 36 % (1982), in Austria to 19.7 % (1981) and in Sweden to 24 % (1980). The number of social dwellings completed in Germany is therefore significantly higher than the numbers of existing social housing. If, as in Austria and Sweden, one also counts as part of the social sector the housing of the municipal housing companies which is not subject to commitments due to subsidisation, this produces even higher figures. If the social housing that switches to the free market, due to its age and other characteristics, were occupied largely by the target groups, even without commitments, then the expiry of the commitments would also be less problematical than it appears at first sight. The supply function of social housing construction, which consists of increasing the housing supply for lower-income households, would in this case not be put at risk by the loss of the commitments. A temporary commitment would even offer advantages, since it forces investors to give greater consideration to the preferences of tenants when it comes to the design of housing. The main problem with regard to the expiry of the commitments remains the reduction in stock available to the municipalities for the accommodation of needy households.

Housing allocation and occupancy structure

An appropriate housing supply is at risk above all in the case of lower-income and discriminated households. The latter group usually includes recipients of social assistance, the unemployed, foreigners with children, single parents, large families and poor, elderly people. The supply problems of these two groups cannot be solved simply by an income-related access restriction. This applies all the more the further the access to the social sector extends beyond the actual target groups. If the allocation of housing is left to the owners, this gives rise to the risk that the lowest-income households suffering most discrimination will have no chance at all. This applies particularly in the case of private providers, who in Germany own big parts of social housing stocks. Greater social responsibility can be expected from the non-profit-making and municipal companies, although this is not guaranteed even in the case of these providers. Non-profit-making status was abolished in Germany not least because it was no longer expected to make a significant contribution toward solving the task of supply. Housing allocation is therefore particularly important for the supply of the target-groups. The allocation policy, besides the supply objective, also has the aim of achieving a balanced occupancy structure. Problematic occupancy structures can arise due to the local concentration of certain household types. Fundamentally, segregation can be easier avoided the larger the housing stocks subject to access restrictions, although even large social housing stocks are no guarantee that problem areas will not develop. Segregation also depends on the quality of housing estates, the characteristics of the dwellings and the image of an area. The allocation practices of the countries under consideration are described below. It will also be shown what types of occupancy structures have been created by the access criteria and allocation practices, although only briefly touching on the segregation problem.

In **Belgium**, social housing is allocated by the companies themselves. Housing is allocated on the basis of a waiting list. The position on the list depends not only on the time of application, but also on the urgency of need. The companies have a certain freedom of action when it

comes to allocation. Exemptions of access restrictions can be made in cases where the social balance is considered to be at risk. The observation of the access conditions is controlled by regional supervisory committees, who check the compliance with the access criteria and the priority on the waiting list. The social housing companies aim for a mixed occupancy structure for two reasons: firstly in order to maintain the living quality on social housing estates, and secondly to ensure the financial stability of the companies. It must be noted here that the rent is also income-related, and that any differences from the basic rent have to be borne by the companies themselves. Since the waiting lists are very long, families often have to wait years for social housing. The great majority of target-group households are therefore compelled to resort to private rental housing, which is much less attractive due to the insecure rental circumstances, the high rents and the often poor quality of the housing. Co-operations between municipalities and companies for the accommodation of specially needy households are rather rare. In some municipalities however, agreements have been made by which the non-profit-making providers keep a certain amount of housing available for the accommodation of emergency cases. Table V.5 shows the proportions of different income groups in socially and privately rented housing in Flanders. In 1997, 70 % of social tenants belonged to the two lowest income quintiles, while the proportion in 1992 was slightly higher at 73 %. The proportion of households in the lowest income quintile declined particularly sharply, falling from 45 % to only 37 %. The low level of the random sample should however be taken into account, which may have led to distortions. In private rental housing stocks on the other hand, the proportion of households in the two lowest income quintiles increased from just 36 % in the year 1992 to 47 %.

Table V.5
**Income profiles in the private and social rental housing sectors
Flanders 1992 and 1997**

Income quintile	Private rental housing		Social rental housing	
	1992	1997	1992	1997
1	18.5	25.6	45.4	37.2
2	17.2	21.2	27.5	33.0
3	21.2	21.4	17.6	18.8
4	23.7	16.1	7.3	15.2
5	19.4	15.7	2.3	1.5

Source: Van Dam, Geurts, Pannecoucke, 2003

In **Germany**, social housing sector includes only housing subject to commitments because of subsidisation, and unlike Austria and Sweden, not the housing of municipal companies free of such commitments. However, in order to clarify the importance of this housing for the housing supply of the target-group households, the occupancy structure of housing of municipal companies will also be examined here. First however, the allocation practice for social housing will be described. In housing allocation, the distinction must be made between simple commitments, nomination rights and allocation rights. There are also towns where allocation is governed by co-operation contracts between the municipality and the housing companies. In the case of a simple commitment, the owner may rent the accommodation to a tenant of his choice, provided they have an entitlement to accommodation. A nomination right gives the municipality the right to nominate to the landlord three applicants, from which he must select one as a tenant. In the case of the allocation right, the owner has no opportunity to choose, and the municipality decides to whom the housing will be rented. As a rule however, subsidisation is linked only to a simple commitment. Since most needy households are in this way overlooked when it comes to housing allocation, most municipalities prefer to hold a nomination right. Such a right can come about in various ways. In case of publicly subsidised housing (1st subsidy method) in areas with a high housing requirement, states can establish a municipal

nomination right by means of legal ordinance. This law then applies in all municipalities of the state where an increased housing requirement has been identified. Such a legal ordinance has been issued by some states, although not all. The facility of establishing a nomination right in this way only exists for publicly subsidised housing, and not for the other social housing. A second possibility of establishing a nomination right consists of linking it contractually to state subsidisation. Finally, municipalities have the possibility of acquiring nomination rights by means of supplementary subsidy funds or the provision of land at concessionary prices. If no nomination right exists, the housing is allocated by the landlord, who can choose freely amongst those with an entitlement to accommodation. Otherwise the municipality nominates three applicants to the owner, on the basis of the waiting lists. Families in search of housing are paced on the list in an order determined by urgency criteria. 80 % to 90 % of those registered on the lists are so-called low wage earners, whose incomes are at least 20 % below the upper rent limits. A high percentage is also made up of recipients of social assistance payments and foreigners. The proportions of such groups are however particularly high amongst the urgency cases. These are people in search of housing who come right at the top of the allocation list. The majority of the urgency cases are also households who because of a particular problem situation need not only better housing, but also social care. In the cities of Frankfurt, Munich, Dortmund and Cologne in 1998, between 2 % and 4 % of households were registered as looking for housing, and 0.5 % to 1.5 % were classified as urgent cases (Kirchhoff/Jacobs, 2001, 68). Due to this restriction of possible applicants, the nomination right represents a substantial improvement over the normal commitment. The figures also clearly show that the proportion of those registered as looking for social housing is much smaller than the numbers with access to the social sector. The overwhelming majority of those with access to social housing is apparently satisfactorily housed, mostly in private rental housing. If one considers the function of the social housing sector historically, a modification of the task definition can be identified: away from the accommodation of wider population sectors, and in favour of the housing of disadvantaged households. Due to the shrinkage of social housing stocks available to municipalities when exercising their nomination rights, this can lead to problematic occupancy structures, particularly in areas with high social housing quotas. In order to prevent such developments, certain housing can be exempted from the occupancy commitment, or the commitments transferred to other housing not previously subject to commitments. Another method of preserving balanced occupancy structures is practiced in Hamburg. Under the terms of a co-operation contract, the city has waived the exercising of its nomination right in the case of those providers who have undertaken to occupy a certain number of dwellings per year with urgent cases. This stipulation offers the companies the facility of finding occupants for the housing themselves. Table V.6 shows how the occupancy structure in publicly subsidised and other rental housing has developed over the course of time. Unfortunately, social housing has not been recorded in official statistics since 1993, so that more current data are not available. It should also be noted that the non-publicly subsidised housing also includes social housing and municipal housing not subsidised by the 1st subsidy method. In the former West Germany, the proportion of social tenants in the lowest income quintile rose from 20 % in the year 1978 to 28 % in 1993. If one combines the two lowest income quintiles, this gives a proportion of 44 % for 1978 and 55 % for 1993, although in non-publicly subsidised rental housing too, the proportions of the two lowest quintiles increased from 35 % to 40 %.

Table V.6
Income profiles in the rental housing sector
Germany (West)

Income quintile	Non-publicly subsidised		Publicly subsidised	
	1978	1993	1978	1993
1	16.7	19.7	20.0	28.2
2	18.0	20.3	23.8	26.9
3	19.3	20.2	22.6	22.1
4	21.9	20.9	20.0	15.5
5	24.0	18.9	13.6	7.3

Source: H. Sautter, R. Ulbrich, 2000, 368-369, own calculations

One important task of municipal housing companies is seen as the accommodation of needy households. Without such a social function, municipal housing companies would also have no authoritative justification. In other European countries, such as Sweden and Austria, the housing of the municipal providers is therefore counted as part of the social sector even without any formal access restriction. The influence exerted by municipalities on the occupancy policy of their companies however takes very different forms in Germany. On the one hand, there are companies who have a more or less free hand in the allocation of housing. On the other hand, it is also possible to find companies who can only rent housing to households on the waiting list. The more restrictive the municipal requirements on the companies, the greater is the likelihood that losses will be incurred, which ultimately have to be borne by the municipality. In order to draw conclusions on the social function of municipal housing stocks, Table V.7 shows a comparison of the occupancy structures established for 1993 in housing of municipal and others providers not publicly subsidised. These dwellings are normally not subject to any access restriction. As the table shows, there are considerable differences with regard to the tenant structure in non-publicly subsidised housing between the municipal and the other providers. Since the occupancy structure in non-publicly subsidised housing of the municipality's own companies corresponds largely to the structure in publicly subsidised housing, the non-publicly subsidised housing of the municipal providers is equally important as social housing for the target-group households.

Table V.7
Income profiles in municipal housing (built from 1949)
Germany (West)

Income in % of those with entitlement to accommodation	Non-publicly subsidised		Publicly subsidised	
	Municipal providers	Other providers	Municipal providers	Other providers
up to 80	36.7	21.3	32.7	30.9
80 – 100	18.6	15.3	19.0	20.4
100 – 140	26.9	28.4	30.1	30.1
over 140	17.8	35.0	18.2	18.6

Source: GWS 1993, own calculations

In **France** too, social housing is allocated by companies who form their own allocation commissions for this purpose. The commission is made up of six members of the company board, together with the Mayor. The company representatives also include the member of the board elected by the tenants. The commission assesses the applications on the basis of specified priority criteria, and offers the applicant housing. Certain stocks are also reserved for the proposals of various offices: 30 % of stocks for the applicants of the 'Prefect', 20 % for the applicants of the municipalities, provided that these guaranteed the state loans, and a proportion

depending on the financing amounts to applicants put forward by employers. In practice, it has been shown that some people in search of housing are almost completely overlooked in this way, and that the proposal rights of the prefect are often circumvented. The most discriminated households were therefore often compelled to resort to private rental housing stocks, while many, especially better HLM dwellings were occupied by non-entitled tenants. This discrimination was a result of the effort to prevent the concentration of minorities and problem groups, which led to people moving away and vacancies, putting the financial stability of the companies at risk. Various measures were undertaken to counteract this discrimination. A right to housing was established under the 1990 Besson Act. The 'départments' are obliged by this act to draw up strategies for the housing of disadvantaged households. A housing solidarity fund (FSL) was also set up to cover any rent arrears. In the same year, a separate subsidisation programme was also created, in the form of the PLA-I loan, for households earning an income of a maximum of 60 % of the normal limit. In 1999, the PLA subsidy was replaced by the PLUS subsidy, which provides for a social mix in subsidised housing. A law was also passed in 1998 against social exclusion, under which applicants who have been rejected can require the explanatory statement for the rejection. Preferential treatment must also be given to those in search of housing who have already had to wait a long time. The objective of the Urban Solidarity and Renewal Act (SRU) must also be seen in this context, which specifies that a social housing stock of at least 20 % must be achieved in all major cities. Table V.8 shows the distribution of social tenants across the different income groups. 65 % of housing in 1996 was occupied by households in the two lowest income quartiles, both quartile proportions being equal. While the proportion of the first quartile has increased slightly over the course of time, it fell slightly for the second quartile, although the occupancy structures hardly changed at all between 1988 and 1996.

Table V.8
**Income profiles in the social rental housing sector
France 1988, 1992 and 1996**

Income quartile	1988	1992	1996
1	30.3	31.7	32.7
2	32.9	33.0	32.6
3	25.0	24.8	24.4
4	11.8	10.5	10.3

Source: A.-M. Fribourg, 2002, 7, own calculations

In the **Netherlands**, regulations on housing allocation appear in the Housing Act (Woningwet) of 1901, the ordinance on the Management of Social Rented Housing (BBSH) and in the Housing Allocation Act (Huisvestingwet) of 1993, which replaced the old Housing Allocation Act (Woonruimtetwet) of 1947. The regulations of the BBSH have already been described, and can therefore be disregarded here. Under the Housing Act of 1901, social housing must be allocated primarily to needy households, although the law does not specify any general access restriction. The old Housing Allocation Act of 1947 however granted the municipalities greater freedom of action in the allocation of housing. This covered not only social housing, but also rental housing and parts of the ownership sector. The act gave the municipality the right to link allocation to a housing permit, whereby the allocation criteria could be defined by the municipalities themselves. With the housing supply improving over the course of time, these regulations were gradually relaxed. Despite the restrictions on housing allocation, the Heerma Memorandum of 1988 still saw mismatched occupancy as a serious problem. It was therefore proposed to reserve low-cost housing for low-income households. In 1993, the old Housing Allocation Act was replaced by the new Housing Allocation Act, which also covered the private rental housing sector. The main regulations of the old law were taken over into the

new act. The right of the municipality to require a housing permit was preserved. The municipality can however waive the right or restrict the access qualifications to certain market segments. Under the new law, the municipalities, together with the social housing providers, must ensure that affordable housing is allocated to households with low-incomes or other disadvantages. The relevant target groups have already been described. In 1998, the Housing Allocation Act was amended to the effect that a housing permit may now only be required in the case of housing whose rent does not exceed 490 Euro. The procedure of housing allocation can vary significantly from municipality to municipality, and extends from largely liberal methods to procedures in which housing is allocated only through municipal allocation offices. The more liberal procedure is usually applied. In this case, a contract is concluded between the owner and the applicant, which must be submitted to the municipality, which then checks compliance with the allocation criteria. In towns with housing shortages, a housing permit is usually required, which depends on income, the household size, the age and economic or family links with the municipality. Since many landlords – including social providers – pick out the tenants who seem most acceptable to them, while still observing the allocation criteria, problem groups can often not be catered for in this way. Municipalities with shortages in particular therefore operate a more active allocation policy. Thereby two different procedures are used: the waiting list system and the advertisement system developed in Delft. Under the waiting list system, the applicant is placed on a waiting list. Housing becoming available is first offered to the applicant with the greatest urgency priority. If he declines the opportunity, it is offered to the next applicant, and so on. Since this procedure is very complicated, and the registered housing needs of applicants are not always up-to-date, its use is declining steadily. Under the advertisement system, housing becoming available is advertised in a special newspaper. Anyone seeking housing may apply. In the case of several applicants, the case is decided on the basis of urgency. Table V.9 shows how the proportion of the different income groups in Dutch social housing has changed over the course of time. In 1998, 61 % of social tenants belonged to the two lowest income quintiles. In 1981 this proportion amounted only to 47 %. The accuracy of the social sector has therefore increased significantly over the course of time. In the media however, some districts of larger cities dominated by social housing have in the meantime come to be regarded as problem areas. While up to the 1970's households with low incomes lived largely in old districts, the 1990's saw an increasing concentration of low-income and foreign households on the social housing estates of the early post-war period, which consist mostly of smaller, lower-quality dwellings in a monotonous environment. Since migration of higher income groups away from social housing stocks already started, before policy-makers had addressed the subject of reducing mismatched occupation, the migration of higher-income households can also be attributed to the declining attraction of these stocks, and not simply the change in the occupancy policy.

Table V.9
**Income profiles in the private and social rental housing sector
Netherlands 1981, 1990 and 1998**

Income quintile	Private rental housing			Social rental housing			Owner-occupied housing		
	1981	1990	1998	1981	1990	1998	1981	1990	1998
1	27.4	31.2	31.3	22.6	27.2	31.8	14.3	9.9	9.0
2	22.0	21.7	22.8	24.8	27.9	29.6	14.5	12.3	12.4
3	18.7	18.0	19.0	23.2	21.8	20.1	17.6	19.0	20.2
4	16.6	15.0	15.1	18.4	15.4	12.5	23.0	25.8	26.5
5	15.3	14.1	11.8	11.0	7.6	6.1	30.6	33.1	31.9

Source: Kempen, Priemus, 2002, 243; own calculations

In **Austria** the housing of the non-profit associations and the municipalities is classified as social housing. Both groups of providers hold stocks subject to commitments due to subsidi-

sation, and stocks without such commitments. In the case of housing not subject to subsidy-related commitments, this may be either housing for which the subsidy has already run out, or housing which was never subsidised in the first place. While the housing of the non-profit-housing associations was almost all subsidised, the municipal companies hold much housing not subsidised by the state. The housing of the non-profit housing associations not bound by subsidy-related commitments are nevertheless subject to commitments of non-profit-making regulations, which do not include income-related access restrictions. Due to the very high income limits however, the lapsing of subsidy-related commitments does not make any major difference. In view of the very broad access entitlement, greater importance is attached to allocation practice. The housing of the non-profit housing associations is usually allocated by the companies themselves. The municipalities however often also have an occupancy right, due to the provision of property at reduced prices. In Vienna, subsidised housing may only be allocated to households with an urgent need for housing, provided that the income limits are observed. The city of Vienna, which enjoys the status of a federal state, and is therefore also a provider of subsidisation, reserves an occupancy right to one-third of subsidised housing not belonging to the municipality for the first six months. The municipal housing is owned exclusively by the municipal housing company "Wiener Wohnen", which is not a non-profit organisation. The allocation of municipal housing is carried out by the company itself, and according to social considerations. The entitlement to accommodation is linked to various requirements: applicants must be at least 17 years old, the income limits must not be exceeded, the existence of a main residence in Vienna and Austrian citizenship or that of another EWR country or Switzerland, or status as a recognised refugee. An urgent housing need can be founded amongst other things by unhealthy housing or overcrowding. When it comes to housing allocation, care is also taken to ensure that poorer households are also given lower-cost, older housing. A sort of work sharing has developed between municipalities and non-profit housing associations: while the non-profit-making providers look after the more affluent demand, the municipality handles the supply of lower-income households. Proposals to allocate the housing of the non-profit-making housing associations more clearly than before on the basis of social criteria, e.g. by amending the non-profit-making regulations, have not been adopted so far. There is no current data available on the occupancy structure. According to an investigation carried out in 1985 however, the lower income brackets were significantly under-represented in subsidised housing, and the upper income brackets clearly over-represented.

In **Sweden** there is no social housing in the classical sense. Here the housing of the municipal companies can be regarded as social housing. In order to avoid segregation however, such housing is not subject to any access restrictions. The supply of needy households is however regarded as a traditional responsibility of the municipal companies. Due to the absence of any commitments, the allocation practice is particularly important for the housing supply of the target groups. Housing allocation was also deregulated as part of the reform of house building subsidisation. Under the old law, municipalities could under certain circumstances also allocate vacant dwellings belonging to private providers. Many municipalities established housing agencies for this purpose. The allocation right of the municipalities was abolished by deregulation in 1993. As a result, most of the housing agencies were closed, and such agencies now exist in only about 10 municipalities. Housing allocation is therefore now carried out mainly by the housing companies themselves. The allocation criteria vary from company to company. The main principle used is the waiting list. In some municipalities however, the urgency of the case is taken into consideration, and the allocation criteria are agreed between the municipality and the companies. These may be based on the need of those in search of housing or the requirements of the municipality, e.g. for certain skilled workers. In some municipalities agreements have been made with certain providers, usually municipal companies, for the

housing of certain special groups. The allocation practice is described below using the example of Stockholm, which operates a municipal housing agency called “Bostad Stockholm”. Housing allocation agreements have been made between the housing agency, the association of private providers and the three municipal housing companies. It was agreed with the private providers that half the housing becoming available would be allocated through the housing agency. The municipal companies make all vacant housing available to the agency, provided that this is not allocated already by means of an internal waiting list. In practice, only those applicants are proposed who largely comply with the landlords’ specifications with regard to type and level of income, age and sex. The final decision on renting remains with the owner. The housing agencies thus in effect provide a service function for the landlords. As Table V.10 shows, the lowest income quintile is somewhat over-represented in social housing. The social sector however has no overriding importance for the housing of the target-group households, which fully conforms with the objective of avoiding a stigmatised area for the target-group households. The tax reform, cutbacks in subsidisation, the strained municipal finance situation and the vacancies have all subjected the municipal housing companies to increased cost pressure, which is forcing them to react accordingly. Possible solutions under discussion include the sale of part of the stocks, and the adjustment of rents more closely in line with market levels. Since the 1990’s, many municipalities have sold some or all of their stocks, often to cooperatives founded by the former tenants. Many municipalities today still intend to sell their stocks. Many companies would be able to improve their financial situation by increasing rents for more attractive properties, simultaneously opening up the possibility of being able to reduce the rents of less attractive stocks.

Table V.10
Income profiles in the different housing sectors¹⁸
Sweden 1989

Income quintile	Privately rented	Socially rented	Owner-occupied	Associations	Total
1	20.8	25.6	13.8	19.8	18.9
2	18.8	20.3	20.5	14.7	19.2
3	20.2	17.9	22.3	19.3	20.4
4	21.6	18.7	20.6	20.9	20.5
5	18.5	17.5	22.8	25.5	21.1

Source: Turner, 1996, 101; own calculations

Table V.11 **summarises** once again the results of Tables V.5 to V.10 on the occupancy structures in social housing stocks. Austria has not been considered here, since there are no results available. The comparison is based on the information on the individual countries corresponding as far as possible to the latest German figures, which date from the year 1993. Since it is unclear to what extent the methods used for calculating the figures vary, the results must be treated with caution. In order to enable comparison with the results of the other countries, the quartile information for France has been converted into quintile information by interpolation. The distribution structures have been augmented by the social housing quota and the proportion of households in the lowest income quintile accommodated in social housing.

At 45 %, the highest proportion of social tenants was in the lowest income quintile in Belgium (Flanders) at the beginning of the 1990’s. In all other countries, the percentages were significantly below this figure. West Germany, at 28 %, had a slightly higher proportion than France (25 %), the Netherlands (27 %) and Sweden (26 %), although the figures differ only slightly.

¹⁸ The incomes have been weighted according to household size and number of adults and children. A household with 2 adults has been given a factor of 1.61, a household with 1 adult and 1 child a factor of 1.4.

One reason for the heavy concentration of low-income households in social housing stocks in Flanders is certainly due to its smaller size. However, since Germany also has a low social housing quota, there must also be further reasons. A further explanation can be found in the poor housing facilities available on the free market, which mean that the target-group households in Belgium are forced to rely on social housing stocks more heavily than in Germany. Nevertheless, the high target accuracy in Belgium (Flanders) is surprising, since social housing here is usually allocated by the companies. In order to avoid segregation, the companies always attempt to achieve mixed occupancy structures. This indicates a further explanatory factor, which is the high proportion of single-family houses in social housing stocks in Flanders and Wallonia. Segregation clearly plays only a minor role in case of such a housing structure.

Table V.11

Income profiles in social housing in the countries under consideration (in %)

Income quintile	Belgium Flanders	Germany ¹ (West)	France	Netherlands	Sweden
	1992	1993	1992	1990	1989
1	45.4	28.2	25.4	27.2	25.6
2	27.5	26.9	26.1	27.9	20.3
3	17.6	22.1	23.1	21.8	17.9
4	7.3	15.5	17.0	15.4	18.7
5	2.3	7.3	8.4	7.6	17.5
Social housing quota	6	10.9	17-18 ²	41	25
Proportion of 1 st quintile in social housing	2.7	3.1	4.4	11.1	6.4

Source: Summary of Tables V.5 to V.10, own calculations.

1 The figures refer only to publicly subsidised housing

2 The proportion of social housing came to 17 % in 1988 and 18 % in 1996.

In view of the different strategies pursued by Germany, France, the Netherlands and Sweden in the housing supply of the target-group households, the differences between the proportions of the lowest income quintile in social housing stocks are remarkably small. In Sweden, the creation of a target-group-specific market segment was intended to be avoided by a generous, general subsidisation of supply, which was backed up by a system of housing benefits. A similar objective exists in the Netherlands, although greater emphasis was placed here on the supply of non-profit-making providers. In Germany on the other hand, housing construction subsidisation is restricted to needy households. This concentration on the target groups was only prescribed by law under the 2001 Reform, although it had in fact been practiced prior to this date. In France too, the target-group definitions were also narrowed down over the course of time, although access was not restricted so heavily as in Germany. Despite these different strategies, the proportions of the lowest income quintile of social tenants are remarkable similar. It should be noted however that the occupancy structures will inevitably have changed over the course of time, and it cannot be excluded that the systems have developed in different directions since then.

A different picture is obtained if one considers the proportions of the highest income quintile of social tenants. Here, the figures for Belgium (Flanders) and Sweden differ significantly from those for Germany (West), France and the Netherlands, which are very close to each other. In Belgium, the proportion of the highest income quintile is extremely low, and in Sweden very high. The most interesting comparison is perhaps that between the Netherlands and Sweden, both of which have no access restrictions and large social housing stocks. Different housing allocation practices and the differing attraction of stocks both come into ques-

tion as an explanation for the high Swedish figures and the low Dutch figures. Dutch municipalities can exert a greater influence on housing allocation than Swedish municipalities. Social housing stocks in Sweden also appear to be more attractive than those in the Netherlands.

Data on the development of the occupancy structure are available only for Belgium (Flanders), Germany (West), France and the Netherlands. With the exception of Belgium, households in the lower income quintiles have become more prevalent in social housing stocks. The tempo of this change in Germany and the Netherlands has however been significantly quicker than in France.

In Belgium, France, Austria and Sweden, housing is allocated mostly by the housing companies themselves. The greatest influence is exerted by the municipalities in Germany and the Netherlands. In Germany, many municipalities hold a nomination right. In the Netherlands, the municipalities can require a housing permit. The Dutch practice differs from the German above all in the greater municipal autonomy, since the municipalities themselves can largely define the housing allocation criteria.

Establishment of occupancy commitments

The question will now be examined as to what subsidisation measures have been used in the countries under consideration in order to establish occupancy commitments or target-group-specific housing stocks.

In **Germany** (West), occupancy commitments under the 2nd Housing Construction Act could until 1994 only be founded by the construction of new housing. This was augmented in 1994 by another subsidisation qualification in the form of modernisation, although even following this extension, the acquisition of occupancy commitments still remained coupled to construction measures. A fundamental reorganisation finally came with the Housing Subsidy Act, which replaced the 2nd Housing Construction Act in 2001. This law led not only to a concentration of housing subsidisation on needy households, but also to an extension of the circumstances qualifying for subsidisation. Since then, occupancy commitments have no longer been linked solely to new construction or modernisation, but can now also be founded by the purchase of existing housing, the acquisition of occupancy rights to existing housing and the conclusion of co-operation contracts between municipalities and providers.

The extension of the circumstances qualifying for subsidisation has gone hand-in-hand with a realignment of the two functions fulfilled by social housing subsidisation: on the one hand, an extension of the target-group-specific housing supply, and on the other, the provision of a municipal housing reserve for the housing of needy households. It should be noted in this respect that the target groups of this extended supply are not necessarily the same households who are compelled to rely on municipal housing allocation. It should also be taken into account that both target-group definitions have changed over the course of time.

The housing supply of lower-income households presupposes an extension of affordable housing, which can be achieved by the new construction of social housing. An essential requirement however is that access entitlement must be restricted to households who can not afford adequate new built private rental dwellings. Without this restriction, the subsidisation would simply be dissipated by crowding-out effects. A municipal nomination or allocation right is not necessary for most of these households. The degree of the required extension of supply depends on the definition of the supply norm. The greater this varies from the achiev-

able market level, the greater will be the number of those in need and the requirement for state intervention. The supply level achievable on the market in turn depends on the market situation and general income levels. In times of severe shortages in particular, this will be below the social norms. In such situations, price increases lead to additional new construction measures, but since new construction is now also put up for households with lower incomes, smaller and less well-equipped housing is built in comparison to a more balanced situation. Such shortages arose for example in the 19th century due to industrialisation, which led to the rapid growth of urban populations through migration from rural areas. At that time, the housing supply was still left largely to the market. This led to the development of cramped and dingy housing in densely built-up quarters, which was often overcrowded. Since the disastrous housing situation repeatedly led to epidemics and social unrest, the state finally had to take a hand in housing supply. A similar situation also developed following the Second World War. Destruction caused by the war and the flood of refugees caused great shortages, although these were from the beginning cushioned by social housing construction. General income levels also affect the extension of supply required by social housing construction. The more households that are in a position to demand new constructed dwellings because of their income, the less will be the need to increase supply by means of social housing construction. This depends above all on the proportion of higher-income tenants, since tenants are more prepared to move house than owners. With the reduction of the post-war deficit and the growth of real incomes, the increase of the supply through social housing construction became more and more dispensable. In the 1950's, the proportion of approvals in social rental housing construction to total completions was still 36 %. In the following decades, the proportion then fell successively, to 22 % in the 1960's, 17 % in the 1970's and 12 % in the 1980's, although approvals in social rental housing construction started to increase again in the 1990's. The average proportion over the whole decade was 13 %, reaching a figure of 17 % in the first half of the decade before falling back to 10 % in the second half (see Tables D.10 and D.11). The short-term increase at the beginning of the 1990's was associated with the strong growth in the number of households, which was caused by immigration and the establishment of new households by those born in the post-war "baby boom".

The temporal limitation of commitments, the decline in completions associated with the improvement in supply and the falling subsidisation quotas led to a decline in social housing stocks. For the supply function, this is not a problem, provided that social housing coming out of the commitment period will, because of its location, age and other features, be rented to the target-group households even without access restrictions. The supply for these households would still remain largely constant, despite the expiry of the commitments. This should in fact be the case for the major proportion of social housing subsidised under the 1st subsidy method, since long terms of 30 to 45 years were agreed for this housing. The problem arises however when it comes to the short-term commitments of the agreed subsidisation, because this housing is still relatively new and high in value when the access restriction lapses. Kirchhoff and Jacobs (2000) have investigated the building characteristics and occupancy structures of former social housing dating mainly from the 1950's and 1960's. Following the lapsing of the commitments, the occupancy structure did not change initially, since the housing was still occupied by the former tenants. When the housing was re-rented, the occupation densities remained largely the same, although such housing was largely under-occupied even prior to expiry of the commitments. The income circumstances of the new and old tenants were largely identical. Difficult tenants, very low-income applicants, certain nationalities and in some cases recipients of social security payments were however usually rejected. The changes in occupancy structures have however remained within tolerable limits because the housing estates of the 1950's and 1960's are not very attractive to higher-income households. The very low social rents of these stocks were however increased in all cases, about half of

owners making full use of the legal opportunities allowed, while the other half increased rents only gradually.

The expiry of the commitments is therefore less problematic from a supply policy point of view than for the fact that it steadily reduces the possibilities available to the municipalities to accommodate needy households. Municipal occupancy rights are essential for households who cannot find housing on the open market, even in the case of an adequate supply. As already described, only 2 % to 4 % of households were on municipal waiting lists at the end of the 1990's, of which only 0.5 % to 1.5 % were classified as urgent cases. It can therefore be assumed that the majority of needy households can be helped simply by an increase in supply. Only a small proportion is forced to rely on the nomination and allocation rights of the municipality. If this quantification of the urgent cases is correct, and with an average residence period of 10 years, it would only be necessary to maintain stocks subject to occupancy commitments of 5 % to 15 %. If one also assumes a supply bottleneck for these households, the figure could be even lower. An exact quantification of the requirement is however not possible within the scope of this work. Such low social housing quotas however give rise to the risk of segregation tendencies, specially if social housing is concentrated in certain city districts and housing estates. If the new construction of social housing necessary from the point of view of supply policy cannot provide an adequate stock of municipal occupancy rights, other measures are necessary for the acquisition of such rights. These instruments were created with the introduction of the Housing Subsidy Act.

In **Belgium**, social housing is owned exclusively by the housing companies approved by the government for social housing construction. Their proportion of housing stocks has remained relatively constant over the course of time, at 7 % in 1981, 6 % in 1991 and 7 % again in 1997. It should be noted that these low proportions are not only attributable to low completion figures, but also to the fact that a large proportion of social housing has been sold to tenants. In the 1970's and early 1980's, social rental housing construction reached an average proportion of 18.5 % of new construction figures, although completions of social housing subsequently fell drastically. Over the period from 1983 to 1992, the proportion of the social sector in new construction activity came to an average of only 1.3 %. In 1991, only 500 social dwellings were completed, although it should be taken into account that overall housing construction also declined drastically in the 1980's. As a result, the situation of the housing market became increasingly difficult. In response, the emergency programme "Domus Flandria" was instituted in Flanders, through which about 10,000 social dwellings were subsidised at the beginning of the 1990's. In 1999, a further special programme was set up by the Flemish government, which was to subsidise a further 15,000 social dwellings over the period 1999 to 2005. State funds are provided for the new construction and modernisation of social housing. Since the commitment period for social housing is unlimited, subsidisation of modernisation does not lead to any additional commitments. When the supply situation started to deteriorate at the end of the 1980's, and it became apparent that the supply problems of particularly needy households could not be solved from social housing stocks, so-called social rental agencies were set up. These institutions were founded by public and private welfare providers. Their principal activity consists in the rental or purchase of private rental housing in order to rent it on to particularly disadvantaged households. The households are nominated by the welfare institutions, and consist mostly of former clients of these institutions who are threatened by homelessness. In the event of breach of contract or unsociable behaviour, the social rental agencies must inform the welfare institution who nominated the tenant, and who is therefore responsible for their social care. In the initial years, the social rental agencies were only able to survive under difficult financial circumstances. In the course of the 1990's however, they

became legally acknowledged in all three regions, and now also receive financial support from public funds. In 2003, the offices in Flanders already administered 3,400 dwellings.

Since the housing of the HLM and SEM companies in **France** is subject to permanent commitments, the stocks subject to access restrictions have not decreased over the course of time, but risen. The housing of private providers, which is subject to rent control and access restrictions because its new construction was subsidised by certain loans, or its modernisation financed by grants of the housing improvement agency (ANAH) is also classified as social housing. The proportion of private rental housing subject to subsidy-related commitments is however very low. No information is available on the extent of private rental housing subject to commitments because of modernisation subsidisation. The proportion of social housing has increased steadily over the course of time, reaching a proportion of 18 % (social housing of the HLM and SEM companies only) in 1996. Under the targets of the Urban Solidarity and Renewal Act (SRU), all towns with a population of over 50,000 residents must achieve a social housing quota of 20 %. This will require a proportion of social housing construction to completions of somewhat more than 20 %. The proportion of social housing to completions in France has not fallen as much as in Germany. In the 1960's, the proportion was 25 % and in the following decades 22 %, 17 % and 19 % respectively. The conditions of the state social housing loans qualifying for subsidisation had already been extended as part of the fundamental reform of house building subsidisation in 1977. Since then, subsidisation has been available not only for new construction, but also for the acquisition of existing stocks, provided that the housing is subsequently renovated. This extension was brought about by the many private modernisations carried out in the 1970's, which led to the displacement of the former, usually low-income residents. The extension of the qualifying circumstances was intended to enable the HLM companies to purchase old buildings and modernise them to provide social housing. ANAH also awards grants for modernisation to private owners, which entail a specific rent regulation and an access restriction. Amongst other sources, the agency is financed by a charge of 2.5 % of the rental income of private housings more than 15 years old.

In the **Netherlands**, all housing owned by non-profit-making housing associations is classified as social housing. In 1990, 41 % of all housing was owned by these companies, although the proportion had fallen to 36 % by 2000. A Memorandum on housing policy issued in 2000 provided for the sale of 500,000 social dwellings over the next 10 years, the housing to be sold primarily to tenants. The sales target has in the meantime been reduced to 275,000. The aim of this privatisation consists in increasing the proportion of owner-occupied housing and supporting the restructuring of social housing areas. The proportion of the social sector in completions has always been significantly higher than the figures for Germany. In the 1970's, social housing made up 34 % of completions, and this proportion increased in the 1980's to 40 %. It has subsequently fallen again, to 30 % in the first half of the 1990's, 27 % in the second half of the 1990's and 20 % in the following years up to 2003. Until the discontinuation of house building subsidisation, all new construction by the housing associations was in fact subsidised by the state. The subsidies took the form of long-term operating cost grants. In addition to new construction measures, modernisation was also subsidised. As part of urban renewal measures, subsidisation was finally also extended to the purchase of private rental housing by the housing associations. In this way, many private rental dwellings were switched to the social sector. State house building subsidisation was discontinued in 1995. The future obligations arising from ongoing subsidisation were resolved as part of an overall compensation agreement (Balance-verkorting geldelijke steuen volkshuisvesting / bruterij). The government has since regarded the social sector as a sort of revolving fund, which can function without subsidisation. In this connection it is interesting to note that in 1997/1998 about one-

third of tenant households were receiving housing allowance, so that the housing associations were also supported in this way.

In **Austria**, social rental housing is the housing of the non-profit-making housing associations and the municipalities. The proportion of these providers to total housing stocks increased from 18.9 % in the year 1971 to 20.6 % in 2001. The proportion of municipal companies decreased from 10.6 % to 9.3 %, while the housing associations were able to raise their quota from 8.3 % to 10.3 %. The housing of the housing associations is subject to commitments under the Non-profit Housing Act, although this does not specify any income-related access restriction. The municipal companies are not subject to such commitments. In the case of subsidised housing, this is subject to subsidy-related commitments. Due to the restriction of these obligations to approx. 30 years, the situation is in principle similar to that in Germany, although the expiry of the subsidy-related commitments here does not seem to present a problem. There are two reasons for this. On the one hand, the entitlement to accommodation is so broadly framed that the access conditions hardly change at all when the commitments expire. On the other hand, a large proportion of state-subsidised housing is owned by the municipal housing companies, who are expected to act with social responsibility even in the absence of state commitments. State-subsidised housing is also provided by private landlords. This consists mainly of company housing, since general housing construction subsidisation has only been available to private investors since the provincialisation of housing policy. Overall approx. 19 % of state-subsidised housing has been provided by private investors. One cause for the steady increase in the proportions of social housing can be identified in the earmarking of certain state revenues for house building subsidisation. Subsidisation is financed on the one hand by the house building contribution, and on the other by part of the revenue from income and corporation tax. These funds were initially used for funding of the federal house building subsidies, although since provincialisation, they are passed on to the states in the form of federal grants. Due to increasing market saturation and the growing necessity for the consolidation of public budgets, the earmarking of these funds has in the meantime been relaxed. In addition, the earmarking of returns from house building loans has also been discontinued. The earmarked funds are used not only for subsidisation of rental housing construction, but also owner-occupied housing, as well as for the renovation and modernisation of housing, although modernisation subsidies are usually granted without any access restrictions. Finally, housing construction subsidy funds are also used for housing allowance paid out for subsidised housing.

In **Sweden**, social rental housing refers to the housing of the municipal housing companies. In order to avoid creation of stigmatised housing stocks, access to public rental housing is not subject to any restrictions. The provision of needy households is however one of the traditional tasks of the municipal providers. The proportion of public rental housing to housing stocks increased from 6 % in the year 1945 to 23 % in 1970. The quota has since continued to increase, although at a significantly slower tempo, reaching 25 % in 1990. No later figures are available. As a result of sales however, it can be assumed that the proportion of public rental housing has since fallen. The social components of Swedish housing policy resulted above all from the comprehensive subsidisation of all new construction, which according to the neutrality principle gave equal support to privately and publicly rented housing and owner-occupied housing. This subsidisation system was intended to ensure affordability of housing for average wage earners, and was also supplemented by a housing allowance for low-income tenants. Since the tax burden in Sweden was regarded as too high in comparison to the rest of Europe, the tax system was fundamentally reformed over the period 1990 to 1991. Income tax, corporation tax and capital yield tax were reduced considerably. The reform was financed by increasing VAT and curtailing expenditure. The main savings were achieved from housing

construction subsidisation, which was reduced in several stages. The concentration of the savings efforts on housing construction subsidisation can be attributed to two reasons. On the one hand, subsidisation to the previous extent was considered no longer necessary, since the supply level was very high. There were even excess supply in some municipalities, since thanks to subsidisation, construction had often continued without due consideration of the existing demand. Subsidisation was also criticised as having been wasted, at least to some extent, in higher land prices and wasteful production methods, as well as having created a supply not in tune with the demand. Due to the reduction of house building subsidisation, housing benefit became significantly more important. In discussions the reform was regarded therefore as a conversion of the subsidisation system away from generous supply subsidisation toward a more selective support of weaker groups. House building activity declined sharply as a result of reform in the 1990's. Since 2000 an increase has been observed in completion figures, although this is not regarded as adequate. In some towns, shortages have since developed, which have even come to be seen as posing a risk to the overall economic growth process. The situation in the growth areas has become a problem particularly for young and mobile households. The insufficient completion figures are attributed to various causes. On the one hand, rental house building has been slowed down by the unsatisfactory returns, which are also a consequence of the rent level system. On the other hand, there are also complaints of lack of land available for development. In many municipalities, the planning bases for adequate new construction therefore do not exist. Various measures have been undertaken in recent years to improve the housing supply. The law on housing supply, which came into force in 2001, further specified the municipal responsibilities with regard to housing supply. In this respect, it should be noted that the responsibility for an adequate housing supply still lies expressly with the state, which is responsible for legislation and financial support, although the municipalities still have to ensure the required planning and implementation. According to the law on housing supply, municipalities must define local housing guidelines at least every four years, which must in particular take into account the needs of those households who are in need of help. Municipalities are also recommended to establish housing allocation agencies, if this can help to improve the housing supply. In order to boost completion figures, a limited subsidisation programme was initiated in 2001 to subsidise new construction in growth areas by means of investment grants. This was supplemented in 2003 by a further programme for the subsidisation of student housing and small dwellings. In addition, a law was passed in 2002, which was intended to make the sale of municipal housing more difficult. Under this law, sales must be approved by the regional administrations (central state authorities). These measures must be seen in light of the fact that many municipalities have since the 1990's sold part or all of their housing stocks. Most were sold to private companies, and especially in Stockholm many others to associations. These sales are attracting increasing criticism, since it is feared that this will make housing of problem households more difficult, and lead to the geographical concentration of social problems.

Summary and conclusions

Social housing construction has been regarded in all countries as an instrument for increasing the housing supply. In the countries without access restriction or with a very broad eligibility (Netherlands, Sweden and Austria), subsidisation assumed the character of general supply subsidisation. In Sweden this has now been greatly restricted, and in the Netherlands, discontinued entirely. Only in Austria was it largely maintained by the earmarking of funds for special purposes, although the qualifying measures have since been extended. In Belgium, Germany and France supply subsidisation was concentrated more on those households of which it was assumed that they could not provide themselves with suitable housing on the open mar-

ket. Immediately after the Second World War, the access to social housing was correspondingly broad, although it has subsequently been restricted more and more with the reduction of post-war deficits and the growth of prosperity.

The earmarking of tax income, as well as the non-profit-making commitment of capital, does not appear to be principles worth recommending. The efficient utilisation of scarce funds is in effect prevented if investments necessarily have to be made in areas where further investment provides little benefit. In a situation of housing shortages, such regulations still appear understandable, because in this way, housing construction subsidisation is taken out of the domain of politics. However, in view of the anticipated demographic developments in Germany, such a position appears hardly tenable.

General instead of target-group-specific house building subsidisation is usually justified by the argument that it prevents the creation of a stigmatised housing supply and the concentration of problem households. It should however be noted in this respect that only a small proportion of social housing estates have in fact become problem areas. It can therefore be assumed that a problematic occupancy structure is also a function of the housing form and type of building. In Belgium, with its high proportion of single-family houses in social housing stocks, it is clear that higher proportions of low-income households are possible than in the other countries under consideration. Hence segregation can also be avoided, even with target-group-specific house building subsidisation, by adequate spatial distribution and attractive types of building. Since this variant requires significantly less funds than general house building subsidisation, which not only benefits needy households, general house building subsidisation must be considered as inadvisable.

The function of extending the housing supply of affordable housing should be kept separate from the function of providing a supply reserve for the municipalities for the accommodation of urgent cases. This is confirmed on the one hand by the fact that the majority of households who rely on a subsidised supply extension also get by without a municipal housing allocation. For the enlargement of supply, a simple income-related access restriction is quite sufficient. Housing construction subsidisation can probably be organised much more cost-effectively without municipal occupancy rights. With a simple commitment, the municipalities are relieved of unnecessary tasks. Housing can also be allocated much more quickly. The separation of these two functions is also advocated by the fact that the group of households forced to rely on a municipal housing allocation has a different structure to the households in need of a state extension of affordable supply.

As to what extent and for which groups house building subsidisation is necessary, this should be made dependent on the local supply situation. At the moment, supply deficits actually only exist in Germany in the case of households with children. These deficits advocate not only increased subsidisation of family housing, but also extending the income limits somewhat for larger households. In the setting of rents for larger, family housing, consideration should be given to the affordability for the target-group households, since if the rents are too high, it will be impossible to find any investors. It should be taken into account in this respect that target-group-specific housing construction subsidisation benefits not only social tenants, but all target-group households, by means of falling prices on the lower market segments.

The housing supply for discriminated households should be ensured by means of municipal occupancy rights. However, since municipalities are hardly in a position to control housing allocation so as to avoid problem structures, municipal nomination or allocation rights are not without their own problems. Housing allocation should therefore preferably be left to the

companies. In order to accommodate urgent cases however, it seems more advisable to obligate the companies to house a certain number of these households in their stocks by means of co-operation contracts, in return for which the municipality could waive its nomination rights. If this is not possible, such co-operations must be remunerated in some other way. Such a strategy can however only function if there is an adequate local supply of companies prepared to co-operate in this way. The number of urgency cases to be accommodated should be determined by the municipalities on the basis of their waiting lists and past experience.

The acquisition of simple occupancy commitments from housing stocks, as practiced in some cases, cannot be recommended, because the risk of windfall gains is too great. Such gains would arise if the housing concerned were allocated to members of the target-group households even without the commitment. The acquisition of municipal nomination rights appears more advisable, although consideration should be given here to the spatial distribution, since occupancy control can hardly be carried out by the municipality.

Belgium

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1. Introduction

The most important sector of the Belgian housing market is the owner-occupied sector. In 1997, 67 % of Belgians lived in their own home. The predominance of ownership can be attributed to a housing policy which since its beginnings at the end of the 19th Century has placed the focus on subsidisation of ownership. The continuity of this policy results from the political and ideological dominance of the Christian People's Party.

The proportion of the social rented sector has however remained small, at only 7 % of total housing stocks in 1997. This can be attributed not only to the low number of completions, but also to the sale of housing to tenants who have a right to purchase their property. Social housing in Belgium is provided exclusively by registered housing companies, and is therefore subject to permanent commitments. Access is restricted to low-income households, and the rents are income-related. Due to the generously framed access to social housing and the low level of social housing stocks, many target households are however forced to resort to privately rented housing.

At 23 % of total stocks, the private rental sector is significantly larger than the social rental sector, although it is not very attractive to tenants because of the rent law (De Decker, 2001, 33-35). Due to the high rents and the insecure rental situation – the rental contracts run for restricted terms only – many low-income households move into property ownership, although for financial reasons, they are not actually in a position to maintain the buildings.

There is no general housing allowance in Belgium. An allowance is granted only to households leaving sub-standard housing, or to elderly or handicapped people moving into housing more suitable to their physical needs.

Table B.1
Housing stocks by forms of tenure (in percent)

	1947	1961	1977	1981	1991	1997
Owner-occupied	39	50	61	59	67	67
Private rental housing				31	27	23
Social rental housing				7	6	7
Other				3	0	3
Housing stocks in 1,000					3,953	

Source: 1997: Van Dam, V. Geurts, I. Pannecoucke (2003)¹⁹

1981, 1991: Ministry of the Environment Finland, European Housing Statistics; own calculations²⁰

1947, 1961, 1977: Boelhouwer, Heijden, 1992, 86

Housing policy was regionalised in 1980. Regional planning, housing and the environment have since this time been the responsibility of the three regions of Brussels, Flanders and Wallonia. Taxation and rent law however continue to be centrally controlled.

Drastically declining completions, above all in the owner-occupied sector, lead in the 1980's to increasingly acute shortages. Instead of stabilising completions by means of social housing construction, the crisis was exacerbated by the curtailment of subsidisation funds. Various measures have been adopted since the 1990's in order to again improve the adverse housing

¹⁹ The figures for 1997 are based on a survey (socio-economic survey) by the Centre for Social Policy of the University of Antwerp, which covered 2,802 households.

²⁰ The figures for 1981 and 1991 are based on housing censuses. Empty housing and second homes were not recorded in 1991.

situation, which lead to price increases and crowding-out processes in the lower segments of the market. These included the establishment of so-called social rental agencies, which rent or purchase private rental housing in order to rent it on to particularly disadvantaged tenants. In order to improve the housing supply, investment in social housing construction has also been increased since the 1990's.

Belgian Francs (BEF) have been converted to Euro (€) at the following rate: 1 € = 40.33990 BEF.

2. Historical overview

The beginnings of the housing policy go back to the year 1889. In order to stabilise the political situation again following the social unrest of 1886, the first Housing Act was passed as part of the wider labour law. The Housing Act defined three objectives, which still remain valid to the present day: the subsidisation of owner-occupied housing, the preferential treatment of single-family houses and the avoidance of urbanisation. The Catholic Party in power at the time considered this type of housing as the variant most amenable to families. It was also hoped to prevent the success of the Socialist Party, by turning society into an atomised number of owner-occupiers largely preoccupied with paying off their mortgages. However, there were at that time only few households who could actually afford to become owner-occupiers (De Decker, Geurts, 2002, 2-3). The households who were not in a position to do this were largely left to their own devices. Ultimately however, the catholic strategy can be considered as having been successful, since its housing policy option has since become the norm: 70 % of all households in Flanders are owner-occupiers, and post-war new construction was dominated by single-family and terraced housing. This success is also due to the fact that the catholic movement succeeded in integrating the Christian part of the workers' movement, which always stands up for the catholic housing policy. Although it was aware that the market could not produce an adequate housing supply, it was always against the mass production of social rental housing. The catholic part of the workforce also ensured that the Christian Party, even in coalition governments, always constituted a significant political force (De Decker, Geurts, 2002, 3-4). The support for owner-occupied housing was substantiated by two arguments, which varied in importance over the course of time. Attention was drawn on the one hand to the supply effects of ownership subsidisation, which also improved the housing supply for tenant households not benefited directly (De Decker, 2001, 18). The second argument currently has greater weight, emphasising as it does the old age security aspect of owner-occupied housing (De Decker, Geurts, 2002, 4).

Following the Second World War too, the support of owner-occupied housing was again the main objective of Belgian housing policy. In 1945, the de Taeye Act was passed, which allowed for the provision of grants for the new construction of owner-occupied housing. From 1949 however, subsidisation was also extended to social rental housing construction. The basis for its financing was created by the Brunfaut Act. As Table B.2 shows, completions in social rental housing construction reached proportions of up to 25 % in the 1970's, although hardly any more social housing was built in the 1980's.

As Table B.2 also makes clear, housing construction overall declined drastically in the 1980's. While up to 77,000 dwellings per year were still being built in the 1970's, the number of completions fell sharply in the 1980's to below 30,000. This decline is due only in small part to falling social housing construction. Since the major part of new construction consisted

of owner-occupied housing (Donner, 2000, 144), the collapse took place above all in the ownership sector.

Table B.2
Completions

Year	Total	Socially rented	
		absolute	proportion
1970	43,890	7,710	17.6%
1971	41,921	9,712	23.2%
1972	51,400	12,926	25.1%
1973	62,106	12,167	19.6%
1974	65,280	7,109	10.9%
1975	77,377	13,031	16.8%
1976	76,176	11,876	15.6%
1977	72,382	11,197	15.5%
1978	65,910	12,169	18.5%
1979	68,407	12,750	18.6%
1980	46,839	10,246	21.9%
1981	32,751	9,981	30.5%
1982	28,552	4,479	15.7%
1983	28,027	1,450	5.2%
1984	23,396	1,516	6.5%
1985	30,000	700	2.3%
1986	24,000	530	2.2%
1987	29,300	900	3.1%
1988	33,000	660	2.0%
1989	44,400	1,200	2.7%
1990	41,100	1,200	2.9%
1991	44,500	500	1.1%
1992	46,600	750	1.6%
1993	43,700	10,100	23.1%
1994		3,000	
1995	38,700	4,000	10.3 %
1996			
1997			
1998			
1999			
2000	38,900	2,700	7.0 %
2001	41,000	3,500	8.5 %

Source: up to 1984: Boelhouwer, Heijden, 1992, 91-92
up to 1994: Boelhouwer, 1997, 29
from 1995: Ministry of the Environment Finland,
European Housing Statistics, Tab 3.8 and 3.11,
own calculations

The decline in new construction of owner-occupied housing can be attributed above all to the economic recession, which lead to greater uncertainty and higher interest rates, and therefore discouraged households from the new construction of owner-occupied housing. Economic and demographic restructuring also plays a significant role. New production methods lead to the loss of industrial jobs. Labour-intensive and marginalized jobs were outsourced to new companies, who paid low wages and often offered only insecure and short-term employment contracts. In this way, an increasing polarisation developed on the labour market, which for employees with few qualifications was associated with high levels of unemployment, increased uncertainty and low wages, and which consequently had an adverse effect on the demand for owner-occupied housing. Despite stagnating population levels however, the demographic de-

velopments increased the housing demand, although still producing a negative effect on ownership demand. People now marry later in life, divorce is more common, and marriages frequently produce less or even no children. The proportion of older people in the population has increased. There are more and more single-person households and single parents, while the proportion of widowed people amongst single persons is declining continually. This situation revealed the vulnerability of the Belgian housing system, which leaves new construction largely to the investment readiness and capability of owner-occupiers. Ownership subsidisation too offers hardly any investment incentives. This is one result of the decision to spread subsidisation as widely as possible, instead of concentrating it on target households (De Decker, 2002, 300-305, 308).

Instead of stabilising completions by means of social housing construction, the crisis was exacerbated by the curtailment of subsidisation funds. The new construction of social rental housing consequently fell from approx. 12,000 units in the 1970's to only 530 in the year 1986. The reason for the cutbacks included both general budget problems, but above all the high level of debt of the national housing society (NMH)²¹ (Goossens, 1986, 6; cited from Boelhouwer, Heijden, 1992, 93) responsible for the financing of social rental housing construction. This high level of debt can be attributed essentially to the social housing construction subsidisation system at that time (see below).

The decline in completions led to shortages in the housing markets, which ultimately resulted in displacement processes and high rent increases in the lower market segments. This process was boosted by the simultaneous liberalisation of the rent law (see below). Many landlords began to partition large, old buildings into small flats or even single rooms. In some cases even mattresses were rented out. In order to avoid the rent increases, many low-income households also switched to ownership by purchasing badly-maintained housing, which they were then unable to renovate because of their low income. Other households moved to camping areas or small garden houses (De Decker, 2002, 312).

The adverse housing situation resulted in various measures being taken: So-called social rental agencies were established in all three regions, which rent or buy private rental housing, in order to rent it on to particularly disadvantaged tenants. This development also reflects the inability of the local social housing companies to come to terms adequately with the housing problems of these groups. In order to improve the housing supply, the special programme "Domus Flandria" for the construction of an additional 10,000 social dwellings was instituted in Flanders. This programme, which was implemented from 1992 to 1994, was also a response to the election victory of the extremist right candidate Vlaams Bloks in 1991. However, it had hardly any effect on the proportion of social housing in relation to total housing stocks. An ordinance on the allocation of social housing was also passed in Flanders in 1994. The reasons for this were indications that the social housing companies were not following the allocation regulations correctly. This move was also intended to ensure that social housing is allocated to households most in need of this facility (De Decker, 2003, 11-12).

In order to bring empty and uninhabitable buildings back onto the market, a tax was imposed in Flanders in 1995 on vacant and neglected buildings. This tax is intended not only to increase the housing supply, but also to make a contribution toward stabilising the quality of the living environment (Human Settlement, 2003, 8; Winters, 2004, 13). Similar regulations were also introduced in Wallonia (Donner, 2000, 153).

²¹ Nationale Maatschappij voor de Huisvesting (NMH)

Both the Flemish region (1998) and the Wallonia region (1997) have passed Housing Codes, while a similar act is also in preparation in Brussels (Human Settlement, 2003, 2-5). The Housing Code legislation basically pursued two aims: firstly, to summarise the already existing legal regulations, and secondly, to create the required legal basis for the newly introduced instruments, which included the right to appropriate housing,²² the social rental agencies, combating the vacancies and the definition and certification of quality standards. The latter is aimed at the improvement of housing quality. Further articles also included the regional differentiation of policy and the allocation of tasks between the various organisations responsible for the establishment and implementation of housing policy. In this way, the Flemish government was thus required to define areas of renovation and new construction. Renovation areas are those in which the quality of existing housing stocks is particularly poor, and for which additional funds must consequently be provided for renovation. The new construction subsidies are intended to go mainly to those areas designated as new construction areas. The municipalities are supposed to be responsible for the definition of the housing policy, while its implementation is the responsibility of the social housing companies, the housing fund and the rental offices (De Decker, 2003, 12-13).

In 1999, another special programme was instituted by the Flemish government, under which an extra 15,000 social dwellings were to be built from 1999 to 2004, in addition to those created under the normal programme. A special programme was also organised in Wallonia, funded with 1 billion Euros, with the aim of renovating and modernising one third of existing social housing stocks within 5 years (Human Settlement, 2003, 4-5).

3. The private rental sector

As can be seen from Table B.1, the proportion of privately rented housing has declined over the course of time. While private landlords provided 31 % of all housing in 1981, the proportion in 1997 was only 23 %. There are also significant differences between the three regions. For the year 2002, the proportion of private rental housing in Flanders is estimated at only 19 % (Winters, 2004, 5), while the figure for Brussels is 50 % (Human Settlement, 2003, 10).

The main problems of the private rental housing sector are the poor quality of some of the housing, the greatly increased rents in the lower market segments and the insecure rental relationships resulting from the short-term rental contracts. Because of these insecure conditions, the households who could afford to do so have switched to owner-occupancy. The consequently reduced demand can be seen as one of the main reasons for the declining proportion of this form of housing. There is no support for demand by means of housing allowance, nor are there any tax incentives to improve the supply conditions (see Section 3.3).

3.1 Housing stocks and ownership structure

Private rental housing is owned predominantly by natural persons. In 2001, this group provided 86 % of privately rented housing, while only 14 % came from the housing companies (Winters, 2004, 5). The number of dwellings supplied by the individual providers is also very small. In 1991, the 1.1 million²³ privately rented dwellings were distributed amongst 398,550

²² The right to appropriate housing was established in the Belgian constitution of 1993.

²³ Number calculated from Table B.1.

landlords, meaning that every owner had on average less than three properties. The number of providers is however on the decline, and had by 1994 fallen to only 369,000 landlords.

Table B.3
**Proportion of landlords amongst the different professional groups
and their rental income in Belgium, 1988**

	Proportion of owners	Average monthly rental income	
		BEF	Euro
Unskilled workers	6.6	13,300	330
Skilled workers	5.5	13,700	340
Junior employees	9.5	15,600	387
Senior employees	17.2	18,000	446
Self-employed	23.5	23,400	580
Total	11.7	18,600	461

Source: Meulemans (1992), cited from De Decker, 2001, 24

There is no current data available on the social structure of landlords, although according to a survey carried out in 1988, owners can be found in all sectors of the population. As Table B.3 shows, 11.7 % of all households were also landlords in 1988, with the highest proportion of 23.5 % being amongst the self-employed, who enjoy only limited protection from social insurance (De Decker, 2001, 23-25).

Table B.4
Housing stock structure in Belgium, 1991

	Owner-occupied	Rented
Housing type		
Single-family house	88	47
Multi-family house	12	53
Year of construction		
pre-1919	20	18
1919 to 1945	18	20
1945 to 1971	34	36
post-1971	28	27
Equipment		
poor	14	20
quite poor	9	20
quite good	28	31
good	50	29

Source: De Decker, 2001, 22

Equipment: running water, bath or shower, central heating, kitchen, telephone, parking space

Categories: good: 7 features, quite good: 5-6 features, quite poor: 2-4 features, poor: 2 features

Table B.4 shows the housing stock structure for rented and owner-occupied housing, although no distinction can be drawn between socially and privately rented housing, since the corresponding features were not recorded by the housing census. A notable feature with regard to the structure of rental housing stocks in Belgium is the high proportion of single-family houses: in 1991, 47 % of all rental housing was single-family houses. The proportion in the owner-occupied sector was naturally significantly higher, at 88 %. 50 % of owner-occupied fell into the category of the best-equipped housing, while the figure for rented housing was only 29 %. The proportion of housing without bath or shower was at the beginning of the 1990's very high in comparison to the rest of Europe, at 12 %. In the Netherlands and Eng-

land the figure was only 1 %, in West Germany 4 % and in France 5 % (De Decker, Meulemans, Geurts, 1997, 287).

As Table B.5 shows, the quality of housing stocks has improved in the meantime.²⁴ The proportion of households in sub-standard housing has fallen considerably. The housing quality is significantly better in the ownership sector than in the rental housing sector. Private rental housing is of lower housing quality than social rental housing.

Table B.5
Distribution of households by housing type and equipment standard in 2002 (in %)

	Ownership	Private rental housing	Social rental housing	Other housing	Total
Sub-standard	2.9	5.5	5.1	0.0	3.4
Minimum standard	12.1	22.3	15.2	34.4	14.5
Medium standard	85.0	72.2	79.8	65.6	82.1

Sub-standard: one or more features of the minimum standard lacking

Minimum standard: running hot water, WC, bath or shower

Medium standard: minimum standard plus central heating

Source: Winters, 2004, 6

The fact that housing quality in Belgium is a problem is also shown by the attempt to improve housing quality by means of the establishment and certification of minimum standards under the Housing Code. The following information refers to the Flemish region, where certification is not compulsory for landlords, although the Flemish housing authority can declare housing that does not meet the minimum standards as uninhabitable. Such housing is subjected to an additional tax, and owners are obliged to carry out renovation work. The Flemish housing authority was established in the year 2001. In the first two years, 550 dwellings were inspected (Winters, 2004, 10, 13).

In order to improve housing quality, a limited, two-year VAT reduction from 21 % to 6 % was agreed in 2000 for work on housing at least five years old (European Commission, Directorate-general Taxation & Customs Union, 2002, 101). This regulation has in the meantime been extended (Föderaler Öffentlicher Dienst Finanzen, 2004).

3.2 Rent Law

Rent law is laid down by the central government. As already described however, the regions also have an influence on renting by means of the definition of minimum standards and the taxation of empty and uninhabitable housing. We will examine below only the rent law.

Belgian rent law is based on the principles of the 1804 “Code Napoléon”, which places particular value on the protection of property, assumes equally strong parties to the contract and guarantees the contractual freedom of the parties (De Decker, 2001, 19). 1975 saw the start of a new phase of rent legislation, which continued until 1983. The allowed rent increases and the terms for the continuation of the rental contract were specified by a series of laws whose validity was restricted to one year, and which therefore had to be ratified again every year (De Decker, 2001, 28). According to these laws, rental contracts could only be cancelled under certain conditions, which included owner-occupation and renovation. State regulations contributed to a greater security of rental contracts (Boelhouwer, Heijden, 1992, 87).

²⁴ The results are based on the panel study of Belgian households, in which 1,619 households were surveyed.

In 1983, at exactly the time when shortages were becoming apparent on the housing market as a result of declining completions, rent law was however liberalised. The state regulations were abolished, and greater emphasis was again given to contractual freedom. The security of the rental contract thus depended on the contractual agreements made, and no longer on the government regulations. In the absence of any regulations to the contrary, rental contracts could be cancelled without stating any grounds by giving a period of notice of 6 months. New rents could be freely agreed. Rent increases for existing contracts were however restricted to the rise in the retail price index. This control on rent levels continues to apply today. Over the period from 1985 to 1987 and from 1989 to 1991, state regulations were again introduced on the terms of contract extensions in the form of short-term laws, passed because of sharply increasing rents (De Decker, 2001, 28).

The security of rental contracts was increased again by a law passed in 1991, which extended the legally specified term of the contract to 9 years. In order not to worsen the supply conditions too greatly, the possibility was also allowed of concluding short-term rental contracts limited to three years, and cancelling long-term contracts prematurely subject to payment of compensation. An investigation carried out in the year 1995 showed that 53 % of all rental relationships were based on short-term contracts. Such contracts are also very advantageous for the landlords because they offer the possibility of increasing the rent after the last contract has expired (De Decker, 2001, 34). In the case of new contracts, rents can be freely negotiated, while for existing contracts they are restricted to the change in the price index.

The law was revised in 1997 in favour of tenants. With a given tenant, only one further short-term contract can be concluded, therefore excluding the possibility of several short-term contracts in succession (De Decker, 2001, 30).

Rent developments

As Table B.6 shows, rents for poorly-equipped housing in Flanders increased more than those for well-equipped housing between 1976 and 1992. The rents for the lowest-income households increased particularly dramatically.

Table B.6
Rent developments in Flanders between 1976 and 1992 (in percent)

Total population	
without bath/shower and central heating	+ 24 %
with bath/shower or central heating	+ 24 %
with bath/shower and central heating	- 3 %
Lowest quintile	
without bath/shower and central heating	+ 57 %
with bath/shower or central heating	+ 41 %
with bath/shower and central heating	- 9 %

Source: De Decker, 2002, 312

From 1992 to 1997, rents again increased on average by 20 %. Since incomes grow at a significantly slower rate, the average rent burden rose from 11.9 % in the year 1976 to 16.7 % in 1992 and 22.3 % in 1997. 51.6 % of tenants had a rent burden in 1997 of over 20 %, while for 17.7 % the burden was even higher than 33 %. A burden of 20 % was considered as appropriate in social sector (Van Dam, Geurts, Pannecoucke, 2003, 12). Since 1996, rents have increased no more quickly than the consumer price index. This however changed nothing about

the fact that a segment still exists with qualitatively very poor housing, for which excessively high rents are demanded. Such housing is occupied mainly by families with low incomes (unemployed, recipients of social assistance, asylum seekers etc.) (Winters, 2004, 8).

3.3 Taxation

Taxes on purchase

The construction or purchase of a new building is subject to sales tax at a rate of 21 %. There is a reduction for social housing to 12 % (European Commission, Directorate-general Taxation & Customs Union, 2002, 101).

On purchase of existing housing, the so-called registration charge is applied. The assessment basis is the sales price, or, if higher, the market value. The registration charge in Brussels and Wallonia is 12.5 %, while in Flanders it was reduced to 10 % from 1st January 2002. For housing with a lower use value, the charge is reduced to 6 % (5 % in Flanders). In Flanders, the assessment basis is reduced by 12,500 Euro, if the housing is used as the owner's main residence²⁵ (European Commission, Directorate-general Taxation & Customs Union, 2002, 125). In Brussels a tax exempt amount of 45,000 Euro is granted on the purchase of a main residence, provided that this is the only property owned²⁶ (Price Waterhouse Coopers, 2005)

Taxes during the letting period

Before examining the taxation of income reference should be made to the special tax subsidisation of renovation work. For repair and modernisation work to buildings which are over 5 years old, the VAT rate is reduced from 21 % to 6 % (Föderaler Öffentlicher Dienst Finanzen, 2004).

In describing taxation of income, consideration will only be given to the personal income tax. Since owner-occupied property is treated as an investment for tax purposes, the following examination also covers the tax treatment of this form of housing. The income tax liability is made up of the state income tax and a surcharge applied by the municipalities. The surcharge, which can be set by the municipality itself within certain limits, amounts on average to 7.5 % of the state income tax (Bundesministerium der Finanzen, 2003, 20).

In the calculation of the taxable income, the net income of the four income types is first established. This is divided into income from real property, income from movable property, earned income and other income. In the case of other income, a differentiation is also made between income that can be aggregated with the other income types, and income which if requested can be taxed separately at special rates. This last category also includes the profits from the sale of real property.

The calculation of the net income from real property is based either on the cadastral income or the rent. The definitive value depends on the purpose of the real property. In the case of owner-occupied housing, the indexed cadastral income is used, while for rented housing the figure used is the indexed 'cadastral income' increased by 40 %. The cadastral income is based on an official assessment of net rents from the year 1975, which has been indexed since

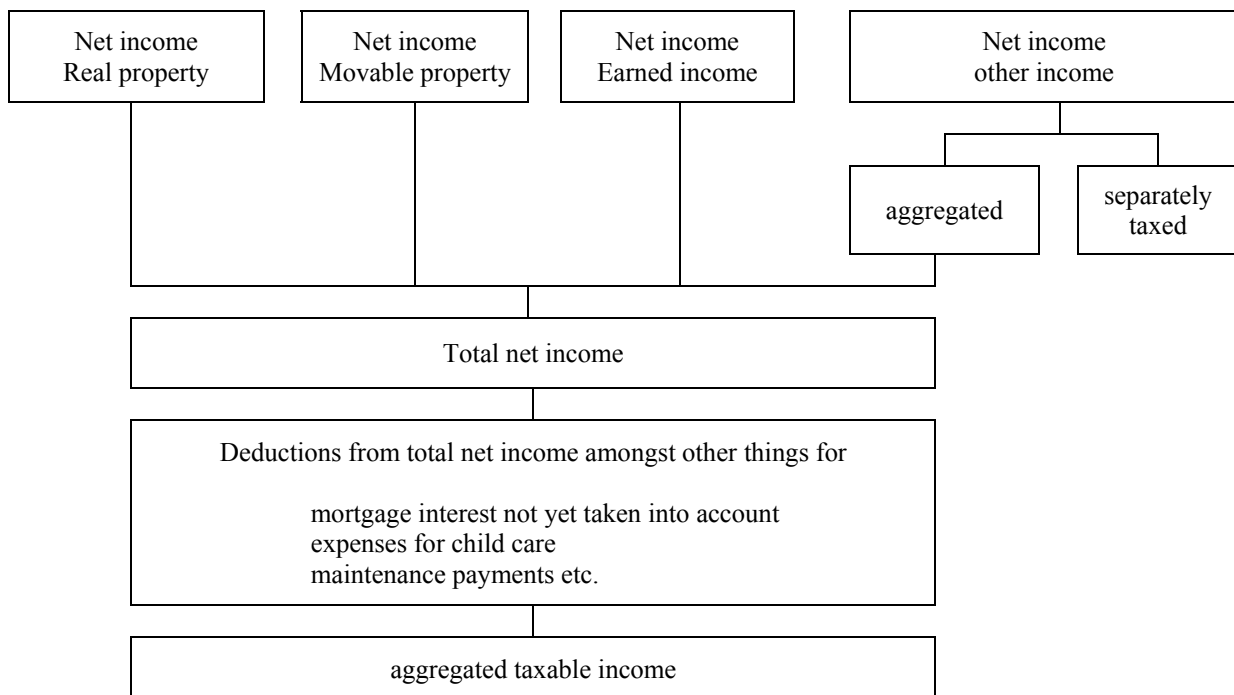
²⁵ If the property is sold within two years and a new main residence purchased, the registration charge for the preceding purchase is refunded up to an amount of 12,500 Euro.

²⁶ In the event of sale within two years, 36 % of the registration charge is reimbursed.

1990.²⁷ The interest on loans taken out for the purposes of purchase or maintenance of property can be deducted from the cadastral income. In the case of owner-occupied housing, a fixed deduction is also allowed instead of the interest deduction, although the interest or fixed deduction may not exceed the cadastral income (European Commission, Directorate-general Taxation & Customs Union, 2002, 9-11).

Once the net income of the four income types has been calculated, they are summarised to form the net income. Certain deductions can then be made from this total amount, which finally gives the aggregated taxable income. The situation is illustrated in the following graphic (European Commission, Directorate-general Taxation & Customs Union, 2002, 7-8, 39-40).

Figure B.1
Calculation of taxable income in Belgium



The loan interest that has not yet been deducted can now be offset against the total net income (see Figure B.1) when special conditions are met. The loan must have been used to finance either new construction or comprehensive renovation (at least 22,800 Euro), and the housing must also be occupied by the taxpayer himself. The deductible interest payments are however restricted. The procedure for determining the amount is explained in the section describing the taxation of owner-occupied property.

The income tax is then calculated on the basis of the aggregated taxable income, at the taxation rates shown in Table B.7. It should be taken into account here that the income of married couples is taxed separately.²⁸

²⁷ The adjustment coefficient for the year 2001 was 1.2857.

²⁸ The procedure for calculation the tax can be demonstrated by a simple example: a single person with an aggregated taxable income of 10,000 Euro would be liable to pay a tax of 2,800.50 Euro. In this case 6,570 Euro are taxed at 25 %, 2,140 Euro at 30 % and 1,290 Euro at 40 %.

Table B.7
Marginal income tax rates in Belgium, 2001

Income in Euro		Limit tax rate
from	to	in %
0	6,570	25.0
6,570	8,710	30.0
8,710	12,420	40.0
12,420	28,540	45.0
28,540	42,810	50.0
42,810	62,790	52.5
52,790	and more	55.0

Source: European Commission, Directorate-general Taxation & Customs Union, 2002, 33.

The income tax can be reduced in a further step by certain deductions (see Figure B.2). This then gives the tax actual to be paid on the aggregated income. This is then increased again by the taxes due on the separately taxed income. The tax payments already made in the form of advance payments and withholding taxes are then deducted from the resulting tax liability. The state income tax defined in this way then forms the basis for the applicable municipal surcharges (European Commission, Directorate-general Taxation & Customs Union, 2002, 32-40).

Figure B.2
Schedule for calculation of personal income tax

Taxes on aggregated taxable income
- Tax reductions for dependents
- Tax reductions for long-term savings
- Tax reductions for substitute income
- Tax reductions for foreign income
= Actual taxes on aggregated income
+ Taxes on separately taxed income
- Advance payments and withholding taxes
= State income tax
+ Municipal surcharges
= Tax liability

Various reductions may be made from the scheduled income tax.²⁹ As part of the tax reductions allowed for long-term savings, capital repayments on mortgage loans can also be deducted, provided that these were taken out for the purchase of a house.³⁰ An owner-occupied

²⁹ In the first step, tax deductions are made which are calculated on the basis of family-related tax-exempted amounts. A distinction is made here between basic tax-exempted amounts and amounts for dependents. The reduction amount corresponds to the tax that would be due on an income in the same amount as the tax-exempted amount. This can again be demonstrated on the example of a single person for whom the tax liability has been calculated. The basic tax-free amount of 5,350 Euro allowed to such a taxpayer leads to a tax reduction of 1,337.50 Euro.

³⁰ The amount of the loan qualifying for tax relief is limited. In the year 2001, the maximum figure was 57,570 Euro. The tax deduction amount is calculated by multiplying the repayments made by a special average tax rate of between 30 % and 40 %. The deduction amount may not however exceed certain income-related levels. The maximum deduction in 2001 was 1,730 Euro for each spouse.

dwelling is treated more favourably³¹ (European Commission, Directorate-general Taxation & Customs Union, 2002, 7-8, 25-26, 36-37).

Certain advance payments and withholding taxes may be deducted from the actual tax to be paid on the aggregated income. This also includes the land tax levied on owner-occupied property. The land tax is made up of a state and a municipal component, and varies, depending on the municipality, between 18 % and 40 % of the cadastral income (Price, Waterhouse Coopers, 1999, 3). The amount that can be offset against income tax is however restricted to 12.5 % of the cadastral income (European Commission, Directorate-general Taxation & Customs Union, 2002, 7-8, 25-26, 11, 41).

Taxes on sale

Profits made on the sale of real property are taken into account as other income for the purposes of personal income tax. Profits are only liable for tax if the property was acquired less than 5 years ago (developed property) or 8 years ago (undeveloped property). The profits from the sale are defined as the difference between the selling price and the purchase price. Renovation costs may be deducted. Further deductions are also allowed for every year that the property has been held. Profits from sales of developed property are taxed at the rate of the 16.5 %, while for undeveloped property, the tax rate is 33 % for property sold within 5 years following purchase, and 16.5 % thereafter. Profits arising from the sale of an owner-occupied dwelling are tax-free (European Commission, Directorate-general Taxation & Customs Union, 2002, 7-8, 16, 40).

3.4 Direct subsidisation

Direct subsidisation is not given for private rental housing construction. Improvement measures and demolition were however subsidised. In Flanders for example, landlords, tenants and owner-occupiers could apply for grants for the renovation of housing which is at least 20 years old, although this subsidy has in the meantime been discontinued. Despite the poor condition of much privately rented housing, landlords made little use of this subsidy. This is shown by the following table describing the participation of private landlords in the renovation programme of the city of Gent.

Table B.8
Participants in the renovation programme of the city of Gent (in percent)

	1988	1996	1988 – 1996
Owner-occupiers	59.6	94.2	78.5
Landlords	39.9	5.2	20.8
Tenants	0.5	0.7	0.0

Source: De Decker, 2001, 34

³¹ On the one hand, the qualifying loan amount is increased by 5 %, 10 %, 20 % and 30 % if the taxpayer has 1, 2, 3 or 4 and more dependent children, while on the other hand the tax concessions are calculated on the basis of the marginal tax rate. The maximum deduction per spouse however remains in effect.

3.5 Evaluation

Due to the poor quality and the insecure tenancies, the private housing market in Belgium does not represent a desirable form of housing. Anyone who can afford to do so switches to owner-occupancy. For the majority of low-income households however, ownership is not a feasible alternative. As Table B.9 shows, the proportion of low-income households in this sector has correspondingly increased sharply, while the percentage of higher-income households has declined. Private rental housing construction is thus largely the domain of low-income households. Because the proportion of social housing is also very low, those households are compelled to resort to privately rented housing (De Decker, 2001, 21). A filtering process, in which affluent tenants create the demand for newly constructed rental housing, and in this way vacate older rental housing for lower-income tenants, cannot function in this way. The maintenance of such housing is also put at risk by the low ability of tenants to pay rents. This is demonstrated by the obviously relatively poor maintenance condition of such property. This problem highlights the lack of a demand-orientated subsidisation and insufficient subsidisation for existing stocks. Without state subsidisation however, private landlords cannot provide well-equipped and well-maintained housing for low-income households.

Table B.9
Income profiles in private rental housing (percent)

Income quintile ³²	1992	1997
1	18.5	25.6
2	17.2	21.2
3	21.2	21.4
4	23.7	16.1
5	19.4	15.7

Source: Van Dam, Geurts, Pannecoucke, 2003, 10

4. The social rental sector

4.1 Organisation

Social housing is constructed and managed exclusively by registered housing companies. Taking the form of joint-stock companies, these are owned by the regions, provinces and municipalities, and also in some cases by private investors. In addition, there also exist some housing cooperatives. In 1990, there were 270 non-profit-making housing companies, 36 in Brussels, 122 in Flanders and 112 in Wallonia (Boelhouwer, Heijden, 1992, 90). In Flanders, the number of such providers has however since declined to 118.

Three regional housing societies are responsible for the registration of these companies. The regional housing societies were established in the 1980's³³, and replaced the national housing society, which was founded in 1919 and abolished in 1990³⁴ (Boelhouwer, 1992, 81). The

³² The income quintiles have been standardised by household size.

³³ The regional housing societies in Brussels and Wallonia were founded in 1984, followed in 1988 by the regional housing society in Flanders (Vlaamse Huisvestingmaatschappij VHM).

³⁴ Nationale Maatschappij voor de Huisvesting (NMH), Société Nationale du Logement (SNL). Up to 1956 the national housing society was called the Society for Affordable Housing (Nationale Maatschappij voor Goedkoepe Woningen en Woonvertrekken (NMGWW) – Société nationale des habitations et logements à bon marché (SNHLBM)).

tasks of the national housing society consists of supporting the establishment of housing companies, allocation loans to the registered companies and themselves building housing in situations where the local housing companies are not in a position to do so (Boelhouwer, 1997, 22).

In addition to the regional housing societies, there are also regional institutions in the form of the Flemish land agency and the regional housing funds for large families. These companies too originated from national predecessors.³⁵ The land agency is primarily active in the field of owner-occupied property in rural areas (Papa, 1992, 43). The housing funds for large families award loans for the construction, purchase and renovation of owner-occupied housing to families who in Brussels must have at least two children, and in Flanders and Wallonia at least three children (Boelhouwer, 1997, 22).

In Belgium, tenants who are not already owners have the right to purchase the social housing that they occupy. The companies however can decline such a sale if this would endanger their financial situation, or if they can no longer pursue the declared social objective (Boelhouwer, 1997, 23).

Subsidisation is given not only for new construction, but also for renovation of social housing. In Flanders and Brussels in the first half of the 1990's, about 30 % of available funds were devoted to renovation, and 70 % to new construction of social housing (Donner, 2001, 154).

4.2 Development of stocks

The last complete census in 1991 produced for Belgium a social housing quota of 6.4 %. If one considers the individual regions, the proportion of the social sector was at its lowest in Flanders, at 5.3 %. The highest figure of 8 % was achieved in Brussels. The middle position was occupied by Wallonia, where 7 % of housing was socially rented (Donner, 2000, 159). A random sample carried out in the year 1997 (see Table B.1) produced for Belgium a social housing quota of 7 %. The same value had also been recorded in 1981. To this extent, the social housing quota can be regarded as relatively stable. This is also confirmed if one considers more recent figures for the regions. For the year 2002, the quota in Flanders was estimated at 6 %, in Wallonia at 8 % and in Brussels also at 8 % (Human Settlement, 2003, 10).

Completions (see Table B.2) in the social rented sector fell from 8,000 to 13,000 units in the 1970's to only a few hundred units in the 1980's. The proportion of newly constructed social housing declined from 11 % to 25 % in the 1970's to only 2 % by the end of the 1980's. Thanks to the emergency programme "Domus Flandria", completions in the year 1993 increased to over 10,000 units, although subsequently falling again to approx. 3,000 units. The majority of social housing is built in Flanders. In 1995, approx. 400 to 450 dwellings were built in Wallonia, and 485 in Brussels (Boelhouwer, 1997, 30). Over the period 2001 to 2005, an additional 15,000 social dwellings are to be constructed in Flanders under the auspices of another special programme.

³⁵ The Flemish land agency replaced in Flanders the national land agency (Nationale Landmaatschappij (NLM) / Société Nationale Terriene (SNT). The national land agency was created in 1956 from the national company for small land ownership (Nationale Maatschappij voor de Kleine Landeigendom (NMKL) / Société Nationale de la petite propriété terriene (SNPPT)). In Brussels and Wallonia, the tasks of the national land agency were merged with the regional housing societies. The precursors of the regional housing funds for large families were the Belgian housing fund for large families (Wonongfonds von der Bond der kroostrijke gezinnen van België (WKGB) – Fonds du logement de la Ligue des familles nombreuses de Belgique (FLFNB)).

As already mentioned, the level of social housing stocks is attributable not only to the completions recorded in Table B.2, but also sales of housing to tenants, though there are unfortunately no current figures available in this respect. Table B.8 gives an overview of the social housing built and subsequently sold up to 1989. Up to the end of 1989, the registered housing companies constructed 348,627 dwellings, of which 95,349 were subsequently sold. This gave by the end of 1989 a housing stock of 253,278 social dwellings, of which 36,878 were located in Brussels, 117,033 in Flanders and 99,367 in Wallonia. Table B.8 also shows that over half of social housing in Belgium is comprised of single-family houses (SFH). In Brussels on the other hand, nearly 84 % of social housing is located in multi-family buildings (MFH).

Table B.10

Housing construction and housing stocks of the registered housing companies 1989

Region	Companies	Housing stocks 1988 in		Completions 1989	Housing stocks 1989	sold up to 1989
		SFH	MFH			
Flanders	122	65,578	49,671	1,784	117,033	64,107
Brussels	36	5,142	31,544	192	36,878	4,235
Wallonia	112	56,939	42,329	99	99,367	27,007
Belgium	270	127,659	123,544	2,075	253,278	95,349

Source: Boelhouwer, Heijden, 1992, 90

The renovation of social housing stocks has gained increasingly in importance since the beginning of the 1980's. The following table shows the distribution of the activities of the state housing companies in the year 1989. Renovations differ from modernisation in the greater extent of such measures.

Table B.11

New construction, renovation and modernisation of social housing 1989

Region	New construction	Renovation	Modernisation
Flanders	588	504	1,910
Brussels	153	52	1,507
Wallonia	47	35	3,239
Belgium	788	591	6,656

Source: Boelhouwer, Heijden, 1992, 93

4.3 Subsidisation of new construction

A distinction must be made between regular subsidisation and subsidisation by means of special programmes, such as the “experimental financing for areas with housing shortages” and the emergency programme “Domus Flandria”.

Regular subsidisation

Under the terms of regular subsidisation, social housing is constructed only by registered housing companies. These are financed by the own capital of the companies and by means of loans from the regional housing societies. The companies do not take out loans on the open capital market.

The provision of financing funds for social housing construction by the government has changed over the course of time. Financial shortages accompanying the economic crisis lead in 1975 to the system of pre-financing, which offered the possibility of building many social

rented dwellings with the available funds. The financial means for the financing of social housing construction were no longer provided from public budgets, but were sourced on the capital market by the national housing society (Boelhouwer, 1997 24) and made available to the companies in the form of low-interest annuity loans.³⁶ The difference between this interest and the normal market interest was made up by the government, and thus represented the actual subsidisation (Papa, 1992 38). Over time, this system led to an increasing level of debt by the national housing society. Since the loans taken out by the society were only short-term loans – in Flanders this was on average only 8 years – the loans had to be frequently re-financed. The rises in interest rates during the 1980's brought about further growth in the need for subsidisation. This caused a rise not only in subsidies for newly approved building projects, but also for existing projects in need of re-financing. In order to put an end to the increasing indebtedness, investment in social housing construction was severely restricted from 1981 (Boelhouwer, 1997, 24).

Following the transfer of responsibility for house building subsidisation to the regions, the system of pre-financing was abandoned, in 1983 in Wallonia, in 1984 in Brussels (Papa, 1992, 40-42) and in 1994 in Flanders. Since then, the financial funds for the loans to the companies have again been provided from the annual budgets (Boelhouwer, 1997, 24). The debts of the national housing society were taken over in 1990 by a newly founded national amortisation fund.³⁷ These were originally to be transferred to the three regional housing societies, before it was decided that these did not dispose of the necessary funds (Papa, 1992, 52).

In the subsidisation as currently practiced in Flanders, an investment programme is laid down by the government. Under the terms of this investment programme, the Flemish housing society (VHM) lends funds to the local companies. The government provides the VHM with a certain proportion of the investment programme by means of direct subsidies. The remaining amount is sourced by the VHM on the capital market. From 1994, when the system was introduced, to 1996, the proportion of state funds for rental housing construction amounted to 69 % of the programme volume. Since then, the percentage has been calculated on the ratio of the investment income to the investment, whereby the investment income corresponds to the cash value of rents over a 10-year period. The terms of the loans are set so that the costs of the loans match the rents. The government finances the subsidisation by means of loans sourced on the capital market. The interest and capital repayment of these loans are covered by the annual budget.

Experimental financing for areas with housing shortages in the years 1991 and 1992

In 1990, an alternative form of financing was introduced in Flanders for areas with housing shortages. Instead of providing the full capital required for the new construction of social housing through the regional housing society, a fixed building costs grant was awarded per dwelling, amounting to 10 % of the costs.³⁸ In addition a compensation was granted for a maximum of 15 years which met the difference between the rent the landlord was allowed to charge³⁹ and the social rent the tenant had to pay depending on his income. The owners had to commit themselves to rent the housing out for at least 15 years, after which time they were

³⁶ The loans had a term of 66 years and an interest rate of 2.5 %

³⁷ Amortisatiefonds voor Lenigen voor Sociale Huisvesting (ALES), Fond d'Amortissement des Emprunts du Logement Social (FADELS)

³⁸ The grants were limited to 265,000 BEF (6,569 Euro).

³⁹ The landlord was allowed a rent of 12,000 BEF (297 Euro). The grants were limited to a maximum of 5,000 BEF (124 Euro).

allowed to sell it. The region also had to undertake to make good the losses resulting from the difference between the sales proceeds and the invested capital (Papa, 1992, 38-39). This programme was directed not only at the registered housing companies, but also at private investors who were to be enlisted for the new construction of social housing. This system was discontinued in 1991. On the one hand, only a low level of completions was achieved, the administration requirement was also very high, and finally it was impossible to check the incomes of the tenants (Boelhouwer, 1997, 25). Private investors took hardly any advantage of the programme.

The special programme “Domus Flandria”

In 1992, the special programme “Domus Flandria” was instituted, with the objective of building 10,000 “social dwellings” over the three following years. Both socially rented and owner-occupied housing qualified for subsidisation. This housing was subject to the same access restrictions as housing subsidies under the normal programme. Only the financing method varied from the normal programme. The implementation of the programme was entrusted to the company “Domus Flandria” specially founded for this purpose, which was under joint ownership of public authorities and private investors. Private investors could also apply for the funds provided. About 80 % to 90 % of social housing was however built by the registered non-profit-making companies. All the housing built by private investors was acquired by the non-profit-making companies. There was thus no rented social housing belonging to private investors. The programme provided loans which covered 80 % of the total costs.⁴⁰ In addition, a rent supplement was granted for 20 years, which depended on the household size, household income and the type of housing.

4.4 Subsidisation of modernisation

The modernisation and modification of social housing is subsidised by means of rent compensation, provided that the housing continues to be rented for at least a further 9 years. The modernisation and modification may not exceed a certain specified amount per dwelling. The amount of the rent compensation is derived from the difference between the social rent paid by the tenants and the cost rent increased by the annuity of the modernisation costs. The establishment of the social rent and the cost rent are described in the following section. Social housing can also be subsidised by means of urban and village renewal projects (Papa, 1992, 39).

4.5 Rent control

Social rents depend on the income of tenants and the number of children. The starting point is the basic rent, which is multiplied by a coefficient in order to give the income-related rent. The latter may be reduced by certain child allowances (Papa, 1992, 31-34).

The basic rent is defined as a percentage rate of the dwelling value, and the rate may not be lower than 3 %. In Brussels and Wallonia there is also an upper limit of 7 % and 9 % respectively, although there is no upper limit in Flanders. In all three regions, the average percentage rate per housing company may not exceed a specified level (5 % in Flanders, 5.5 % in Brussels and 6 % in Wallonia) (Donner, 2000, 152). The dwelling value is established by means of

⁴⁰ These were subject to interest at 8 - 9 % and had a term of 22 years.

the purchase costs, and is updated annually. The age of the dwelling and any renovation measures carried out are also taken into account when revising the value.

The income coefficient is derived from the ratio between the household income and the reference income, and may be greater or smaller than “1”. The income-related may therefore also be higher than the basic rent. The reference income and income calculation differ from region to region. The child allowance is 20 % of the income-related rent in the case of three children, and increases to 50 % in the case of six or more children. The resulting social rent may not exceed 20 % of the income, and must be at least 50 % of the basic rent. The absolute upper limit is the rent for a comparable dwelling of the private sector.

The child allowances are reimbursed to the landlord by the region, so as to ensure that the companies achieve an income corresponding to the income-related rent. The income-related rent reductions must therefore be borne by the companies themselves, in return for which they receive the low-interest loans. According to Boelhouwer (1997, 26), the system is viable for two reasons. On the one hand, the access criteria are relatively generously framed. On the other hand, tenants who exceed the income limit subsequent to occupying the dwelling do not have their contract cancelled, which would have been possible at least in Flanders.

In Brussels, the operating losses suffered by poorer housing companies are covered by the regional government (Donner, 2000, 151). In Flanders there is a compensation fund for non-profit-making housing companies in process of legislation, which will be intended to support companies with predominantly poorer tenants and lower rental incomes.

Social rents for households with the lowest incomes are on average around 60 % lower than market rents. The average rent burden of the target groups is 30 % in the private sector, and only 17 % in the social sector. Over one third of tenants of private rental dwellings with low incomes even have to spend as much as one third of their income on the rent. 40 % of social tenants on the other hand have a rent burden of less than 15 % (Van Dam, Geurts, Panne-coucke, 2003).

4.6 Access restrictions, allocation practice and occupancy structure

Access to social housing is only available to households whose income does not exceed certain limits. In the 1970's, almost 75 % of all Belgians had an access to social housing. Although the income limits have been reduced in the meantime, the proportion of those with an entitlement to accommodation is still very high. In 1992 in Flanders, 48 % of all households and 53 % of all tenant households had access to social housing (De Decker, 2001, 20). In view of the low social housing quota, most target group households are therefore still forced to rely on privately rented housing.

Table B.12 shows the income limits for the years 2002 and 2003 in Flanders. In order to avoid segregation, 20 % of housing becoming available may be allocated to households with a somewhat higher income. Since the income limits are revised annually, price increases do not automatically bring about a restriction in the group of entitled households. In Brussels and in Wallonia, the figures were somewhat higher and lower respectively. Other than in Germany, the access restrictions to the housing of non-profit-making companies are not limited in time, but apply permanently.

Table B.12
Income limits in Flanders

	2002	2003
Normal limits		
Single persons	15,476	15,756
Multi-person households, head of household	23,214	23,633
Multi-person households, additional household members	1,290	1,313
higher limits (applicable to 20 % of annually allocated housing)		
Single persons	23,214	23,633
Multi-person households, head of household	30,952	31,511
Multi-person households, additional household members	1,290	1,313

Source: Interview Gebruers

The housing is allocated by the housing companies, and is made on the basis of a waiting list. In Flanders, the position on this list depends largely on the waiting time, while in Brussels and Wallonia the current supply of the applicant is also taken into account. The companies have a certain range of options when making the allocation. Exemptions can be granted in cases where the social balance is considered to be at risk. The observance of the access conditions is controlled by regional supervisory committees, who check the observation of the access criteria and the priority on the waiting list (Ghekiere, 1997, 51-52, 55-56, 62). The social housing companies aim for a mixed occupancy structure for two reasons: firstly to maintain the housing quality on social housing estates, and secondly to ensure the financial stability of the companies. As already mentioned, the income-related variations from the basic rent must be borne by the companies themselves.

Current figures on the length of the waiting lists are not available. In 1994 in Flanders there were approx. 65,000 households on the waiting list, in comparison to a total of about 120,000 social dwellings (De Decker, Meulemans, Geurts, 1997, 286). Families seeking housing therefore often have to wait years for a social dwelling. For households with low incomes, the allocation of social housing is tantamount to winning the lottery (De Decker, 2001, 20). Low-income households are therefore very often forced to resort to the private rental housing market. Due to the frequently lower housing quality, the high rents, particularly in the lower market segments and the inadequate tenants' security, this sector is understandably not very popular. The poor housing conditions affect in particular low-income households, single parents and households with low educational qualifications, with low-income older households being particularly at risk.

Co-operations between municipalities and housing providers for the accommodation of particularly needy households are not entirely unknown, although they are rare. For example, there are agreements whereby social providers have undertaken to keep housing free for housing emergency cases. Such co-operations are found mainly in the larger cities. In most cases the municipalities in this event receive additional funds for the combating of poverty from the state, the province or the European Union. There are also isolated co-operations with private providers, although there are no special incentives for the subsidisation of such co-operations.

Table B.13 shows how the tenants of social housing were distributed amongst the income quintiles in the years 1992 and 1997. The two lower income quintiles were over-represented in both years. In 1992, 73 % of social tenants belonged to this category, with the figure falling slightly to 70 % in 1997. Households in the lowest quintile were particularly heavily represented in 1992. If one compares 1992 and 1997, one comes to the conclusion that the target accuracy of the social sector has declined somewhat: the proportion of households with the lowest incomes has fallen slightly, while that of households with medium incomes has in-

creased. As the low case figures make clear, these results may be distorted by random sampling errors, as pointed out by the authors.

Table B.13
**Income profiles in the private and social rental housing sectors
Flanders 1992 and 1997**

Income quintile ⁴¹	Private rental housing		Social rental housing	
	1992	1997	1992	1997
1	18.5	25.6	45.4	37.2
2	17.2	21.2	27.5	33.0
3	21.2	21.4	17.6	18.8
4	23.7	16.1	7.3	15.2
5	19.4	15.7	2.3	1.5
Total	100	100	100	100
N	510	488	125	135

Source: Van Dam, Geurts, Pannecoucke, 2003

Looked at in overall terms, the occupancy structure appears to be relatively accurate with respect to the intended target groups: in 1997, 70 % of tenants belonged to the households from the two lowest income quintiles. The extent of the social sector is however restricted, due to the low overall figures. Only a relatively small minority of low-income tenants (34 %) are supplied by the social sector, while the majority (66 %) remain served by the private sector (Van Dam, Geurts, Pannecoucke, 2003).

In terms of socio-demographic and socio-economic features, this produces the following occupancy structure: over-represented are single persons (40 % of social tenants compared to 30 % of all households), single parents (13 % compared to 3 %), the retired (65 % compared to 44 %) and the unemployed and handicapped. Households with children (21 % compared to 33 %) are on the other hand under-represented (Van Dam, Geurts, Pannecoucke, 2003).

4.7 Taxation

With regard to taxes on purchase and sale, reference is made to the description of the privately rented sector. With regard to the taxation of income, there are no differences with regard to the calculation of the taxable income between private owners and the registered housing companies, although the tax rate for non-profit-making providers is reduced from 39 % to 5 %.

5. Acquisition of occupancy rights to existing housing

The already described problems at the lower end of the housing market – housing shortages, high rents, the poor condition of private rental housing and misuse by landlords – led at the end of the 1980's to the establishment of so-called social rental agencies,⁴² which were founded by the public and free providers of welfare care (De Decker, 2001, 31).

Their main activity consists in the renting and (sub-) letting of housing to particularly disadvantaged households. These are the former clients of the welfare institutions who are threat-

⁴¹ The income quintiles are standardised according to household size.

⁴² Sociale Verhuurkantoren (SVK) in Flanders and Agences Immobilières Sociales (AIS) in Wallonia.

ened with becoming homeless. These groups are to be provided with affordable housing. The dwellings are either rented or purchased from private and social landlords. In the event of breach of contract or unsociable behaviour, the social rental agencies must inform the welfare institution who nominated the tenant, and who is therefore responsible for their social care. In the event of rent arrears, an attempt is made to identify and remedy the causes. If the problems persist in the long term, despite the care provided by the welfare institution, institutional accommodation has to be considered (De Decker, 2002, 299).

In the initial years, the social rental agencies were only able to survive under difficult financial circumstances. In the course of the 1990's however, they became legally acknowledged in all three regions, and now also receive financial support from public funds. By means of this legal recognition, the regions hoped to increase housing supply for particularly disadvantaged households, improve the quality of the housing, and also link the housing supply to social support (De Decker, 2002, 299). The situation in the three regions is examined below.

In 1998 in Flanders, 69 social rental agencies administered 1,692 dwellings, compared to a total housing stock of 2.4 million dwellings (De Decker, 2002, 319). Since then the number of administered dwellings has increased significantly to 3,400 in the year 2003 (Winters, 2004, 13). The agencies receive financial support from various sources, such as the initiatives for combating poverty, various municipal authorities and the provinces. They act as the main tenants of housing belonging to private owners, which they then sub-let to disadvantaged households. They guarantee the rent to the owner, and supervise the tenants. Social support is also provided in problem cases (De Decker, 2001, 31). There are no special incentives for private landlords, apart from the guaranteed rental payments and the upkeep of the housing. In some cases, landlords even offer their housing to the agencies voluntarily.

In Wallonia, social rental agencies were founded in towns with more than 50,000 residents. In 1999 there were in Wallonia 19 social rental agencies administering 1,155 dwellings, compared to a total housing stock of 2.4 million dwellings (De Decker, 2002, 319). Municipalities the local social services and non-profit-making housing companies all have to be represented amongst the management of the social rental agencies. In contrast to the Flemish offices however, those in Wallonia do not themselves act as tenants. The legal basis of their activity may take one of the three following forms: an agreement with the housing company, an authorisation of a private owner or a long-term usage right with a private owner. The authorisation is frequently attractive for older property-owners, who have difficulty in managing the property themselves (tenant selection, rent collection, maintenance).

Social rental agencies were also founded in Brussels, which were recognised by law in 1998, although they have not achieved the same degree of importance. By the end of 1999, there were 11 social rental agencies managing 400 dwellings (De Decker, 2002, 319). They rent housing from housing companies and private owners (Donner, 152).

De Decker (2002, 319-320) considers the social rental agencies necessary, despite the low number of properties involved, because the supply problem cannot be solved by the other sectors. The owner-occupied sector has reached the limits of its growth. The private rental sector cannot offer good and affordable housing and secure rental conditions for low-income households. The social rented sector is too small in order to be able to bridge this gap. Since a significant expansion of social housing stocks seems to be unrealistic, disadvantaged households will have to continue to rely on the private rental sector. To this extent, the social rental agencies are necessary in order to alleviate the problems associated with private renting. The main

outstanding question is to what extent these new institutions can come to terms with the task in hand.

6. The owner-occupied sector

The main instrument of supply subsidisation in Belgium was and still remains the subsidisation of owner-occupied housing. This was introduced at the end of the 19th Century, and has since demonstrated remarkable continuity. The focusing on ownership subsidisation goes back to the Christian workers movement. The preference for ownership is substantiated by the claim that this form of housing is the most amenable for families. In recent times more emphasis has been placed on its importance for security in old age. The criticism that the actual target groups of housing policy hardly benefit at all from ownership subsidisation is countered by reference to the positive supply effects which would also benefit those households not directly favoured by subsidisation.

The distinction can be drawn between tax subsidisation and direct subsidisation. While tax subsidisation is governed by national laws, direct subsidisation is provided by the provinces. Everyone has a claim to tax subsidisation, while direct subsidisation depends on the budget.

6.1 Development of stocks and ownership structure

The home ownership quota increased from 39 % in the year 1947 to 67 % in 1997 (see Table B.1). The growth was particularly pronounced between 1947 and 1977, during which time the proportion of owner-occupiers rose from 39 % to 61 %, although the rate of growth slackened off significantly in the following years. Forecasts predict that the ownership quota will gradually rise by 2010 to approx. 70 % and then remain constant (De Decker, 2002, 320). In Flanders, this figure has already been exceeded, with an ownership quota of 71 % by 1997 (Van Dam, Geurts, Pannecoucken, 2003).

Table B.14
Proportion of owner-occupiers by income quintiles and professional groups in Flanders (in percent)

Income quintile ⁴³	Active persons (up to 65)				Older persons (from 65)				Total			
	1976	1985	1992	1997	1976	1985	1992	1997	1976	1985	1992	1997
1	61.2	55.6	53.9	52.0	60.6	67.2	64.0	65.6	60.9	64.0	59.0	58.8
2	67.0	64.6	65.9	65.1	61.9	65.7	72.6	69.3	65.6	64.9	67.9	66.7
3	69.4	68.5	67.4	69.7	64.8	68.0	71.5	69.7	68.9	68.4	68.2	69.7
4	66.3	71.6	68.4	78.4	67.9	70.3	77.0	77.0	66.3	71.4	69.2	78.2
5	64.0	70.6	73.5	81.7	75.9	76.9	78.6	84.2	64.7	71.2	74.0	81.9
Unskilled	63.5	58.0	56.6	50.5	56.7	63.4	66.2	65.2	61.5	59.9	60.1	55.6
Skilled	64.3	69.9	65.4	68.9	56.0	74.6	78.7	72.1	63.2	70.5	67.1	69.5
Employees	64.9	67.6	69.3	76.3	59.8	70.7	61.7	67.3	64.4	68.0	67.7	74.3
Sen. employees	69.3	73.7	75.6	81.9	73.0	80.1	86.9	79.3	69.7	74.5	76.9	81.5
Self-employed	73.8	67.6	69.8	70.0	75.8	77.5	76.9	84.2	74.5	69.9	71.8	74.7
Total	66.2	67.2	67.0	71.6	62.1	68.1	69.6	69.7	65.1	67.4	67.6	71.1

Source: De Decker, Geurts (2002)

⁴³ The income quintiles have been standardised by household size.

Up to the middle of the 1970's, the economic conditions for the acquisition of property remained favourable. Even financially weak households were at this time in a position to become homeowners. As a result, in 1976, the differences between the ownership quotas of the different income and professional groups in Flanders were relatively small (see Table B.14), although the gap has since widened between the better-placed and less well-situated households. A sharp increase in the ownership quota has since only occurred amongst the households in the upper two income quintiles and medium and senior employees, although a slight increase has also been recorded amongst skilled workers. The ownership quota amongst unskilled workers on the other hand has fallen.

6.2 Taxation

We will examine here only taxation during the usage phase. The regulations on purchase and sale have already been described with regard to the taxation of rented housing.

The taxation of owner-occupied housing is treated as an investment from the tax point of view. The principles of taxation of property assets have also been described above. We will therefore only examine here the special features relating to owner-occupied property. In the case of owner-occupied property, the indexed cadastral income is taken as the income. Interest payments on loans may be deducted from the figure, provided that the loans were taken out for the purchase or maintenance of the property. In the case of owner-occupied housing, a fixed deduction may be applied instead of the interest deduction.⁴⁴ The interest or fixed deduction may not however exceed the cadastral income (European Commission, Directorate-general Taxation & Customs Union, 2002, 9-11).

Once the net income of the four income types has been calculated, they are summarised to form the total net income. Certain deductions can then be made from this total amount, which finally gives the aggregated taxable income. The deductible expenses also include the loan interest not yet taken into account in the determination of the net income. An essential requirement is that loan must have been used to finance either new construction or comprehensive renovation (at least 22,800 Euro). The housing must also be occupied by the taxpayer himself. The deductible interest payments are however restricted in three ways. Firstly, the qualifying loan amount itself is limited. For new construction, the maximum amount in 2001 was 57,570 Euro, with half this amount qualifying in the case of renovations. Depending on the number of dependent children of the taxpayer, the permissible loan amount is increased by 5 %, 10 %, 20 % or 30 %. For a family with two children, a maximum loan of 63,320 Euro qualifies for subsidisation. At an interest rate of 6 %, this produces subsidised interest payments of 3,799 Euro. This amount remains unchanged throughout the complete subsidisation period of 12 years. However, since only those interest payments are deductible which have not yet been taken into account in the calculation of the net income from real property, the qualifying interest payments are reduced by a factor corresponding to the ratio of the as yet un-deducted interest payments to the total interest payments. Of the resulting amounts, 80 % is deductible in the first five years, followed by ten percentage points less in each of the following seven years. The following table shows the deduction possibilities. This assumes a loan of 100,000 Euro, subject to an interest rate of 6 %, free of redemption and covered by an endowment insurance. The taxpayer is a married couple with two children. It is further as-

⁴⁴ The fixed deduction in 2001 was 3,860 Euro plus family-related allowances (each of 320 Euro for the spouse and any other dependents of the taxpayer). If the total net income falls below a minimum level (27,060 Euro in 2001), half of the difference between the cadastral income and the fixed deduction can also be offset against taxable income.

sumed that the ‘cadastral income’ rises annually by 2 % (European Commission, Directorate-general Taxation & Customs Union, 2002, 26-28).

Table B.7
Loan interest deduction from total amount of net income

Year	‘Assesses’ income	Interest	Standard deduction	Remaining interest	Reduction	Deduction rate	Deductible
1	2,000	6,000	2,000	4,000	2,533	80%	2,026
2	2,040	6,000	2,040	3,960	2,507	80%	2,006
3	2,081	6,000	2,081	3,919	2,482	80%	1,985
4	2,122	6,000	2,122	3,878	2,455	80%	1,964
5	2,165	6,000	2,165	3,835	2,428	80%	1,943
6	2,208	6,000	2,208	3,792	2,401	70%	1,681
7	2,252	6,000	2,252	3,748	2,373	60%	1,424
8	2,297	6,000	2,297	3,703	2,345	50%	1,172
9	2,343	6,000	2,343	3,657	2,315	40%	926
10	2,390	6,000	2,390	3,610	2,286	30%	686
11	2,438	6,000	2,438	3,562	2,255	20%	451
12	2,487	6,000	2,487	3,513	2,225	10%	222

6.3 Direct subsidisation

Direct subsidisation of owner-occupied housing is described below on the example of Flanders, where subsidisation takes the form of low-interest loans, grants and loss-of-income insurance.

Loans can be granted for the purchase of social housing and for the purchase of substantially renovated housing (Winters, 2004, 10). The loans are allocated by the Flemish housing society and the Flemish housing fund for large families. Both institutions are supported by the Flemish government. The interest payments depend on the income and the number of children. Subsidisation goes only to households whose income does not exceed an upper limit (Scanlon, Whitehead, 2004, 63), although the income limits are so broad that 66 % of Flemish households and 75 % of tenant households are entitled to claim such social loans (De Decker, Geurts, 2002). The programme however has only little effect on the housing supply because of its relatively small scope of 2,000 loan approvals per year (Winters, 2004, 10).

Grants can also be awarded for renovation, although these too offer few incentives (Winters, 2004, 10).

In 1998 the Flemish government introduced an insurance policy covering loss of income, in order to reduce the financial risks involved in the construction, purchase or renovation of a house. This insurance is free, and runs for 10 years. If during this period a household becomes involuntarily unemployed, it can, after a waiting period of six months, receive a monthly contribution toward its annuities for a maximum period of three years.⁴⁵ This insurance protection is available to single persons with an income of up to 30,000 Euro and married couples earning no more than 42,500 Euro. Applicants have to be working, and must not own any other property. The mortgages must not have been taken out prior to 1st January 1998 and must be for a minimum amount of 50,000 Euro (De Decker, Geurts, 2002).

⁴⁵ This amount, which depends on the household income and the size of the mortgage, can be a maximum of 495.78 Euro. In the second year, this falls to 80 %, and in the third year to 60 % of this amount, although the household in any case still has to support a monthly figure of 247.89 Euro.

As Table B.15 shows, the composition of subsidised owners in Flanders does not vary significantly from the structure of owners who received no direct subsidisation. To this extent, direct subsidisation is not concentrated on the target groups, but is very widely distributed. The subsidy therefore goes largely to households to whom it is not essential, and is largely dissipated in windfall gains. A further point of criticism is the low subsidy amounts, which offer hardly any incentive for investment. The national bank has also evinced the opinion that the housing demand has no connection with the number of subsidisation cases. For example, households who were subsidised by means of the low-interest loans from the housing fund for large families only achieved a benefit of from 2.3 % to 8.9 % of the investment costs (De Decker, Geurts, 2002).

Table B.15
**Directly subsidised owners by income quintiles and professional groups
in Flanders (in percent)**

Income quintile ⁴⁶	All owners	Non-subsidised owners	Subsidised owners
1	16.3	17.2	15.1
2	18.8	16.8	21.5
3	19.7	18.3	21.6
4	22.0	22.5	21.4
5	23.2	25.3	20.3
Unskilled	11.2	10.0	12.8
Skilled	23.4	20.9	26.9
Employees	32.7	32.2	33.4
Senior employees	18.6	21.1	15.1
Self-employed	12.6	14.4	10.2

Source: Belgian SEP, Flanders, wave 1997, cited from De Decker, Geurts (2002)

6.4 Assessment

According to De Decker, Meulemans, Geurts (1997, 283-284), it has been decided in the case of ownership subsidisation to subsidise a large number of households with lower amounts, instead of concentrating the subsidisation on households at the threshold to home-ownership. The subsidy amounts are low in comparison to the investment costs, and can have hardly any influence on the decision to become a homeowner. The strategy of leaving new construction and housing supply largely to the initiative of owner-occupiers is considered by the authors as having only limited success. Despite an improvement in housing conditions, there are still many households who are still forced to live in poorly equipped housing, and who in the past were confronted with particularly high rent increases. The system is also considered by the authors as unviable for the future, because owner-occupiers cannot be expected to bring about the necessary expansion and improvement of housing stocks. On the one hand, the proportion of young and active households who usually come into question with regard to home-ownership is falling, while on the other, the income burden associated with the acquisition of property is increasing. Despite an increase in the overall ownership quota, the proportion of owners amongst the under-40's households fell between 1976 and 1992, although the proportion of dual-income households in this group increased. Without additional subsidisation funds for new construction and the replacement of old housing stocks (Belgium has one of the oldest housing stocks in Europe), the poor housing quality of the affected market segments

⁴⁶ The income quintiles have been standardised by household size.

will not be improved, and the marginal forms of housing – furnished rooms, camping areas etc. – will not disappear.

7. Housing benefits

There is in Belgium no general housing allowance such as exists in Germany. Housing support is however given to:

- households leaving sub-standard housing, and
- older persons (from 65) and the handicapped moving into housing that better meets their physical needs.

To this extent, this support is more of an aid to removal. The support consists on ongoing rent subsidies, which are granted only for a limited time, and one-off grants toward removal and furnishing costs. The rent subsidies are based on the difference between the new and the old rent, although there are certain upper limits to be observed, and are awarded to households whose income does not exceed a certain limit. Housing support is only given for private rental housing. Income limits, maximum support amounts and approval periods vary between regions. In general however, only very few households receive such support. In Flanders, only 2,000 such approvals are passed every year.

In order to solve the supply problems of disadvantaged households, Winters (2004, 12) suggested the introduction of a housing allowance for housing to which the owners grant a right of occupancy. The owner would have to provide the housing at market prices. His advantage would consist in the fact that he would be guaranteed regular rental income, together with the proper maintenance of his property. The tenant would be granted income-related rent subsidies, which would have to be orientated along the lines of the rents in the social sector. The occupancy rights could be exercised by the already existing social rental agencies, which would also be responsible for the approval of the housing allowance. These organisations already receive grants for the running of their offices. Although they only look after low-income households, they as yet receive no grants for the reduction of the rent burden.

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Germany

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1. Introduction

Housing in Germany can be categorised into the social rental sector, the privately financed sector and owner-occupied dwellings.⁴⁷ Social rented accommodation, which will be referred to for simplicity below as social housing, is subject to rent control and access restrictions, which the owner has to accept in return for subsidisation. The access restrictions are normally described as occupancy commitments. The rent and access restrictions apply only to a definite period. Once the commitment period has elapsed, rents can be raised to normal market levels and the property re-rented without further restrictions. This housing then becomes part of the privately financed sector. Since fewer dwellings have been added than have been removed from the sector over recent years, the size of social housing stocks has declined. A further decline is also expected for the future.

Subsidisation is not restricted to any particular groups of owners, but is available to all landlords. These also include public and private housing companies, cooperatives, other companies and private persons. The public providers consist generally of municipal companies. The municipalities can of course, as a result of their function as owners, draw on the stocks of their own companies, which are not subject to any subsidy-related access restriction, for the accommodation of needy households. However, only housing subject to subsidy-related commitments is counted as part of the social housing sector.

In the former East Germany there is only little subsidised housing, since subsidisation has only existed here since the reunification of Germany in 1989. Housing subject to commitments under the Occupancy Commitment Act (*Belegungsbindungsgesetz*) can also be categorised as part of the social rental sector. This makes up about half the stock of the municipal housing companies or cooperatives that have claimed assistance with old debts. These commitments are also restricted in time, and expire in the year 2013. There are however no special rent restrictions applicable to such housing.

Housing construction is the joint responsibility of the federal government, the states and the municipalities. The federal government allocates funds to the states, which then pass them on, supplemented by their own funds, to the investors by means of their subsidisation programmes. In some cases, the municipalities also take part in subsidisation. The major proportion of subsidy funds is however provided by the states. Up to the end of 2001, the subsidisation of housing construction was specified and regulated by the 2nd House Building Act (*Zweites Wohnungsbaugesetz - II. WoBauG*). Since this time, the Housing Subsidy Act (*Wohnraumförderungsgesetz - WoFG*) has applied. Both of these are federal laws, which require the agreement of the states in the upper house of parliament (*Bundesrat*). The states are only bound by the regulations of these laws, in the design of their subsidisation programmes, if federal government funds are devoted to the programmes concerned.

Under the 2nd House Building Act, there were four different subsidy methods: the 1st subsidy method, the 2nd subsidy method, the 'agreed' subsidisation and the income-related subsidisation. In all subsidy methods, both rented housing and ownership qualified for subsidisation. Originally there was only the 1st subsidy method. Housing subsidised under the 1st subsidy method is also classified as publicly subsidised housing. The definition of social housing therefore extends beyond that of publicly subsidised housing. Under the 2nd House Building Act, access to social housing, rent level setting and the commitment period of the 1st subsidy

⁴⁷ Although some owner-occupied housing is directly subsidised under social housing construction, no distinction is normally made between social and freely-financed, owned property.

method were defined uniformly for all states. This also applied largely to the 2nd subsidy method introduced in 1965, which allowed for an extended entitlement to accommodation and significantly shorter commitment periods, and which went primarily toward the subsidisation of owner occupiers. In order to make subsidisation more flexible, the ‘agreed’ subsidisation, or 3rd subsidy method, was introduced in 1989. Access criteria, rent levels and commitment periods were now no longer laid down by federal laws, but could be set and defined as seen fit by the states themselves. Following the introduction of this agreed subsidisation, the federal states developed a wide range of subsidisation programmes. Access under these programmes was framed much more broadly than under the 1st subsidy method, and the commitment periods were also shorter. The income-related subsidisation introduced in 1994 is a variant of the agreed subsidisation, in which a distinction is made between a basic subsidisation and supplementary subsidisation. The supplementary subsidisation serves to reduce the rent burden on households, dependent on income.

The new Housing Subsidy Act has been in effect since 2002. This law did away with the differentiation according to different subsidy methods. While subsidisation under the 2nd House Building Act was still directed at broader strata of the population, the Housing Subsidy Act is aimed at a greater concentration on needy households. Since this had already long been the focus of the 1st subsidy method under the old regulations, the entitlement to accommodation defined here was largely adopted into the Housing Subsidy Act, although the states may deviate from the regulations in justified cases. The income limits established under the Housing Subsidy Act also apply to the publicly subsidised housing (1st subsidy method) of the old law. Otherwise, the form and management of the subsidisation was left to the states. A further significant amendment is the extension of the circumstances qualifying for subsidisation. While subsidisation under the 2nd House Building Act was still restricted to new construction and modernisation, other measures can now also be subsidised, provided that these create occupancy commitments. The alternative measures include the purchase of existing housing, the purchase of occupancy commitments and the conclusion of co-operation contracts between municipalities and housing companies designed to provide accommodation of households in the target groups.

The following table shows how the proportions of publicly subsidised and non-publicly subsidised rental housing and owner-occupied housing have changed over the course of time.

Table D.1
Housing by form of tenure (in percent)

	Former West Germany						Germany		
	1950	1961	1978	1993	1998	2002	1993	1998	2002
Rented housing	60.9	67.2	62.6	58.4	56.9	55.4	61.3	59.2	57.4
- publicly subsidised			17.4	10.1					
- non-publicly subsidised			45.2	48.3					
Owner-occupied	39.1	33.8	37.4	41.6	43.1	44.6	38.7	40.8	42.6
Dwellings (in 1,000)	10,275	16,407	22,793	26,740	27,497	28,590	33,021	34,527	35,128

Source: 1950 and 1961 Statistisches Bundesamt, 50 Jahre Wohnen in Deutschland (2000, 54, 71)

1978 and 1993 H. Sautter, R. Ulbrich (2000), 357-358, occupied housing excluding residential homes, holiday homes and housing occupied by foreign armed forces

1998 and 2002 supplementary micro-census, occupied housing excluding residential homes

In 2002 almost 43 % of housing was occupied by the owners themselves. The ownership quota in the former West Germany, at 45 %, was significantly higher than in the former East Germany, where it came to only 34 %.

The proportions of privately financed and socially rented housing cannot be determined accurately from the official statistics, since these show only the publicly subsidised rental housing, i.e. housing subsidised under the 1st subsidy method, and not that subsidised by any of the other subsidy methods. The number of social flats is therefore higher than the number of publicly subsidised flats, and the number of privately financed rented flats lower than the number of non-publicly subsidised flats. However, the difference between social flats and publicly subsidised flats was not very large, either in 1978 or 1993. The proportion of publicly subsidised flats in the former West Germany fell, due to the expiration of the social commitments, from 17 % in the year 1978 to only 10 % in 1993. In absolute figures, this represented a decline from approximately 4 million to only 2.7 million dwellings. No official figures are available for the following years.⁴⁸ Estimates for the year 2002 assume a total of approx. 2.1 million social flats.

As Table 1 shows, the percentage of non-publicly subsidised rental flats in the former West Germany rose from 45.2 % in the year 1978 to 48.3 % in 1993. This increase can be attributed not only to new construction, but also to the expiration of social commitments, by means of which many publicly subsidised dwellings then become part of the privately financed sector.

Deutschmarks (DM) have been converted to Euro (€) at the following rate: 1 € = 1.95583 DM.

2. Historical overview of housing policy in the former West Germany

2.1 The controlled housing economy and the first House Building Act of 1950

The situation following the war

Following the capitulation of Germany in the year 1945, the territories to the East of the Oder and Neiße had to be ceded to Poland and the Soviet Union. The remaining territory of the former 'Reich' was divided into four zones of occupation, with Berlin receiving special status. On 24th May 1949, the Federal Republic of Germany (FRG) was created from the three western zones. On 7th October of the same year, the territory of the Soviet zone became the German Democratic republic (GDR) (U. Blumenroth, 1975, 321-323).

Of the 10.6 million dwellings existing in 1939 on the territory of the later Federal Republic, 1.75 million were totally destroyed during the war, and a further 0.5 million so severely damaged that they were uninhabitable. Yet a further 2 to 2.5 million dwellings suffered slight to medium damage (K.-H. Peters, 1984, 162-163). The level of damage was particularly severe in major cities, where often 50 %, and in some cases even 70 % of the housing was destroyed (Hübl, 1997, 8). The housing crisis was further exacerbated by the 12.3 million displaced persons and refugees who soon started to flow into the Federal Republic. The housing requirement was officially estimated in 1950 at 5.5 to 6 million dwellings (K.-H. Peters, 1984, 162-163).

⁴⁸ The annual micro-census is supplemented every 4 years by an additional survey on housing conditions. In the additional surveys of 1998 and 2002, the feature of public subsidisation was not recorded.

All parties and representatives of interest groups were at the time in complete agreement that the housing shortage could only be remedied with the aid of massive state subsidisation from tax revenue (K.-H. Peters, 1984, 167). There was no adequate private financing available due to the general lack of capital. On the one hand, potential investors had too little own capital, while on the other, the necessary re-financing funds for real estate loans were also lacking due to the low level of savings (U. Blumenroth, 1975, 330-334).

The first House Building Act of 1950

The new constitution gave the Federal Government a right of legislation with regard to housing that it had never possessed under the Weimar Republic (K.-H. Peters, 1984, 166). The exercise of this right led in 1950 to the 1st House Building Act (*I. WoBauG*), which laid down national regulations for the subsidisation of housing construction. Subsidisation of housing construction became the joint task of the Federal Government, states and municipalities. Priority was to be given to the construction of housing which in terms of size, equipment and rent levels would be intended for, and suitable for, broad levels of the population.

Subsidised dwellings could not exceed an area of 32 to 65 m², depending on household size (K.-H. Peters, 1984, 171-172), and were subject to rent and access restrictions. The rents were linked to guideline levels laid down by the state governments, which in turn differed according to the size of the community, location and level of equipment. Access went only to households whose income did not exceed the compulsory social insurance limit for white-collar employees. However, the limit was so generous that the major proportion of all households had an entitlement. Social housing, like old dwellings, was also subject to housing control and the increased protection against eviction offered under the Tenant Protection Act (*Mieterschutzgesetz*). Flats subject to housing control were allocated by the municipalities. Subsidisation generally took the form of interest-free public loans. At a capital repayment rate of 1 % p.a., this produced a term for the loan of 100 years. As long as the public loans had not been repaid, the rent and access restrictions described had to be accepted. The investors did however have the facility of repaying the loans prematurely, upon which the commitments were lifted. The subsidy amount was determined by means of a calculation, which was worked out in such a way that the income (guideline rent level) and the operating costs of the first year balanced each other out. The subsidisation was approved by the states, who received funds from the Federal Government, which in turn had to be augmented by their own contribution. Programmes were in some cases also jointly subsidised by the municipalities (R. Kornemann, 1987, 292-294).

The 1st House Building Act also saw the introduction of the so-called principle of equality, according to which subsidisation had to take equal account of all types of providers – non-profit-making housing companies, free housing companies and private builders. There was therefore no difference between investors with regard to the loan amount, interest rates or the commitments. Nor was preference given any longer to the non-profit-making housing companies in the award of funds, as had been the case before the war. However, tax concessions for non-profit-making housing companies (see Section 2.7) still continued in effect, although many parties demanded that this privilege should be abolished (K.-H. Peters, 1984, 171-172).

From 1950 to 1956, 3.5 million residential units were built, of which 2.1 million were social flats (K.-H. Peters, 1984, 318). The completion target set under the 1st House Building Act of 1.8 million social dwellings was therefore significantly exceeded. The proportion of social flats to total completions thus came to 60 %. Of the approved social dwellings, 58 % were

rented flats. The housing shortage was substantially reduced, although it has still not been completely overcome, as is clearly shown in Table D.2.

Table D.2
Housing shortage in the former West Germany

	Dwellings in 1,000 ^{1,2}	Households in 1,000 ³	Shortage in 1,000
Autumn 1950	9,438	13,998	- 4,560
Autumn 1956	12,734	15,063	- 2,329
End of 1962	16,115	16,666	- 658
15.10.1968	19,154	18,877	277

¹ 1950, 1956, 1962 excluding Saarland and West Berlin.

² 1950 and 1956, normal dwellings, 1962 and 1968 excluding dwellings only occupied temporarily and housing occupied by foreign armed forces

³ Single-person households were weighted at 50 % in 1950 and 1956, and at 60 % in 1962 and 1968.

Source: U. Blumenroth, 1975, 329

The controlled housing economy

Because the severe housing shortage in the initial post-war years made housing distribution by means of rent levels impossible, old residential property was subject to strictly controlled management. The rent freeze of 1936 and the tenant protection regulations of 1923 were also still in force. As part of the housing control, the municipalities had to keep a record of the housing stocks available, draw up priority lists for those seeking accommodation, and allocate housing according to need and urgency (K.-H. Peters, 1984, 184-189). In addition to old dwellings, social housing too was subject to housing control and the Tenant Protection Act. Privately financed and tax-privileged dwellings were however free of the restrictions. The objective of the government however was to transfer housing, gradually and in the long term, to the market economy. The Housing Control Act of 1953 and the Federal Rent Act (*Bundesmietengesetz*) of 1955 took the first steps in this direction. The initiative toward renting was left to owners, who could now make rental proposals to the authorities, which could only be refused on sufficient cogent grounds. The permitted rents for existing old housing were completely re-established, and rent surcharges were also allowed, depending on the quality of the accommodation (K.-H. Peters, 1984, 184-189).

2.2 The second House Building Act of 1956

The 2nd House Building Act (*II. WoBauG*) came into force in 1956. This act represented the basis for subsidisation of social housing until the year 2001, when it was replaced by the Housing Subsidy Act. The effects of the 2nd House Building Act extend well beyond the year 2001, and only come to an end when the commitments of housing subsidised under this act have expired.

The subsidisation preferences were changed in comparison to the old act. While the 1st House Building Act was neutral with regard to the form of tenure, the 2nd House Building Act was aimed not only at overcoming the housing shortage, but also making it possible for large sectors of the population to become owner-occupiers. The proportion of ownership measures to approved subsidies came to an average 47 % between 1957 and 1962, or not significantly higher than the 42 % that had been achieved between 1950 and 1956.

Eligibility was restricted to households that did not exceed certain income limits, although the limits were so broadly framed that about three-quarters of the population had access to social housing (BT-Drucksache 14/5538, 30). Special preference in housing allocation was however to be given to low-income families in need of housing. Because of the controlled housing economy, social flats continued to be allocated by the municipalities. As a result of positive income growth and the irregular adjustment of the income limits, the numbers of eligible people fell over the following years.

Since the states and municipalities found themselves less and less in a position to provide the low-interest loans necessary to cover the difference between the guideline rent and the costs, many providers found it impossible to achieve the interest due to them on their own capital. On the grounds of wishing to avoid a decline in construction activity, the housing economy therefore requested to be able to demand a rent for social housing which corresponded to the actual costs: this therefore became known as the cost rent (Kornemann, 1987, 282). Due to the adjustment of the low-interest loans, this could be reduced until it reached the level of the approved rent specified by the states. The cost rent was actually introduced under the 2nd House Building Act. This corresponded to the operating costs in the year of completion, which were made up of the interest on equity capital and loan capital, the depreciation, the maintenance and administration costs and the rent default risk. Since the subsidisation possibilities were as a rule limited, overly expensive properties were only subsidised if the investor was prepared to accept cost waivers. Although the interest charges, and thus the capital costs, decreased from year to year, due to the loan repayments, the cost rent remained unaffected, since this was determined only by the conditions prevailing during the year of completion. This created so-called repayment profits for the investors. Value increases and rent increases that could be realised after expiration of the commitment period were also not taken into account, and therefore lead to an under-estimation of the profitability by the cost rent law. As the high completion figures show, the new subsidisation procedure was very advantageous for the investors. The inherent tendency of the cost rent regulations toward over-subsidisation was ultimately the reason why this system was abolished by the Housing Subsidy Act.

The 2nd House Building Act created the possibility of allocating subsidisation funds not only as loans, but also in the form of operating cost subsidies. In view of the difficulties described above in generating funds for the low-interest loans, more and more states went over to the practice of reducing the loans approved for individual measures, and supplementing them with operating cost subsidies. In this way, higher subsidisation figures could be achieved with the funds available. This form of subsidisation also offered the advantage of being able to raise social rents relatively easily by reducing the level of the cost grants and adjusting them to rising income levels. Subsidisation by means of operating cost subsidies however lead to two problems. On the one hand, as a result of unrealistic expectations with regard to rising income levels, rent increases were often set that were no longer affordable for people with access, or even lead to social rents in excess of market rents. In order to prevent this, many properties even had to be given additional subsidies. Subsidisation by means of degressive operating cost subsidies also exacerbated the problem of rent distortion between social housing completed in different years. From the mid-1970's therefore, there was an increasing move back to subsidisation in the form of loans.

Between 1956 and 1962, 3.4 million dwellings were built, of which 1.6 million or 47 % were social flats (K.-H. Peters, 1984, 318). The number of approved social flats, at 1.77 million, was slightly above the completion figure. Of the approvals, 53 % went to rental residential construction and 47 % to the ownership sector. The housing shortage continued to reduce in size between 1956 and 1962, although it had still not yet been completely overcome.

2.3 The 1960 Abolition Act on the repeal of the controlled housing economy

Because of the housing crisis caused by the war, housing allocation controlled by market prices initially appeared impossible. The attempt was therefore made, by means of rent setting, the controlled housing economy and increased protection against eviction, to make the period until the housing shortage could be overcome as socially tolerable as possible. Due to its negative concomitant effects, the interference with contractual freedom proved to be continually less reconcilable with the continuing reduction of the deficit. The so-called 'Reduction Act' (*Abbaugesetz*) was therefore passed in 1960, which was gradually to do away with the restrictions by 1965. This mainly affected old dwellings, although the abolition of housing control also affected social flats.

The excessively low rents for old property in particular were also regarded as a problem. Due to the low rental income, owners were not in a position to carry out the necessary maintenance and modernisation measures, which lead to a maintenance backlog estimated in 1957 at 13 - 14 billion DM (U. Blumenroth, 1975, 357). In addition, the low rents also lead to misguided allocation of housing. 700,000 single people were occupying larger, old flats, while many families in search of housing could find no suitable accommodation (K.-H. Peters, 1984, 194). The price distortion between old buildings and new construction also had a negative effect on completions, because many relatively affluent households preferred to remain in their cheaper old flats than to buy or move into newly built rental flats. And finally, the low rents were also misused by excessively expensive sub-letting or by demands for hand-over payments when changing tenants (K.-H. Peters, 1984, 194).

The Housing Control Act, the Federal Rent Act (*Bundesmietengesetz*) with its rent regulations and the Tenant Protection Act with its increased protection against eviction were abolished under the 'Abolition Act' passed in 1960. This liberalisation was supported by the introduction of housing benefits, which were intended to reduce the increase in the rent burden for low-income households, and by the introduction of additional tenants' security regulations into the BGB (*German Civil Code*).

The abolition of the Tenant Protection Act automatically brought into force the rent law of the Civil Code, which had it remained unchanged, would have granted landlords the unrestricted right of cancellation. Since this was considered inconsistent with the principles of the social market economy, tenants were granted, under a reform of the Civil Code, a right of objection in the event that such cancellation constituted unjust hardship. In contrast to the Tenant Protection Act, this so-called 'social clause' applied not only to old buildings, but to all dwellings. Tenants were also to be protected against excessive rent demands by regulations forbidding such exorbitant rents. This was necessary because rents could in principle be freely agreed subsequent to the abolition of the Federal Rent Act. Tenants were also expected to put up with maintenance and modernisation measures. Their ability to prevent modernisation was thus restricted to exceptional cases.

The renovation of dwellings dating from the pre-1948 period was supported from 1959 by tax concessions (U. Blumenroth, 1974, 358-359). Special depreciation was introduced for modernisation costs that normally have to be capitalised as production costs and written off over the remaining useful life of the property, which allowed accelerated offsetting of the costs within 10 years. The measures supported by such special depreciation were subsequently amended many times, before this special depreciation was finally abolished in 1991. For lar-

ger repair costs that as a rule have to be written off in full in the year in which they are incurred, the possibility was created of distributing these evenly over two to five years. This brought with it two advantages. On the one hand, the needs on loss compensation capabilities were lower, while on the other, the tax savings on any given repair costs were greater due to the progressive tax rate. This possibility was abolished in 1999, but re-introduced again in the year 2004.

2.4 The introduction of housing benefit and the first Housing Benefit Act of 1965

For the economic safeguarding of the expected rent increases, grants were introduced for low-income households under the 1965 Housing Benefit Act (*Wohngeldgesetz*), which are open to both tenants and owners. The applicant has a legal claim to housing benefit if the applicable conditions are fulfilled. Similar payments have already been made under the 1955 Federal Rent Act, although these payments, also known as special allowance (*Beihilfen*), were so carefully defined that they were hardly ever claimed (U. Blumenroth, 1975, 360). While the allowances were only intended as a temporary measure, housing benefit was regarded from the very beginning as a permanent instrument. The permanent introduction of housing benefit as a transfer system, with payments to households whose income is above the social assistance limit, was not totally undisputed (K.-H. Peters, 1984, 201). Social assistance is provided to households whose income is below the social assistance limit, if no assets are available to maintain the livelihood. Close relatives can be required to make maintenance payments. Since this social assistance claim only covers the difference between the social assistance limit and the household's own income, increases in income exceeding a minor allowance for additional earned income lead to a corresponding reduction in the social assistance payments. In case of a later improvement in the living situation, reimbursement of the payments can be required. Housing benefit supports households with an income above the social assistance limit. It is also given irrespective of the existing assets.⁴⁹ Nor is the income of close relatives taken into consideration when determining benefit. Housing benefit corresponds to the difference between the actual and the reasonable rent, which is calculated by multiplying the reasonable rent burden by the income. Increases in income do not therefore reduce the housing benefit in full, but only by a certain percentage. The regulations make no provision for reimbursement of the housing benefit in the event of later increases in income.

The better the supply situation became, the louder became the calls demanding the substitution of object-related subsidisation by subject-related subsidisation. Housing benefit expenditure has in fact increased continually, apart from reductions between the amendment dates. In the year 2000, it surpassed the expenditure on social housing for the first time, which was above all attributable to the massive reduction of house-building subsidisation. Housing benefit is considered by its advocates as more advantageous than construction of social dwellings, both for equity and efficiency purposes. In terms of equity, the legal claim to housing benefit is a substantial argument in favour of this instrument, which ensures that all households in a comparable situation receive the same support. In contrast, there is no legal claim to the allocation of social housing. Social tenants and other eligible households are not treated in the same way, despite the same living situations. Housing benefit can also be adapted quickly and accurately to changes in income, which is not possible with the rent advantages of social housing, despite the supplementary rental charge. From the efficiency point of view, critics point out the lacking production and demand efficiency of social housing. Because of subsidisation, too little attention was paid to the production costs, and because of the rent advantages,

⁴⁹ Before the abolition of wealth tax, housing benefit could not be granted if the applicant was liable for wealth tax.

too little attention paid to the consumer preferences. With housing benefit, consumers also have greater freedom of choice in selecting their dwelling than with social housing. However correct these arguments may be, they still leave unanswered the central question of housing policy: how to achieve an adequate housing supply for needy households in the most cost-efficient way.

2.5 The 1960 Housing Commitment Act and the House Building Amendment Acts

Since social housing was also subject to housing control in the same way as old dwellings, the contracts on public loans often included no adequate agreements on the rent regulation and access restriction. In order to preserve these commitments for social housing following abolition of controlled housing economy, the Commitment Act (*Bindungsgesetz*) was introduced in 1960, and then replaced in 1965 by the Housing Commitment Act (*Wohnungsbindungsgesetz* - *WoBindG*). The observance of rent regulations and access restrictions thus became under this act a matter of public law rather than private law, and was associated with better sanction capabilities intended to facilitate the authorities to enforce the special purpose of social dwellings. Such dwellings can only be rented to households who can prove their entitlement to accommodation by means of a certification, which also shows the permissible size of the dwelling. As a rule, the landlord can select freely amongst those with a certification. By means of participation in the subsidy, the municipality can also acquire the right of nomination. This entitles the municipality to nominate three households seeking accommodation, of which the owner must accept one. The commitments apply basically until the planned repayment of the public loans. In case of premature repayment, they no longer lapse immediately, but only at the end of a supplementary commitment period, which was originally set at 5 years, although this was later changed repeatedly. The rents are linked to the cost rent (Fischer-Dieskau, Pergande, Schwender, Housing Commitment Act, Erläuterungen, 6-7).

The Housing Commitment Act was amended repeatedly over the following years, the first being made under the provisions of the 1971 House Building Amendment Act (*Wohnungsbauänderungsgesetz*), when the income limits for access to social housing were increased. In order not to put the accommodation of lower-income households at risk, the commitments were also amended. Since this time, housing subsidised up to 1963 should, because of the lower rents, be allocated primarily to lower-income households. These are defined as households whose income is at least 20 % below the income limits. The supplementary commitment period following premature repayment of the loans was also increased to 10 years.⁵⁰ The income limits were increased again under the 1973 House Building Amendment Act. In compensation, the priority for lower-income households was extended to all housing subsidised before 1966. The states were also granted the facility of introducing a municipal right of nomination in areas with an increased housing requirement. This facility was used by the states of Bavaria, Brandenburg, Hamburg, Hessen, Lower Saxony and Nordrhein-Westfalen. Similar regulations also existed earlier in Berlin and Rheinland-Pfalz.

The cost rent has steadily increased over the course of time, due to rising construction costs and land prices. Since subsidisation was not increased to the same extent, which would in any case not have been desirable in the light of continuing increases in income, rent level differences gradually opened up between older and newer properties which were no longer justified by differences in the utility values. This was exacerbated by rent distortions resulting from subsidisation by means of degressively rated operating cost subsidies. In order to reduce these

⁵⁰ At later dates this supplementary commitment period was at first reduced to 8 years and subsequently extended again to 10 years.

rent distortions and the associated misallocations, states were given the facility, under the Housing Construction Amendment Act of 1968, of increasing the interest on property completed before 1960 up to 4 %, providing that the resulting cost rent increase did not exceed certain capping limits.⁵¹ The facility for increasing the interest of older properties was further extended by the Budget Structure Act (*Haushaltsstrukturgesetz*) of 1981. This allowed an interest rate of 8 % for social housing completed before 1960, and a rate of 6 % for those completed from 1960 up to 1970. In retrospect, it can be established that the interest rate increases did indeed relieve the problem of rent distortions, without overcoming it completely. The interest rate increases did however have two further effects, which have substantially influenced the target-group-specific housing supply. Since the new annuities were calculated on the basis of the original loan, the interest rate increases lead to a huge increase in the repayment rates, and a consequent, substantial reduction in the commitment period. The interest advantages in comparison to normal market loans were also diminished, with the result that many investors opted to repay the funds prematurely, thereby further accelerating the decline in social housing stocks.

Currently, a commitment period of 40 to 45 years is assumed for publicly subsidised housing. In some states, even shorter commitment periods were determined from the very beginning by corresponding definition of the loan conditions. Adjustments of the cost rents to developments in general rent levels are achieved both by the curtailment of cost subsidies and increasing the interest rates on public loans (Behring, Kirchner, Ulbrich, 1998, 14-17).

2.6 The introduction of the second subsidy system in 1965

The so-called 2nd subsidy method was introduced under the 1965 Housing Construction Amendment Act, its objective being to subsidise housing construction for households whose income exceeded the limits of the 1st subsidy method by up to 40 %. It was assumed that these households, even despite their higher income, still had difficulty finding appropriate housing on the open market. There were no access restrictions on households who were vacating a publicly subsidised rental flat. They were to be given an incentive to move into the owner-occupied market. This subsidy method therefore concentrated largely on owner-occupancy. In the first two years, subsidisation was devoted entirely to property ownership. Although subsidisation of rental flats also became possible from 1968, 72 % of the subsidies approved up to 1998 however went to owner-occupied dwellings and only 28 % to rented accommodation. The subsidisation generally took the form of operating cost subsidies, which were often degressive, and were as a rule granted for 10 to 15 years. The commitment period was thus significantly shorter than under the 1st subsidy method. Although the rents were still linked to the cost rent, the approval rents were significantly higher than those of the 1st subsidy method. One major motive for the new subsidy method can also be seen in the desire to subsidise a larger number of dwellings by means of lower subsidisation in individual cases. The lower subsidisation cost was achieved by means of a shorter commitment period and a higher rent.

2.7 The law for the protection of tenants against eviction of 1971 and 1974

The tenants' security afforded under the Civil Code did not go far enough for the social-liberal government in power from 1968. The criticism was raised that a rental contract could

⁵¹ The extent of the cost rent increase corresponded to the increase in the capital costs, which under II. BV was calculated by multiplying the new interest rate by the original loan amount. The actual interest to be paid by owners was of course calculated by multiplying the outstanding loan amount by the interest rate.

be cancelled without giving any reason, and that a cancellation could therefore be used in order to raise rents. The law for the protection of tenants against eviction (*Wohnraumkündigungsschutzgesetz*) aimed to make the law more favourable to tenants. A temporary, first version of the act was passed in 1971, followed by the unrestricted second version in 1974. These laws amended the cancellation regulations of the Civil Code and introduced the Rent Level Act (*Miethöhegesetz*). The regulations introduced at this time, with minor modifications, continue to apply today. With the Rent Reform Act (*Mietrechtsreformgesetz*) of 2001, the regulations of the Rent Level Act were incorporated into the Civil Code.

Since the 1971 reform, the landlord may only cancel the rental contract if he can prove a justified interest. These are assumed to be breach of contract by the tenant or the own requirements of the landlord. Cancellation for the purposes of raising the rent is not allowed. In order to ensure the profitability of housing for the owner, he was granted the right under the Rent Level Act to raise the rent in existing contracts in line with the comparable local rents. These are rents agreed for comparable housing within a municipality over recent years. Apart from short-term price peaks during shortages, these comparative rents correspond largely to market rents. This regulation protects tenants against excessive rent demands which would bypass protection against eviction. For new rental contracts, the rent can be freely agreed within certain limits.

In order not to endanger housing modernisation, landlords were also given the right to add a certain percentage of the modernisation costs on to the rent, even if this would then exceed the local, comparative rent. From 1974 to 1978 a surcharge of 14 % was allowed, and since this time, 11 % of the costs can be passed on. This regulation based on cost elements represented a not unproblematic deviation from the concept of market rents, since the market rent itself was supposed to ensure the adequate reimbursement of modernisation measures.

In order to improve the investment climate for privately financed housing, the Act for Increasing the Supply of rental Housing (*Gesetz zur Erhöhung des Angebots an Mietwohnungen*) was passed in 1982. Graduated rental contracts were now allowed for housing completed from 1981. This act specifies the level of rent increases, which can still be applied if this takes rents above those of the local, comparative rent. Since 1993, graduated rental contracts have been allowed for housing of any age. At the same time, so-called indexed rental contracts were allowed, under which rent increases are linked to a price index.

2.8 The introduction of the Supplementary Rental Charge in 1981

Although the access in publicly subsidised rental housing is linked to the observance of income limits, contracts cannot be cancelled if a household's income subsequently exceeds the limit. The resulting non-entitled occupancy is associated with two problems. Households not any longer needy are subsidised by the low social rents, and furthermore social dwellings are removed from its special purpose, while many needy households can find no appropriate housing on the free market. In order to restrict this misdirected subsidisation and provide incentives for moving into privately financed housing, 1981 saw the passing of the Act for the Reduction of Misdirected Housing Subsidisation (*Gesetz zum Abbau der Fehlsubventionierung im Wohnungswesen*). In municipalities in which the social rents are significantly lower than the local, comparative rents, this act allows the states to charge an income-related compensation payment to households, whose income exceeds the access criteria by more than 20 %. The total of the social rent and this surcharge may not however exceed the comparable local rents. Until the time of reform in the year 1993, compensation payments could only be

applied in towns with at least 300,000 residents. With one exception, this supplementary rental charge was applied by all states.

With the growing discussion on signs of segregation in the social housing sector, the problem of non-entitled occupancy has receded into the background. These non-entitled tenants are in many cases even seen as a stabilising element in the social structure, which must not be put at risk by this charge. Although empirical investigations from the year 1993 showed that the resident structure is not adversely affected by the compensation payment (Bärsch, Mersmann, Raß, 1993, 2), the situation may have deteriorated over the intervening period. The charge has not been applied in Berlin since September 2002 on the grounds of the high charging costs and the impediments created to the achievement of a balanced occupancy structure.

Since there are no comprehensive figures on the levels of non-entitled occupancy, recourse must be made to estimates. In this respect, it should also be taken into account that the quota of non-entitled occupancy also depends on the proportion of eligible households, which has changed repeatedly due to the modification of the income limits. Due to the last modification in the year 1994, the number with access rose to 40 %⁵² of all households. At the same time, a non-entitled occupancy quota of 49 % was assumed. Measured against the 1994 income limit, the 1978 non-entitled occupancy quota was significantly higher at 60 %.⁵³ To this extent, the occupancy of social housing has in the meantime been concentrated much more strongly on the target groups than was previously the case.

2.9 The abolition of non-profit-making status from 1.1.1990

The possibility of a non-profit-making status for housing companies was abolished in Germany with effect from 1.1.1990. The non-profit-making housing companies included associations, co-operatives, capital companies, foundations and corporations under public law.

Under non-profit-making regulations, providers were subject to the following restrictions: they were allowed to build only small housing units of a maximum size of 120 m², their rents were subject to the cost-coverage principle, the interest on the capital invested was restricted to 4 %, departing shareholders received only their investment back, and the assets were permanently committed to the housing purpose. On the other hand, they were also exempt from corporation tax, wealth tax and trade tax. The tenants of the companies received a permanent rental contract, and the members of cooperatives a permanent usage contract. These restrictions and tax concessions disappeared with the abolition of non-profit-making status. Cooperatives whose activities are restricted largely to the construction and management of their own housing can however still apply for exemption from the taxes (J. Galonska, L. Kühne-Büning, 1994, 85-88).

The abolition of non-profit-making status can be attributed to various causes. One reason can be seen in the fact that, in contrast to other countries, it is not intended to achieve a target-group-specific supply through the subsidisation of housing construction by non-profit-making housing companies, who as companies are subject to certain social obligations, but through subsidisation of all provider types with whom subsidised housing is subject to a social commitment. The non-profit-making commitments were also regarded as no longer adequate in relation to the tax concessions. The introduction of an access restriction put forward in various reform proposals was rejected by the non-profit-making housing economy. The “Independent

⁵² R. Ulbrich, *Berechtigtenkreis im sozialen Wohnungsbau*, 2000, 34.

⁵³ H. Sautter, R. Ulbrich, J. Kirchner et al. (2002), *Tabellenband*, Tables 6a and 6b.

Commission on the Review of Tax Regulations for Non-profit-making Housing Companies (*Unabhängige Kommission zur Prüfung der steuerlichen Regelungen für gemeinnützige Wohnungs- und Siedlungsunternehmen*)” classified the tax concessions in 1984 as a distortion of competition. It also considered the introduction of an access restriction as unreasonable. The non-profit-making status was ultimately abolished as part of the 1990 tax reform. This measure was anticipated to bring in tax revenue of 100 million DM (H. Jenkins, 1991, 314-318).

The reform did not have entirely negative implication for the former non-profit-making providers. On the one hand, they could now benefit from the favourable tax treatment of new construction and modernisation, while on the other, they now also enjoyed greater freedom in the setting of rents for housing no longer subject to subsidy-related commitments. For tenants, and in view of the improved tenants’ security, the loss of the permanent residential right was no great loss.

2.10 The introduction of agreed subsidisation in 1989

The federal House Building Act heavily regulated the arrangement of the 1st subsidy method. The access criteria were specified. The rents and commitment periods could be specified by the states, although cost rent regulations still had to be taken into account. The amount of the approval rents determined the subsidisation requirement, and interest rate increases for adjusting the rents reduced the commitment period. In addition to these inflexible features in the establishment of rent levels and access entitlement, complaints were also levelled because of the rent distortions and the high subsidisation requirement. In view of the declining number of subsidised rental flats – approvals fell from approx. 248,000 in the year 1956 to only about 13,000 in 1987 – the reform of new construction subsidisation in the mid-1980’s was not considered an urgent task. This changed at the end of the 1980’s. New households being established by the ‘baby-boomers’ of the 1960’s and unexpectedly high immigration figures, resulting from the opening of the borders with eastern Europe, lead to growing shortages, which in the general opinion could only be overcome by boosting social housing construction. In order to achieve high supply effects despite the shortage of funds, the subsidisation of individual properties had to be reduced significantly. In the view of legislators, the savings could be achieved above all by means of shorter commitment periods, the abolition of the cost rent regulations and the improved adaptation of subsidisation to the local housing market situation.

The House Building Amendment Act of 1989 introduced agreed subsidisation, which was also known as the 3rd subsidy method, in the form of the 2nd House Building Act. Access restriction, rent levels, rent reviews, commitment periods and subsidy amounts could be freely defined by the states, without reference to cost rent regulations. Since the Housing Commitment Act did not apply to the new subsidy method, the commitments had to be agreed contractually. This gave rise to a large number of different state subsidisation programmes. The agreed commitment periods were significantly shorter than those under the 1st subsidy method. Access to housing was also framed more loosely initially, although many states subsequently again restricted the access to the traditional target groups. Subsidies were usually awarded as a fixed sum. In some states, they were determined by means of project evaluations on the basis of cash flows. The 1994 House Building Subsidisation Act restricted the freedom of states in the definition of the subsidy conditions, by specifying a normal commitment period of 15 years, although the states were allowed to deviate from this in justified cases. This was allowable particularly in the case of subsidisation of specific target groups or the provision of building land.

In the first half of the 1990's, approvals for new construction of social rental dwellings again increased substantially, from around 13,000 in the year 1987 to 76,000 in 1993, 50 % of such approvals being made under the terms of 'agreed subsidisation'.

2.11 Income-related subsidisation and modernisation subsidisation (1994)

The supplementary rental charge cannot be applied to housing subsidised by means of agreed subsidisation. In order to tackle the problem of subsidisation of non-entitled tenants here too, a further subsidy method was added to the 2nd House Building Act with the 1994 House Building Subsidisation Act, so-called income-related subsidisation. Access criteria, rent, commitment period and subsidy level could be set independently by the states. A new feature was the distinction between basic and supplementary subsidisation. With the basic subsidisation, the limitation of access and the restriction of the rent by a maximum rent level were compensated for. The supplementary subsidisation covered the difference between the maximum permitted rent and the actual rent paid by the tenant, which was determined in relation to the tenant's income. The supplementary subsidisation was adjusted to the income at regular intervals.

The 1994 House Building Subsidisation Act also incorporated modernisation into the 2nd House Building Act as a new criterion for subsidisation. Until this time, additional social dwellings could only be achieved by new construction. In more relaxed markets, this does not appear to be advisable when social housing stocks are continually declining due to the expiration of commitments. Modernisation subsidisation supported by the Federal Government had already existed between 1977 and 1986 under the Modernisation and Energy-saving Act (*Modernisierungs- und Energieeinspargesetz*). This did not involve any restrictions to access. Modernisation subsidies bound to access restrictions were however offered by the states. A synopsis of these programmes cannot be given at this point.

2.12 The Housing Subsidy Act of 2001

On 13.9.2001, the 2nd House Building Act of 1956 was superseded by the Housing Subsidy Act. The criticism of the old act was directed essentially at three points: the target group definition, the restriction of the subsidy to construction and the inefficiency of the subsidy organisation.

Under the old act, the aim of subsidisation consisted in providing housing for broad sectors of the population. This objective corresponded to the crisis situation of the post-war period, which was characterised by huge housing shortages and capital and housing markets which had not yet got back into gear following the war. The housing provision can meanwhile be left largely to the market. Under the Housing Subsidy Act therefore, subsidisation is to be concentrated on households who cannot find adequate housing on the market. This includes households with low incomes, households with children, single parents, pregnant women, older people, the handicapped, the homeless and others in need. The income may not exceed certain maximum limits, which essentially correspond to those that applied under the old law in the 1st subsidy method. State governments may however deviate from these figures, especially if this is deemed necessary for the accommodation of certain groups of households, the creation of stable resident structures or the subsidisation of owner-occupancy. The income limits specified under the Housing Subsidy Act are also applicable to housing subsidised by the 1st subsidy method under the old regulations.

Originally, only new housing was subsidised under the 2nd House Building Act. Modernisation was added as a new subsidisation criterion in 1994. Due to the expiry of the social commitments, the acquisition of occupancy commitments will continue to be necessary in future. In more relaxed market situations however, it does not appear to be advisable to achieve occupancy commitments by means of new construction subsidisation. For this reason, the extension of subsidisation criteria to modernisation was certainly a correct step, although this was also considered as not sufficient. Under the new law therefore, the purchase of existing property, the acquisition of occupancy commitments from existing stocks and the conclusion of co-operation contracts with housing companies can also be subsidised, provided that this gives rise to occupancy commitments and rent restrictions in favour of the target households.

Under the old law, the cost rent regulation of the 1st subsidy method above all were considered as inefficient. On the one hand, it was obstructive in the design of the commitments, because it linked the establishment and increase of rents to the subsidy conditions. On the other, it also tended to create over-subsidisation because of the repayment profits (see above). Both criticisms lead in 1989 to the introduction of 'agreed' subsidisation, although this only supplemented the inefficient subsidy system, without abolishing it. The cost rent regulations were finally given up under the Housing Subsidy Act. Since this time, rents, subsidisation and the commitment periods can be established independently of cost rent regulations. Unintended subsidisation should be avoided by means of income-related grants or compensation charges. For housing subsidised under the old law by the 1st subsidy method, the cost rent however remains in effect until expiry of the commitments.

2.13 The housing market situation in the former West Germany

From the mid-1980's to the beginning of the 1990's, the number of households in the former West Germany increased much more quickly than available housing stocks. According to official statistics, the number of dwellings available per 100 households fell from 97.2 in the year 1986 to only 94.6 in 1993. As described above, the growing shortages lead to the reform and revitalisation of social rental residential construction. With increasing completions, not only in social residential construction, the market cooled down year by year after 1993, until in the year 2001 there were 99 dwellings for every 100 households. Despite this improvement, it was still impossible to speak of a market balance. Because of the necessary fluctuation reserve, such a condition is only reached when the number of dwellings available per 100 households reaches 103. The cooling-off phase came to an end in the year 2001, since which time the ratio of dwellings to households has again deteriorated due to declining completion figures.

Nor should it be overlooked that the global supply figures also conceal substantial differences with regard to regions and the structure of households. While the supply quota is significantly below 100 in many large cities, there are often many more dwellings than households in more rural regions. There are also substantial supply differences when it comes to household structure. Measured against the living area guideline figures of the Cologne Recommendations (*Kölner Empfehlungen*), only 15.5 % of households with up to two persons were under-supplied in the year 2002, while the figure for households with four and more persons was 35.6 %. The extent of this under-supply was particularly acute in the economically dynamic cities of major conurbations, where 47.4 % of all main tenant households with four and more persons were living in accommodation too small for their needs.

Future housing demand depends crucially on the further development of household figures. According to calculations by the IWU, based on the 9th co-ordinated population forecast, the number of households in the former West Germany will continue to rise until about the year 2020, then stagnate for a time at a high level, before starting to decline after 2025. Until this phase of household decline sets in, an extended period of growing housing demand will have to be overcome. If one assumes positive immigration from abroad of 135,000 people per year, this will result in a rise in the number of households of around 100,000 per year over the period 2000 to 2010. If the supply level of 103 dwellings per 100 households is to be achieved by the year 2010, and with an annual decline in stocks of 0.2 %, this produces an average annual housing requirement of about 270,000 dwellings (IWU, 2002, 114-115). The number of flats completed in new buildings was always significantly above this figure in the second half of the 1990's, although it has since fallen from year to year. The necessary new construction figures were not achieved in the year 2001, so that housing supply has again deteriorated since this time.

It should also be noted that housing demand will develop very differently in coming years at a regional level. The geographical focal points of demand will be rapidly growing major city regions such as Munich, Stuttgart and Frankfurt. In the medium term, only a minor additional housing demand is anticipated in more peripheral, rural areas (IWU, 2002, 115). While declining in the long term, the short- and medium-term increasing housing demand may lead to shortages in housing markets in growth regions. Experience shows that disadvantaged households suffer most from such shortages. The continuing expiration of occupancy commitments will further weaken the situation of these households.

3. Housing policy and housing market in the former East Germany

The focus of House Building Activities in the GDR was placed on new construction using industrially prefabricated components, which was carried out by state-owned businesses and associations. Funds were rarely provided for the maintenance of old buildings in inner cities, which were predominantly under private ownership. Because of the low rents, financing of the necessary maintenance from rental income was also impossible. Since the income was often even insufficient to cover the variable costs, many owners found themselves compelled to give up their property for economic reasons. Many of these were sold at very low prices to state-owned businesses. Over the course of time, this gave rise to many prefabricated housing estates, while the fabric of the old buildings in city centres became increasingly dilapidated.

Following the reunification of Germany, the dwellings owned by the former state-owned businesses (2.4 million) were placed in the hands of municipalities, while the cooperatives continued as the owners of their property (1.1 million). At the same time, the debts outstanding on the property also had to be assumed. These originated from loans provided by the state bank, and had been used for the financing of new construction and modernisation. In order not to endanger the investment ability of companies, which was considered necessary because of the poor maintenance condition of these old and prefabricated buildings, companies were given the facility under the Old Debt Relief Act (*Altschuldenhilfegesetz*) of divesting themselves of part of these debts. By means of privatisation of 15 % of housing stocks, which were to go primarily to tenants, these old debts could be reduced to 150 DM per m² of living area. On the basis of the 1995 Occupancy Commitment Act, half the housing stocks of companies and cooperatives taking advantage of this old debt relief were also placed under an

occupancy commitment extending to the year 2013. The unification treaty also specified that dwellings that had been confiscated or transferred under economic compulsion to the state-owned businesses would, on application, be returned to the original owners. This applied predominantly to poorly-maintained, pre-war property. This regulation leads to many unclear ownership situations, and therefore became a major obstacle to the repair of these old dwellings.

The main problem in the former East Germany is currently the level of housing stocks standing empty. According to the information of the Federal Office of Statistics (*Statistisches Bundesamt*) (2000, 61), the number of dwellings standing empty increased from 418,000 in the year 1993 to 972,000 in 1998. For 2002, the micro-census shows a further increase to 1.1 million dwellings. This gives a vacancy quota that has increased from 6.2 % to 13.2 % and again to 16.7 %.⁵⁴ The micro-census results were however regarded by many as too high. The dispute over this quota is of great significance for the extent of the demolition programmes that were instituted by the government (see below). According to D. Freise and R. Ulbrich (2004, 159-161), the peak was reached in 1998 at approx. 800,000 unoccupied dwellings, while only 750,000 empty dwellings are expected by 2002. Because of the demolition projects, a further reduction can also be anticipated over the following years. The types of accommodation affected by these empty stocks varies greatly between different cities. In Leipzig, 19 % of dwellings are standing empty, of which 63 % date from the period of promotorism. Of the 24 % of dwellings unoccupied in Stendal, 75 % are made up of industrially prefabricated dwellings (BMVBW, Informationen zum Stadtumbau Ost, August 2002, 2).

One significant reason for the increase in unoccupied properties can be seen in the growth in supply. Despite a decline in population figures, the number of households has not decreased, but has in contrast risen from 6.7 million in the year 1993 to 6.9 million in 1998, and 7.1 million in 2000 (Statistisches Bundesamt, FS 1 R 3 Haushalte und Familien 2000, Results of the micro-census). There are however substantial regional differences to be seen, as shown by the demographic development observed in Saxony between 1990 and 1999. With an average decline of 6.6 %, the number of residents in the Leipzig region fell by only 5.3 %, while the figure for the Hoyerswerda region was 13.4 %. Major differences can also be observed within regions, which are generally attributable to migration from cities to surrounding areas: in this way, the population of municipalities around Leipzig has increased by 21.5 %, while that of the city itself has fallen by 11.8 % (Veser, 2002, 142).

The high new construction figures can be ascribed to different causes. These include the low attractiveness of existing housing stocks, the low proportion of single-family houses, the low ownership quota and the extensive residential construction subsidisation. Under the Development Region Act (*Fördergebietsgesetz*), very high special depreciation could initially be applied in the rental sector for new construction and modernisation measures, although this was reduced in 1997 and 1998. Above all, this favoured investors with high loss-offset possibilities, who wanted primarily to save taxes, and therefore often ignored the conditions of housing markets when deciding on their investment. Not least because of the associated distribution and allocation policy problems, this special depreciation was replaced in 1999 by investment grants. Since subsidisation of owner-occupied dwellings was much less favourable, investment in the initial years went largely to rental residential construction, where a major proportion of such projects were carried out in the surrounding municipalities. As a result of unclear ownership circumstances and the poor quality of living environments, comparatively little money went to the modernisation of old housing stocks. Comprehensive modernisation

⁵⁴ Bundesamt für Bauwesen und Raumordnung (2004), Wohnungsmärkte in Deutschland, Ausgabe 2004, 70.

efforts were however devoted to prefabricated buildings. While the sub-urbanisation process was due primarily to rental residential construction up to 1997, ownership now plays the decisive role. Since land prices in the surrounding municipalities are not much below those in cities, outward migration is due less to differences in land prices rather than the poor location and environmental qualities in the cities (Stadt Leipzig, 2002, 169-170).

It is anticipated that the population of the former East Germany will continue to decline in future. In Saxony, resident numbers in different regions are expected to fall by 8 % - 18 % by 2015. Despite a reduction in average household size, the number of households will also fall by 2 % - 9 %, depending on the region (Veser, 2002, 143). Yet despite the concomitant fall in demand, construction will continue in these areas. The low ownership quota and the low proportion of single-family houses indicate that the existing supply and demand are partly at odds with each other. A further rise in the level of vacancies is therefore anticipated, which depending on the region could be between 15 % and 30 %. Demolition, coupled with extensive urban renewal measures, are therefore unavoidable (Veser, 2002, 145).

In order to support this structural change in the eastern German municipalities, the Federal Government instituted in 2002 the programme “Stadtumbau Ost” (*“Urban Redevelopment in the East”*). This provides subsidy funds for demolition and renovation projects, ownership support and rental residential construction in inner-city districts with old buildings. It has also opened the ‘2nd KfW Housing Modernisation Programme’ (*KfW-Wohnraum-modernisierungsprogramm II*) for demolition projects. This is intended to achieve a reduction of the housing surplus in these areas, the strengthening of inner cities and the renewal of areas affected by this reconstruction. However, subsidisation requires an integrated urban development concept on the part of the municipality, which documents the effect of demolition projects not only for the housing market, but for the complete infrastructure facilities (kindergartens, schools, transport, water supply and disposal) (BMVBW, Informationen zum Stadtumbau Ost, April 2002, August 2002).

In view of the housing market situation described above and the high proportion of municipal housing, the supply of disadvantaged households in the former East Germany should not be a problem in the foreseeable future.

4. The private rental sector

Privately financed dwellings are defined as those which are not subject to any rent control and access restrictions. In addition to non-subsidised housing, this also includes former social housing whose commitments have already expired. The privately financed sector also includes dwellings owned by public, usually municipal companies, not subject to any access restriction.

4.1 Development of housing stocks, provider and housing structure

4.1.1 Development of housing stocks

The current proportion of privately financed rental housing cannot be determined accurately, for two reasons. On the one hand, the official statistics give a separate categorisation only for publicly subsidised rental accommodation (1st subsidy method), so that social housing subsidised by other subsidy methods is categorised under non-publicly subsidised rental housing. Secondly, the criterion of “publicly subsidised” was last surveyed in 1993 under random building and housing sample. Since many dwellings have since been relieved of their commitments, the results from 1993 are no longer up-to-date.

As shown in Table D.1, the stocks of non publicly subsidised rental housing in the former West Germany rose from 10.3 million (45.2 %) in the year 1978 to 12.9 million (48.3 %) in 1993. About half this apparent growth was due to the expiry of social commitments. According to the information of the states, stocks of publicly subsidised rental housing amounted to 2.14 million units at the end of 1997 (ARGE Kirchhoff/Jacobs, 2001, 47). If we deduct this figure from the numbers recorded in 1998, this gives for the year 1998 a stock of non-publicly subsidised rental housing of 13.8 million (49.3 %). If we further assume that publicly subsidised stocks are falling annually by approx. 100.000 dwellings, a stock of 14.1 million (49.3 %) non-publicly subsidised rental dwellings can be anticipated for 2002.

If we deduct from the non-publicly subsidised dwellings the approvals under the other subsidy methods, which in the year prior to the relevant reporting year were no older than 15 years, this comes to 10.1 million privately financed rented dwellings in 1978, 12.7 million in 1993, 13.2 million for 1998 and 13.8 million for 2002. The following table summarises these estimated results.

Table D.3

Estimate of private and social rental housing stocks in Germany (former West Germany)

	1978		1993		1998		2002	
	million	%	million	%	million	%	million	%
social rental housing	4.2	18.3	2.9	10.9	2.5	8.9	2.1	7.2
priv. fin. rental housing	10.1	44.3	12.7	47.5	13.2	48.1	13.8	48.2
owner-occupied housing	8.5	37.4	11.1	41.6	11.8	43.0	12.7	44.6
total	22.8	100.0	26.7	100.0	27.5	100.0	28.6	100.0

Source: 1978 and 1993: H. Sautter, R. Ulbrich (2000), 357-358, occupied dwellings excluding residential homes, holiday homes and housing occupied by foreign armed forces
1998 and 2002 supplementary micro-census, occupied dwellings excluding residential homes

In the former East Germany, housing stocks subject to commitments because of subsidisation are very low, since social housing construction has only been subsidised here since 1990. The proportion of publicly subsidised housing was only 1 % here even by 1993. However, an access restriction still applies to about 50 % of the housing of the municipal housing companies or cooperatives who took advantage of old debt relief. No estimate of privately financed and committed housing stocks can be undertaken here.

The high proportion of privately financed rental housing in comparison to the rest of Europe indicates on the one hand the high acceptance of this form of housing amongst tenants, and on the other to the satisfactory profitability for owners, which in turn is attributable among other things to the favourable tax treatment of investment in new construction and existing stocks.

4.1.2 Provider structure

Table D.4 shows the ownership structure of rental housing stocks for the year 1993. No later information is available, since official statistics last recorded the ownership circumstances in 1993.

Table D.4
Ownership structure of rental housing stocks¹ 1993

	Former West Germany						Former East Germany	
	Publicly-subsidised		Other		Total		Total	
	Number 1,000	%	Number 1,000	%	Number 1,000	%	Number 1,000	%
private households	628	23	9,907	77	10,535	68	956	21
municipal housing companies ⁵⁵	610	23	825	6	1,435	9	1,966	42
Cooperatives	479	18	610	5	1,089	7	1,111	24
Churches, orgs. without profit purpose	39	1	148	1	187	1	24	1
housing companies	937	35	854	7	1,791	11	338	7
other companies	-		579	4	579	4	236	5
total	2,693	100	12,923	100	15,616	100	4,631	100

Source: own calculations on the basis of the 1993 random building and housing sample

¹occupied dwellings excluding residential homes, holiday homes and housing occupied by foreign armed forces

In the former West Germany, 68 % of all rental housing was provided by private households⁵⁶. This group even held a proportion of 77 % of non-publicly subsidised rental housing. Its proportion of publicly subsidised rental housing was however significantly lower at 23 %. Municipal and other public providers represented approx. 9 % of total rental housing in the former West Germany in 1993. For publicly subsidised housing, their proportion came to 23 % and for other rental housing, 6 %.

In the former East Germany, municipal housing companies in 1993, at 42 %, held a significantly higher proportion of rental housing than in the former West Germany. The cooperatives too held a larger percentage of overall stocks in the East than in the West. The stocks held by these provider types have however probably fallen in the meantime, since they have privatised part of their holdings under the Old Debt Relief Act. Approximately half the municipal and cooperative housing stocks are subject to occupancy commitments extending to the year 2013. Other housing can be rented without access restrictions, and is therefore counted as part of the privately financed sector. The proportion of flats rented out by private households, at 21 %, was however considerably lower in the former East Germany than in the West. No categorisation of ownership circumstances into publicly subsidised and other rental housing has been made however, due to the low proportion of publicly subsidised housing (1 %) in the former East Germany.

4.1.3 Housing structure

⁵⁵ Other public corporations were also recorded here in addition to the municipal housing companies.

⁵⁶ Private households include not only individual owners, but also joint owners under civil law. Partnerships such as ordinary partnerships (OHGs) and limited partnerships (KGs) are recorded as housing companies.

Table D.5 shows the building structure, size structure and the equipment of rented and owner-occupied housing stocks for the year 2002. No categorisation into publicly subsidised and other rental housing has been made however, since this feature was not recorded in the 2002 micro-census.

Table D.5
Building type, size of flat and equipment, 2002 (in %)

	Total	Owner-occupied	By age of accommodation		
			Total	before 1949	1949 or later
Former West Germany					
Building type					
Single- and double-family house	47.7	78.9	23.3	28.7	21.5
Multi-family house	51.2	20.1	75.4	69.5	77.4
Other buildings	1.2	1.0	1.3	1.8	1.1
Living area					
below 40 m ²	4.8	0.6	7.4	7.3	7.4
40 m ² - 79 m ²	39.8	15.7	59.4	55.9	60.5
80 m ² - 99 m ²	18.4	18.0	19.0	18.7	19.1
100 m ² or more	36.9	65.7	14.3	18.2	13.0
Average area (m ²)	92.9	118.1	72.3	74.4	71.6
Equipment					
Without central heating	9.3	8.8	9.9	17.4	7.4
With central heating	90.5	91.0	90.1	82.5	92.6
Former East Germany					
Building type					
Single- and double-family house	38.0	87.6	12.2	23.7	6.0
Multi-family house	61.2	11.6	87.0	74.9	93.4
Other buildings	0.8	0.8	0.8	1.4	0.5
Living area					
below 40 m ²	6.3	0.8	9.0	8.3	9.3
40 m ² - 79 m ²	57.6	23.0	75.8	67.3	80.3
80 m ² - 99 m ²	13.4	20.8	9.6	14.9	6.8
100 m ² or more	22.7	55.4	5.7	9.5	3.6
Average area (m ²)	76.9	104.0	63.3	66.2	60.7
Equipment					
Without central heating	7.9	10.5	6.6	13.8	2.7
With central heating	92.0	89.2	93.4	86.2	97.3

Source: Statistisches Bundesamt, Micro-census 2002, own calculations

In the former West Germany, half of all flats were located in single- and double-family houses. This proportion was naturally much higher in the ownership sector than in the rental sector. In the former East Germany, the proportion of single- and double-family houses is notable lower than in the former West Germany, at 36 %. Amongst owner-occupied dwellings however, the percentage of single- and double-family houses was however higher in the former East than the former West Germany. The opposite was the case with regard to rental housing. In the former West Germany, rental accommodation was on average larger, at 72 m², than in the former East Germany, where it only averaged about 63 m². Owner-occupied dwellings in both parts of the country have a significantly higher average area: 118 m² in the former West Germany and 104 m² in the former East Germany. In both parts of the country, something over 90 % of all dwellings is equipped with central heating. In this respect, there are no major differences between owner-occupied and rented dwellings. Only in the rented dwellings

completed before 1949 is the proportion of dwellings with central heating slightly lower. Surprisingly, the proportion of dwellings equipped with central heating is somewhat higher across all types of housing in the former East Germany than in the former West Germany.

4.2 Security of tenure and rent setting

The high proportion of privately rented dwellings demonstrates the great acceptance of this form of housing amongst tenants. The reason for this must be found above all in landlord and tenant law, and especially those governing security of tenure, the setting of rent levels and maintenance. On the other side however, rent regulations also offer the landlord adequate profitability.

In principle, complete contractual freedom exists when taking out a rental contract, i.e. the rent and the term of the contract can be freely agreed. However, the Civil Code contains many regulations for the protection of tenants, from which landlords may not deviate. These are intended to protect tenants who observe the terms of the contract against the loss of their domicile, and the associated high financial and social transaction costs.

Security of tenure

The distinction must be made between unlimited and limited-term rental contracts. Limited-term rental contracts can only be concluded under certain conditions, namely when the accommodation is subsequently to be used by the landlord, demolished, comprehensively modernised or rented to an obligated service provider. Normally, unlimited rental contracts are agreed, which can then only be terminated if certain legally specified grounds exist. These include breach of the contract by the tenant, the intended own use by the landlord and the prevention of appropriate commercial utilisation by the existing rental contract. Cancellation of the contract for the purposes of increasing the rent is not permitted. The notice period for the landlord depends on the length of time the tenant has occupied the accommodation. This is initially two months, and is extended by three months at a time after five years and eight years of occupation. With a notice period of two months, the tenant can cancel the contract without having to state any grounds.

Rent setting

In the case of new rental contracts, the rent can in theory be freely agreed between the tenant and landlord. However, the agreed rent may as a rule not exceed the normal local level by more than 20 %. If the rent for an existing rental contract is to be increased, a distinction is made between rental contracts with and without a rent review agreement. As a rule, contracts are concluded without such a rent review agreement.

For contracts without a rent review agreement, the rent may only be increased,

- if it has remained unchanged for 15 months,
- if the capping limit is observed, which restricts rent increases within three years to 20 % and
- if the rent, after the increase, does not exceed the local, comparative rent.

The local, comparative rent is established on the basis of actual rents paid in the municipality for comparable housing. In order to reflect the current market situation as accurately as possible, this is based only on housing whose rents have been agreed or changed within the last three years. The linking of the rent to this local level protects tenants against excessive rent

demands, and in this way also supports protection against eviction. On the other hand, it also allows the landlord to keep the rent in line with normal market levels. In this way, negative supply effects that can be caused by upper rent limits can be largely avoided. Short-term rent fluctuations that can arise due to temporary shortages are evened out, since the comparative rent calculation is based on rental agreements from several different years.

The comparable local rent can be established by four procedures: a) rent standards, b) information from a rent database, c) expert assessments and d) the charges for three comparable dwellings. Most larger cities have rent standards, although here the distinction must be made between simple and qualified rent standards. Simple rent standards are overviews approved by the municipality or by landlords' and tenants' representatives. Qualified rent standards are established by means of accepted scientific procedures on the basis of empirical surveys. Simple rent standards should be reviewed every two years. Qualified rent standards must be reviewed every two years and redefined every 4 years.

For contracts with a rent review agreement, a distinction is made between graduated rents and indexed rents. Graduated rents allow for rent increases agreed between the tenant and landlord. In the case of indexed rents, the rent is linked to the cost of living index. In both cases, the rent may only be increased after one year at a time.

Maintenance

By means of the rental contract, the landlord undertakes to the tenant to hand over the housing in the condition specified in the contract. If any faults or problems occur that prevent or impair contractual use of the accommodation, the tenant may reduce the rent accordingly. If such faults are not rectified promptly, the tenant can even claim compensation for damages on the grounds of non-fulfilment of the rental contract. On the other side however, the tenant must agree to modernisation measures, although the landlord can transfer 11 % of the modernisation costs to the rent. Only special hardship cases are exempted from this obligation.

Rent level

Table D.6 shows the level of new contract rents in various large German cities at the beginning of 2002 on the basis of figures supplied by the 'Ring Deutscher Makler' (*German Estate Agents Association*). Large differences clearly exist between different cities. For example, rents in Munich are approximately twice as high as those in Berlin or Hannover.

Table D.6
Rents in major cities with over 500,000 residents at the beginning of 2002 for housing with average housing quality (Euro)

	Year of construction up to 1949	Year of construction from 1949
West Berlin	4.30	5.00
East Berlin	3.70	3.70
Hamburg	6.66	6.79
Hannover	4.86	4.86
Munich	10.00	10.00

Source: RDM, 2002

Between 1968 and 1997, the rent index in the former West Germany rose by an average of 4.2 % per year, while the cost of living only increased at an average rate of 3.4 %. The rents for new construction increased more slowly, at an average 3.8 %, than those for old buildings,

which on average increased by 4.7 %. If we consider the period from 1995 to 2001, this gives a significantly lower average rent increase for the whole of Germany of only 1.7 %.

4.3 Taxation

As will be shown below, there are many regulations on the taxation of income with characteristics of general subsidisation. Investment on old building stocks is particularly favoured in this way. In addition to rent law, which generally allows rent level setting in line with market prices, the advantageous tax treatment of investment in new construction and existing stocks must be seen as a further reason for the high proportion of rented property.

4.3.1 Taxes on purchase

The purchase of housing is taxed in the form of a Property Purchase Tax (*Grunderwerbsteuer*) of 3.5 % of the purchase price (land and buildings). New and existing buildings are taxed equally. However, the sale of housing is not subject to value-added tax (*Mehrwertsteuer*). The renting of housing is also exempt from value-added tax. Construction work is subject to the normal value-added tax rate of 16 %. Because of the tax exemption of sales and rental, an input tax deduction is not allowed.

4.3.2 Taxes during the letting period

The rental income of natural persons and partnerships is subject to income tax (*Einkommensteuer*), and the rental income of joint-stock companies and cooperatives to corporation tax (*Körperschaftsteuer*). Where rental income is obtained commercially, this is also subject to trade tax (*Gewerbesteuer*). The members of certain religious communities must also pay church tax (*Kirchensteuer*) on their income. Irrespective of the type of investor and type of income, land tax (*Grundsteuer*) must be paid in all cases. A wealth tax (*Vermögensteuer*) is not levied. Special regulations apply for the taxation of income in the former East Germany.

Income tax and corporation tax

German income tax regulations differentiate between seven different types of income. The rental of housing generates either income from rental and leasing, or income from commercial activities. Natural persons and partnerships generally obtain income from rental and leasing. Joint-stock companies and cooperatives always have income from commercial activities. Cooperatives whose activities are largely restricted to housing rental can apply for exemption from tax. In the case of commercial income, property is counted as part of business assets, while in the case of income from rental and leasing, they form part of the private assets. This distinction is important because profits from sales of business assets are taxed, while those from sales of private assets are exempt, provided that they fall outside the 10-year speculation period.

Apart from profits from sales and some other minor variations, taxable income from rental and leasing, and that from commercial activities are essentially calculated according to the same formula. Loan interest, depreciation and maintenance costs may all be offset against the rental income.

In the case of new construction, the choice can be made between linear or degressive depreciation. In the case of linear depreciation, housing is written off over 50 years at an annual rate of 2 %. The rates for degressive depreciation have been gradually reduced over the last 15 years. For housing completed from 2004, 4 % can be offset for the first 10 years, 2.5 % for the next 8 years, and 1.25 % for the remaining 32 years.⁵⁷ The assessment basis is the purchase price or production costs of the building.

Housing acquired from existing stocks can be depreciated over 40 years at 2.5 % or 50 years at 2 %, depending on whether it was completed before or after 1925. The depreciation basis is the procurement costs of the building. Following a sale, a building already written off can therefore be depreciated again. Since the seller's profits from the sale are not subject to taxation, provided that they fall outside the speculation period, this regulation can be considered as indirect subsidisation, which above all favours old buildings.

Maintenance costs can be deducted from taxable income in the year in which they are incurred. Depending on the actual work carried out, modernisation measures are treated either as immediately deductible maintenance costs or as subsequent production costs, which are then depreciated over the remaining useful life. Subsequent production costs refer only to major improvements to the property. The categorisation of modernisation measures is specified by an ordinance issued by the Federal Finance Ministry, and is also the subject of wide legal discussion. According to the ordinance issued by the Federal Finance Ministry and current legal interpretation, major improvements are only deemed to have been made if the modernisation extends beyond renovation required to maintain the substance on a contemporary standard. For instance, the replacement of a single-glazed window with double-glazing or the replacement of single-boiler heating with central heating are not considered as subsequent production costs. Most modernisation measures are therefore classified as immediately deductible maintenance costs. Since larger maintenance costs can quickly exceed a taxpayer's loss compensation possibilities, the costs can be spread over two to five years. This not only ensures full deductibility: due to the progressive tax rate, the distribution of such costs can also lead to higher tax relief. Although the facility of distributing larger maintenance costs over several years was abolished in 1999, it was re-introduced in the year 2004. Due to the immediate deductibility of most such measures, modernisation work enjoys clearly better tax treatment than new construction. In the same way as tax exemption of sales profits, this regulation can also be considered as indirect subsidisation, which mainly favours old buildings. To the extent that old dwellings are occupied by target households, these regulations represent indirect subsidisation of these households. Degressive depreciation of new construction on the other hand generally favours more affluent tenants.

Interest deductions, depreciation and maintenance costs often lead to negative incomes for individual properties. In such cases, the deduction possibilities can only be used if there are sufficient loss compensation possibilities available. These may result from positive income from other rental properties or other types of income. In the first case, this is referred to as horizontal loss compensation, and in the second case as vertical loss compensation. The latter is important especially for natural persons and partnerships that can offset their negative income from rental and leasing against positive income from other sources. Up to 1998, vertical loss compensation was possible without any restriction, although it has since then been restricted to certain maximum amounts.

⁵⁷ For buildings completed from 1996 to 2003, 5 % could be offset over the first 8 years, 2.5 % for the following 6 years, and 1.25 % for the remaining 36 years. For buildings completed between 1989 and 1995 the rates were 7 % for the first 4 years, followed by 5 % for the next 6 years, 2 % for a further 6 years and 1.25 % for the remaining 24 years.

Income tax and corporation tax rates vary from each other. The income tax rate is progressive. The maximum rate was reduced at the beginning of 2004 from 48.5 % to 45 %. A further reduction to 42 % is planned for 2005. In the case of corporation tax, a distinction must be made between retained profits and those paid out in the form of dividends. Profits are subject to 25 % corporation tax. Half of profits paid out as dividends remaining after corporation tax are however still subject to income tax payable by the shareholder. Income tax cannot be offset against corporation tax already paid. A solidarity surcharge (*Solidaritätszuschlag*) of 5.5 % of the tax due is also levied on income tax and corporation tax.

Trade tax

Income from commercial activities is basically also subject to trade tax. However, profits from rental activities are exempt from trade tax, if the activity of the company is restricted to renting, the management of residential buildings and the construction and sale of single- and double-family houses and condominiums.

Land tax

Land tax is a municipal tax. This is calculated by multiplying the tax assessment amount by the municipal taxation rate, which depending on the municipality is between 100 % and 500 %. The tax assessment amount is calculated from the taxable value and the tax assessment figure. The taxable values are established using the earning value procedure. In the former West Germany, these are based on the valuation conditions as at 1st January 1964, and in the former East Germany on those as at 1st January 1935. The assessment figure is 0.26 % for single-family houses with a unit value of up to 75,000 DM, and 0.35 % for the remaining part of the unit value and for multi-family houses.

Special regulations in the former East Germany

Under the 1991 Development Region Act, special depreciation was allowed in the former East Germany, in addition to normal linear depreciation. Within the first 5 years following completion, up to 50 % of the purchase price or production costs could be offset, with the actual temporal distribution of the depreciation amount being left to the investor. This special depreciation was originally only to be granted for measures carried out up to 1996. However, it was subsequently extended by the 1996 Annual Tax Act (*Jahressteuergesetz*) to measures from the years 1997 and 1998, although the depreciation amount was reduced to 25 %. This benefited purchase prices or production costs of new buildings or subsequent production costs of modernisation measures.⁵⁸

Subsidisation via special depreciation appears less than ideal from an efficiency and equity point of view. From the efficiency point of view, the criticism is that special depreciation can only be fully utilised in case of adequate loss compensation possibilities, and therefore restricts the circle of possible investors. Since such investors, who are mainly interested in tax savings, often fail to take sufficient account of the profitability of the property, misdirected investment cannot be excluded. The dependence of the subsidisation on progression also appears problematical from the distribution policy aspect. Special depreciation was therefore replaced in 1999 by investment allowances.

⁵⁸ The regulations were far less favourable for owner-occupied property. There were no special regulations for new construction. Subsequent production costs and maintenance costs up to an amount of 40,000 DM could be offset over 10 years as special expenses.

The Investment Allowance Act (*Investitionszulagengesetz*) concentrated special subsidisation on modernisation and maintenance measures. New construction is no longer subsidised. A distinction is made between the simple and the increased investment allowance.

- The simple investment allowance is given for subsequent production costs and maintenance measures to buildings that were completed prior to 1991. This benefits investments made from 1999 up to and including 2004. The allowance is 15 % of the qualifying costs, less an excess of 50 Euro per m² of living area. The subsidy covers maximum costs of 614 Euro per m² of living area.
- The increased investment allowance is given for subsequent production costs and maintenance measures to buildings that were built prior to 1949 or completed between 1949 and 1959 and are protected as listed buildings. The building must however be located in a renovation or preservation area. This benefits investments made from 2002 up to and including 2004. The allowance is 22 % of the qualifying costs, less an excess of 50 Euro per m² of living area. The qualify costs are limited to 1,200 Euro.

Up to and including 2001, the allowance was also available for new construction in renovation and preservation areas. At the moment, new construction is no longer subsidised.

Under the subsidy programme “Urban Redevelopment in the East” (Stadtumbau Ost), the Federal Government has since 2002 also provided funds for demolition and clearance projects. Demolition projects can be subsidised at a rate of 30 Euro per m² of living area, provided that the states themselves provide at least the same amount. Under the 2nd KfW Housing Modernisation Programme, demolition projects can be subsidised by low-interest loans of up to 125 Euro per m² of cleared living area. The renovation of city districts in line with the urban infrastructure and for improvement of the living environment can also be subsidised under the programme “Urban Redevelopment in the East”. The subsidisation quota provided by federal government is in this case one-third. The remaining two-thirds of the subsidy must be provided by the state and the municipality. An essential requirement for the approval of funds is that the municipality has an integrated urban development concept.

4.3.3 Taxes on sale

Gains from the sale of private assets are exempt from tax, provided that they are realised outside the speculation period of 10 years. The speculation period was extended in 1999 from 2 to 10 years. Profits from the sale of business assets on the other hand are liable for tax, although they can be offset against the purchase price or production costs of other property. This also reduces the depreciation possibilities on such property.

5. The social rental sector

Social rental housing in Germany is normally defined as housing that is subject to rent control and access restrictions by reason of subsidisation. A special feature of the German regulations is that these commitments are restricted in time. After the end of the commitment period, the housing reverts to the privately financed sector and can be rented without any access or special rent level restrictions. Subsidisation is not restricted to any particular type of investor, but can be used by all investors.

Housing owned by public, usually municipal companies is only counted as part of the social rental sector to the extent that it is subject to rent control and access restrictions conferred by subsidisation. In other European countries however, such as Austria and Sweden, municipal housing fundamentally belongs to the social sector. The role of the municipal housing companies will therefore be examined in more detail at the end of this section.

In the former East Germany, housing subject to access restrictions under the Occupancy Commitment Act can also be regarded as socially rented, in addition to housing subject to commitments because of subsidisation. Of the housing owned by municipal housing companies and cooperatives who claimed old debt relief, about half is subject to access restrictions on this basis, which as a rule will run out in 2013. Such housing is however not subject to any rent restrictions.

The 2nd House Building Act differentiated between four subsidy methods: the traditional 1st subsidy method, the 2nd subsidy method, the ‘agreed’ subsidisation (3rd subsidy method) and income-related subsidisation. The 1st and 2nd subsidy methods were strictly regulated by the law: the eligibility was specified and subsidisation was to be handled according to the cost rent law. Social rents, costs, subsidisation and the commitment period were closely linked with each other. The cost rent regulations tended to encourage over-subsidisation, were very inflexible in use and lead to rent distortions. With the agreed subsidisation, eligibility, rent levels, rent changes, commitment periods and the level of subsidisation could be determined by the states with a great degree of freedom, and without reference to cost rent regulations. The level of subsidisation was also to be reduced by means of shorter commitment periods, extended access, higher rents and more regionally adapted subsidisation.

The different subsidy methods and the cost rent regulations were abolished under the 2001 Housing Subsidy Act.⁵⁹ Under this act, subsidisation can be organised with a great degree of freedom by the states. There are only two stipulations: the subsidisation must be concentrated primarily on needy households, and unintended subsidisation of non-entitled tenants must be prevented by income-related grants or compensation charges. In order to achieve the necessary concentration on needy households, the income limits of the 1st subsidy method were adopted from the old regulations, although states can still deviate from these figures in justified cases.⁶⁰ Above all however, the Housing Subsidy Act introduced a broadening of the qualifying circumstances. While only new construction and modernisation measures could be subsidised under the 2nd House Building Act, subsidisation can now be given for the purchase of existing housing, the acquisition of occupancy rights and the conclusion of co-operation contracts between municipalities and housing companies, provided that this confers occupancy rights in favour of needy households. These instruments were in fact used by various states and municipalities before the reform, although they could not be subsidised via federal housing construction funds.

Below, it will first be shown how social housing stocks have developed over the course of time. We will then describe the access criteria, rent restriction, commitment periods and the procedures for establishing the amount of the subsidy under the different subsidy methods, before discussing the alternative instruments for the acquisition of occupancy commitments. Finally, we will examine the importance of the municipal housing companies and the former

⁵⁹ For dwellings subsidised under the old law by the 1st and 2nd subsidy methods, the cost rent regulations remain in effect until expiry of the commitments.

⁶⁰ The income limits set by the Housing Subsidy Act also apply for publicly subsidised housing under the old law.

social housing for the target households. Former social housing refers to housing for which the commitments have already expired.

5.1 Development of housing stocks, provider and housing structure

5.1.1 Development of housing stocks

Former West Germany

Since no up-to-date information is available on social housing stocks, estimates must be used. Such an estimate is shown in Table D.3. According to these figures, social housing stocks (all subsidy methods) in the former West Germany declined from 4.2 million (18.3 %) in the year 1978 to only 2.1 million (7.2 %) in 2002.

Table D.7 shows, for the years 1978 and 1993, that publicly subsidised housing was very unevenly distributed at the regional level. In cities of large agglomerations, the proportion in 1993, at 19.8 %, was more than four times as high as in rural areas, where it only amounted to 4.8 %. Since the following official surveys no longer recorded the question of public subsidisation, there is unfortunately no more up-to-date information on the regional distribution, although figures are available for some major cities. In 1998/1999, the proportion of social rental housing was 18 % in Hamburg and Dortmund, 13 % in Cologne and Frankfurt and 9 % in Munich (Kirchhoff, Jacobs, 2001, 58).

Table D.7
Publicly subsidised rental housing by regional types (former West Germany)

	Total	Agglomerations			Urbanised regions			Rural areas
		Total	Cities	Sur-rounding	Total	Cities	Sur-rounding	
1978								
Dwellings	22,760	13,526	7,288	5,238	6,875	1,356	5,519	2,359
Publicly subsidised absolut	3,973	2,892	1,974	918	841	329	513	239
Publicly subsidised in %	17.5	21.4	27.1	17.5	12.2	24.3	9.3	10.1
1993								
Dwellings	26,718	15,555	8,040	7,515	8,272	1,599	6,673	2,891
Publicly subsidised absolut	2,712	2,127	1,594	533	446	191	255	139
Publicly subsidised in %	10.2	13.7	19.8	7.1	5.4	11.9	3.8	4.8

H. Sautter et al, 2002, Materialband, 26, 30

Using the example of Hessen, Table D.8 shows that the number of social dwellings will continue to decline in future. Without newly agreed commitments, the number of social dwellings here will fall from about 180,000 in the year 1998 to only 103,000 units in 2015. Measured against the 1998 housing stock, this corresponds to a decline in the social housing quota from 6.7 % to 3.9 %. This decline should be compensated for, at least in part, by the acquisition of additional commitments, either due to new construction or by acquisition from existing stocks (Hessisches Ministerium für Wirtschaft, Verkehr und Landesentwicklung, IWU; 2001; 5,9).

Table D.8
Development of social housing stocks in Hessen from 1991 to 2015

	Total dwellings	Social dwellings			
		Total	Proportion in %	1 st subsidy method	Agreed subsidisation
1991	2,428,330	205,907	8.5	203,722	2,185
1995	2,576,470	188,721	7.3	176,931	11,790
1998	2,677,910	179,154	6.7	158,775	20,379
2000		170,650	6.4	146,558	24,092
2005		144,600	5.4		
2010		123,855	4.6		
2015		103,317	3.9		

Source: Hessisches Ministerium für Wirtschaft, Verkehr und Landesentwicklung, IWU (2001, 5,9)

Table D.9 shows the estimated decline in social housing stocks for selected major cities.

Table D.9
Development of social housing stocks in different cities from 1999 to 2010

	Hamburg		Dortmund		Cologne		Frankfurt		Munich	
	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion
98/99	151,000	17.7	52,000	17.6	68,500	13.3	42,200	12.6	58,800	8.4
2010	100,000	11.7	23,000	7.8	44,800	8.7	25,000	7.4	32,000	4.6

Source: Kirchhoff/Jacobs, 2001 58, 62; own calculations

Table D.10 documents the number of social dwellings approved in the post-war period. A comparison with existing social rental stocks shows that the number of approved social rental dwellings is more than twice as high as the number still existing. This emphasises the importance of former social housing.⁶¹

Table D.10
Total completions and approvals for social residential construction (former West Germany)

Year	New constr. Total 1,000	Approvals in 1,000												
		Total		Rental		By subsidy methods								
		abs.	%	abs.	%	1 st subsidy method			2 nd subsidy method			3 rd subsidy method		
						Total	Rental	Owner Occup.	Total	Rental	Owner Occup.	Total	Rental	Owner Occup.
50-59	5,198	3,272	63	1,869	36	3,272	1,869	1,404	0	0	0	0	0	0
60-69	5,696	2,357	41	1,257	22	2,221	1,209	1,012	137	48	89	0	0	0
70-79	4,976	1,468	29	833	17	905	660	245	563	173	390	0	0	0
80-89	3,069	739	24	356	12	385	271	114	338	69	269	16	16	0
90-98	3,570	781	22	504	14	311	218	93	151	49	102	318	236	82
Σ	22,509	8,617	38	4,818	21	7,094	4,227	2,867	1,189	339	850	334	252	82

Source: Completions: Statistisches Bundesamt, 50 Jahre Wohnen in Deutschland,

Approvals up to 1972: Hübl, 97, 45

Approvals since 1973: Statistisches Bundesamt, Fachserie 5, Reihe 2, various years, own calculations

From 1950 to 1998, 22.5 million dwellings were completed in the former West Germany and subsidisation funds approved for 4.8 million social rental dwellings. The proportion of approvals to completions therefore came to 21 %. Over the course of time, it has since declined

⁶¹ The approval figures do not coincide with the number of completions for social residential construction. However, since there is no information available on completions for social rental residential construction for the complete period, recourse has had to be made to the approval figures.

from 36 % in the 1950's to only 12 % in the 1980's. In the 1990's, the percentage rose again slightly to just on 14 %. Of the 4.8 million rental dwellings for which subsidisation was approved up to 1998, 4.2 million were subsidised under the 1st subsidy method, 340,000 under the 2nd subsidy method and 250,000 under the 3rd subsidy method.

Former East Germany

In the former East Germany, the distinction must be made between access restriction based on subsidisation of social residential construction, and access restriction deriving from the Occupancy Commitment Act.

Subsidised housing has only existed in the former East Germany since the reunification of Germany. According to Table D.11, subsidy funds were approved for approx. 279,000 dwellings between 1991 and 1998. These included about 160,000 rental dwellings, of which about 35,000 were subsidised under the 1st subsidy method, 19,000 under the 2nd subsidy method and 106,000 under the 3rd subsidy method. Measured against completions, the proportion of approvals is relatively high, at 33 %. Over the course of time however, it has declined sharply to only 6 % in the year 2001.

Table D.11

Total completions and approvals in social residential construction (former East Germany)

Year	New constr. Total	Approvals										
		Total		by subsidy methods								
		abs.	%	1 st subsidy method			2 nd subsidy method			3 rd subsidy method		
				Total	Rental	Owner-ship	Total	Rental	Own-ership	Total	Rental	Own-ership
1991	16,670	3,811	23	495	393	102	20	7	13	3,296	1,891	1,405
1992	11,477	21,253	185	4,776	3,382	1,394	894	609	285	15,583	6,187	9,396
1993	23,598	38,977	165	6,162	4,694	1,468	2,346	1,500	846	30,469	13,702	16,767
1994	67,704	55,609	82	9,432	7,632	1,800	11,474	9,313	2,161	34,697	18,111	16,586
1995	104,214	51,533	49	10,023	7,722	2,301	9,473	5,985	3,488	31,987	16,827	15,160
1996	143,366	41,715	29	5,294	4,403	891	2,049	616	1,433	34,332	18,045	16,287
1997	177,829	36,553	21	4,981	4,336	645	1,358	258	1,100	30,174	17,389	12,785
1998	128,447	29,872	23	2,903	2,180	723	1,301	313	988	25,638	14,423	11,215
1999	102,865	17,442	17	1,967			1,345			14,130		
2000	86,284	5,735	7	436			425			4,874		
2001	58,263	3,730	6	254			325			3,151		
2002	49,000											
Σ	920,717		33	46,723			31,010			228,331		

Source: New construction total: Statistisches Bundesamt, 50 Jahre Wohnen in Deutschland, GdW, 2002, 105

Approvals: Statistisches Bundesamt, Fachserie 5, Reihe 2, various years, own calculations, GdW, 2002, 107

In addition to housing subject to commitments by reason of subsidisation, there are also dwellings in the former East Germany to which access entitlement is restricted under the Occupancy Commitment Act. According to these regulations, part of the stocks belonging to municipal housing companies and cooperatives who claimed old debt relief are subject to an access restriction. In four of the five states of the former East Germany, this proportion is 50 %, while in Thuringia it is 25 % for the cooperatives and 50 % for the municipal housing companies. In East Berlin, the proportions range between 20 % and 45 %, depending on the type of provider and old debt relief. With only one exception, the commitments extend to the year 2013. There is no information available on the number of dwellings subject to such commitments. Amongst the companies organised into the GdW (*Gesamtverband der Woh-*

nungswirtschaft – National Housing Association) in the former East Germany, about 251,000 dwellings are subject to such commitments (GdW, 2002, 118).

5.1.2 Provider structure

Information on the provider structure can only be given for the former West Germany, and even then only to a limited extent. The latest available data originate from the 1993 random building and housing survey, and relate only to publicly subsidised rental housing. The largest proportion of 35 % was owned by the housing companies, followed by the municipal housing companies and private households with 23 % each. The cooperatives owned 18 % of publicly subsidised rental housing (see Table D.4).

5.1.3 Stocks structure

As Table D.12 shows for the former West Germany, the proportion of single- and double-family houses amongst publicly subsidised rental housing is very low at 3 %. 29 % of non-publicly subsidised rental housing was however located in single- and double-family houses. The proportion of larger dwellings is significantly higher in non-publicly subsidised housing than in publicly subsidised housing. Households with several children cannot therefore find it easy to obtain social housing of an appropriate size. The equipment of publicly subsidised housing is however better on average than that found in the other accommodations. This is due to the fact that many non-publicly subsidised dwellings date from the pre-war period, whereas all social housing was not built until after the war.

Table D.12
Structure of publicly subsidised and privately financed rental housing, 1993
Former West Germany

	Publicly subsidised		Non-publicly subsidised	
	in 1,000	%	in 1,000	%
Total	2,693	100	12,923	100
Building type				
Single-family house	33	1	1,065	8
Double-family house	44	2	2,628	20
More than three flats	2,616	97	10,295	71
Living area in m²				
below 40	177	7	1,187	9
40 to 59	935	35	3,290	25
60 to 79	1,149	43	4,134	32
80 to 99	382	14	2,442	19
100 and more	51	2	1,870	14
Average living area in m²		63,6		71,2
Equipment				
With bath, WC and central heating	2,226	83	10,192	79
With bath, WC, without central heating	449	17	2,188	17
Other	18	1	543	4

Source: H. Sautter, R. Ulbrich, 2000, 358, own calculations

5.2 Access restriction, allocation and occupancy structure

We will now examine below which households have access to social housing, the proportion of households with access to social housing, how social housing is allocated and the resident structure to be found in subsidised housing stocks.

5.2.1 Access restriction

Access to social housing is conferred only on households whose income does not exceed certain maximum limits. The income limits are not standardised, but differ depending on the subsidy methods. Many dwellings are also reserved for certain groups, such as the elderly, the handicapped or families with children. Access is documented by means of an entitlement certification, which is issued on request by the municipalities. This certification also specifies the size of the accommodation to which the household is entitled. The entitlement to accommodation is not forfeited if the access criteria are infringed after taking up occupation, e.g. by exceeding the income limits or a reduction in the size of the household.

The definition of the access criteria has a decisive influence on the supply effects of the social housing sector. The broader the income limits are set, the greater is the probability that social housing construction will reduce the demand for non-subsidised new construction, and in this way lead to crowding-out effects. Broadly framed access entitlement also increases the likelihood that there will be amongst the tenants many households who do not occupy social housing because of the improved housing supply, but only because of the rent advantages. The fact that this risk should not be underestimated has been demonstrated by an empirical investigation of housing supply of target households in towns with high and low social housing quotas. In 1978, when the access was still defined relatively broadly (see below), the housing supply in municipalities with high quotas was no better than in municipalities with low quotas. In 1993 however, when the entitlement was more restricted, positive supply effects of higher social housing stocks could be discerned.⁶² The favourable supply effects of a more strictly defined eligibility must however be weighed against the disadvantages that can arise from the concentration of disadvantaged households in social housing. The danger of such a development is particularly prevalent in locations with a high social housing quota, coupled with a poor image, as is the case with some large housing estates dating from the 1960's and 1970's.

Access to housing subsidised under the old 2nd House Building Act (II. WoBauG) by the 1st subsidy method corresponds to the access entitlement to housing subsidised under the new Housing Subsidy Act (WoFG). The figures specified in the new law are however based largely on the income limits of the old law, which date from the year 1994.

	WoFG	II. WoBauG
Single-person household	12,000 Euro	11,760 Euro
Two-person household	18,000 Euro	17,077 Euro
Every further person	4,100 Euro	4,090 Euro

For every child, the income limit is raised by 500 Euro. Allowances are also granted to various groups such as the severely handicapped and young married couples. The income limits refer to the disposable income remaining after the deduction of fixed social security contributions and taxes. According to Housing Subsidy Act however, state governments can deviate from these limits by passing the relevant ordinances. Such ordinances have for instance been

⁶² H. Sautter, R. Ulbrich, J. Kirchner et al (2002), Beitrag verschiedener wohnungspolitischer Instrumente zur Schaffung ausgewogener Bewohnerstrukturen.

passed in Hessen and Nordrhein-Westfalen. Under the Hessen Ordinance, the following maximum amounts apply:

Single-person household	13,200 Euro
Two-person household	19,800 Euro
Every further person	4,510 Euro

For every child, the income limit is raised by 550 Euro. In Nordrhein-Westfalen, the limits for single-person and two-person households were increased, because the proportion of those entitled is too low under the limits of the Housing Subsidy Act (see below):

Single-person household	15,000 Euro
Two-person household	20,000 Euro
Every further person	4,100 Euro

The maximum amounts in Nordrhein-Westfalen will be reviewed at the beginning of 2006, and every three years thereafter, on the basis of the cost of living index. There was no differentiation between states with regard to access entitlement to publicly subsidised housing until the introduction of the Housing Subsidy Act in 2001. The limits of the 2nd House Building Act applied nationally. Nor was there in the past any regular adjustment of the income limits, as now allowed for by the state of Nordrhein-Westfalen.

In the housing subsidised by the 2nd subsidy method of the old law, those households have an entitlement to accommodation whose income does not exceed the limits of the 1st subsidy method by more than 60 %, or who vacate publicly subsidised rental housing. This subsidy method was of only subsidiary importance for rental residential construction. Of all rental housing for which subsidisation was approved up to 1998, only 7 % was subsidised by this programme.

In the case of agreed subsidisation, the access restrictions were not legally specified. A large number of subsidisation programmes with different usage commitments were instituted by the states. By the mid-1990's there were 29 different subsidisation programmes. The range of income limits extended from adoption of the regulations of the 1st subsidy method to the possible exceeding of the limits specified here by 20, 40, 60 or 80 %. Most states organised programmes for different target groups, all of which were subject to different income limits (K. Behring, J. Kirchner, R. Ulbrich, 1997, 22-25). In the initial years, the agreed subsidisation was often regarded as a supplement to the 1st subsidy method, which was directed at households with somewhat higher incomes. Over the following years, some states went over to replacing the 1st subsidy method by agreed subsidisation, and reducing the income limits. The agreed subsidisation was introduced during a time of increasing housing shortages. In order to achieve better supply effects with the limited funds available, a more cost-effective alternative was sought to the costly 1st subsidy method. Savings were to be achieved by the abolition of the cost rent regulations, the reduction of the commitment periods and the extension of eligibility. Broader income limits were considered as quite acceptable, since it was assumed that the target groups of traditional subsidisation would also be reached due to the filtering effects. In view of the above-mentioned crowding-out effects however, such a strategy does not appear to be entirely without its problems.

Under the Housing Subsidy Act, subsidisation should be concentrated on really needy households. Since such a concentration was already supposed to have been achieved by means of the income limits of the 1st subsidy method, these figures were largely adopted into the Housing Subsidy Act. Measures subsidised under the new act, whether construction projects, purchase of existing stocks, the acquisition of occupancy rights or co-operation contracts, should therefore benefit mainly households which do not exceed these income limits. The states were however allowed the possibility of deviating from these maximum amounts, if this is consid-

ered necessary for the creation or maintenance of socially stable population structures, or for the accommodation of households who still experience difficulties on the housing market, despite their higher income. This facility has been used, for instance, by the states of Nordrhein-Westfalen and Hessen.

5.2.2 Proportion of eligible households

The proportion of households with access to publicly subsidised rental housing depends on the setting of the income limits. In 1978, this was 47 % of all households in the former West Germany. Due to increasing income, this proportion fell to only 32 % in the years 1991 and 1992. The adjustment of the income limits in 1994 brought the proportion of those with access back up to 40 %, since when it has fallen again to only 37 % in 1999. (R. Ulbrich, 1992, 582-584, R. Ulbrich, 2000, S. 35)

Table D.13
Entitled households in social residential construction

Household size	Former West Germany		Former East Germany	
	1994	1999	1994	1999
1	41	36	70	50
2	37	32	57	42
3	39	40	51	48
4	42	40	55	47
5 and more	53	52	66	61
Total	40	37	61	47

Source: R. Ulbrich, 2000, Tab. 4b and 4c

In 1999 therefore, there were almost 12 million eligible households, compared to about 2.5 million social dwellings. Even if one takes into account that households with an entitlement to accommodation also include ownership households, this ratio still demonstrates that the great majority of those with an access entitlement are still forced to rely on privately financed rental housing. The ratio of those with access to social housing to available social housing deteriorates even further when one considers that a large proportion of such housing is occupied by households who actually no longer are eligible because they have exceeded the income limit. In 1994, this was the case in approximately 49 % of publicly subsidised housing (see Section 2.8).

It should be noted that higher income limits normally apply to social housing subsidised by the 2nd or 3rd subsidy methods. This also applies to housing subsidised under the 1st subsidy method, if the limits have been increased by the states.

5.2.3 Housing allocation

Occupancy commitments are divided essentially into simple commitments, nomination rights and allocation rights. In the case of a simple commitment, the owner may rent the accommodation to a tenant of his choice, provided they have an entitlement to accommodation. The nomination right gives the responsible authority, which is usually the municipality, the right to nominate three applicants to the owner for selection. If an allocation right exists, the housing is allocated direct by the municipality. Nomination and allocation rights are succeeding also referred to as occupancy rights.

Subsidisation is fundamentally coupled to the granting of a simple occupancy commitment, under which the owner is obliged to rent housing only to households who can provide certification of their entitlement. Since the landlord can choose freely amongst those with an entitlement to accommodation, it cannot be excluded that the most disadvantaged households will be discriminated against in this way. Many municipalities therefore hold nomination rights. Nomination rights can be acquired contractually, by means of the state or municipality making the allocation of their own funds conditional on the granting of such rights. The municipalities also often participate in the subsidisation by providing land at reduced prices. In some states, state subsidisation is even contractually linked to an allocation right. As a rule however, these rights only apply for a part of the commitment period and then only for some subsidised dwellings. For housing subsidised under the 1st subsidy method, nomination rights can also be conferred by legal ordinance. Under § 5a of the Housing Commitment Act (*WoBindG*) states in areas with increased housing requirements have the facility of subjecting all publicly subsidised housing to a nomination right by legal ordinance (see Section 2.5).

When making these proposals, the municipality resorts to waiting lists, on which those in search of housing are registered. Priority amongst applicants is dictated by various urgency criteria. Since the municipalities are primarily interested in finding accommodation for urgent cases, these nomination and allocation rights in fact represent a further restriction of the eligibility. 80 % to 90 % of registered applicants are consequently lower-income households. These are households whose income is 20 % or more below the permissible limits. Recipients of transfer payments and foreigners also frequently feature in the waiting lists. The proportions of these groups are even higher amongst the urgent cases. More than half the urgent cases are also households in a particular problem situation, who in many cases come from public institutions, social care facilities, penal institutions or straight off the street. According to Kirchhoff/Jacobs (2001, 68), between 2 % and 4 % of households in the cities Frankfurt, Munich, Dortmund and Cologne were registered as seeking housing in 1998. The urgent cases included only 0.5 % to 1.5 % of households. The proportion of registered households seeking accommodation is therefore substantially lower than the proportion of households with an access entitlement. From the proportion of urgent cases, in conjunction with the removal frequency, conclusions can also be drawn with regard to the desirable level of social housing stocks. If 1 % of households constitute urgent cases, and the average period of residence is 10 years, then approximately 10 % of housing should be social housing.

5.2.4 Occupancy structure

The decline in stocks subject to housing commitments, and the simultaneous increase in the number of unemployed, social assistance recipients and foreigners, has greatly changed the task of social housing construction over the course of time. While the original aim was to increase the supply for the population in general, the main consideration today is the accommodation of disadvantaged households. This fundamental change has found its expression in the restriction of those qualifying for entitlement, and associated changes in allocation practices, which are increasingly concentrated on lower-income households and households with special problems. On housing estates with high social housing quotas in particular, such an allocation policy can lead to problematical resident structures. In order to prevent or counteract such undesirable developments, certain dwellings can be relieved of the access restrictions, or the commitments transferred to privately financed housing. Commitment relief has been successfully used in various cities, such as Hamburg, Berlin and Hannover (see H. Sautter et al, 2002, 144). A special procedure for avoiding imbalanced occupancy structures is practiced in Hamburg. As part of a co-operation contract, the city has relinquished its nomination rights in the

case of companies who have undertaken to occupy a certain number of dwellings per year with urgent cases. This stipulation offers the companies the facility of finding occupants for the housing themselves, and also being able to resort to housing stocks not subject to commitments for the accommodation of the target households. In this way, it is hoped to be able to avoid a problematic concentration of such households in specific areas.

Since imbalanced resident structures can be avoided or reduced by the measures described above, there seems to be no need for a general extension of the eligibility in order to avoid segregation. This also applies particularly from the aspect that resident structures considered as negative are the exception rather than the rule. As the two following tables show, the concentration of low-income households and other target households in publicly subsidised housing has indeed increased, although no cause for concern can as yet be identified from this development.

Table D.14
Occupancy structure in publicly subsidised rental housing in percent
(Former West Germany)

	Total		Major cities in conurbation areas	
	1978	1993	1978	1993
1 st quintile	20	28	17	26
2 nd quintile	24	27	23	26
3 rd quintile	23	22	22	22
4 th quintile	20	15	21	17
5 th quintile	14	7	16	9

Source: H. Sautter, 2000, 368 – 369; own calculations

Table D.15
Target households in publicly subsidised rental housing in percent
(Former West Germany)

	Total			Publicly subsidised		
	1978	1993	In-crease	1978	1993	In-crease
Single parents	3.5	3.7	1.1	4.6	5.4	1.2
Families with several children	3.9	2.3	0.6	4.4	2.9	0.7
Foreigners with children	3.7	4.2	1.1	3.0	5.3	1.8
Unemployed on social assistance	1.5	5.6	3.7	2.0	8.0	4.0
Poor elderly people	8.6	7.0	0.8	8.0	8.5	1.1
Total	21.2	22.9	1.1	21.9	30.1	1.4

Source: H. Sautter, 2000, 368 – 369; own calculations

5.3 Rent restrictions

Rent restrictions are intended to ensure the affordability of social housing for entitled households, which would not be ensured in the case of normal market rents. The guideline for the establishment of the social rent should be the readiness to pay, which depends on the housing quality and the income of the tenant. The higher the income, the higher will be the readiness to make payment for a given dwelling. A rent below this level seems inadvisable both from the housing policy and the distribution policy point of view. From a housing policy point of view a lower rent is not necessary, because rental to the target households is also feasible if the rent corresponds to the readiness to pay. From a distribution policy point of view, a lower

rent is problematical, because the associated income transfers only benefit the social tenants, and thus contravene the principle of horizontal equitableness. On this basis therefore, differentiation of the rent according to use value and the income of the tenant must be considered as reasonable. The rent regulations for subsidised housing vary greatly. They depend on whether the housing was subsidised under the new Housing Subsidy Act or the old 2nd House Building Act, and also differentiate between the different subsidy methods of the old law. The regulations applicable under the old law remain in effect until expiration of the commitments.

In housing subsidised under the 2nd House Building Act by the 1st subsidy method, the cost rent regulations apply. In this case, the states specified an approval rent, which in the mid-1990's lay, in the majority of cases, between 7 DM and 9.50 DM (3.58 Euro and 4.86 Euro). In most states there was also a regional differentiation, although this was not very pronounced due to the uniform national access criteria. Subsidisation was designed so that the cost rent corresponded to the approval rent (see Section 2.2). In order to avoid excessive buildings costs that are favoured by this subsidisation system, upper cost limits and maximum subsidisation levels were specified by the states. An increase of the rent is only possible under the cost rent regulations by increasing these costs, which can be achieved either by increasing the interest rates for the public loans, or reducing the operating cost grants. Most states therefore reserved the right in their subsidisation contracts to apply future interest rate increases. This enabled them to react flexibly to changes in rents. The reduction of operating cost grants was however specified from the very beginning. Such grants were usually only given for the early years of the commitment period. The specified rent increases ranged between 0.15 DM and 0.30 DM (0.08 Euro and 0.15 Euro) per year (K. Behring, J. Kirchner, R. Ulbrich, 1998, 15-17). Since the cost rents are affected by the historically varying building costs and subsidisation conditions, this resulted in substantial rent distortions. The use value is therefore in this respect not reflected by the cost rent. Apart from one state, there is also no differentiation in the cost rent according to income, so that rents for those with access to social housing are also not income-related. Households who have lost their entitlement due to increases in income must on the other hand pay an income-related supplementary rental charge (see Section 2.8). This is only applied in most states when the income limits are exceeded by 40 % or more. The application of the supplementary rental charge can also be waived in the case of certain housing stocks in order to avoid or counteract imbalanced resident structures.

The cost rent regulations do not apply to housing subsidised under the 2nd House Building Act by the 3rd subsidy method (agreed subsidisation). The initial rent and the future rent increases were laid down in the subsidisation agreement. A rent increase by means of subsequent cost adjustments, as under the cost rent regulations, is not possible. Because of the differences in the eligibility entitlement, the initial rents of the agreed subsidisation demonstrate a greater spread between the states than the approval rents of the 1st subsidy method. In programmes in which the access restriction conformed to that of the 1st subsidy method, the initial rents in the mid-1990's were between 9 DM and 9.80 DM (4.60 Euro and 5.01 Euro). For programmes that exceeded these limits, rents were set at up to 12.50 DM (6.39 Euro). There were essentially two procedures for rent review regulations in the mid-1990's. Some states specified the permissible rent increases in absolute terms, with the amounts ranging from 0.25 DM (0.13 Euro) per year up to 1 DM (0.51 Euro) in three years. Other states allowed increases according to general rent law, provided that this did not exceed certain upper limits, which lay between 10 % and 20 % in three years (K. Behring, J. Kirchner, R. Ulbrich, 1998, 26-29). In view of the low rent level increases over recent years, the second procedure above all has led to a closer alignment between social rents and market rents. The setting of rent increases appears problematical especially in the case of longer commitment periods. There was no in-

come-related differentiation of the rent or supplementary rental charge for agreed subsidisation.

The income-related subsidisation under the 2nd House Building Act was a variant of the agreed subsidisation. The maximum permissible rent conforms in some states to the local, comparative rent, while in other states it is fixed in absolute terms, although the amounts are still based on the comparative rent. Rent reviews were specified in a similar way as under agreed subsidisation. To reduce the burden of housing costs, tenants received income-related grants. The grants run out at an income level which exceeds the limit of the 1st subsidy method by 40 %, 60 % or 80 %, depending on the state. The maximum grants are, with one exception, always reached at the income limits of the 1st subsidy method. An income-related differentiation in rents therefore only occurs in the case of households who would be considered as non-entitled occupiers under the 1st subsidy method. Only in one state were rents of eligible households under the 1st subsidy method also income-related. The maximum permissible rents ranged from 11 DM to 15 DM (5.62 Euro and 7.67 Euro) and the minimum rents from 8 DM to 10.50 DM (4.09 Euro and 5.37 Euro) (K. Behring, J. Kirchner, R. Ulbrich, 1998, 26-29).

Under the Housing Subsidy Act, a maximum permissible rent must be specified when approving the subsidisation. Regulations on rent reviews during the commitment period can also be defined (§ 28 WoFG). If this is not the case, the landlord can apply rent increases according to general rent law. In order to ensure affordable housing costs, the rents may also fall below the local, comparative rent. When establishing the social rents, housing allowance payments, the local rent level and the household's income must also be taken into account. Inappropriate rent relief should be avoided either by an income-related establishment of the rent or by supplementary charges (§ 7 WoFG).

This gives rise to the question of why the rent restriction of subsidised housing is not simply abolished, and the safeguarding of affordability ensured by the general housing allowance. Since households with the same incomes would be treated in the same way, irrespective of whether they live in privately financed or social rental housing, this system would be not only simpler, but also fairer than the present system. The housing subsidisation would then only serve to ensure accessibility of housing for the target households. One factor mitigating against this solution is the fact that the housing allowance cannot in its current form guarantee the affordability of appropriate housing at market rents. This is due above all to the fact that the maximum rent levels used in the calculation of the housing allowance are lower than the market rents. In 2001 therefore, 52 % of those receiving rent support were paying rents which were above the maximum amounts of the Housing Benefit Act (Wohngeld- und Mietenbericht 2002, S.72). The lifting of rent restrictions for social housing would therefore only be feasible if the housing allowance were restructured. Yet such a reform would be extremely costly, because it would also benefit households in privately financed housing. A more realistic solution would seem to be the indexing of social rents to the maximum rent levels of the Housing Benefit Act. This would at least leave the question of affordability as far as possible to the housing allowance system. But this solution is also not feasible under the current housing allowance system: it is impossible for investors to foresee at the moment how the maximum rent levels and the associated income losses due to rent control will develop in future, since under the German housing allowance system, there is no regular adjustment of maximum rent levels to general rent level developments.

5.4 Commitment periods

A significant feature of the social housing sector in Germany is the restriction of the commitment period. Following expiration of the commitments, housing can be rented without any special restrictions, and is accordingly counted as part of the privately financed sector (see also Section 2.9).

In the assessment of the commitment expiry, it seems helpful to distinguish between two functions, which can be assigned to social housing. These are firstly the extension of housing supply to lower-income households, and secondly the creation of municipal occupancy facilities for the accommodation of disadvantaged households. The extension of supply, which was regarded as the principal task after the war, has now receded into the background. The requirement for municipal occupancy rights has on the other hand increased. It is of course correct to say that the problem of accommodation of disadvantaged households would be easier to resolve today if permanent commitments had been agreed in the past. From a supply policy point of view, a restricted commitment period does not appear to be problematical if the housing whose commitments have already run out due to its age were still occupied by the target households. But even further reductions of the commitment periods have been justified on the grounds of supply policy. Reference was hereby made to the higher subsidisation figures that can be achieved with a given budget, if the subsidisation is reduced in individual cases by means of a shorter commitment. However, since housing in this case must be rented after a relatively short time on the free market, a greater crowding-out of privately financed new construction cannot be excluded under this strategy.

Under the 1st subsidy method, housing remains subject to commitments until the public loans have been repaid. In addition to the planned repayment of the principal, investors also have the facility of premature repayment. In this case, the commitments do not come to an end immediately, but only after expiry of the so-called supplementary commitment period, which at the moment is 10 years. In the case of the loan terms, the distinction must be made between housing completed before and after 1968. Until the 1960's the loans given were mostly interest-free public loans, which at a capital repayment rate of 1 % therefore had a term of 100 years. Since 1968, the interest rates for buildings dating from earlier years have been able to be raised above the originally agreed level (see Section 2.5). The resulting higher annuities lead to a significant reduction in the loan terms and commitment periods. This also increased the incentive to repay the loans ahead of schedule. Kirchhoff and Jacobs (2001, 30, 48-49) have calculated the commitment expiration for different subsidy years for Hamburg. According to this investigation, the commitments on 96.6 % of subsidised housing from the 1950's and on 34.5 % of housing from the 1960's had already run out by the year 1999. Of the housing subsidised in the 1970's however, only 2.3 % was no longer subject to commitments. Most such housing had been released from its commitments because of premature repayment of the loans. According to a survey by the authors, the results for Hamburg are generally applicable to the former West Germany as a whole. For the subsidy years from 1968, the loan contracts were framed in such a way that interest rates could be increased at any time. In the mid-1990's, 13 of 16 federal states prided funds under the 1st subsidy method. All states said that they intended to increase the interest rates during the commitment period, although only four states gave any indications of future interest rate increases. The anticipated scheduled loan terms ranged from 30 to 50 years. One state restricted the loan term from the very beginning to 20 years. The remaining amount was to be repaid in a lump sum after 20 years. In this case, the commitment period was also restricted to this term (K. Behring, J. Kirchner, R. Ulbrich, 1998, 26-29).

The housing shortage in the lower market segments developing at the end of the 1980's could in the general opinion only be reduced by higher completion figures for social residential construction. Since the 1st subsidy method was considered unsuitable for achieving this purpose because of the high individual subsidy costs, a new subsidisation facility was created in the form of the agreed subsidisation. Savings were also to be made by means of the shorter commitment periods. The states were initially given a free hand in establishing the commitment period, although this was later restricted by law in 1994 to 15 years. A different term could be agreed in certain justified cases. The actual commitment periods to be found in the mid-1990's differed greatly from state to state, ranging from 10 years to as much as 35 years. The most usual period was 25 years.

The Housing Subsidy Act makes no stipulations with regard to the commitment period. An upper limit, as latterly introduced for the agreed subsidisation, is no longer specified.

5.5 Direct subsidisation

In return for subsidisation, subsidised housing is subject to a certain period of rent control and access restriction. The subsidisation can therefore be regarded as the price for the commitments. There is no market on which the commitments can be negotiated or competitive prices formulated. In this respect, the states are faced with the problem of establishing a suitable price for the commitments. There are two basic procedures for determining the level of subsidisation: the individual case calculation and the fixed subsidy. The individual case calculation is based on investment appraisals, which can be made using various different procedures. Essentially, a distinction can be drawn between calculations according to the 2nd Calculation Ordinance (*II. Berechnungsverordnung*) and cash flow methods.

Under the 1st and 2nd subsidy methods, the cost rent regulations apply, which are based on the investment appraisals according to the 2nd Calculation Ordinance. New construction measures are no longer subsidised according to this formula. For existing stocks, the cost rent regulations continue to apply until the commitments have expired. In the investment appraisal, the operating costs were compared to the current revenue, the decisive figures being those prevailing in the year of completion. The costs included depreciation, the debt capital and equity capital interest, the maintenance and administration costs⁶³ together with the imputed rent default. The income consisted of the rents and the operating cost grants. The subsidisation was intended to create a balance between the costs and the income. The costs could be reduced by means of low-interest loans or preferential property prices, and the income increased by operating cost grants. Rent increases are always linked to cost increases, which can be caused by reduction of the operating cost grants, an increase in the interest rates or review of the maintenance and administration costs. In the case of interest rate increases, the new costs of debt capital are calculated on the basis of the original loan. In order to avoid excessive costs and subsidisation, cost reviews, upper cost limits and maximum subsidy amounts were introduced. These features often lead to the investor not being able to apply his full building costs (building cost waivers), or having to accept a lower level of interest on his equity capital (operating cost waivers). For investors, subsidisation under the cost rent regulations was usually very lucrative. For subsidised investments, this therefore created liquidity surpluses from the very beginning, while in the case of privately financed investments, liquidity deficits normally have to be accepted in the initial years. The system also leads to substantial subsidisation, although the main intention had been actually nothing more than to cover the costs. The

⁶³ The permissible maintenance and administration costs were specified by an Ordinance.

nature of the subsidisation was above all attributable to the repayment profits arising out of the constant cost rent and the reduced capital costs resulting from principal repayment. The subsidisation was legitimised with the necessary compensation for the occupancy commitment. The cost rent regulations provided no standard for the appropriateness of the subsidisation.

In the case of agreed subsidisation, the procedure for establishing the subsidisation was left to the states. Most states allocated their funds in the form of fixed subsidies. One state calculated the subsidisation by means of cash flow calculations. Since the subsidisation is independent of the amount of the building costs, no audit of the building costs is carried out as a rule, in contrast to the 1st subsidy method. Specified building standards must however be maintained. In most states, the fixed amounts vary according to one or more features. Supplements to the normal subsidy are given for certain regions, making buildings suitable for use by the handicapped, ecological components, single parents, low-income households, large families, longer commitment periods, nomination rights etc. Low-interest loans, building cost grants and operating cost grants are also awarded as part of the fixed subsidies. (K. Behring, J. Kirchner, R. Ulbrich, 1998, 30-33).

In cases in which the subsidisation is determined by means of cash flow calculations, a strict review of the building costs is carried out, as under the cost rent regulations. Here too, the costs have a decisive influence on the level of subsidisation. The calculation also takes into account the forecast receipts and payments for all parts of the commitment period. The cash payments comprise the principal repayment, the interest, the costs for maintenance and administration, and the taxes. The cash receipt is made up of the rents, the operating cost grants and the remaining value of the building at the end of the assessment period. The loans are set so that the investor receives a certain return on his equity capital after taxes, which is slightly higher than the normal market returns on property investments. The higher interest rate is regarded as compensation for the occupancy commitment. Here too, there is no standard for the appropriateness of the interest rate (J. Kirchner, 2000, 39-48).

5.6 Taxation

Subsidised and privately financed rental housing is essentially treated in the same way.

5.7 Alternative measures for acquisition of occupancy commitments

The supply political task of the social housing sector has continually declined in importance since the end of the war, and will probably continue to do so in future. The social political task, which consists of helping disadvantaged households to find suitable housing, has in contrast grown in importance. Because of the expiry of the commitments and the associated loss of occupancy rights, it is however becoming increasingly difficult for municipalities to fulfil this requirement. From this point of view therefore, it can be advisable in some municipalities to acquire additional occupancy rights. Under the 2nd House Building Act, occupancy rights could originally only be conferred by the construction of new housing. Since this strategy is not expedient in more buoyant markets, modernisation measures were also opened up to subsidisation in 1994. The new Housing Subsidy Act further extended the catalogue of qualifying measures. Besides new construction and modernisation, the acquisition of occupancy rights to existing housing and the acquisition of existing housing can also be subsidised if, in the case of rental housing, this also includes the acquisition of occupancy commitments and rent level

restrictions. Co-operation contracts between municipalities and providers can also be subsidised in order to establish or extend occupancy commitments and rent level restrictions. These instruments are by no means new, having already been used by various municipalities and states prior to the introduction of the Housing Subsidy Act (see J. Kirchner, W. Roth, H. Sautter, 1991). The new legislation simply ensured that some of these measures could now also be subsidised with the aid of federal funds.

Hardly any information is available on the number of occupancy commitments acquired in this way. Indications of their quantitative importance can however be obtained from some statistics provided by the GdW, which are reproduced below in Table D.16.

Table D.16
Housing stocks of GdW companies with rent control and access restrictions

	Total housing	Housing with rent level and/or occupancy commitments			
		Total	Due to subsidisation under the 1 st to 3 rd subsidy method	Due to other subsidisation	Other rent level and/or occupancy commitments
Former FRG	3,472,061	1,457,987	1,251,052	60,714	146,221
Former GDR	2,341,521	456,587	40,321	165,261	251,005
Germany	5,813,582	1,914,574	1,291,373	225,975	397,226

GdW: Wohnungswirtschaftliche Daten und Trends 2002/2003, October 2002, S. 110, 118

The GdW is made up primarily of former non-profit-making housing companies. Of the 3.5 million or so dwellings owned by GdW companies in the former FRG, approx. 1.5 million are subject to rent and/or access restriction. About 1.3 million have commitments by reason of subsidisation of social residential construction. About 200,000 dwellings are subject to commitments for other reasons. Approximately 60,000 cases are based on alternative subsidisation, which must mostly have been given under modernisation programmes run by the states.⁶⁴ The other commitments derive from agreements, the Occupancy Commitment Act and the Old Debt Relief Act. In the former West Germany, the two latter laws are of no importance. The 146,000 dwellings subject to commitments because of other measures in the former West Germany must therefore be attributable mainly to agreements. Commitments acquired by these alternative means made up 17 % of stocks subject to commitments amongst the companies surveyed. Two instruments are described below with which occupancy rights are acquired from existing housing stocks: the bonus programmes and the co-operation contracts.

5.7.1 Bonus programmes

The demand for the acquisition of occupancy rights from existing stocks, and not from new constructions, has existed not only since the relaxation of the housing markets. The demand was motivated by the high costs required for the reduction of market rents in the case of new construction subsidisation, and which could be reduced if these commitments were acquired from existing stocks. This argument is fundamentally correct when it comes to the acquisition of nomination or allocation rights for disadvantaged households, although this hardly represents an efficient way of achieving supply effects that benefit low-income households.

⁶⁴ It could not be clarified as to what extent these cases also include commitments acquired by means of bonus programmes.

There are no up-to-date figures on the existing levels of such bonus programmes. An investigation from the year 1991 (J. Kirchner, W. Roth, H. Sautter, 1991, 359) did however show that very few occupancy rights are acquired by means of this instrument. This was due on the one hand to the fact that only few programmes were instituted with this objective in mind. On the other hand, the existing programmes were not very attractive for owners, and hardly any use was made of them. In the meantime however, programmes have emerged that have been considered successful by the states that have instituted them. One such programme will be described below. Between 1997 and 2001, an average of approx. 250 commitments per year were acquired by means of this instrument. Under this programme, the landlord must for at least 10 years grant an occupancy commitment in favour of households whose income may exceed the limits of the 1st subsidy method by up to 40 %. The eligibility is therefore very broadly framed. The owner can choose between a simple commitment and a nomination right. In the case of a simple commitment, the subsidisation is reduced by 10 %. In actual fact, this has almost always been the case so far. The rents may not exceed 85 % of the local, comparative rent. The subsidisation consists of a one-off grant, which corresponds to the cash value of the income losses resulting from the rent level restriction. The subsidisation therefore includes no remuneration for the occupancy commitment. Nor does this appear necessary in view of the very broadly framed access criteria. In principle, this constitutes a rent subsidy for relatively high-income households. Hardly any positive effects on the supply of underprivileged households can be expected from this programme.

One problem that should not be underestimated in the acquisition of occupancy commitments from existing stocks are the windfall gains generated when commitments are agreed for housing which is already occupied by the target groups. In this case, no increase in supply for the specific target groups can be achieved. Since it is difficult, because of the windfall gains, to bring about any significant increase in supply or availability for the target groups by means of this instrument, its use should be restricted to the furtherance of the social policy objective. The agreement of simple commitments, which is quite sufficient to achieve the supply policy objective of social housing construction, is not adequate for this purpose. The acquisition of occupancy commitments from existing stocks only makes sense therefore if at least nomination rights are agreed.

5.7.2 Co-operation contracts

Since co-operation contracts between municipalities and housing companies have already proven their worth in practice (BT-Drucksache 14/5538, S. 38), they were adopted into the Housing Subsidy Act as a criterion qualifying for subsidisation. Financial support can be granted for agreements for the establishment, extension, amendment and lifting of commitments, and for the improvement of the living environment and the remedy of social grievances. Public and private providers of social responsibilities can also be included in such co-operations. This always appears advisable when it comes to the accommodation of persons in need of professional social care.

As the following examples show, a large number of such contracts exist, with a wide range of different objectives.

- Under the Hamburger contract (see Section 5.2.4), the target households can be distributed across housing stocks in excess of the stock of existing social housing. In this way, it is hoped to be able to prevent the development of imbalanced resident structures on social housing estates. No additional commitments are however acquired by means of these agreements, because the number of households to be accommodated by

a company depends on the number of dwellings subject to access restrictions owned by the company.

- Under the Bremen contract, the participating companies have declared their readiness to house a certain number of emergency housing cases in their properties. The objective in this case was to prevent the issuing of an ordinance under § 5a WoBindG (see Section 5.2.3), through which this city state would have acquired a nomination right to all publicly subsidised housing. This instrument too did not involve the acquisition of any additional commitments, since the number of households to be accommodated is determined by the social housing stocks of a company (J. Kirchner, W. Roth, H. Sautter, 1991, 43-44).
- In Wiesbaden, some housing companies have contracted to grant the housing authority a nomination right to half of their former social housing stocks. The contract partners include only those companies in which the municipality or the state has a shareholding (U. Berendt et al, 2000, 60). These measures included the acquisition of additional occupancy commitments.
- This was also the case in the original version of the Frankfurt contract, in which 16 companies agreed to register all housing becoming available with the newly created Municipal Housing Allocation Office (*kommunale Wohnungsvermittlungsstelle*), who could then allocate the housing on the basis of urgency criteria (J. Kirchner, W. Roth, H. Sautter, 1991, 160-161). Here too the contract partners included only companies in which the city held a shareholding. Since the amendment of the contract in the year 1994, the Municipal Housing Allocation Office allocates only housing that is subject to occupancy commitments. When allocating housing on larger housing estates, the Office must ensure that the proportion of certain types of households does not exceed a specified limit. Housing not subject to commitments should also be rented primarily to those with an entitlement to accommodation under the 1st subsidy method. However, the companies may also deviate from this requirement (Nassauische Heimstätte, Homepage).

According to the results of a survey carried out by Berendt et al (2000, 28-36), the most important motive for such co-operations on the part of municipalities was the securing of housing for households that were difficult to accommodate. The maintenance and the expansion of stocks subject to occupancy commitments, the achievement of a balanced resident structure and the prevention of an ordinance under § 5a WoBindG were other important motives. The co-operation partners consisted generally of municipal housing companies, and only rarely other owners such as cooperatives or individual owners. Co-operations can be based on a contract or can be of an informal nature, most contracts being concluded in major cities. A distinction is made between co-operation contracts with and without a remuneration agreement. Contracts without a remuneration agreement are often concluded with the aim of preventing the issue of an ordinance under § 5a WoBindG. In the case of contracts with remuneration agreements, various services can be agreed in return, such as the assumption of the rental risks (rent arrears, maintenance), the granting of bonuses or the provision of property at preferential prices.

5.8 The importance of municipal housing companies in the former West Germany

In Germany, housing owned by municipal housing companies is only counted as part of the social sector where it is subject to commitments conferred by subsidisation.⁶⁵ Public corpora-

⁶⁵ In the former East Germany, a proportion of municipal housing is subject to commitments under the Occupancy Commitment Act.

tions, who included not only the municipal providers, owned 1.44 million dwellings in the former West Germany in 1993, of which approx. 610,000 were publicly subsidised. No more recent figures are available. Due to the expiration of commitments, the number of publicly subsidised dwellings owned by these providers will have fallen to approx. 410,000 by the year 2002. With unchanged total figures, this gives a housing stock not subject to commitments of 1.03 million (3.6 %) dwellings.

In other countries, such as Sweden or Austria, municipal housing is basically considered as social housing. This also appears sensible, since municipal providers can be assumed to have a social orientation. Without such a social function, municipal housing companies would also have no authoritative justification. The influence exerted by municipalities on their companies however takes very different forms. On the one hand, there are companies who have a more or less free hand in the allocation of housing. On the other hand, it is also possible to find companies who can only rent housing to households on the emergency list. The more restrictive the requirements on the companies, the greater is the likelihood that losses will be incurred, which ultimately have to be borne by the municipality. Due to financial difficulties of municipalities, many companies are compelled to neglect social policy objectives in favour of commercial necessities.

Intensive discussions are going on at the moment over the sale of municipal housing, or even of whole companies. While the sale of whole companies takes place only rarely, and attracts a great deal of attention, which is the reason why many such planned sales have already fallen through, partial privatisation represents a much more feasible solution. The desire for such divestments can be based on various motives. This is often done for the restocking of municipal budgets. Partial privatisation to tenants is however also regarded as a possible means of stabilising resident structures.

Table D.17
**Household structure in stocks of municipal housing companies
in the former West Germany 1993 in percent**

Income in % of access criteria under the 1 st subsidy method	Municipal companies	Other providers	Target groups	Municipal companies	Other providers
Construction up to 1948					
up to 80	37.5	28.2	Single parents	4.6	3.4
80 – 100	16.6	16.1	Large families	4.7	2.6
100 – 140	27.1	27.1	Foreigners with children	10.8	5.2
over 140	18.9	28.6	Recipients of ALG/SH	12.2	6.1
Total	100.0	100.0	Poor elderly people	8.0	7.6
Construction from 1948, publicly subsidised					
up to 80	32.7	30.9	Single parents	6.4	5.1
80 – 100	19.0	20.4	Large families	3.6	2.8
100 – 140	30.1	30.1	Foreigners with children	7.0	4.8
over 140	18.2	18.6	Recipients of ALG/SH	10.2	7.3
Total	100.0	100.0	Poor elderly people	8.5	8.3
Construction from 1948 non-publicly subsidised					
up to 80	36.7	21.3	Single parents	5.7	3.3
80 – 100	18.6	15.3	Large families	3.5	1.8
100 – 140	26.9	28.4	Foreigners with children	6.7	2.9
over 140	17.8	35.0	Recipients of ALG/SH	9.6	4.1
Total	100.0	100.0	Poor elderly people	9.2	6.1

Source: GWS 1993, own calculations

At his point, the question arises as to the importance of stocks of municipal companies not subject to commitments for the target households. As Table D.17 shows, there were in 1993 considerable differences in the tenant structure of privately financed housing between the municipal and the other providers. Since the occupancy structure in non-committed housing of municipal housing companies corresponds largely to the structure in publicly subsidised housing, the privately financed housing of municipal providers has approximately equal importance for the target households as social housing. On this basis, the sale of municipal housing does not appear to be without its problems for the target households. It should however be taken into account that the structure of privatised housing can vary greatly from that found in the case of other providers of non-publicly subsidised housing.

A similar result was produced by an investigation carried out by the “Institut Wohnen und Umwelt” in the year 2004.⁶⁶ This investigation examined the resident structure of new rentals of housing not subject to commitments, with the distinction being made between privatised and non-privatised stocks⁶⁷ of municipal providers. This showed that 74 % of new tenants in non-privatised stocks, but only 59 % of new tenants in privatised stocks, belonged to the target groups of the Housing Subsidy Act. In the case of new rentals of privatised stocks, the distinction was also made between tight and relaxed market conditions. This showed that the proportion of target-group households, at 65 %, was significantly higher under relaxed market conditions than under adverse market conditions, at 47 %. This gives rise to the conclusion that the privatisation of municipal stocks reduces the supply opportunities of the target-group households, with privatisation having a particularly negative effect under tight market conditions. The proportion of target-group households was however also relatively high in the case of new rentals of privatised stocks, thereby indicating the low attraction of such stocks.

5.9 The importance of former social housing

As already described in Section 5.4, the restriction of the commitment period is no problem from a supply policy point of view, if former social housing continues to be rented mainly to target households even after expiration of the commitments. This can be due to the age, building structure, type of housing estate or the location. We will now examine the question of to what extent resident structures change due to expiration of the commitments.

According to Kirchhoff/Jacobs (2000, 49), of the 2.1 million former social dwellings existing in 1999, 80 % dated from the 1950's, 19 % from the 1960's and only 1 % from later years. The authors investigated the characteristics of the property, rents and occupancy structures of such former social housing on the basis of a sample of 26 buildings⁶⁸. Interviews were conducted with the landlords, who included individual owners, free housing companies, municipal companies, cooperatives and former non-profit-making companies. In the 1950's, most of the housing units built were very small, and only very few were really suitable for families. The stocks dating from the 1950's were originally very sparsely equipped, although most of these were modernised in the 1970's and 1980's. Such housing is often located in well-

⁶⁶ Research association “Wohnungslosigkeit und Hilfe in Wohnungsnotfällen”. Project “Auswirkungen des Wegfalls von Sozialbindungen und der Privatisierung öffentlicher Wohnungsunternehmen auf die Wohnversorgung unterstützungsbedürftiger Haushalte” (“Effects of the loss of social commitments and privatisation of public housing companies on the housing supply of needy households”).

⁶⁷ The new rental of housing whose commitment had expired was used in the case of the non-privatised stocks of municipal providers.

⁶⁸ 18 of the buildings dated from the 1950's, 4 from the 1960's and 2 from the 1970's. (76).

established inner-city districts. Housing built in the 1960's and 1970's was usually of more generous proportions, although much of this consisted of high-rise blocks of flats in outlying areas (Kirchhoff/Jacobs, 2000, 75-89). Half of the landlords made full use of the possibilities of increasing rents afforded by expiration of the commitments. The remaining 50 % of landlords, which often included cooperatives, increased rents only slowly. A change of tenant usually also lead to a further increase in the rent. Landlords also often took this opportunity to modernise the accommodation to the normal contemporary standard. Due to the different rent levels prevailing in the towns under consideration, the different qualities of the housing and the varying ownership circumstances, the rents show a large spread, both before and after expiration of the commitments. Prior to expiration of the commitments, social rents usually lay between 2.05 Euro and 3.07 Euro. After this point, they ranged in the majority of cases between 4.09 Euro and 5.11 Euro. After a change of tenant, most rents increased to figures above 5.11 Euro, with rents frequently ranging from 6.14 Euro to 7.16 Euro being demanded. As a rule, they lay within a range of 1.02 Euro of the average level of the rent standard. The rents charged by cooperatives, municipal housing companies and some individual owners usually lay below these average figures (Kirchhoff/Jacobs, 2000, 89-100). In 19 of 25 cases, the resident structure was categorised by the owners as normal and not in any way unusual. These were in many cases long-term tenants, so that at the time of the survey, old social tenants still made up a high proportion of tenants. Only in the case of five properties were the residents classified as 'problem tenants', four properties of which were owned by municipal companies. Irrespective of the end of the commitments, the death of an existing tenant resulted in a change of generations. In smaller housing units, this hardly changes the occupation density at all; both the old and the new tenants were either single- or two-person households. Larger housing units were rented partly to families, but in some cases also to smaller, more affluent households, in order to stabilise the resident structure of buildings which were often not in great demand, due to the living environment and the type of building. Under-occupancy, which occurred even during the commitment period as children grew up and left the household, thus continued. The income circumstances of the old and new tenants were largely comparable. Difficult and low-income applicants, certain nationalities, immigrants and in some cases recipients of transfer payments, were however rejected. Overall, the changes remain within tolerable limits, which is also due to the fact that it does not draw more affluent sectors of the population into the housing estates built in the 1950's and 1960's. This gives rise to a special situation for the stocks of the municipal housing companies. The rent increases that drove out the last normal tenants have caused some such buildings to become even more dilapidated, although there are also municipalities who have devoted a high priority to the stabilisation of such areas, and where an improvement in the resident structure has also taken place (Kirchhoff/Jacobs, 2000, 104-110).

6. The owner-occupied housing sector

6.1 Development of housing stocks

In the year 2002, throughout the whole of Germany, 42.6 % of housing was owner-occupied. In the former West Germany, the proportion of owner-occupiers, at 44.6 %, was significantly higher than in the former East Germany, where it was only 34.2 % (see Table D.1). In a comparison between states, the quota in the former West Germany, excluding Berlin, ranged from 21.9 % in Hamburg to 56.9 % in the Saarland. The difference between Hamburg and the Saarland also reflects the great variations between urban and peripheral areas. In the former East

Germany, the ownership quota ranged between 31 % in Saxony and 41.8 % in Thuringia. In Berlin, the quota only reached 12.7 %.

According to a regression analysis by Behring and Helbrecht (2002, 12-24) the different ownership quotas of the federal states, taking into account the special circumstances in the former East Germany by a dummy variable, can be explained to the level of 88 % by means of the following four influencing factors: the relative price of ownership, the average household size, the quota of foreigners and the average rent. The proportion of owner-occupiers declines with rising price of ownership and the quota of foreigners, and increases with the average household size and the average rent. In a further step, the authors checked to what extent the ownership quotas in other European countries can also be explained by these factors. The countries included were Spain, Great Britain, Austria, the Netherlands, Germany and Switzerland. As the following list shows, the quotas can be explained relatively well by this model:

	Spain	Great Britain	Austria	Netherlands	Switzerland
Quota (actual)	81 %	69 %	56 %	52 %	31 %
Quota (model)	71 %	64 %	53 %	47 %	27 %

The fact that the proportion of owner-occupiers was in all cases underestimated by the model indicates a lower level of ownership in Germany, all other conditions being equal. This was attributed on the one hand to the lower proportion of owners in the former East Germany, and on the other to the pronounced tenant protection and the wide range of well-equipped rental housing. In an additional qualitative analysis, the social attitude toward the so-called individualisation risks also showed itself to be a further influencing factor. Since these risks are well covered in Germany, the compulsion to become an owner is therefore lower in this country. The same applies for Switzerland, the Netherlands and Austria. If on the other hand these risks are not so well covered socially, as in Spain and Great Britain, they must be covered by the private households themselves, which also includes the creation of ownership.

6.2 Occupancy structure

Table D.18 shows the difference in the ownership quota by household size for different years. A striking feature is that the proportion of owner-occupiers in the year 1998 is significantly higher for multi-person households than for single-person households, but that the quota for multi-person households only increases slightly with the household size. For two-person households, the proportion of owner-occupiers, at 50 %, is also not much lower than for households with 5 and more persons, 56 % of which live in their own property.

A glance at the average income also shows that in the case of larger households, the difference between the average income of owners and tenants is particularly large. This prompts the conclusion that the possibilities of ownership creation are largely exhausted for these households. Since larger households often find it difficult to obtain accommodation of a suitable size from rental housing stocks, they are forced to resort more to owner-occupancy. This being the case, it would seem advisable to concentrate subsidisation of ownership to a greater extent than previously on larger households.

Table D.18
Owners by household size and average income, 1978, 1993 and 1998

Household size	Occupants		Owner occupier			Main tenants		
	Number	Income DM	Number		Income DM	Number	Income	
			abs.	%			abs. DM	% of owners
1978								
1	6,161	1,192	1,233	20	1,241	4,929	1,180	95
2	6,378	2,096	2,236	35	2,156	4,141	2,063	96
3	4,030	2,476	1,629	40	2,680	2,401	2,338	87
4	3,271	2,663	1,603	49	2,900	1,669	2,435	84
5 or more	1,961	2,829	1,148	59	3,051	813	2,514	82
Total	21,801	2,062	7,848	36	2,404	13,953	1,869	78
1993								
1	7,784	2,142	1,813	23	2,360	5,971	2,076	88
2	7,980	3,781	3,525	44	4,078	4,456	3,546	87
3	4,112	4,472	2,089	51	5,062	2,024	3,862	76
4	3,202	4,830	1,834	57	5,435	1,367	4,019	74
5 or more	1,392	5,108	839	60	5,828	553	4,017	69
Total	24,470	3,589	10,099	41	4,365	14,371	3,043	70
1998								
1	9,124	2,331	2,451	27	2,625	6,673	2,223	85
2	8,791	4,132	4,363	50	4,495	4,428	3,773	84
3	3,843	4,800	1,954	51	5,554	1,889	4,021	72
4	3,174	5,224	1,804	57	5,937	1,370	4,286	72
5 or more	1,202	5,457	675	56	6,319	527	4,351	69
Total	26,133	3,795	11,246	43	4,612	14,888	3,177	69

Source: H. Sautter, 2002, Tabellenband, s. 15-17

6.3 Taxation

The property purchase tax burden on owner-occupied property corresponds to that of rented accommodation. The same applies for land tax (see sections 4.3.1 and 4.3.2).

Since 1987, the consumer goods solution applies for owner-occupied housing. Income and expenditure are therefore no longer relevant from the tax point of view. From 1987 to 1995, the general subsidisation of owner-occupied property was regulated under tax law. Since 1996, owner-occupiers have been subsidised under the Home Ownership Allowance Act (*Eigenheimzulagegesetz*) (see below).

In contrast to profits from the sale of rented accommodation forming part of private assets, which are liable for income tax if realised within the speculation period of 10 years, profits from the sale of owner-occupied accommodation are tax-free.

6.4 Subsidisation

The distinction must be made between general subsidisation, which is associated with a legal claim, and subsidisation as part of social housing, which is only provided as far as allowed by

the available budget funds. While general subsidisation is directed at a wider group of households, social ownership subsidisation is aimed specifically at lower-income households (for the completion figures, see Tables D.10 and D.11). However, general subsidisation of ownership is also justified by its positive supply effects for lower-income households, who profit from the subsidisation not directly, but indirectly by means of the filtering effects.

The home ownership allowance as general subsidisation of owner-occupied property is independent on income, and is made up of a basic subsidy amount plus a child bonus. The basic subsidy amount is 1 % of the assessment basis, up to a maximum of 1,250 Euro. For every child for which the entitled person receives a child allowance in the relevant calendar year of the subsidisation period, a further tax-free child bonus of 800 Euro is granted. The home ownership allowance can only be claimed during the eight-year subsidy period, which begins in the year of completion or acquisition. Within these eight years, the allowance is also only paid in those years in which the accommodation is actually owner-occupied. Although the subsidy amount is not income-related, the allowance is only granted provided that certain income limits are not exceeded. It can first be claimed in the year in which the total income of the current and preceding year does not exceed 70,000 Euro for single persons, or 140,000 Euro for married couples. Once the allowance has been approved, it is paid for the remaining subsidisation period without any further income review. The income limit for the two-year period is increased by 30,000 Euro for every qualifying child. The general ownership subsidy can only be claimed once, or twice in the case of married couples. The above subsidy amounts and income limits were introduced under the Budget Supplement Act 2004 (*Haushaltsbegleitgesetz 2004*). Up to this time, higher basic subsidy amounts were granted for new construction measures (maximum 2,556 Euro). Since then, new construction and acquisitions from existing stocks have been subsidised equally. This adjustment was also motivated by developments in the former East Germany, where more owner-occupied housing was being built in surrounding municipalities, while increasing numbers of dwellings in towns were vacant. The child allowance however was increased under the Household Supplement Act from 767 Euro to the present amount. The income limits were reduced under the same act, so that the subsidisation is now restricted even more specifically at the target households. Up to the end of 2003, these were still 81,807 Euro for single people and 163,614 Euro for married couples for the two-year period. Even higher income limits applied on the introduction of the home ownership allowance: for the two-year period, these amounted to 122,710 Euro for single people and 245,420 Euro for married couples. Much discussion is today being devoted to the possible abolition of the home ownership allowance. The money saved in this way would go to education and childcare.

7. Housing benefits

Both tenants and owner-occupiers have a claim to housing allowance. The housing allowance is provided half by the Federal Government and half by the states. Up to the end of 2004, the distinction was made between the general housing allowance and special rent support, which was paid only to those receiving social assistance payments.

Social assistance is financed by the municipalities. It is paid out on the basis of need. This means that the social assistance payments cover the difference between the needs of a household and the actual income. These needs are made up of the normal requirement, the supplementary requirement and the accommodation costs. If the household's income increases

above the minor allowance for additional earned income⁶⁹, social assistance payments are reduced by the excess amount. This has been criticised as counter-productive, since it largely reduces the incentive to take up employment. Social assistance payments are only made when the applicant's assets do not exceed certain allowed amounts. The special rent support has reduced the accommodation costs used in establishing the need. It therefore had no effect on the income circumstances of recipients of social assistance, and simply reduced the burden on the municipalities. Apart from a few exceptions, the general housing allowance goes to households who do not receive social assistance payments. This is therefore a transfer payment over and above the need-related payments. It is less counter-productive in comparison to social assistance, since the reduction in payments is less than the income increase triggering the reduction. The recipient's assets are also not taken into account.

Unemployed receive the unemployment benefit from the social insurance up to 32 month, dependent of their age and their length of employment. Afterwards they got unemployment assistance for an infinite period up to and including 2004. Unemployment assistance was abolished with effect from 1.1.2005 by the 4th Act for Modern Services on the Labour Market (*vierte Gesetz für moderne Dienstleistungen am Arbeitsmarkt - Hartz IV*), and replaced by unemployment benefit II (*Arbeitslosengeld II*). Recipients of social assistance who are fit for work now also have a claim to these payments. Like social assistance, unemployment benefit II is a need-related transfer payment. The amount of unemployment assistance was on the other hand dependent on the last employment income. Unemployment benefit II corresponds essentially to the total of the normal requirement and the fixed supplementary requirement paid out under social assistance regulations. Recipients of these payments also receive the accommodation costs. Unemployment benefit II is financed by the Federal Government. The accommodation costs of recipients of need-related transfer payments (Unemployment benefits II and social assistance) must in future be borne by the municipalities. Housing benefits was abolished for the recipients of such payments. Since the Federal Government pays the unemployment benefit II, which is also paid to recipients of social assistance who are fit for work, this relieves the burden on municipalities by reducing the social assistance payments. On the other hand, they must themselves pay the accommodation costs of recipients of need-related transfer payments, without the assistance of the housing allowance. The number of recipients of the general housing allowance will fall below its present level as a result of the reform, because the recipients of unemployment benefit II, who previously received unemployment assistance, no longer have an entitlement to housing allowance.

The calculation of the general housing allowance is not changed by Hartz IV. The calculation is made using the following formula, which depends on the household size, the total income of the household and the rent or burden (owners). Since the formula contains no parameter on household size, the parameters are characterised by household size.⁷⁰

⁶⁹ The following are not counted against income: income up to 25 % of the normal requirement + 15 % of the excess income, up to a maximum of 59 % of normal requirement for the head of the household (W. Schellhorn, H. Schellhorn, 2002, 542). The normal requirement for the head of the household was between 287 and 297 Euro in the former West Germany in 2003.

⁷⁰

Parameters of the housing allowance formula

	1-PHH	2-PHH	3-PHH	4-PHH	5-PHH	6-PHH
A	6.300E-02	5.700E-02	5.500E-02	4.700E-02	4.200E-02	3.700E-02
B	7.963E-04	5.761E-04	5.176E-04	3.945E-04	3.483E-04	3.269E-04
C	9.102E-05	6.431E-05	3.250E-05	2.325E-05	2.151E-05	1.519E-05
	7-PHH	8-PHH	9-PHH	10-PHH	11-PHH	12-PHH
A	3.300E-02	2.300E-02	-1.700E-02	-3.700E-02	-6.700E-02	-9.200E-02
B	3.129E-04	2.959E-04	2.245E-04	1.565E-04	1.533E-04	1.356E-04
C	8.745E-06	7.440E-06	3.522E-05	5.547E-05	5.686E-05	6.182E-05

$$W = M^A - MB(Y^F) \quad \text{for } W \geq 20; \quad \text{otherwise } 0$$

$$MB = a + bM^A + cY^F$$

W: Housing allowance
 M^A : Qualifying rent
 MB: Rent burden
 Y^F : Family income

Households with children are assisted by not taking into account the child allowance in the calculation of the total income. In order to prevent the subsidisation of excessive housing consumption, the housing allowance calculation only takes into account the rent up to the maximum rent levels, which differ according to household size, age of the building and the regional rent level. For a single person, these range from 160 Euro to 370 Euro, and for a four-person household from 295 Euro to 630 Euro.

Table D.19
Recipients of housing allowance and average monthly housing allowance (Euro)

Year	Total recipients	of which							
		General housing allowance						Special rent support	
		Total		Rent support		Expense grant			
		average housing allowance		average housing allowance		average housing allowance		average housing allowance	
		Number		Number		Number		Number	
Former FRG									
1992	1 846 989	1 127 043	66	1 027 360	65	99 683	77	719 946	114
1993	1 843 677	1 025 619	66	944 527	65	81 092	79	818 058	121
1994	1 902 176	979 555	67	906 537	66	73 018	80	922 621	129
1995	1 938 066	941 763	69	877 673	67	64 090	82	996 303	137
1996	2 091 016	954 433	74	896 747	73	57 686	88	1 136 583	142
1997	2 141 486	976 357	77	916 769	76	59 588	94	1 165 129	147
1998	2 206 203	976 884	79	915 643	78	61 241	96	1 229 319	149
1999	2 074 061	936 862	80	878 362	79	58 500	99	1 137 199	152
2000	2 072 848	890 896	79	834 989	78	55 907	99	1 181 952	153
2001	1 988 921	1 144 413	109	1 071 422	108	72 991	125	844 508	166
Former GDR									
1992	2 002 783	1 951 002	62	1 585 327	58	365 675	83	51 781	51
1993	3 168 752	3 114 845	65	1 114 936	63	1 999 909	76	53 907	80
1994	842 081	775 633	67	672 835	66	102 798	78	66 448	96
1995	656 787	581 554	76	515 732	75	65 822	80	75 233	99
1996	627 878	540 358	82	488 956	81	51 402	86	87 520	108
1997	719 590	606 056	84	552 845	84	53 211	86	113 534	112
1998	740 613	608 907	88	558 115	88	50 792	90	131 706	118
1999	741 776	602 573	90	554 180	90	48 393	92	139 203	120
2000	766 365	606 622	90	557 065	90	49 557	92	159 743	122
2001	831 412	684 141	89	622 645	88	61 496	103	147 271	136

Source: Bundesregierung, Wohngeld- und Mietenbericht 2002

In the year 2001, a nationwide housing allowance review was carried out, under which housing allowance payments in the former West Germany were reviewed and adjusted for the first time since 1991. Payments in both parts of the country were also standardised. As Table D.19 shows, the reform led to an increase in the numbers receiving general housing allowance and

the housing allowance amounts in the former West Germany. Due to the abolition of the special regulations in the former East Germany, average rent grants here have not increased.

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France

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1. Overview

In 1977, the system of house building subsidisation was fundamentally reformed. Until this time, three separate areas could be identified: the HLM sector⁷¹, the *secteur aidé* and the non-subsidised sector. The HLM sector is an association of organisations who rent social flats and build housing for sale to low-income owner-occupiers. Until the time of the reform in the year 1977, social flats were only subsidised in the HLM sector. A wide range of different subsidy programmes was available for different target groups. Outside the HLM sector, investors in rented and owner-occupied flats could apply for the subsidisation of the *'secteur aidé'*, which was not subject to any access restrictions, although upper rent limits had to be observed in the event of renting. In addition, many flats were built entirely without direct subsidisation.

In various investigations carried out prior to the 1977 reform, house building subsidisation was described as complicated, difficult to control and misdirected. Neither the subsidisation of the HLM sector nor that of the *'secteur aidé'* was concentrated on the households in need of help. The aim of the reform was to simplify the subsidisation system and direct it more accurately at disadvantaged households. With the reform, social subsidisation was also opened up to private investors. In order to achieve this better concentration on low-income households, subsidisation of the individual building projects was reduced, and the concomitant increase in social rents compensated for by the creation of a separate housing allowance system for the subsidised new residential construction. Two other housing allowance systems were already in existence at the time, which were retained for older flats and those not directly subsidised.

Today too there are three different sectors defined: the subsidised, the regulated and the free sector (Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 57-58).⁷²

- The subsidised sector includes flats that were subsidised by means of PLUS⁷³ or PLA loans⁷⁴. These loans are only given to HLM and SEM⁷⁵ companies. The subsidised flats of these providers are subject to permanent social commitments.
- The regulated sector includes flats whose construction was supported with the aid of PLS,⁷⁶ PLI⁷⁷ or PC loans⁷⁸. These loans can also be made available to private investors. The regulated sector also includes the flats of private providers, which were modernized with funds provided by the National Housing Improvements Agency (ANAH)⁷⁹. With the exception of PC loans, these subsidies are also linked to social commitments, which are however more loosely formulated than those of the subsidised sector. For private investors, the commitments are also restricted to the amortisation period of from 15 to 30 years.
- Non-subsidised flats are counted as part of the privately financed sector.

The flats of the subsidised and regulated sectors are defined as social flats, provided that they were subsidised via PLS loans or grants from the National Home Improvements Agency (ANAH).

⁷¹ Habitations à loyer modéré (low-rent-sector).

⁷² A corresponding differentiation is also possible in the rental and ownership area.

⁷³ Prêt locatif à usage social (rental flat loans for social purposes)

⁷⁴ Prêts locatifs Aidé (subsidised rental flat loans)

⁷⁵ Sociétés d'économie mixte (semi-state companies; see Section 4.1)

⁷⁶ Prêts locatif social (loans for social rental flats)

⁷⁷ Prêts locatif intermédiaire (loans for medium-priced rental flats)

⁷⁸ Prêts Conventionnés (regulated loans)

⁷⁹ Agence Nationale pour l'Amélioration de l'Habitat.

Table F.1 shows how the different sectors have developed since 1963. The social housing stock grew substantially from 7 % in the year 1963 to 17 % in 1988, and has since continued this trend – rising to 18 % in 1996 – although the pace of growth has slackened considerably. By far the major proportion of social flats falls within the HLM sector. The other social flats recorded in the table are provided mainly by the SEM companies. Private landlords hold only very small social housing stocks, which are recorded in Table F.1 as private rental flats. The proportion of private rental flats has fallen substantially over the course of time, from 38 % in the year 1963 to only 21 % in 1988, although the proportion has recovered slightly since then. By 1996, 22 % of flats were again privately rented. The proportion of owner-occupied flats has risen sharply, from 42 % in the year 1963 to 55 % in 1999. The major part of the growth in this sector took place during the time up to the end of the 1980's. Due to high levels of unemployment, the increasing divorce rate, the decline in inflation and high interest rates, the proportion of owner-occupied flats increased only marginally during the 1990's (Blanc, Bertrand, 1996, 126).

Table F.1
Main residences 1963 to 1996 (1,000 flats and percentage shares)

	1963		1970		1978		1988		1996		1999	
	1,000	%	1,000	%	1,000	%	1,000	%	1,000	%	1,000	%
Ownership	6,800	42	7,350	45	8,695	47	11,386	54	12,645	54	13,035	55
Rental												
- social												
-- HLM	1,089	7	1,565	10	2,481	13	3,189	15	3,657	16	3,805	16
-- other							433	2	434	2	5,425	23
- private	6,195	38	5,423	34	5,543	30	4,592	21	5,156	22		
Other	2,031	13	2,069	13	1,922	10	1,629	8	1,394	6	1,545	6
Main residences	16,115	100	16,407	100	18,641	100	21,256	100	23,286	100	23,810	100

Source: 1963: Oxley, Smith, 1996, 133, own calculations

1970, 1978: Donner, 2000, 307

1988, 1996: Direction Général de l'Urbanisme, de l'Habitat et de la Construction, 2002, 48

1999 : A.-M. Fribourg, 2002, 2

Since the availability of social flats varies greatly at the regional level, and because the problematic resident structure was attributed to a shortage of social housing stocks in some towns, towns above a certain size were from 1991 obliged by the Municipal Orientation Act (LOV)⁸⁰ to provide a social housing quota of at least 20 %. This objective, with more effective sanction mechanisms, was adopted in the Urban Solidarity and Renewal Act (SRU)⁸¹, which was passed in 2000.

With the Decentralisation Act of 1982, the responsibility for residential construction planning was transferred to the municipalities. House building financing however still remains in the hands of central government. The resulting unclear responsibilities for housing supply have lead to the fact that state housing policy is not directed properly at local circumstances, and that problems goes uncorrected. From this point of view, decentralisation of house building financing is also required.

French Francs (FFR) have been converted to Euro (€) at the following rate: 1 € = 6.55957 FFR.

⁸⁰ Loi d'orientation pour la ville (LOV)

⁸¹ Solidarité et renouvellement urbains (SRU)

2. Historical overview

2.1 The immediate post-war period up to 1953

The housing problem existing after the Second World War can only be partly attributed to the destruction caused by the war. A possible further cause must also be identified in the rent freeze which was introduced for the protection of tenants during the First World War, and which remained in effect until the end of the Second World War. This measure was undoubtedly the cause of the inadequate level of maintenance carried out over the period. However, the rent freeze is also cited as being responsible for the low completion figures, although new construction was not affected. The fact is that flats were already in short supply and badly maintained before the Second World War. In the Second World War, 500,000 flats were also destroyed, and 1.4 million severely damaged (McCrone, Stephens, 1995, 24, 23-24).

Despite the housing shortage, only limited funds were made available for new construction in the immediate post-war period, when priority was devoted to industrial reconstruction. Between 1945 and 1950 therefore, only 200,000 new flats were built, of which half were completed without state subsidisation. The subsidised completions were mostly subsidised through the reconstruction programme “La Réconstruction”, which was concentrated on municipalities located in previous war zones (Pearsall, 1984, 11-13).

In order to support owners of pre-war stocks in renovating properties, 1945 saw the foundation of the “National Fund for the Preservation and Improvement of Rural and Urban Housing”, which was financed by a tax on rent revenues in the private sector. In 1946, this fund was converted into the National Housing Improvement Fund (FNAH)⁸², which was in turn replaced in 1971 by the National Agency for Housing Improvement (ANAH)⁸³, which was better financed than its forerunners. In addition to the tax on rental income from flats completed prior to 1948 of 3.5 %, the agency also received state grants (Pearsall, 1984, 33). Today, the tax has been reduced to 2.5 %, and is levied on all rental flats 15 years old or more (European Commission, 2001, 16). Consisting of grants, the subsidy was originally only provided for buildings constructed before 1948. From 1976, improvement work on newer flats can also be subsidised. The support is linked to rent and access restrictions (Oxley, Smith, 1996, 135). The maintenance of owner-occupied flats remained unsubsidised until the time of the reform in the year 1977 (Pearsall, 1984, 33).

As a result of the rent freeze, rents fell in relation to income levels from 16 % in the year 1914 to only 1.6 % by 1948. With the Rent Act of 1948, rents of flats built up to that time were to be brought up gradually to the market level. This objective was based on the experience that housing shortages can only be solved if investment in residential construction becomes profitable again (McCrone, Stephens, 1995, 24, 30-31). In order to ensure steady but controlled rent increases in the case of occupied flats, quality-related rents were fixed by the state⁸⁴ (Boelhouwer, 1992, 213), and were to be reviewed every six months. The rent restrictions were cancelled on the change of tenant (Pearsall, 1984, 12). The aim of bringing rents of old buildings up to market levels was however never completely achieved. Since the rents were in

⁸² Fonds National de l'Amélioration de l'Habitat.

⁸³ Agence Nationale pour l'Amélioration de l'Habitat.

⁸⁴ This market segment was called Secteur taxé (Pearsall, 1984, 47).

some cases even lower than social rents, the old construction sector played an important role in the supply of low-income households in the post-war period (Oxley, Smith, 1996, 132-133). Since only the flats built prior to 1948 were affected by the above rent regulations, and not new construction, this created a two-way split in the private rental accommodation sector (McCrone, Stephens, 1995, 31).

In order to cushion rent increases, the ALF housing allowance⁸⁵ was introduced in 1948, although this only benefited larger families with a low income. In 1971, this was augmented by the ALS housing allowance⁸⁶ for persons over 65 years of age, young employees and the handicapped. Both allowances still exist today. The APL housing allowance⁸⁷ was created in 1977 for subsidised new construction.

Table F.2
Completions by sectors 1945-1948, 1953, 1958 and 1963 to 1976

	Reconstruction	HLM				Secteur aidé		Other		Total
		Rent		Sale		Rent + sale		Rent + sale		
	abs.	abs.	%	abs.	%	abs.	%	abs.	%	Abs.
45-48	19,000	400	1	1,000	1	-	-	47,800	70	68,200
53	36,000	15,800	13	8,400	7	44,400	37	15,400	13	120,000
58	24,200	68,700	24	18,900	6	154,400	53	25,500	9	291,700
63	3,800	78,900	23	22,500	7	191,900	57	38,900	12	336,000
64	2,400	92,300	25	24,900	7	207,300	56	41,900	11	368,800
65	1,300	95,800	23	28,600	7	227,000	55	58,800	14	411,500
66	700	96,900	23	30,100	7	201,800	49	84,700	20	414,200
67	300	105,300	25	31,500	7	193,100	46	92,700	22	422,900
68	100	116,600	28	31,800	8	176,800	43	85,800	21	411,100
69	-	116,800	27	31,300	7	181,900	43	97,000	23	427,000
70	-	121,300	27	34,100	7	199,600	44	101,300	22	456,300
71	-	127,800	27	34,400	7	205,500	44	104,000	22	471,700
72	-	126,900	23	49,400	9	233,800	43	136,200	25	546,300
73	-	109,000	22	55,000	11	173,700	35	162,800	33	500,500
74	-	121,700	24	60,000	12	122,700	25	196,000	39	500,400
75	-	111,500	22	58,000	11	124,300	24	220,500	43	514,300
76	-	98,100	22	42,300	9	133,200	25	195,300	44	448,900

Source: Pearsall, 1984, 14

2.2 The major house building programmes of the 1950's, 1960's and 1970's

The unexpectedly sharp increase in the birth rate, coupled with immigration, lead to a further deterioration in the housing market situation. As a result of the fall in employment in the agricultural sector, increasing numbers of people were leaving rural areas, so that growth was concentrated mainly in large and medium-sized cities. New construction subsidisation thus became an ever more urgent task.

As shown in Table F.2, approx. 90 % of all completions from the beginning of the 1950's to the mid-1960's were subsidised. The major proportion of subsidised flats went not to social residential construction, but rather to the 'secteur aidé'. The proportion of subsidised flats was

⁸⁵ Allocation de logement familiale (family housing allowance).

⁸⁶ Allocation de logement sociale (social housing allowance).

⁸⁷ Aide personnalisée au logement (personalised housing aid).

still very high in the second half of the 1960's, at just under 80 %. Up to the reform of house building subsidisation, the subsidisation quota then fell steadily to 56 % by the year 1976, and above all the proportion of the 'secteur aidé'. Construction of social rental housing on the other hand demonstrated remarkable stability. Its proportion of all completions ranged between 22 % and 28 % over the period from 1958 to 1976. A classification of completions into rented and owner-occupied flats has been made in Table F.2 only for the HLM sector, although it can be assumed that most subsidised flats in the 'secteur aidé' were owner-occupied.

A major feature of new construction subsidisation in the HLM sector was the variety of subsidisation programmes directed at the various target groups. The flats subsidised under the individual programmes varied not only with regard to access entitlements and rents, but also the living area and quality of accommodation.⁸⁸ The HLM flats were financed by low-interest, state loans, which covered a certain proportion of the qualifying costs.⁸⁹ Due to the insufficient modification of the cost limits, the proportion of state financing in relation to the overall costs declined over the course of time. The providers therefore had to make increasing use of normal market loans, consequently leading to a rise in social rents (Pearsall, 1984, 17). From 1966, the low-interest loans in the HLM sector were no longer provided by the state, but from a newly founded financing institution, the (CPHLM)⁹⁰, which is an offshoot of the state bank for the financing of the municipalities, départements and other public corporations (CDC)⁹¹ (Pearsall, 1984, 27). Since the winding up of the CPHLM in 1985, the subsidy loans have been provided direct by the CDC. Due to the many different types of accommodation offered by the large number of different organisations – seven different qualities of accommodation were available in the HLM sector by the end of the 1960's – the administration of the system became increasingly unwieldy and expensive (Pearsall, 1984, 27).

Subsidisation of the 'secteur aidé' was introduced in 1950. Although the primary aim was the support of owner-occupied residential property, rental flats were also subsidised, in which case upper rent limits⁹² had to be observed. There were no access restrictions. The subsidisation took the form of low-interest loans and grants. Because of the amount of the grants, which could be up to 600 FFR (old) per m², the subsidy was also known as the "600 programme".⁹³ This was augmented from 1953 by the so-called "1000 programme" for low-cost family flats⁹⁴, by which property to the same living area standard as the HLM flats was subsidised. The subsidisation was similar to that under the "600 programme", except that the grants now came to 1,000 FFR (old). Under this dual system, which was abolished in 1963, 1.6 mil-

⁸⁸ The most spacious and best-equipped were the 'Normal rent flats' (Immeubles à loyer normal - ILN) and the 'Medium rent flats' (Immeubles à loyer moyen - ILM), which were built for higher-income tenants. Smaller and less well-equipped were the 'Ordinary medium rent flats' (Habitation à loyer modéré ordinaire), which made up the largest proportion of subsidised flats. Even less comfortable were the flats built under the 'Reduced rent programme' (Programme à loyer réduit - PLR). The lowest standard was represented by the flats built under the 'Social re-housing programmes' (Programmes social de relogement - PSR), which were intended for tenants needing housing as a result of demolition of old buildings (Pearsall, 1984, 48; Czasny, 1987, 113-114).

⁸⁹ In the early 1950's, loans were provided that covered 90 % of the permissible costs, had a term of 65 years, and were subject to interest at 2 % (Pearsall, 1984, 17). Later, 45-year loans were given, which covered 85 % of the permissible costs, and depending on the quality of the accommodation had interest rates of between 1 % and 3.5 % (Blanc, Bertrand, 1996, 139-140; Czasny, 1987, 118).

⁹⁰ Caisse des Prêts aux Organismes d'HLM (Loan Fund for HLM Organisations).

⁹¹ Caisse des Dépôts et Consignations.

⁹² Flats with this rent level commitment were known as the secteur plafonné (ceilinged sector).

⁹³ The loans given by the CFF (Crédit Foncier de France) had a term of 25 years and covered up to 70 % of the qualifying costs.

⁹⁴ Logements économiques et familiaux (Logecoës).

lion flats were subsidised (Pearsall, 1984, 17-18).⁹⁵ In 1963, subsidisation of the 'secteur aidé' was transferred to PSI loans⁹⁶, which were also given for both rented and owner-occupied flats. The rents for these flats too were not allowed to exceed a certain upper limit. The loans were less generous than under the old subsidy.⁹⁷ In 1965, the programme was supplemented by the PSD loans, which were directed at higher-income households, covered an even smaller proportion of the costs and were subject to higher interest rates. The PSD loans were replaced in 1971 by the similarly arranged PIC-loans⁹⁸ (Pearsall, 1984, 25-26).

Due to the curtailment of the low-interest state loans, owner-occupiers were forced to obtain an ever increasing part of their financing requirements themselves. In order to assist them in this task, the inadequate building savings system introduced in 1953 was replaced in 1965 by a new system. Known as the Housing Savings Account (CEL)⁹⁹, this programme was supplemented some time later by the Housing Savings Plan (PEL) programme¹⁰⁰ (Pearsall, 1984, 26).

Since 1953, all companies with 10 or more employees have had to pay a house building contribution (PEEC)¹⁰¹, which was originally set at 1 % of the wage bill, and is therefore also known as the 1 % employer contribution. The contribution has since been changed several times, and since 1st January 1992 has been only 0.45 %. The funds go to special building financing institutions, and are allocated by them for low-interest loans to social housing companies, or employees who want to buy their own flat (French Embassy, 2001, 3). The funds are used as supplementary financing. In return, a certain proportion of flats financed with these funds is reserved for the employees of the relevant firms. Most companies however make no use of their allocation rights (Pearsall, 1984, 18-19). About 2.3 billion Euro was provided by the PEEC in 1999, of which 1 billion came from ongoing revenue and the rest from the returns on earlier loans (Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 63).

In the 1950's and 1960's, flats were often built in the form of large housing estates. Many were built using prefabricated sections, and have no satisfactory heat or acoustic insulation. Sizes of individual rooms also no longer conform to today's standards. Retail businesses, schools and social facilities were in many cases only built many years after the flats had been occupied. Usually located on the outskirts of towns, these estates often had poor connections to the public transport system, making it difficult for residents to reach their work or shopping facilities. However, the problem of these large housing estates is often overestimated. The majority of flats, especially the privately financed and those of the 'secteur aidé', were built as part of smaller estates, to better standards and in better locations (Pearsall, 1984, 20).

2.3 The reform of house building subsidisation in the year 1977

The housing shortage had been largely overcome by the mid-1970's. The population increase had tailed off, further reduction was forecast for the future, and even zero growth anticipated by the year 2000. An increasingly acute problem however was the maintenance condition of

⁹⁵ See also Table F.2.

⁹⁶ Prêts Spéciaux Immédiates (Special Immediate Loans).

⁹⁷ These loans covered only 40 % to 45 % of the qualifying costs. The disadvantage was partly compensated for by lower interest rates and tax deductibility of the loan interest.

⁹⁸ Prêt Immobilier Conventionné (Contract Property Loans).

⁹⁹ Compte d'Épargne Logement.

¹⁰⁰ Plan d'Épargne Logement.

¹⁰¹ Participation des employeurs à l'effort de construction.

the flats built before 1941, which even by 1975 still made up 40 % of total residential stocks. Growing concern was also expressed about old industrial areas and the centres of large cities. The previous urban renewal policy with its extensive redevelopment schemes came under increasing criticism. Due to the increasing shift in housing demand to single-family houses, the large housing estates also attracted increasing criticism. At the same time, the oil crisis leads to a decline in growth, increasing unemployment and a fall in real incomes. Attention therefore came to be directed at sensitive rehabilitation and the reform of house building subsidisation (Pearsall, 1984, 28-33; Boelhouwer, Heijden, 1992, 215-217).

In preparation for the major reform of house building subsidisation, three studies on housing policy were published in 1975: the Nora Report and the Barre Report, which were both commissioned by the government, and the 'White Paper' of the Association of HLM organisations (UNFOHLM).¹⁰² The Nora Report emphasised the importance of renovation of building stocks, and proposed the state subsidisation of modernisation, which was however to be restricted to disadvantaged households, and embedded in comprehensive reform of housing policy. The reform proposals of the Barre Report are based on a radical critique of the previous housing policy. The system of house building subsidisation was described as complex, unclear and difficult to control. Neither the subsidisation of the HLM sector nor that of the 'secteur aidé' was concentrated on the households most in need of help. In future therefore, the market should assume the major role in housing supply. Although the 'White Paper' assessed the situation in a similar way to the other two studies, it did come to the conclusion that the state should continue in future to play the major role in housing supply (Pearsall, 1984, 39). The liberal government of Giscard d'Estaing followed the general line of the Nora and Barre Reports: for the first time since the war, the state was to play only a subsidiary role in the supply of housing (Boelhouwer, Heijden, 1992, 217).

The Housing Act of 1977 therefore pursued the following objectives:

- the simplification of house building subsidisation,
- the strengthening of market forces by increasing the participation of households in the housing costs,
- the reduction of expenditures and the concentration of funds on low-income households by means of income-related demand subsidies,
- improving the quality of existing residential stocks and
- the support of owner-occupation, especially for households with medium-level incomes (Pearsall, 1984, 40; Boelhouwer, Heijden, 1992, 218).

The act replaced the complicated subsidisation system in the HLM sector, with its different subsidies for different target groups and housing categories, with the simpler system of PLA loans¹⁰³. In order to promote socially compatible modernisation efforts, subsidies were made available not only for new construction, but also for the purchase of existing property. However, property purchase can only be subsidised if it is associated with renovation of the property in question (Pearsall, 1984, 42). Other than previously, loans could now also be given to private providers (Pearsall, 1984, 40; Boelhouwer, Heijden, 1992, 218).¹⁰⁴ Since the interest rates on the loans granted prior to 1977 were significantly lower, the reform brought a reduc-

¹⁰² Union Nationale des Fédérations d'Organismes HLM.

¹⁰³ Prêts Locatifs Aidés (subsidised housing loans). The loans covered 65 % to 95 % of the costs, with terms of from 25 to 34 years (Papa, 1992, 122-123, 128). Interest rates varied over the course of time, because of their relationship to savings interest rates. In 1979 the rate was 6 %, with a market interest rate of 14 % (Papa, 1992, 122-123, 128).

¹⁰⁴ The approving institute was however not the CPHLM, but the CFF, so that the loans were also known as PLA-CFF loans. The terms for private investors were not quite as favourable as those for the HLM organisations.

tion in property subsidisation, which also lead to higher rents (Blanc, Bertrand, 1996, 131). These higher rents were compensated for by a new housing allowance system, the Personal Housing Support (APL)¹⁰⁵, which formed the central feature of the reform. The entitled people were needy tenants and owners whose flats had been built after 1977, and had been subsidised through certain subsidisation programmes. This arrangement was intended to achieve the two reform objectives of continuation the subsidisation of residential construction, while reducing supply subsidies at the same time (Pearsall, 1984, 42; Boelhouwer, Heijden, 1992, 219).

Low-income owner-occupiers were subsidised by means of PAP loans.¹⁰⁶ Ownership subsidisation also conferred entitlement to the APL (McCrone, Stephens, 1995, 41).

The previous subsidisation of the 'secteur aidé' was replaced by subsidisation in the form of regulated loans (PC)¹⁰⁷, which were granted for both rented and owner-occupied flats, although these went predominantly to the ownership sector. This subsidisation was not subject to any access restrictions, although certain size and cost limits had to be observed (McCrone, Stephens, 1995, 28).¹⁰⁸ The PC loans also conferred entitlement to receive the APL (McCrone, Stephens, 1995, 41).

Table F.3
Construction starts by sectors, 1980 to 1994

	Social rental flats		Social ownership subsidies		Ownership		Private sector		Total	
	PLA		PAP		PC					
	in 1,000	%	in 1,000	%	in 1,000	%	in 1,000	%	in 1,000	%
80	60	15	120	30	100	25	117	29	397	100
81	56	14	126	32	82	21	136	34	400	100
82	64	19	127	37	81	24	72	21	344	100
83	58	17	115	35	90	27	70	21	333	100
84	55	19	113	38	92	31	35	12	295	100
85	65	22	93	31	105	35	33	11	296	100
86	60	20	86	29	99	33	51	17	296	100
87	54	17	78	25	114	37	64	21	310	100
88	54	17	60	18	108	33	105	32	327	100
89	50	15	48	14	105	31	136	40	339	100
90	47	15	38	12	102	33	123	40	310	100
91	60	20	33	11	90	30	120	40	303	100
92	63	23	30	11	70	25	114	41	277	100
93	72	28	32	12	50	19	103	40	257	100
94	78	27	47	16	42	15	118	41	285	100

Source: Blanc, Bertrand, 1996, 127.

The PALULOS subsidy was introduced for the modernisation of social flats (HLM sector) built prior to 1968. Since the flats of the HLM sector are subject to permanent commitments, this subsidisation is not linked to any further commitments. The renovation of private rental

¹⁰⁵ Aide Personnalisée au Logement.

¹⁰⁶ Prêts à l'Accession à la Propriété. The loans covered up to 70 % of the costs (Pearsall, 1984, 41; Boelhouwer, Heijden, 1992, 218) and had a term of 15 to 20 years. At 9 % in 1979, the interest rate was slightly higher than that for the PLA loans (Papa, 1992, 123, 126)

¹⁰⁷ Prêts Conventionnés.

¹⁰⁸ The loans covered about 80 % of the qualifying costs (Pearsall, 1984, 41; Boelhouwer, Heijden, 1992, 218) and had a term of 10 to 20 years (Papa, 1992, 127). The interest rate, at 11 % to 12 % at the end of the 1970's, was above that of the PLA and PAP loans, but still below the market level of 14 % to 15 %.

flats continued to be subsidised by the ANAH, whose subsidisation was not affected by the 1977 Housing Act (Pearsall, 1984, 42). For the first time, subsidisation was introduced for the renovation of owner-occupied flats, which provided housing improvements grants for low-income owners (PAH)¹⁰⁹. These covered up to 20 % of the qualifying renovation costs. Owner-occupiers had to fall within certain income limits, and the flats had to be at least 20 years old (Pearsall, 1984, 42; McCrone, Stephens, 1995, 29). Residents of flats subsidised by the PALULOS, ANAH or PAH can also receive the APL (McCrone, Stephens, 1995, 41).

2.4 The development of the subsidy system after 1977

In 1986, the PLA subsidy was split up into two components. In addition to the loans, the companies could from now on also receive grants.¹¹⁰ These grants were replaced in 1996 by a reduction in value-added tax (VAT) from 19.6 % to 5.5 % (CECODHAS, 1999, 17; Donner, 2000, 289, 294).

As already described, the subsidisation often failed to reach the most needy households. In order to offer the companies an additional incentive to cater for these households, a new subsidisation was created in 1990 for tenants with incomes of less than 60 % of the normal HLM income limit, which was called the PLA d'insertion (PLA-I). In this programme beside the loan a supplementary grant was awarded. The rents were set at 80 % of the normal HLM rents (Donner, 2000, 294).

With the aim of achieving a better social mix in social housing stocks, the PLA loans were replaced in the year 1999 by the PLUS loans¹¹¹. In the flats subsidised in this way, 10 % of tenants may exceed the income limit by up to 20 %, while those households have to pay a 33 %-higher rent. On the other side, 30 % of the flats must be occupied by tenants whose income can be a maximum of 60 % of the normal HLM income limit. The subsidisation is made up of the loan, the VAT reduction and grants. Tenants may also receive the APL in case of need (Donner, 2000, 294).

For the private providers, the PLA subsidy was replaced in 1997 by the PLS subsidy¹¹². This subsidy is also linked to rent level and access restrictions, although these are much broader than those of the PLA and PLUS loans. The income limits are 30 % higher than those for the PLUS loans. In addition to the loans, these flats also benefit from the VAT reduction. Tenants may also receive the APL in case of need. The flats subsidised by PLS loans are classified as social flats, which is not the case for flats financed by PLI loans¹¹³. This subsidy is also linked to rent level and access restrictions, although these are even more generous than for the PLS loans. The income limits are 50 % to 90 % above the normal limits, depending on the region. No VAT reduction is granted for these flats, nor can tenants receive the APL housing allowance. The PLS and PLI loans can be claimed by HLM and SEM corporations (see below), as well as by private landlords. In 2002, 60 % of the 820 million Euro available for PLS loans went to HLM and SEM companies. 80 % of the funds for the PLI loans (230 million Euro) also went to this sector (l'Observateur, April 2003, 58-59).

¹⁰⁹ Prime à l'amélioration de l'habitat.

¹¹⁰ The grants to the CDC, which had previously been passed on to investors in form of reduced the interest rates, were cancelled simultaneously. In 1994, a typical financing mix in the construction of social rental housing for HLM companies was made up as follows: 3 % own capital, 17 % direct grants and 80 % PLA loans (Boelhouwer, 1997, 77). With a market interest rate of 8.95 %, the interest on the PLA loans was 5.8 %.

¹¹¹ Prêt locatif à usage social (social rental housing loan).

¹¹² Prêts locatif social (social rental loans)

¹¹³ Prêts locatif intermédiaire (intermediary rental loans).

Table F.4
Construction starts by subsidies, 1993 to 2000

	Subsidised				Other		Total
	PLA/PLUS/PLS		PAP/0 % loans				
	in 1,000	%	in 1,000	%	in 1,000	%	%
1993	76.8	31	31.2	12	142.9	57	250.9
1994	77.0	26	53.6	18	166.9	56	297.5
1995	62.3	22	43.6	16	173.7	62	279.6
1996	52.7	20	86.0	32	128.1	48	266.8
1997	45.0	17	96.8	37	121.9	46	263.7
1998	43.8	15	95.1	33	148.4	52	287.3
1999	43.3	14	105.6	33	168.6	53	317.5
2000	38.0	12	95.0	31	178.0	57	311.0

Source: Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 48

Ownership subsidisation was also reformed in 1995. The PAP loans were replaced by zero-interest loans (*prêt aidé à taxe zéro*). When purchasing an existing flat, the renovation costs must make up at least 54 % of the purchase price (Donner, 2000, 295).

2.5 The Demand for a decentralisation of the housing policy

With the Decentralisation Acts of 1982 and 1983, the responsibility for planning was placed in the hands of the municipalities. The local authorities have since enjoyed wide-ranging power in land use and town planning, and implementation of urban development measures. House building subsidisation on the other hand has remained the purview of central government (French Embassy, 2001, 1). The municipalities are expected to initiate housing schemes, which also include in particular special measures in favour of needy and inadequately supplied households (Gustin, P., C. Dubois, 2001, 194). Contracts must then be concluded between the state and the local authorities, defining the participation of the state in the financing and implementation of housing projects (French Embassy, 2001, 1). This structure has been criticised for two reasons. On the one hand, the state housing policy is largely out of step with local circumstances, while on the other, the responsibilities for housing supply are not clearly defined. This latter has meant that problems often go uncorrected. From this point of view, the demands for decentralisation of house building financing have become ever louder. The large number of municipalities has in this respect been considered a great obstacle. With a population of 60.2 million, France has about 36,000 municipalities.¹¹⁴ The so-called *Chevènement* Act of 1999 has however significantly improved the possibilities of decentralisation by greatly facilitating the formation of inter-communal co-operative efforts. By 1.1.2002, there were already 2,175 municipality associations in existence, representing 46 million residents. The responsibilities of these associations include the initiation of housing schedules, the accommodation of underprivileged households and the responsibility for maintenance of existing housing stocks (A.-M. Fribourg, 2002, 9, 14-15).

2.6 Laws for improving the right to housing

The right to housing was introduced under the 1990 Besson Act. All persons and families in an economically difficult situation or without suitable housing are thereby granted the right to

¹¹⁴ France comprises 22 regions, 96 departments, 328 districts and 36,000 municipalities.

social support. The reason behind this legislation was an assessment of the supply situation, according to which, at the end of the 1980's, 200,000 to 400,000 families were homeless, and a further 2 million in unsuitable housing. Amongst other things, this was put down to the new housing policy, which with its concentration on demand subsidies no longer reached the most disadvantaged households (E. Langley, 2002, 8). Under the Besson Act, the 'départements' were therefore also included in the responsibility for the housing supply, and obliged to develop action plans for the accommodation of disadvantaged households (Gustin, P., C. Dubois, 2001, 194). A housing solidarity fund (FSL) was also set up, which is financed by the state and the 'départements', and is intended to ensure that households in financial difficulties can either remain in their flat or obtain a flat. 1.5 million households had been supported by this fund up to the end of 2000 (French Embassy, 2001, 4).

In order to bring about the fairer allocation of social housing stocks and reduce unjustified subsidies, a solidarity surcharge on the rent has since 1996 been levied on social tenants whose incomes exceed the specified limits. In order to encourage the letting of empty flats, a special charge was introduced in 1999 for flats that have remained vacant for longer than a specified period. Because most disadvantaged households were often not considered when allocating social flats, the 'Act against Social Exclusion' was passed in 1998, with the aim of making the allocation process more transparent (see Section 4.5).

2.7 The planned development of social housing stocks

The social housing quota in France is at 18 % relatively high, although the distribution of social flats at the regional level is very irregular. The fact that some social housing estates have developed into problem areas has also been attributed to the low social housing stocks in these towns. In order to counteract this development, the 'Municipal Orientation Act' (LOV)¹¹⁵ was passed in 1991. Under this act, towns with a social housing quota of less than 20 % were obliged to develop housing plans which also contained targets for the construction of social rental housing. If the targets were not met, a penalty tax was to be levied, which would go to HLM organisations. Since the shortage of social flats was hardly improved at all, this act must ultimately be regarded as unsuccessful. One reason for its failure can be seen in the fact that it failed to specify clearly with what type of flats the building obligation could be fulfilled. Despite this failure, the objective of achieving a social housing quota of 20 % was not abandoned, but was adopted as part of the Urban Solidarity and Renewal Act (SRU)¹¹⁶, which came into force in 2002. The act provides for the updating of urban development policy targets, planning instruments and property law. Under § 55 of this act, the tax revenues of municipalities in urbanised areas with more than 50,000 residents and a quota of less than 20 % of social flats will be reduced by 152 Euro for every lacking social flat. These deductions can be offset against the expenditure on social rental residential construction of the preceding two years. The social housing deficits are to be eliminated within twenty years, the shortage being reduced by 15 % over every three-year period. If the targets are not achieved, higher compensation payments will be levied. An initial review of this act is to be carried out in 2005. The new law necessitated the first accurate and exact definition of the term 'social housing'. Since this time, social flats have been defined as flats with a rent level and access restriction, irrespective of the ownership circumstances or the type of subsidisation (A.-M. Fribourg, 2002, 9-11).

¹¹⁵ Loi d'orientation pour la ville (LOV)

¹¹⁶ Solidarité et renouvellement urbains (SRU)

2.8 The future of the large housing estates

The large housing estates were built in the 1950's, 1960's and 1970's. Because of the severe housing shortage, the primary aim of the housing policy at the time was simply to build as many flats as possible, while the quality of the housing was of secondary importance. This was further manifested in the useful life of such housing, which from the very beginning was only intended to be 30 to 40 years. The combination of dilapidated buildings, poor location and high unemployment has led to some of these large housing estates developing into problem areas. This includes not only the social flats, but also private rental and owner-occupied flats. About 1 million HLM flats are located on large housing estates. 6,000 of these are demolished every year, although some politicians consider a demolition rate of 30,000 to 50,000 to be necessary. This seems excessive however, and more related to the desire to do this simply as a means of getting rid of the social problems of these areas. Nevertheless, higher demolition rates can be expected in future. Two problems remain to be solved when it comes to reconstruction: firstly, the residents have to be re-located, and secondly, an alternative use must be found for these areas. Demolition can be financially supported by special subsidy programmes, provided that it forms part of wider restructuring measures. A property company (Foncière Logement) has also been formed using funds from the 1 % employer contribution, which is to invest 40 % of its budget in these demolition areas. The remaining funds of this company are to go to areas where the social housing quota is still below the 20 % level (A.-M. Fribourg, 2002, 12-13).

3. The private rental sector

Table F.1 differentiates between social and private rental flats. The flats of the HLM and SEM companies are recorded as socially rented. In addition, the flats of private providers which are subject to rent and access restrictions are also regarded as social flats, because their new construction was subsidised with the aid of PLS loans, or their modernisation by means of ANAH grants. In Table F.1, these flats are however recorded as private rental flats. Though the proportion of private rental flats subject to such commitments on the basis of new construction subsidisation is very low. No information is available on the numbers of private rental flats subject to such commitments because of modernisation subsidisation. Private rental flats which were supported by PLI loans are not considered social flats, despite the commitments. Also not included amongst social flats are those in the 'secteur aidé' subsidised prior to 1977 or those subsidised after 1977 by PC loans.

3.1 Development of housing stocks and ownership structure

As shown in Table F.1, the proportion of private rental flats fell between 1963 and 1988 from 38 % to 21 %, although it has recovered somewhat since then. In 1996, 22 % of flats were privately rented. If one looks at the development in absolute figures, it can be seen that these declined over the period 1963 to 1988 by 1.6 million flats, with the number of private rental flats falling by about 1 million over the period from 1978 to 1988 alone. From 1988 to 1996 however, the housing stock in this segment recovered again by 660,000 flats.

The rapid fall in the stock of private rental flats, which continued into the second half of the 1980's, was due to demolition of old flats, sales to owner-occupiers and an inadequate level of new construction. The factor held responsible for this development is the poor profitability of new construction and investment in existing stocks, which in turn can be attributed to the rent law and tax regulations (Oxley, Smith, 1996, 137). The decline in availability of private rental flats was regarded as very problematical, since the demand for such flats was rising simultaneously, due to the large numbers of single young people, the growing number of divorces, low wages and increasing professional mobility. In order to stimulate investment in residential construction, various tax concessions have been introduced since 1984, and the rent law has also been modernised.

In the case of providers of privately rented flats, the distinction can be drawn between private persons and institutions. The latter consist mainly of property companies or insurance companies. 87 % of privately rented flats are owned by private persons, and only 13 % by institutional providers, although the latter hold the major proportion of newer flats (Oxley, Smith, 1996, 133-134). Many private owners have only one property (McCrone, Stephens, 1995, 30).

3.2 Taxation

3.2.1 Taxes on purchase or construction

When purchasing a flat, the purchaser must pay either VAT or the registration fee. The VAT falls due on the first instance of sale if this takes place within five years of completion.¹¹⁷ In all other cases, a property registration charge is applied when the property is sold, which is made up of three components: the département fee of 3.6 %, the local fee of 1.2 % and the charging fee amounting to 2.5 % of the département fee (Credit Suisse, 2004; European Commission, 2001, 82). For flats of private providers subsidised by PLS loans, which therefore belong to the social sector, the VAT rate is reduced to 5.5 %.

3.2.2 Taxes during the letting period

Income tax

Rental income is subject either to income tax in the case of natural persons, or corporation tax in the case of companies. The income of natural persons is taxed at a progressive rate, whose upper limit in 2003 was 49.58 %. The standard corporation tax rate was 33⅓ % (Credit Suisse, 2004).

In determining the personal tax assessment basis, the different types of income are added together. In comparison to Germany however, the loss compensation between the different types of income (the vertical loss compensation) is handled much more restrictively. To calculate the taxable income, the following expenses can be deducted from rental income:

- a fixed deduction for depreciation and insurance costs of 14 % of the gross income (different rates apply in case of investments subsidised under the Perissol, Besson or Robien Acts, see below),
- all interest payments,

¹¹⁷ In case of a property purchase subject to VAT, a registration fee of 0.615 % must also be paid.

- administration costs,
- maintenance costs and
- land tax.

Since 1993 losses from real property, which are not caused by of interest payments, up to an amount of 10,700 Euro can be offset against the positive income from other sources. Losses not compensated for in this way can be offset against future rental and leasing income over the following 10 years. Taxpayers with rental income of a maximum of 15,000 Euro per year can choose between an exact or a fixed assessment. In the fixed assessment procedure, the taxable income is calculated by reducing the gross rental income by 40 % (Landwell & Associés, 2003, 9).

Since 1984, investment in rental residential construction has been subsidised by various tax concessions. The current regulations form part of the Besson Act. From 1984 to 1996 the Quilès-Méhaignerie Act applied, and from 1996 to 1999 the Périssol Act. Under the Besson Act, 8 % of the purchase price can be offset per year against the taxable income for the first five years, reducing to 2.5 % over the following four years. The fixed deduction for the operating costs has however been reduced from 14 % of the gross income to 6 %. The owner must undertake to rent the flats out as main residences for at least 9 years, and not exceed certain regional upper rent limits. The currently applicable limits are shown in Table F.5 (l'Observateur, April 2003, 60-61). Until the reform in the year 2002, upper income limits for tenants also had to be observed in addition to the upper rent limits, which were set at 40 % above the HLM limits(see below).

Table F.5
Upper rent limits for accelerated depreciation under the Besson Act from 2003
(Euro per m² and month)

A	Paris and surrounding area, Côte-d'Azur	18.00
B	Conurbations of over 50,000 residents, peripheral Paris areas, coastal regions	12.50
C	Rest of France	9.00

Under the Périssol Act, the investment costs could be written off at 10 % p.a. for the first 4 years, followed by 2 % p.a. for the following 20 years. Negative differences between depreciation and rental income of up to 100,000 FFR (15,244 Euro) could be offset against taxable income (Donner, 2000, 299).

Value-added tax

Improvement, conversion and maintenance work to dwelling premises are subsidised by a reduction of the VAT rate from 19.5 % to 5.5 %. This concession is granted to all labour-intensive work for private persons. The concession is restricted in time, and expires at the end of 2005.

Other taxes

In addition to income tax, the government also levies a real property tax, a housing tax, a housing charge and a tax on vacant dwellings.

- The assessment of the real property tax is based on the land registry income (*revenu cadastral*), which is reduced by 50 % and then multiplied by the local tax rate (7.8 % to 45 %) (European Central Bank, 2003, 36). The land registry income lies below the actual rental income (Landwell & Associés, 2001). Under certain circumstances, exemptions or

concessions can also be granted. New construction, for example, is exempt from the land tax for 2 years, and social flats for 15 years (European Commission, 2001, 22).

- The residence tax must be paid by the user of the accommodation, i.e. by the tenant or the owner-occupier. This tax is also assessed on the basis of the land registry income. If the flat is used as a main residence, certain deductions can be made from the land registry income (EMF, 1997, FR 60).
- For flats that are more than 15 years old, a housing charge must also be paid of 2.5 % of the rental income, which goes to finance the National Home Improvements Agency (ANAH).
- And finally there is also a tax on vacant dwellings, which is 10 % of the rental value in the first year the property is empty, 12.5 % in the second year, and rises further to 15 % in the third year. This tax also goes to the ANAH (European Commission, 2001, 31)

3.2.3 Taxation on sale

Realised increases in value are subject to taxation. The capital gain is calculated as the difference between the sales proceeds and the modified purchase price, whereby the actual purchase price is indexed to inflation, and also enlarged by any modernisation and maintenance costs, which are also raised in line with the price index. The capital gain calculated in this way is also reduced, after the first two years, by 5 % for every year of ownership, so that there is no taxable increase in value at the end of 22 years. This reduction according to length of ownership is however granted only to natural persons, and not to companies (Landwell & Associés, 2001). Capital gains of corporations are taxed at a reduced rate (Ministère de l'Économie des Finances et de l'Industrie, 2004, 7).

Under certain circumstances, the capital gain is not taxed.

- In the case of owner-occupied property, the tax does not apply if the flat has been used as the main residence for 5 years.
- For other flats, the increase in value remains non-taxable if neither the seller nor their spouse are the owner of their own main residence, the property sold was purchased 5 years ago, and any possible sale of a main residence took place more than 2 years ago.
- Profits from the sale are also tax-free if the complete property assets, after deduction of debts, do not exceed 400,000 FFR (60,975 €). This amount is increased from the third child by 100,000 FFR (15,244 €).

These conditions do not need to be fulfilled if the property is sold for family or professional reasons (EMF, 1997, FR 65).

3.3 Direct subsidisation

New construction by private investors can be subsidised by PLS, PLI and PC loans. In the case of flats subsidised with PLS and PLI loans, income limits must be observed when the flats are rented. Flats subsidised with PLS loans are considered as social flats. Modernisation work on private rental flats can be subsidised by ANAH grants. These flats are also subject to access restrictions, and are counted as part of the socially rented sector. Every year, approx. 10,000 flats are subsidised by means of ANAH grants.

3.4 Rent Law

As already described, the 1914 rent freeze had already created a housing shortage and a poor level of maintenance prior to the Second World War. The 1948 Rent Act maintained the rent controls and increased tenant protection, although rents were now to be brought up gradually to the normal market level. However, market rents were never reached in this sector, which was known as the “secteur taxé” (McCrone, Stephens, 1995, 30). Because the rents were lower than the social rents, these flats played an important role however in the supply of low-income households. Income-related access restrictions were even applied from time to time (Oxley, Smith, 1996, 133). Due to various amendments to the regulations, certain segments or regions were again and again excepted from the provisions of the laws. This concerned municipalities with less than 10,000 residents, old, luxury flats (1967), better equipped flats (1976) and comprehensively modernised flats (Czasny, 1987, 121). The housing stocks in the “secteur taxé” also declined due to the large number of sales to owner-occupiers (Oxley, Smith, 1996, 133). The number of flats affected fell from 3 million flats in the year 1950 (Oxley, Smith, 1996, 133) to only 337,000 flats in 1996 (Donner, 2000, 307). In this way, the unregulated market segment, which was known as the “secteur libre”, continued to grow in size. In addition to the “secteur taxé” and the “secteur libre”, there was also the so-called “secteur plafonné” (ceilinged sector), which also included those flats subsidised through the aid to the ‘secteur aidé’. The unregulated “secteur libre” however was repeatedly subjected to temporary regulations. Depending on the market situation, rent freezes or rent increase restrictions were enacted. Even the economically liberal government of Giscard d’Estaing made use of these instruments (Pearsall, 1984, 12, 47-48). This had an extremely adverse effect on residential construction activity.

With the 1982 Rent Act, the unregulated sector was also included in rental and tenant protection regulations. Very short-term rental contracts had been the accepted practice in this sector up to 1982. However, because this created great insecurity amongst tenants, the minimum contract term was increased to three years (Czasny, 1987, 122). A basic contract duration of six years was provided for. At the end of this period, the contract could be extended for a further three years or more. This extension could only be refused by the landlord on sufficient reasons, the only acceptable grounds being his own requirement for the accommodation, breach of contract by the tenant or the sale of the property. In the latter case however, the tenant had a preferential right of purchase. The stipulation of the rent levels and rent increases was placed in the hands of a commission, in which tenants, owners and municipalities were all represented. The law led to the almost complete withdrawal of private investors from rental residential construction (Boelhouwer, Heijden, 1992, 222; McCrone, Stephens, 1995, 31). Many rental flats were also converted to owner-occupied flats. The proportion of private rental flats in relation to the overall housing stock subsequently underwent a massive decline (see above).

The situation was therefore reviewed in 1986. Landlords were given the right to give notice to tenants without having to state grounds. The rents for newly rented flats were not subject to any commitments, but could be contractually defined. Rents could also be renegotiated in the event of extension of the contract, so that landlords could adjust the rent to market levels every three years. Annual increases could also be applied in line with changes in the building price index (Boelhouwer, Heijden, 1992, 225; McCrone, Stephens, 1995, 31). This resulted in substantial rent increases, which represented a problem even for medium- and higher-income households. In Paris, rents rose by 51 % to 180 %, in Marseille by 110 %, in Strasbourg by 85 % and in Nice by 130 % (Boelhouwer, Heijden, 1992, 225-226).

The government reacted to the problems in 1989 with a further Rent Act. The term of rental contracts was once again extended to six years. Free agreement of the rent is now only possible in the case of new rental contracts. For extended contracts, the rent is established on the basis of comparable flats, and for existing contracts, it can be increased in line with changes in the building price index (McCrone, Stephens, 1995, 31). Six comparison properties are required in urban areas, and three in rural areas. Notice can only be given on expiry of the contract in justified cases. Reasons for notice are the landlord's own requirement for the accommodation, the planned sale of the property or breach of contract by the tenant (M. Wiktorin, 1992, 45).

4. The social rental sector

The flats of the HLM and SEM companies, and the flats of private providers subject to rent and access restrictions because of subsidisation by PLS loans¹¹⁸ or ANAH grants are considered as social rental flats. The proportion of private rental flats subject to such commitments on the basis of new construction subsidisation by PLS loans is very small. No information is available on the numbers of private rental flats subject to such commitments because of modernisation subsidisation by ANAH grants. Private rental flats subsidised by PLI loans are not considered social flats. Also not included amongst social flats are those in the 'secteur aidé' subsidised prior to 1977 or those subsidised after 1977 by PC loans.

4.1 Provider structure

The providers of social flats can be roughly classified into three categories:

- The non-profit-orientated HLM corporations¹¹⁹,
- The semi-state SEM companies¹²⁰,
- Private providers, who include both companies and natural persons, but who own only a very small proportion of social flats.

HLM companies

The HLM sector includes a large number of autonomous corporations, numbering not only housing providers, but also financial institutions without property holdings. Amongst the 874 corporations providing housing, there are also 167 cooperatives who as a rule manage only few properties. The other providers manage on average 4,500 flats, although there are also major differences between the individual organisations. In addition to its own rental flats, the HLM sector has also built 1.3 million flats that have subsequently been sold to lower-income owner-occupiers (McCrone, Stephens, 1995, 35-36).

The HLM corporations can be divided into two groups: the public institutions and the companies. The public institutions include the public offices of the HLM (OPHLM)¹²¹ and the public development and construction offices (OPAC)¹²². The private corporations include the limited companies of the HLM (SAHLM)¹²³, the limited property finance companies

¹¹⁸ Previously PLA-CFF loans.

¹¹⁹ Habitations à loyer modéré.

¹²⁰ Sociétés d'économie mixte.

¹²¹ Offices publics d'HLM.

¹²² Offices publics d'Aménagement et de Construction.

¹²³ Sociétés anonymes d'HLM.

(SACI)¹²⁴ and the limited co-operative companies of the HLM¹²⁵ (Oxley; Smith, 1996, 85-86).

The OPHLM were founded by municipalities, communal associations or departments on the legal basis of a law dating from the year 1912. Their main task consists in the new construction and administration of social rental flats, and the support of the development of social ownership measures. They also act as service providers and builders when it comes to renovation and urban development. The boards of these organisations are appointed by the municipalities. The OPACs are also owned by the municipalities, although they work on the basis of private law, and their range of tasks extends beyond that of the OPHLMs (Direction Général de l'Urbanisme, de l'Habitat et de la Construction, 2002, 78-79). Due to their legal form, they are more independent of policy, which is also reflected in the composition of their management, having fewer representatives from the world of politics, and more representatives of economic, social, and cultural interest groups. The OPACs developed partly out of the OPHLMs, although with an average of 17,000 flats, the OPACs are now as a rule larger than the OPHLMs, which on average own only 6,000 flats. Both organisations are locally based, and non-profit-orientated (Boelhouwer, 1997, 72-73).

The SAHLMs are private joint-stock companies licensed by the Ministry, which are subject to private company law and the regulations for HLM companies, and are allowed to make a certain amount of profit. They were founded by private and social organisations, such as private companies, chambers of trade and industry, savings banks, the Family Housing Allowance Fund and the family associations. The municipalities themselves are also allowed to hold shares in such organisations (CECODHAS, 1999, F13). Their main objective is the provision of low-rent flats for their own employees. Both social rental flats and social owner-occupier flats are built for this purpose. Since the reform of house building subsidisation in 1977, the SAHLMs have been the major providers of social flats. In 1991, they built 58 % of all new construction in the social sector, with the remaining 42 % being built by the OPHLMs and OPACs. They are as a rule smaller than the OPHLMs and OPACs (Oxley; Smith, 1996, 85) and are not locally based like the latter (McCrone, Stephens, 1995, 36).

The limited co-operative companies of the HLM are subject to private company law, the statutes applying to co-operatives and the regulations for HLM companies. Originally, they played an important role in social residential construction (Oxley; Smith, 1996, 85-86). After their activity was restricted by an act of 1971 to the construction of new owner-occupier property, they are now usually dissolved again on completion of their projects (Donner, 2000, 308).

The main task of the SACIs is the provision of subsidised and non-subsidised credit for the purchase of property. They are subject to the same legal regulations as the SAHLMs, and also the Bank Act of 1984 (Oxley; Smith, 1996, 85-86).

The semi-state companies (SEM)

The SEMs were founded by municipalities with the participation of private investors, although the municipalities must hold at least 51 % of the capital (CECODHAS, 1999, F13). As companies under private law, they are subject to company law, although not the regulations applying to the HLM companies. Their founding goes back to an act dating from the year 1963 (Pearsall, 1984, 19). They combine the advantages of state prerogatives, such as the

¹²⁴ Sociétés anonymes de Crédit Immobilier.

¹²⁵ Sociétés anonymes coopérative d'HLM.

right of compulsory purchase, with the flexibility and financing possibilities of the private sector. This company form was used frequently for urban development projects. Prior to 1977, they also had access to the loans normally available only to the HLM companies (Oxley; Smith, 1996, 86). The main target groups are those households that have no chance in the private rental market, but whose income is still too high to qualify for social housing (Boelhouwer, 1997, 73).

Private providers

Since 1977, private companies and private landlords have also been allowed to build social flats, although the proportion is in this case minute. As with the SEMs, these consist mainly of social flats for medium-income tenants (McCrone, Stephens, 1995, 37).

4.2 Completions, development and structure of stocks

The proportion of social rental flats in relation to overall housing stocks has increased continually due to relatively consistent subsidisation, from 6 % in the year 1963 to 18 % in 1996. The proportion of the construction of social rental dwellings to completions ranged from the end of the 1950's to the 1977 Housing Act between 22 % and 28 % (see Table F.2). In the 1980's, the quota was somewhat lower, at between 15 % and 22 % (see Table F.3). In the first half of the 1990's, the proportion of completed social rental flats then increased again, to 31 % in 1993. Since this time it has decreased continually, although social flats still made up 12 % of completions in the year 2000.

Table F.6 shows the distribution of social housing stocks and new construction between the different investor types in 2000. At 49 %, the largest stocks are held by the OPHLMs and OPACs, although the stocks held by limited companies (SAHLMs), at 42 %, also make up a major proportion. The proportion held by SEMs is much lower, and the stocks in the hands of other providers are almost insignificant.

Table F.6
Social flats: Stocks at 31.12.2000 and completions in 2000 (in %)

	OPHLM OPAC	SAHLM	SEM	Other
Existing stocks	49.0	42.0	8.3	0.7
Completions in 2000	32.5	54.5	12.3	0.7

Source: Ministère de l'Équipement des Transports et du Logement, SES Infos rapides, June 2002, 6.

Table F.7 shows the type of financing of social housing stocks. The major proportion of flats were subsidised prior to the 1977 reform.

Table F.7
Financing of social housing stocks at 31.12.2000 (in %)

Loans before 1977		Loans after 1977		
HLM/O	other	PLA, PLUS, PLA-CFF, PLS	PLA-I PLA-LM ¹²⁶	other
49.7 %	15.4 %	27.4 %	1.9 %	5.6 %

Source: Ministère de l'Équipement des Transports et du Logement, SES Infos rapides, June 2002, 3.

¹²⁶ PLA à loyer minore (similar programme to the PLA-I)

A classification of building types and size structure of social housing stocks is given in Table F.8. Almost 90 % of social flats are found in multi-family houses, and mostly consist of 3 to 4 rooms.

Table F.8
Social housing stock at 31.12.2000: Building types and flat size (in %)

Single-family houses	Multi-family houses	Number of living rooms			
		1 or 2	3 or 4	over 5	Average
12.6	87.4	23.9	66.5	9.6	3.2

Source: Ministère de l'Équipement des Transports et du Logement, SES Infos rapides, June 2002, 2.

Under the requirements of the Urban Solidarity and Renewal Act (SRU)¹²⁷, municipalities with over 50,000 residents located in urbanised areas must over the next 20 years achieve a social housing quota of 20 %. In this way, it is hoped to prevent the development of problematic resident structures, as took place in the past on some social housing estates, and which has been attributed to the shortage of social housing stocks in the towns concerned. It should be noted in this respect however that approx. 6,000 social flats on large housing estates are demolished every year, and that this figure is even expected to increase in future (see above).

The extensive construction programmes of the 1960's and 1970's saw the construction of a large number of HLM blocks of flats, albeit of a low standard. Town planning and architectural quality was largely disregarded, the only important consideration being the number of flats. These flats were very small, and had no satisfactory heat or acoustic insulation. The social infrastructure and the transport structure, were only provided at a later date, if at all. About 16 % of the HLM flats are now in poor condition, are in unsuitable locations or have fallen down the social scale. In the 1990's, this led to social unrest in many, usually out-of-the-way large residential blocks, pointing out the urgent need for improvement and anti-segregation measures. In recent years, the size of individual housing projects has decreased substantially, and the quality has been significantly improved. Nevertheless, two-thirds of the total HLM housing stocks are today still concentrated in these large housing blocks (Donner, 2000, 308-309).

In the 1980's, many HLM companies had to cope with vacancies and the concomitant financial problems. Over the following years however, the proportion of property standing empty decreased, although it has started to climb again in recent years. In 1986, 3.6 % of HLM flats were standing empty, the quota falling to 2.2 % in 1996, and climbing back to 2.8 % by the year 2000. 1.7 % of flats remained unoccupied for more than three months (Ministère de l'Équipement des Transports et du Logement, SES Infos rapides, June 2002, 4). This problem is largely concentrated on a small proportion of residential blocks where empty quotas of up to 25 % are not uncommon.

4.3 Subsidisation programmes

Table F.9 gives an overview of the subsidisation programmes forming part of social rental housing. The table also shows the measures qualifying for subsidisation, the access criteria, the rent level limits and the subsidy recipients. The current income limits and rent levels are

¹²⁷ Solidarité et renouvellement urbains (SRU)

given further below. The PALULOS programme for subsidisation of modernisation efforts in the HLM sector is not shown. This subsidy is not linked to any additional access restrictions, and is subject only to rent regulation.

Table F.9
Subsidisation programmes for social rental flats

Pro-gramme	Builder	Owners	Income limit	Rent limits	Measures quali-fying for subsi-disation
PLUS	HLM, SEM	HLM, SEM	30% of tenants 60% 10% of tenants 120%	100 %	New construc-tion, purchase and modernisa-tion
PLA-I	HLM, SEM	HLM, SEM	60 %	88 %	New construc-tion, purchase and modernisa-tion
PLS	Builder or HLM, SEM	all natural or legal persons	130 %	150 %	New construc-tion, purchase and modernisa-tion
ANAH	as part of an OPAH ¹²⁸	all natural or legal persons	100 %	60 %	Modernisation
ANAH	as part of a PST		60 %	55 %	Modernisation

Under the 1977 reform, and in addition to new construction, the purchase of existing flats also qualified for subsidisation, provided that the flats are subsequently modernised. A special programme with this aim in mind¹²⁹ was introduced as early as 1973. At this time, many old buildings in inner cities were being privately modernised, which lead to the displacement of old-established, usually low-income households. A major proportion of the flats concerned were subject to the 1948 Rent Act, which guaranteed affordable rents and secure housing conditions, meaning that these stocks played an important social role. The intention of the new subsidisation programme was therefore to have these buildings bought and renovated by HLM companies, in order to rent them back to the previous tenants at subsidised rents (Pear-sall, 1984, 34-35).

Following the PLUS subsidies and PLS subsidies are described. Under the act No. 99-974 of 14th September 1999, the following measures can be subsidised under the PLUS subsidy for HLM and SEM companies:

- property purchase and new construction
- new construction
- purchase of existing property with subsequent renovation

The subsidy is linked to compliance with the following requirements:

- Property may only be rented to households with an entitlement to accommodation, and the appropriate size of the flat (number of living rooms) may not be exceeded. In order to achieve a healthy social mix, 30 % of the flats must be occupied only by households

¹²⁸ Opération programmée de l'amélioration de l'habitat (Housing improvement programme).

¹²⁹ Acquisition-Amélioration Locataire d'HLM.

whose income does not exceed 60 % of the income limit, while 10 % of tenants may have an income of 20 % above the income limit.

- An agreement must be concluded between the owner and the state defining the maximum rent, with different levels applying according to the type of flat and region. This agreement justifies the entitlement of tenants to the APL.
- When purchasing existing buildings, at least 20 % of the total costs for the modernisation must be provided.

The subsidisation is made up of a loan from the CDC, the reduction of the VAT to 5.5 % and a state grant of 12 %. Exemption from real property tax is also granted for 15 years. The loan amount covers the total costs less the state grants. The interest rate is 4.2 % p.a. (3.25 % for purchase) with a maximum term of 35 years. The interest rate is variable, and is linked to that of the Type A savings accounts (see below), which is currently 3 % (Caisse des dépôts et consignations, Loan terms, June 2003).

The PLS subsidy is made up of the loan, the VAT reduction and the 15-year land tax exemption. The loan amount from the CDC (only to HLM and SEM organisations) is at least 50 %, and a maximum of 90 % of the qualifying total costs. An own capital input of at least 10 % is required. The loan term is a maximum of 30 years, and the interest rate 4.6 %. The rent is limited to 1.5-times the PLUS values. An agreement may also be made between the state and the owner to confer entitlement to the APL. PLS-subsidised dwellings are taken into account when reviewing the 20 % SRU-quota (see above) (Caisse des dépôts et consignations, Loan terms, June 2003). PLS loans are given by the CFF as well as the CDC, although at somewhat different terms.

The CDC is financed from savings deposited by the households in Type A savings accounts with the savings banks. The low interest rates of the PLA loans are due to the low interest attracted by these savings. In compensation, the interest is tax-free. The low-interest loans are thus made possible by the indirect subsidisation of these savings investments in Type A savings accounts (McCrone, Stephens, 1995, 37).

A further source of financing comes from the 1 % employer contribution (see above). Loans funded by the employer contribution are subject to very low interest, although they may cover no more than 25 % of the total costs (Oxley, Smith, 1996, 89).

Further sources of subsidisation include the sale of building land at reduced prices or peak financing by départements and municipalities.

4.4 Rent restrictions

Table F.10 shows the procedure for the rent setting and review for social flats built before and after the 1977 reform.

About one-fifth of social tenants earn an income above the criteria of access. These tenants may not however be given notice. If the income limit is succeeded by a certain percentage, an income-related supplementary rental charge must be paid, which is called the SLS surcharge¹³⁰. This surcharge is paid by approx. 7 % of tenants.

¹³⁰ Supplément de loyer de solidarité ou surloyer (rent solidarity surcharge).

Table F.10
Rent setting and review in the HLM sector

	HLM flat built before 1977 without APL contract	PLA, PLUS, PLA-I, PLS, PC	HLM flat built after 1977 with APL contract	
			Modernisation (PALULOS)	Without modernisation
Setting of initial rent	Rent entitlement according to corrected living area. A rent bracket was specified for each accommodation category (PLR, PSR, HLMO, ILM, ILN).	The initial rent may not exceed the maximum level approved in the APL contract. The agreement is concluded between the owner and the state, and is a requirement for the housing allowance.	Rent increase of 10 % of the costs less the subsidy. Exceptions may be made in special cases.	The rent does not change on signature of an APL contract.
State specification of the initial rent	Minimum and maximum are specified by law.	The rent specified in the agreement may not exceed a maximum level. The allowed basic value is announced by means of a circular on 1 st July of every year. The actual maximum level is based on the type/features of the accommodation.		
Review of maximum rent	Minimum and maximum levels are adjusted on 1 st July of every year on the basis of the rise in the building price index over the last four quarters.	The maximum rent is adjusted on 1 st July of every year in accordance with the average change in the building price index over the last four quarters. (Valid since 1.7.1995)		
Rent increase	maximum half-yearly increase of 10 % within the price bracket.	maximum annual increase of 20 % within the permitted limits.		
New rentals	Rents can be freely agreed within the permitted limits.			
Supplementary rental charge	A surcharge can be required from tenants whose income exceeds the limit for the entitlement to HLM flats by at least 20 %. This is compulsory if the income limits of 60 % are exceeded. The surcharge table takes into account the excess income, and if applicable, also the age of the tenant and the building type. Does not apply to flats subsidised by means of PC, PLS-CFF or PLI loans.			
Source: L'union sociale pour l'habitat				

Table F.11 shows the rents set for certain types of flats and regions according to Circular No. 2002-53 of July 2002. The figures are divided into flats whose rent is set per m² of living area, and those whose rent is set per m² of corrected living area. The corrected area is a value, which also takes into account quality features of the flat. The corrected area is approximately 1.6-times the actual living area. For a flat with an actual living area of 75 m², this gives a corrected living area of 120 m².

Table F.11
Rent per m² in Euro (to Circular No. 2002-53 of July 2002)

	Zone 1A I'le de France	Zone 1 Paris	Zone 2 Major cities	Zone 3 Other
Monthly rent per m ² living area				
PLUS	4.91	5.21	4.30	4.00
PLA-I	4.36	4.64	3.82	3.54
PLS	7.36	7.82	6.45	5.99
Annual rent per m ² of corrected living area				
ILM, ILN, CFF loans for subsidised modernisation post-1963	40.25	42.67	35.72	33.46
CFF loan. for subsidised modernisation pre-1963	33.78	35.72	30.07	27.64
HLM with PALULOS	32.33	34.27	28.28	26.67

Source: CDC Internet site

The market rents lie significantly above these figures. In Paris in 1998, the average rent was 84.80 FFR (12.93 Euro). In the adjoining suburbs it was 68 FFR (10.37 Euro) and in outlying suburbs 38.50 FFR (5.87 Euro) (Ditch, J., A. Lewis, S. Wilcox, 2001, 103).

4.5 Access restrictions and allocation practice

Immediately after the Second World War, the objective of social residential construction was seen as supporting economic development by ensuring an adequate supply of housing for workers and employees. There were no income-related access restrictions. Income limits were first introduced in 1954. The figures were however so generous, that approx. 80 % of households enjoyed an access to social housing. It was therefore hardly surprising that surveys carried out at the beginning of the 1970's came to the conclusion that households with the lowest incomes were under-represented in social flats. Entitlements to accommodation were subsequently subjected to greater restrictions. However, the declared aim was never to restrict eligibility to the most needy households, but to keep it available to the majority of residents. At the moment, social housing is still supposed to be available to approx. 60 % of the population (A.-M. Fribourg, 2002, 6). While the HLM and SEM flats are subject to permanent commitments, the commitment period for private investors is restricted to the loan term of 15 to 30 years.

Table F.12 shows the income limits for the different types of accommodation. The figures are reviewed and adjusted annually. The assessment basis is the taxable income, which amounts to approx. 72 % of gross income. More favourable income limits apply for single parents and young married couples. As shown in Table F.13, this is done by increasing the possible household size.

Table F.12
Upper income limits for different types of flat (1st January 2003)
 Taxable annual income in Euro

Household size	PLUS, PLA, HLM-O			PLA-I, PLATS, PLA-LM-O			PLS		
	Zone 1	Zone 2	Zone 3	Zone 1	Zone 2	Zone 3	Zone 1	Zone 2	Zone 3
1	15,248	15,248	13,257	8,387	8,387	7,291	19,822	19,822	17,234
2	22,788	22,788	17,703	13,672	13,672	10,622	29,624	29,624	23,014
3	29,874	27,393	21,290	17,924	16,436	12,773	38,836	35,611	27,677
4	35,666	32,813	25,701	19,617	18,047	14,213	46,366	42,657	33,411
5	42,435	38,844	30,234	23,339	21,365	16,629	55,166	50,497	39,304
6	47,751	43,710	34,071	26,264	24,041	18,739	62,076	56,823	44,292
additional persons	5,321	4,870	3,800	2,927	2,679	2,090	6,917	6,331	4,940

Zone 1: Paris and surrounding municipalities

Zone 2: Ile-de-France excluding Paris and surrounding municipalities

Zone 3: Rest of France

Source: CDC Internet site

Table F.13
Calculation of household sizes for single people and young married couples

Household size	
1	Single people
2	without dependents
3	or one person with one dependent
4	or young household without dependents
5	or one person with two dependents
6	or young household with or without dependents
7	or one person with three dependents
8	or one person with four dependents

Source: CDC Internet site

In view of the broad framing of the eligibility importance is attached to the method of allocation of social flats. In contrast to other European countries, the allocation of housing is the sole province of the social providers. The allocation of housing is decided by a commission, which consists of six members of the providers' governing body. One of them has to be the elected tenants' representative. One seat on the commission is also held by the Mayor of the town in which the housing is located. The commission must assess applications according to various priority criteria, and then propose to the applicant a particular flat from the accommodation available. It should be taken into account in this respect that a certain proportion of the housing stock is reserved for applicants proposed by various organisations.

- 30 % of flats must be reserved for state applicants (prefecture), of which 5 % are reserved for civil servants.
- 20 % of flats must be allocated to applicants proposed by the municipalities, if the loans have been guaranteed by the municipality.
- The proportion to be allocated to applicants proposed by employers depends on their financing contribution.

Practice has shown that applications by certain groups of applicants have in the past not been taken into consideration sufficiently by the allocation commission (A.-M. Fribourg, 2002, 7-8).

The households discriminated against include those with lowest incomes, the old, single parents, large households and foreigners. This discrimination is essentially attributable to two reasons. On the one hand, financial stability had to be ensured, which often lead to the rejection of particularly low-income applicants. On the other, commissions wanted to avoid excessive concentrations of minorities and problem groups, since this can discourage stabilising households and lead to vacancies, which in turn puts the financial balance at risk. These marginalized households were therefore often forced to resort to the poor-quality flats of the private rental sector (Pearsall, 1984, 16-17; Boelhouwer, Heijden, 1992, 208; Boelhouwer, 1997, 71; McCrone, Stephens, 1995, 39, Oxley, Smith, 1996, 92).

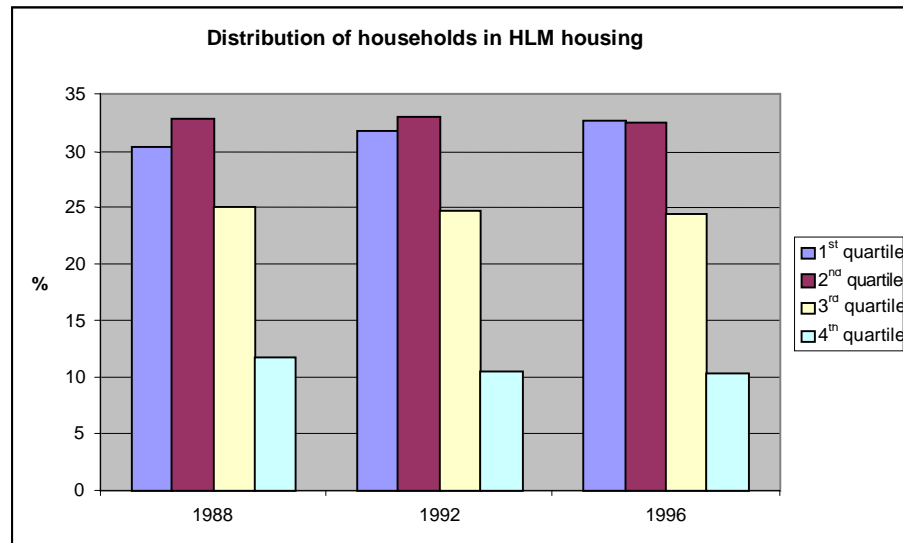
Various measures have been implemented to mitigate the discrimination against socially disadvantaged households. The right to housing was enacted in the 1990 Besson Act. The départements were also given joint responsibility for the provision of housing, by obliging them to develop action plans for the housing of disadvantaged households (Gustin, Dubois, 2001, 194). A housing solidarity fund (FSL) was also set up, which is financed by the state and the départements (see above). A separate subsidisation programme was also created in 1990 for tenants with incomes of less than 60 % of the normal income limits, the so-called PLA-I loans. In 1999, the normal PLA subsidy was superseded by the PLUS subsidy, which provides for a social mix in subsidised flats, and under which at least 30 % of flats must be allocated to the target groups of the PLA-I subsidy. In order to prevent concentration of low-income households on social housing estates, a social housing quota of 20 % was imposed on all larger cities by the Municipal Orientation Act (LOV) of 1991. This objective was carried over in the year 2000 into the Urban Solidarity and Renewal Act (SRU). The targets are to be achieved by the year 2020 (see above). An act against social exclusion was passed in 1998. According to this law, every applicant must be allocated a special département number. In addition, the applicant has the right to

- the statement of grounds if their application is rejected.
- priority consideration if they have already been on the waiting list for a long time.
- a review of the status of their application at any time.

In the course of the decentralisation discussion currently in progress (see above) demands are being made to give the municipalities greater powers in the allocation of housing (A.-M. Fribourg, 2002, 7-8, 15).

At the moment, special priority amongst those with an entitlement to accommodation is given to households with specific problems, such as the unemployed, the handicapped, large families and pregnant women (CECODHAS, 1999, 19).

The following diagram shows the development of different income groups in HLM flats from 1988 to 1996. The households in the lowest income quartile were slightly over-represented in 1996, with a percentage share of approx. 33 %. The same applies for the households in the second quartile. Over the course of time, the figure for the households in the lowest quartile has increased slightly, while the share of the other income groups has fallen accordingly. While the households in the second quartile were significantly better represented in HLM housing than those in the first quartile in the year 1988, the situation has changed in the meantime. Overall however, no dramatic changes have occurred between 1988 and 1996.



Source: A.-M. Fribourg, 2002, 7

4.6 Taxation

The corporation tax is reduced to 25 % or 10 % for property income of non-for-profit organizations (Ministère de l'Économie des Finances et des l'Industrie, 2004, 7).

5. The owner-occupied sector

The proportion of owner-occupied flats rose from 35 % in the year 1954 (Oxley, Smith, 1996, 92) to 54 % in 1988, and has since only increased slightly to 55 % in 1999 (see Table F.1). This large expansion is due above all to direct subsidisation in the form of low-cost loans. As shown in Table F.3, direct subsidisation declined significantly in importance in the second half of the 1980's. Not until the second half of the 1990's was owner-occupied property again more strongly subsidised (see Table F.4). In addition to direct subsidisation, owner-occupied property, which is regarded as a consumer commodity for tax purposes, was also subsidised by tax concessions. However, this form of subsidisation has since been discontinued. The state-subsidised building savings system also plays an important role, although this will not be examined here.

5.1 Direct subsidisation

In the case of direct subsidisation, a distinction can be drawn between social and general ownership subsidisation. Social ownership subsidisation is linked to the observation of income limits, while general subsidisation is available to everybody. Social ownership subsidisation consisted until 1995 of PAP loans, which were replaced in 1995 by 0 % loans. For medium-income households, the PAS subsidy with somewhat broader income limits was introduced in 1993. The universally available general subsidisation consists of PC loans. The renovation of owner-occupied flats can be subsidised by means of PAH grants, although these are linked to the observation of certain income limits. Owners of flats subsidised by PAP

loans, PAS loans, PC loans or PAH grants may also receive the APL if they comply with the other conditions.

The 0 % loan can be applied for for subsidisation of new construction, the purchase of new construction and the purchase of existing property, provided that this is at least 20 years old, and the renovation work makes up at least 35 % of the total costs. These loans are only available to households with an income that does not exceed the limits shown in Table F.14.

Table F.14
0 % loan upper income and cost limits in Euro

Household size	Income limits		Upper cost limits	
	Ile-de-France	Province	Ile-de-France	Province
1	22,105.11	18,949.41	76,224.51	53,357.16
2	28,416.50	25,260.80	106,714.31	76,224.51
3	31,572.19	28,416.50	114,336.76	83,846.96
4	34,727.89	31,572.19	121,959.21	91,469.41
5	37,883.58	34,727.89	129,581.66	99,091.86
6 and more	37,883.58	34,727.89	137,204.12	106,714.31

Source: Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 75, 77

The loan can be as much as 20 % of the costs, subject to the upper limits shown in Table F.14. In addition, the 0 % loan may not exceed the level of 50 % of the other loans. For any measures subsidised entirely by own capital, there is therefore no subsidisation. The state subsidy corresponds to the interest payments for the market interest rate. The subsidisation is also income-related. On the one hand, capital repayment may be deferred, with the interest-only period falling in three stages according to the level of income. On the other, the capital repayment period also reduces, the higher the income level.

5.2 Taxation

The imputed rental income from owner-occupied flats is tax-free. Tax concessions were abolished with effect from 1st January 1998. Prior to this time, owner-occupiers could reduce their tax liability for 5 years by 25 % of the interest payments, up to a maximum of 40,000 FFR (6,097 Euro), plus an additional amount for every child. A further qualifying requirement was a maximum income of 210,000 FFR (32,012 Euro) for single persons and 410,000 FFR (62,500 Euro) for married couples (McCrone, Stephens, 1995, 29-30, 33).

Renovations and repairs to owner-occupied flats are also subsidised by the above-mentioned VAT reduction to 5.5 % for private persons for labour-intensive work. No real property tax is paid for owner-occupied new flats in the first 2 years. In case of subsidisation by PAP loans, this period is extended to 4 years (McCrone, Stephens, 1995, 30).

6. Housing benefits

In France, there are three different housing benefit systems:

- the Family Housing Allowance (ALF)¹³¹ introduced in 1948,

¹³¹ Allocation de logement familiale.

- the Social Housing Allowance (ALS)¹³² in existence since 1971 and
- the Personal Housing Support (APL)¹³³ introduced in 1977

Up to 2002, housing benefits were calculated on the basis of various rates and limits. In general, the APL benefited households with higher income than the two other systems (ALF and ALS) (Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 66). Now however, the systems differ only with regard to the target groups and the funding. A merger of the systems is planned for the future. In all three systems, application is open to both tenants and owners.

The ALF was introduced in 1948 in conjunction with the relaxation of the rent level restrictions. Originally, benefits went only to large families with a low income (Papa, 1992, 120). Entitlement criteria were later extended however, and since then have included unmarried people with children, households caring for relatives and young couples who have been married for under 5 years (Boelhouwer, 1997, 76).

The Social Housing Allowance (ALS) was originally intended for older people over 65 years of age, young French and foreign workers below 25 years old and for handicapped people (EMF, 1997, FR 181). Over the period from 1992 to 1994, the entitlement was extended to all low-income households, including students. This has led to a substantial increase of people receiving housing allowance in the private rental sector, although the reform did not bring about any increase in levels of payment (Laferrère, Le Blanc, 2004).

The APL was introduced in 1977 as part of the reform of the Housing Act. This compensated for rent increases in subsidised residential construction resulting from reduced supply subsidies (Pearsall, 1984, 42). The APL was originally only available to households whose flats had been built or modernised after 1977, and had been financed by certain loans.¹³⁴ A requirement for the entitlement is a contract between the owner and the state, which also specifies what demands on quality the flat must fulfil, the income limits to be maintained by the tenants (Boelhouwer, 1997, 76) and the maximum rents allowed. Since 1998, the APL can also be granted to tenants in HLM flats built prior to 1977, if a corresponding contract was concluded with the government (Donner, 2000, 298).

The housing allowance entitlement is calculated using the following formula:

$$\text{WoG} = k \cdot (R_a - R_0)$$

The housing allowance is calculated by multiplying the subsidy rate (k) by the difference between the attributable rent (R_a) and a minimum rent (R_0), which in all cases must be borne by the household. The attributable corresponds to the actual rent up to the amount of the maximum rent limit. Both the subsidy rate and the minimum rent are a function of the income and household size. With increasing income, the subsidy rate falls and the minimum rent increases. The maximum rent limit depends on the region and the household size. For a family with two children, this amounted in the year 2000 to 360 Euro per month (Laferrère, Le Blanc, 2004). In most cases however, the actual rent is higher than the maximum rent. This even applies to the HLM sector. The formula is reviewed and adjusted annually (Ditch, Lewis, Wilcox, 2001, 105-106).

¹³² Allocation de logement social.

¹³³ Aide personnalisée au logement.

¹³⁴ Rented new construction must be subsidised by PLA, PLUS, PLS or PC loans, owner-occupied construction by PAP or PC loans. Modernised rental flats must be subsidised by ANAH or PALULOS grants and modernised owner-occupied flats by PAH grants (Papa, 1992, 119; McCrone, Stephens, 1995, 41)

Table F.15
Recipients of housing allowance in 1,000

Year	APL			ALS			ALF			Total
	Rent	Owned	Total	Rent	Owned	Total	Rent	Owned	Total	
1980	47	208	255							
1987	861	940	1,801							
1993	1,888	740	2,628	1,738	47	1,785	899	224	1,123	5,537
1994	2,019	708	2,727	1,903	54	1,957	880	231	1,111	5,795
1995	2,115	680	2,795	2,011	59	2,070	898	247	1,185	6,010
1996	2,204	651	2,855	2,082	63	2,145	897	260	1,157	6,158
1997	2,223	621	2,844	2,090	65	2,155	892	278	1,170	6,169
1998	2,292	575	2,867	2,167	68	2,235	901	300	1,201	6,303
1999	2,310	521	2,831	2,158	69	2,227	901	315	1,216	6,274
2000	2,318	479	2,797	2,162	72	2,234	911	337	1,248	6,279

Source: 1980, 1987: Papa, 1992, 121

from 1993: Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 66

As Table F.15 shows, the number of recipients of the APL has increased significantly since 1980. What the table does not show is that due to the extension of housing allowance entitlement over the period from 1992 to 1994, the number of recipients of the ALS has also increased substantially. This affected above all the private rental sector. The number receiving housing allowance in this segment increased from 1.56 million in the year 1991 to 2.55 million in 1996 (Laferrère, Le Blanc, 2004). Overall, about 5.4 million tenant households were receiving housing benefit in 1999, constituting more than 50 % of rented main residences (see Table F.1). If we consider tenants and owner-occupiers, this gives a total of 6.3 million households drawing housing benefit by the year 2000, of which 890,000 were owners and 5.4 million tenants. The total expenditure amounted to 12.3 billion Euros. From 1993 to 2000, the number of recipients increased from 5.5 million to 6.3 million. However, the development was very different between owners and tenants. While the number of tenants receiving housing benefit grew from 4.5 million to 5.4 million, the number of owners fell from 1 million to 890,000.

Table F.16

Housing benefit expenditure and its financing

in billion Euro

	Expenditure						Financing			
	Total	Rent	Owned	APL	ALS	ALF	Employer cont.	State budget	Social security	Total
1993	9.72	7.70	2.02							
1994	10.41	8.40	2.02							
1995	10.88	8.89	1.99							
1996	11.13	9.23	1.90							
1997	11.43	9.53	1.90	5.88	3.17	2.45	1.31	4.94	5.58	11.83
1998	11.78	9.97	1.81	5.90	3.32	2.56	1.39	5.05	5.73	12.17
1999	12.20	10.49	1.71	6.02	3.49	2.70	1.51	5.20	5.95	12.65
2000	12.33	10.71	1.63	5.98	3.54	2.82	1.43	5.38	6.02	12.84

Source: Direction générale de l'Urbanisme de l'Habitat et de la Construction, 2002, 67,69-70

As already indicated, the different housing benefit systems are financed from different sources. The funds of the ALF come from the National Family Benefit Fund (FNPF),¹³⁵ the Social Housing Allowance (ALS) is financed from the National Housing Aid Fund (FNAL)¹³⁶ and the APL comes from the National Housing Fund (FNH)¹³⁷. These funds are in turn also supplied from different sources. The FNPF is funded by social security contributions, the FNAL by state budget resources and a special employer contribution, and the FNH by the state budget and grants from the other two funds. Table F.16 shows a summary of the sources of funds for housing benefit expenditure. The Housing Solidarity Fund (FSL) (see Section 2.6) and the administration of housing benefit are financed by the difference between the income and expenditure.

¹³⁵ Fonds National des Prestations Familiales.

¹³⁶ Fonds National des aides au logement

¹³⁷ Fonds National Habitat.

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The Netherlands

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1. Introduction

Housing in the Netherlands can be categorised into socially rented, privately rented and owner-occupied dwellings. While in Germany, all rental housing subject to specific rent level and access restrictions are considered as social housing, irrespective of the ownership circumstances, all dwellings in the Netherlands that belong to state-approved non-profit-making providers (*toegelaten instelling*) are counted as part of the social sector. Under the Housing Act (*Woningwet*), these providers must restrict their activity to social residential construction, and allocate their housing primarily to households who have difficulty in finding suitable housing, due to low income or other reasons. There are however no access restrictions in the form of generally applicable upper income limits. The non-profit-making providers consist of the housing associations (*Woningcorporaties*), the municipal housing companies (*Gemeentelijke Woningbedrijven*) and the other non-profit-making companies (*Niet-Winst Beogende instelling*). The most important group is made up of the housing associations. The municipal companies were largely converted into housing associations in the 1990's, so that they have continually declined in importance as housing providers.

Housing allocation is regulated by the Housing Allocation Act (*Huisvestingswet*), which applies not only to social housing, but also to private rental housing and parts of the owner-occupied sector. The municipalities accordingly have the right to link tenancy with municipal housing permission. The criteria to be fulfilled for such permission can be laid down independently by the municipalities. The Housing Allocation Act was amended in 1998. Since that time, the regulations have only been applicable to housing whose rent does not exceed a certain upper limit.

Rent level regulations also apply both to social and private rental dwellings. This specifies that the rent for the housing may not exceed a certain maximum figure. This figure is determined by a house rating system, in which each dwelling is allocated a points value, depending on its quality and features. The maximum permissible rent is then calculated by multiplying this figure with a price per point established by the state. Since the liberalisation of rent laws in the year 1989, these maximum rents only apply to housing that do not exceed a certain rent level. The annual rent increases allowed are also specified by the government. In the year 2003, the rent level regulations were integrated into the Dutch Civil Code, while before this time they were defined in the Housing Rent Act (*Huurprijzenwet Woonruimte/HPW*).

Up to the 1990's, all rental residential construction by non-profit-making providers was subsidised more or less by annual operating cost grants. These grants compensated for the difference between actual rental income and the cost rent. The major part of private rental residential construction was also subsidised in this way (Boelhouwer, Heijden, Priemus, 1996, 89). With the Heerma Memorandum of 1989, an extensive reorientation of housing policy was introduced, which led to the gradual withdrawal of the state from subsidisation, the decentralisation of housing policy decisions and a strengthening of market forces. In 1989, the operating cost grants for private rental construction were abolished, and replaced by a significantly lower building cost grants. Non-profit-making providers continued to receive the annual subsidies, although they were now so arranged that the investment risks increasingly remained with the housing associations. Subsidisation was largely discontinued in 1995. At the same time, all future payment obligations arising out of past subsidy grants were settled in the form of an overall compensation agreement.

From 1992, the municipalities were given greater influence in the allocation of funds. While up to this time all subsidisation measures had had to be approved by central government, the

funds have since been allocated to the municipalities in the form of budgets for their own disbursement. The municipalities and the housing associations must also compile annual plans defining their local housing policy objectives. Following decentralisation, the central government sees its task as monitoring the housing supply, and prompting the actors to the relevant measures wherever necessary.

Table N.1 shows how the proportion of the three sectors to housing stocks has changed over the course of time. A particularly striking feature is the decline in the proportion of private rental housing. This decline is due on the one hand to the low completion figures, and on the other to the fact that a large number of pre-war dwellings have either been sold to owner-occupiers, or bought up by the housing associations for the purpose of renovation (McCrone, Stephens, 1995, 83). The reluctance by investors is attributed to the strict regulations on the rental sector (Schutjens, Kempen, van Weesep, 2002, 647). In contrast to the private rental sector, the proportion of the social rented sector rose substantially up to 1990, although it has declined somewhat again since. In the year 2001, 36 % of all housing was socially rented. The proportion of owner-occupied dwellings has also increased substantially, and a further rise in the ownership quota is planned for the future. In order to achieve this aim, approx. 275,000 social dwellings are to be sold to tenants by the year 2010.

Table N.1
Housing stocks by form of tenure in the Netherlands 1947 - 1999 (in percent)

	1947	1960	1970	1980	1990	2000
Socially rented	12	23	31	36	41	36
Privately rented	60	47	34	22	14	12
owner-occupied	28	30	35	42	45	52
Number of dwellings (in 1,000)	2,126				5,802	6,590

Stocks excluding senior citizens' and students' residential homes

Source: Percentage up to 1990: van Kempen, Priemus, 2002, 241; 2000: A. Ouwehand, G. van Daalen, 2002, 3
Total in 1947: Donner, 2000, 428; 1990 and 2000: Centraal Bureau voor de Statistiek, Woningbouw per regio, 10.Nov.2004 (including dwellings, holiday homes and flats in special buildings)

Due to its high proportion and the relatively good quality of housing, the social housing sector in the Netherlands was never regarded as a segment exclusively for low-income households. The high social housing quota allows a good social mix, without endangering the supply objective. Since the 1990's however, many higher-income households have been moving into ownership, so that the proportion of affluent households in social housing is declining steadily. It therefore appears doubtful whether the social rented sector will be able to maintain its previous character (van Kempen, Priemus, 2002, 237, 242-244).

Dutch Guilders (NLG) have been converted to Euro (€) at the following rate: 1 € = 2.20371 NLG.

2. Historical overview

2.1 The pre-war period

Immigration into urban areas due to industrialisation at the end of the 19th Century lead to steadily deteriorating housing conditions in the workers' housing districts. Foundations for the construction of workers' housing and the initial, partly self-organised housing associations

were unable to improve the situation to any great extent. These catastrophic conditions were brought to public awareness by a report of the Health Commission on the combating of epidemics. The resulting discussion finally led to the passing of the Housing Act (*Woningwet*) of 1901, which created the fundament for the social sector. This defined a procedure for the licensing of non-profit-making landlords and the provision of state funds for house building. This licensing extends to organisations who undertake to work on a non-profit-making basis, and solely in the field of housing supply. Only the housing associations and foundations were originally acknowledged as providers of social housing, although these were later joined by municipal housing companies. The number of authorised organisations increased rapidly, and housing production was increasingly transferred to the social sector. As a result of resistance amongst private landlords, the subsidisation system was supplemented in 1920 by a bonus system for private residential construction. At the same time, the funds available to the non-profit-making providers were reduced. Therefore, the proportion of social housing construction to completions fell from 87 % in the year 1920 to only 16 % in 1926 and remained at this level on into the 1930's (J. Rosemann, 1992, 12-15).

The rent law of the Civil Code applicable at the time granted extensive contractual freedom to the parties to a rental contract. In times of market shortages therefore, it offered tenants no adequate protection against eviction or excessive rent demands. When shortages occurred after the First World War, the government was therefore forced, in addition to an extension of house building subsidisation, to freeze rents and improve security of tenure. However, these measures were only temporary, and were lifted again at the end of the 1920's. The Second World War also led to housing shortages, demanding special regulations for the protection of tenants. In the year 1940 therefore, rents were frozen and tenant protection improved. After the Second World War, these regulations were retained for a time, before being incorporated in the new Rent Act (*Huurwet*) of 1950. Tenant protection was integrated into the Civil Code in 1979. At the same time, the Housing Rent Act (*Huurprijzen Woonruimte/HPW*) was passed governing the setting of rents. The regulations on rent setting were finally included in the Civil Code in the year 2003 (Rueb, Kaufmann, n.d.).

2.2 The post-war period up to 1958: Operating cost grants under the Cost Rent Act

Immediately after the war, there was a shortage of 250,000 dwellings. Due to increasing numbers of households and low completion figures, the figure continued to climb after the war, the deficit ultimately reaching 300,000 by 1948. The poor level of supply finally led to a major extension of house building subsidisation.

Subsidisation took the form of operating cost grants, which covered the difference between the cost rent and the rental income. The rents of the subsidised housing were set at a level of 25 % to 30 % above the level of the rent freeze of 1940. In order to restrict subsidisation, the costs had to be approved by the Ministry. In the year 1950, the process was changed to the extent that the amount of the subsidy itself was restricted. Since completions continued to decline in the following years, the rent commitment was also changed in 1955. Since that time, the rent could be set at an amount corresponding to the cost rent less the subsidy (Boelhouwer, Heijden, 1992, 58). Production of private rental dwellings was also subsidised in addition to social housing (Lundqvist, 1992, 41; Boelhouwer, Heijden, Priemus, 1996, 89). In the 1950's, about 95 % of all new construction was subsidised. New constructions of non-for-profit companies were in addition often financed by public loans. Since these were awarded at the refinancing conditions of the state, they had only minor interest advantages (Boelhouwer, Heijden, 1992, 58).

Since in the government's view the high completion figures being aimed for could only be achieved by means of low-cost and systematic new construction by non-profit-making companies, they were given preference in the allocation of subsidies. It was decided not to accede to the wish of the private sector to assume the main responsibility for new construction (Boelhouwer, Heijden, 1992, 59). Many municipalities transferred the residential construction contingent largely to their own housing companies, in order to increase their influence on the implementation of residential construction programmes (Rosemann, 1992, 17-18). This state of affairs can also be seen from Table N.2.

The system of trend based rent increases was introduced with the Rent Act (*Huurwet*) of 1950 (Rosemann, 1992, 16). Under this act, annual rent increases were allowed, which were laid down by state decree. Due to these increases, the operating cost grants also declined, since the differences between the cost rent, which remained unchanged over the course of time, and the rental income became smaller and smaller. As a rule, the grants ran out after 15 to 20 years. Due to the continually increasing rents, investors then went into profit after this period (Donner, 2000, 411). In order to reduce the operating cost grants, rents were in some cases increased faster than average incomes. This made the situation increasingly problematic for low-income households (Boelhouwer, Heijden, 1992, 58).

The linking of rents for old buildings to the pre-war level was lifted in 1951. A maximum increase of 15 % was allowed, although this was significantly below the inflation rate of the preceding 11 years (McCrone, Stephens, 1995, 85). In the following years, rents were adjusted according to the trend based rent increases specified by the government.

The target groups of social housing continued to be regulated by the Housing Act (*Woningwet*) of 1901, under which social housing was to be allocated primarily to households with low and medium incomes, although they were basically open to all households (CECODHAS, 1999, 33, 41). There was no income limit.

Access to housing was regulated by the 1947 Housing Allocation Act (*Woonruimtetwet*), which granted the municipalities great influence over the allocation of housing. This act applied not only to social housing, but also privately rented dwellings and parts of the ownership sector. The main elements of the act were

- the housing permit (*Woonruimtevergunning*), which was granted by the municipality, and also had to be given for owner-occupied dwellings,
- The housing regulations (*Woonruimteverordening*), in which the municipality defined the criteria for housing allocation,
- the allocation procedure and
- the prohibition against misuse of dwellings, which could be ordained by the municipalities (Rosemann, 1992, 16, 53).

Municipalities with a balanced housing market were later gradually released from the allocation regulations.¹³⁸ The essential components of the law were taken over into the Housing Allocation Act (*Huisvestingwet*) of 1993. Following the liberalisation of the act in the year 1998, the allocation system applies only to housing whose rent does not exceed a certain upper limit.

¹³⁸ In 1990, 70 % of all municipalities with less than 10,000 residents were liberalised, while the controlled allocation still applied in over 80 % of municipalities with over 50,000 residents.

2.3 Reduction of subsidisation and experimental housing allowance

The centre-right coalition in power from 1959 to 1972 wanted to reduce the extensive state subsidisation of residential construction. Due to the continuing shortage of housing – the 1960 census still showed a shortfall of 300,000 dwellings (Lundqvist, 1992, 42) – they were initially unable to realise this plan. Expenditure on residential construction therefore not only failed to decline up to the mid-1960's, but even increased (Boelhouwer, Heijden, 1992, 59).

When in the mid-1960's, new demand calculations forecast an imminent end to housing shortages, it was still decided to reduce subsidisation by means of higher initial rents and rent increases, and subject it to a time limit (Boelhouwer, Heijden, 1992, 59). The subsidy system introduced in 1965 provided for the abolition of the annual grants within 10 years. This was intended not only to achieve savings, but also to bring housing costs closer into line with market prices, in order to achieve a better allocation of housing. In order to cushion the rent increases, rent subsidies were introduced in 1970, for a limited period only, which were paid to low-income households in dwellings that had been completed after 1960 (Lundqvist, 1992, 43).

In 1969, priority was granted to the housing associations over municipal housing companies in the allocation of subsidy funds. The municipal providers could since this time only be subsidised if the completion targets could not be achieved by the housing associations (Boelhouwer, Heijden, 1992, 60, Rosemann, 1992, 18). The resulting decrease in the importance of the municipal housing companies is reflected in Table N.2.

Construction of non-subsidised housing should finally be stimulated by changes in rent law. The rent increases were linked to the increases in living costs and construction costs. Further rent increases were allowed for good-quality old dwellings. The system of housing allocation was relaxed in those regions where the housing shortage had largely been overcome (Lundqvist 1992, 42).

Table N.2
Completions by investor types and financing (in %)

Year	Number in 1,000	By financing			By investor		
		Social rental housing	Private financing subsidised	unsubsi- dised	Private investors	Housing associations	Municipal housing companies
1950 - 1958	595	51	45	4	40	28	32
1959 - 1972	1,524	43	35	22	51	30	19
1973 - 1977	642	34	44	22	60	36	4
1978 - 1980	307	32	39	29	67	30	3
1981	118	47	38	15	48	46	6
1982	123	53	39	7	40	54	6
1983	111	47	47	6	53	42	5
1984	113	44	41	15	52	42	6
1985	98	35	43	22	59	36	5
1986	103	34	38	28	62	36	3
1987	110	33	34	33	63	33	4

Source: Lundqvist, 1992, Tables 3.1, 3.2, 3.5, 3.6

In contrast to curtailment of subsidisation for rental residential construction, ownership subsidisation was improved (Lundqvist 1992, 43). The rebate system introduced in 1953 was re-

placed in 1968 by a system of fixed annual grants, which were independent of income (Boelhouwer, Heijden, 1992, 49).

As a result, the policy pursued since the mid-1960's lead to a reduced strain on the overall budget by residential construction, and a steadily increasing proportion of non-subsidised house building. When the housing shortage again became more acute at the beginning of the 1970's, the residential construction programmes were once again extended, so that by 1972, more funds, not less, were flowing into residential construction than in 1959 (Lundqvist, 1992, 43).

2.4 Dynamic cost rent and the house rating system

The new government, which under the leadership of the Workers' Party also included the Christian Democrats and the Liberals, published a Rent and Subsidy Memorandum (*Nota Huur- en Subsibeleid*) in 1974. The main aim of housing policy as stated in this document was the provision of suitable housing for low-income households. In order to achieve this objective, stronger state involvement was considered necessary, which was to consist of a combination of supply and demand subsidies. The supply subsidy was intended to ensure that new construction in the non-profit-making sector remained affordable for average wage earners. The aim of the housing benefits was to improve the chances and possibilities of choice of low-income households on the housing market (Boelhouwer, Heijden, 1992, 62-63; Lundqvist, 1992, 43). To do this, the housing benefits introduced in 1970 were made more generally available in the year 1975. The new system (*Beschikking Individuele Huursubsidie/IHS*) allowed for an extension of the grants to all rental housing with an annual rent of 5,000 NLG (2,269 Euro) or less (Boelhouwer, Heijden, 1992, 63). In this respect, it is interesting to note that the decisions of the government on rent increases are directly reflected in the expenditure on housing benefit.

In 1975, the simple cost rent system was superseded by the dynamic cost rent system. The previous procedure was regarded as too costly, because it both covered the costs of the initial years, while leaving later surpluses to the investors. In the simple cost rent system, the difference between the fixed cost rent and the rental income was made up by the operating cost grants. The subsidy requirement declined steadily due to the annual rent increases. As soon as the rental income exceeded the cost rent, this produced surpluses, which remained with the owner. In the new dynamic system, the cost rent did not remain unchanged over the course of time, but was increased by the expected growth rate of the contract rent. The initial rent was set by means of cash flow calculations, so that the net present value of annually increasing cost rent covered the net present value of operating costs over a period of 50 years. Since the initial levels of the dynamic cost rent were significantly below the simple cost rent, the initial subsidy, which was to cover the difference between the cost rent and rental income, was much lower. With realisation of expected rent increases however, the grants would have to be paid for 50 years (Papa, 1992, 17-18). With the new system, they also increased from year to year (Lundqvist, 1992, 43), while under the previous system they decreased continually. In the 1980's, the new subsidy lead to a sharp increase in state expenditure, since the unexpectedly low inflation only allowed small rent increases (Rosemann, 1992, 73), while the cost rents continued to rise as agreed. In the eyes of investors however, the new system initially represented a substantial deterioration. While the previous procedure completely made up for the "initial losses", and also lead to surpluses in later years, initial liquidity outflows now had to be accepted. The surpluses were also absorbed by the inclusion of future rent increases. It is therefore hardly surprising that the period from 1975 to 1979 saw a drastic decline in rental

residential construction (Lundqvist, 1992, 44). As Table N.3 shows, completions of private rental housing fell from 32,000 in the year 1974 to only 8,000 in 1979. The new construction of social housing also declined from 48,000 to 24,000. It therefore proved impossible to achieve the desired improvement in housing supply for low-income households in this way (Boelhouwer, Heijden, 1992, 63-64).

The new construction of owner-occupied housing proved to be a stabilising element during this period. With more or less constant new construction figures, the proportion of this sector to completions in general grew from 44 % in the year 1974 to 64 % in 1979 (see Table N.3). This boom also meant that the ownership quota rocketed from 35 % in the year 1970 to 42 % in 1980. The relatively stable completion figures in the owner-occupied sector can be attributed on the one hand to demographic and economic factors (Boelhouwer, Heijden, 1992, 63-64), while on the other, an important role was also played by the modified subsidy system.

Table N.3
Completions from 1970 by sectors

Year	Total	Non-profit sector with operating cost subsidy		Private rental sector ¹			Owner-occupied sector		
		Number	Proportion in %	Subsidised		Non-subsidised	Subsidised		Non-subsidised
				operating cost subsidy	one-off ^d		operating cost subsidy	one-off ²	
1970	117,284	45,349	39	26,052		2,890	25,698		17,295
1971	136,595	50,025	37	33,403		1,925	30,917		20,325
1972	152,272	53,455	35	41,986		1,918	30,325		24,588
1973	155,412	55,765	36	37,626		2,192	30,946		28,883
1974	146,174	48,257	33	32,280		1,467	29,896		34,274
1975	120,774	40,130	33	23,454		777	31,013		25,400
1976	106,813	36,420	34	17,415		569	32,080		20,329
1977	111,047	35,315	32	15,122		734	33,362		26,514
1978	105,825	29,230	28	11,806		1,036	34,233		29,520
1979	87,522	23,596	27	7,208		940	27,812		27,966
1980	113,756	38,881	34	9,820		1,267	36,049		27,739
1981	117,759	54,979	47	14,538		1,274	30,124		16,844
1982	123,310	65,589	53	22,568		1,052	26,020		8,081
1983	111,127	52,611	47	21,735		633	30,230		5,918
1984	112,732	49,233	44	18,051	2,853		27,969	14,626	
1985	98,131	34,596	35	16,201	4,009		25,502	17,823	
1986	103,330	35,770	35	13,929	4,963		25,587	23,081	
1987	110,091	35,851	33	11,443	4,418		26,297	32,082	
1988	118,446	40,197	34	8,794	1,507	1,018	23,493	18,757	24,680
1989	111,233	35,976	32	6,146	2,107	1,488	20,749	15,936	28,831
1990	97,384	28,449	29	5,950	1,393	1,606	18,374	10,259	31,353
1991	82,888	22,514	27	3,985	916	1,625	15,676	8,357	29,815
1992	86,164	25,064	29	3,818	858	1,850	13,313	7,025	34,236
1993	83,689	22,360	27	3,219	482	2,220	9,995	5,359	40,054
1994	87,369	22,431	26	2,949	405	2,489	8,646	3,618	46,831

Source up to 1994: Boelhouwer, Heijden, Priemus, 1996, 90

¹ Between 1984 and 1988 no classification into non-subsidised or one-off subsidised housing was possible.

While promotion of home ownership was until the early 1970's aimed at benefiting middle-class voters and increasing the availability of rental housing by means of a filtering process (Lundqvist, 1992, 44), the new subsidy was designed to facilitate access to property ownership for households with low incomes (Boelhouwer, Heijden, 1992, 49). A two-part subsidy was therefore introduced for this purpose in 1974. The income-related A-subsidy was restricted to low-income households (Lundqvist, 1992, 44). The B-subsidy, the amount of

which was not related to income, was aimed at households with a somewhat higher income, although in this case too, certain upper income limits could not be exceeded. The conditions of these programmes were amended repeatedly over the course of time, until the B-subsidy was finally abolished again in 1988. While direct subsidisation had been intended to support lower-income households, higher-income households were also subsidised in the form of tax concessions. In the Netherlands, owner-occupied dwellings are treated as investments, with the imputed rental income set significantly below the actual rental values. As a result of increasing prices and interest rates in the second half of the 1970's, tax subsidisation increased significantly. By 1980, this indirect subsidisation amounted to 3.2 billion NLG (1.45 billion Euro), thereby outstripping direct subsidisation by 0.3 billion NLG (140 million Euro) (Lundqvist, 1992, 47).

The previous rent level regulations lead over the course of time to ever greater differences between older and newer dwellings. In order to reduce this distortion, 1979 saw the passing of the Housing Rent Act (*Huurprijzen Woonruimte/HPW*), which superseded the Rent Act (*Huurwet*) of 1950. The rent level regulations were incorporated into the Civil Code in 2003. The rent level regulations apply to both the social and the private rental residential sector. The HPW contained regulations on the setting of an appropriate rent, and the permissible rent increases. This 'appropriate rent' has since this time been calculated by means of a house rating system (*Woningwaarderingstelsel WWS*) (Lundqvist, 1992, 47), under which dwellings are allocated points under the system, depending on the size of the accommodation, equipment and fittings, age, type and the surrounding residential environment. The appropriate rent is then calculated by multiplying the points total by a minimum and a maximum price per point, which are established by the government. The range of this appropriateness was framed relatively broadly. The maximum value was approx. 50 % to 60 % above the minimum value (Wiktorin, 1992, 93). Rents can be increased annually with effect from 1st July, with the rent increase being specified by the government. Rent increases were compulsory for dwellings subsidised by means of operating cost grants, since the rental increase lead to a reduction in the subsidy requirement. In order to achieve harmonisation of rent levels, the specified trend based rent increases could also be exceeded if the rent was below the minimum level. Because the rent increases lead to subsidy reductions, failure to harmonise rent levels was even penalised later by reductions in the subsidy (Rosemann, 1992, 43-51).

2.5 Modified financing of social housing

The centre-right coalition in government since 1978 wanted to reduce expenditure on housing policy, leave the question of housing supply once again more to the market, and provide increased support for owner-occupiers. However, since the rapid growth in the number of households soon lead to growing housing shortages (Boelhouwer, Heijden, 1992, 65-67), the government saw itself compelled, shortly after coming into office, to abandon its savings policy, and return to the massive subsidisation of rental housing construction. As Table N.3 shows, completions in the social rented sector increased from year to year, reaching their peak in 1982 with more than 65,000 dwellings. In order to induce private investors, mainly pension funds, insurance companies and banks, to invest once more in subsidised rental residential construction, the subsidy system was made more attractive, so that from 1980, more and more subsidised, privately financed rental housing was built (Boelhouwer, Heijden, 1992, 51; Lundqvist, 1992, 52, 54).

While increasingly fewer non-subsidised dwellings were built in the owner-occupied sector, the completion of subsidised housing continued at a relatively stable level. This can be attrib-

uted essentially to ownership subsidisation. In 1984, direct ownership subsidisation, which previously consisted of the A- and B-subsidy, was reformed, and supplemented by the introduction of the C-subsidy, which was made of a one-off grant in the amount of 6,500 NLG (2,950 Euro), and lead to further stabilisation of completions in the owner-occupied sector. The sector-C-subsidy was also provided for privately rented housing. As Table N.3 shows however, most of this subsidy went to owner-occupied dwellings.

After 1983, housing policy was again concentrated on reducing expenditure. The economy measures mainly affected the rental residential sector, while ownership subsidisation was spared financial cuts (Boelhouwer, Heijden, 1992, 68; Boelhouwer, Heijden, Priemus, 1996, 96). Rents were increased both for new construction and existing dwellings. Residential construction programmes were also cut back, the main brunt of the economies being borne by the non-profit-making sector. In order to slow down the dramatic rise in the numbers receiving housing benefits, the eligibility conditions for housing benefit also had to be made more restrictive (Boelhouwer, Heijden, 1992, 68; Lundqvist, 1992, 56; Boelhouwer, Heijden, Priemus, 1996, 96).

Falling interest rates in the second half of the 1980's tempted many housing associations to replace their public loans with market loans at lower rates (Donner, 2000, 411). Since this had no effect on the dynamic cost rent, they were in this way able to achieve higher profits. As a result of this development, and to reduce the strain on public budgets, the public loans were finally abolished in the year 1988. The housing associations have since had to source their loans on the capital market. While public loans offered hardly any advantages in terms of interest, they did nevertheless mean that the credit default risk was covered by the state. This risk was transferred from 1988 to two funds, the Social House Building Guarantee Fund (*WSW - Waarborgfonds Sociale Woningbouw*) and the Central Housing Fund (*CFV - Centraal Fonds voor de Volkshuisvesting*). The WSW provides guarantees for new construction loans, while the CFV provides financial restructuring funds to weak housing associations (Priemus, 1996, 1896; Priemus, 1996b, 205-207).

2.6 Urban renewal

Major urban renewal programmes were implemented in the Netherlands in the 1970's and 1980's. In this context purchase measures and expropriations were realised which altered the ownership circumstances in the rental sector enormously in favour of the housing associations. This procedure was considered advisable for two reasons. On the one hand, the old ownership structure was held responsible for the lack of maintenance, while on the other, the renovation of whole complexes proved to be much more cost-effective than the renovation of individual buildings.

The government supported urban renewal by providing financing and subsidy funds. Subsidisation programmes were instituted for a great variety of activities. The approval procedure was very complicated, because the municipalities had to submit every individual project under the various programmes to the responsible Ministry (Rosemann, 1992, 20-22). The 1985 Urban Renewal Act (*Wet op de Stads- en Dorpsvernieuwing – WSDV*) brought about a notable decentralisation of subsidisation. 19 programmes were brought together into a state renewal fund with a volume of approximately 1 billion NLG (454 million Euro) per year, which was made available to the larger towns and the provinces. The funds were distributed by means of a formula which included the main requirement indicators of a town, such as the number of old buildings and the income level. The use of the funds was left to the municipalities and

provinces (Rosemann, 1992, 76-77). The programmes incorporated in the renewal fund also included the subsidisation of modernisation of owner-occupied housing (Papa, 1992, 19). Modernisation subsidies for rental housing however remained centralised until 1992 (Boelhouwer, Heijden, Priemus, 1996, 96).

Table N.4
Completions from 1990

Year	Total	By housing type		Housing associations and municipal providers
		Rented	Owned	
1990	97,384	37,398	59,986	30,300
1991	82,888	29,040	53,848	24,700
1992	86,164	31,590	54,574	26,600
1993	83,689	28,281	55,408	24,200
1994	87,369	28,274	59,095	24,700
1995	93,836	29,090	64,746	25,900
1996	88,934	31,079	57,855	30,600
1997	92,315	25,876	66,439	24,600
1998	90,516	21,454	69,062	19,600
1999	78,625	17,651	60,974	16,500
2000	70,650	15,209	55,441	
2001	72,958	14,089	58,869	
2002	66,704	12,654	54,040	
2003	59,629	12,974	46,655	
2004				

Source: Completions in total and by type: Centraal Bureau voor de Statistiek, Woningbouw per region
Priemus, 2003, 336

2.7 The 1988 Heerma Memorandum

The Heerma Memorandum (*Volkhuisvesting in de jaren negentig - Policy Document on Housing in the 1990's*) of 1989 marks the turning point in Dutch housing policy. This provided for greater concentration of subsidy funds on low-income households, the continued support of owner-occupied property and a redistribution of responsibilities, which were to be achieved by decentralisation of housing policy decisions and a strengthening of market forces. Decentralisation was considered desirable because it was believed that the different regional problem situations could no longer be solved centrally. In order to strengthen market forces, property subsidisation was to be curtailed, rents brought up to market levels and the housing associations granted greater freedom of action (Boelhouwer, Heijden, Priemus, 1996, 96-97).

A further reason for the efforts at reform was the continually increasing costs of the housing policy (see Table N.5).¹³⁹ This was attributed above all to the long-term operating cost grants, which meant that the expenditure due to past subsidisation increased from year to year. By 1988, 60 % of expenditure was going on subsidy measures approved in the past, leaving only 40 % of the budget for housing benefits, urban renewal and new modernisation and construction projects (Boelhouwer, Heijden, Priemus, 1996, 85, 91). The government also wanted to reform the subsidy system because it imposed the risk of unexpected changes in interest rates and rents on the state, instead of leaving it to the investors.

¹³⁹ The already-mentioned abolition of the state loans also relieved the strain on the state budget.

The mismatched occupancy of social rental housing was regarded as a further major problem. According to a housing need survey carried out in 1985, almost one-third of low-cost rental housing was occupied by households with an above-average income (McCrone, Stephens, 1995, 90). At the same time, high housing allowance payments were being made to low-income households in relatively expensive rental housing (Boelhouwer, Heijden, Priemus, 1996, 92). The Heerma Memorandum therefore proposed the definition of main target groups who would be taken into special account in the social rented sector. These were to be single people with an income of up to 22,000 NLG (9,983 Euro) and multi-person households with an income of up to 30,000 NLG (13,613 Euro). In 1988, more than half of all households and 75 % of tenants belonged to this group (McCrone, Stephens, 1995, 90).

2.8 The reform of house building subsidisation

In order to reduce subsidisation expenditure and transfer the risk of unexpected interest and rent changes to the companies, the dynamic cost rent was replaced in 1989 by a new subsidy system (Priemus, 1996, 1897). While the amount of the operating cost grants had previously been linked to changes in rents, the new subsidies were set definitively at the time of approval. The grants were set using the net cash value method (*NettoConstateWaardeMethode-NCW*) so that the costs would be covered over a period of 50 years. The calculations were based on assumptions with regard to future developments in rents, interest, administration and management costs. The building costs were limited to 132,480 NLG (60,116 Euro). For an average dwelling, this therefore gave a cash subsidy value of 30,900 NLG (14,022 Euro), which was paid out in annual instalments of 10 % (Rosemann, 1992, 74-75). Modernisation subsidisation was calculated according to the same procedure, with the total costs being made up of the modernisation costs and the remaining book value of the housing (Rosemann, 1992, 74-75).

For privately rented housing, subsidisation by means of operating cost grants was completely abolished in the year 1989 and replaced by a significantly lower incentive subsidy (Priemus, 1996, 1897). Since privately built rental housing was usually let at a higher rent, previous subsidisation was in any event disputed. The new incentive subsidy consisted of a building costs grant of 10,000 NLG, which could be paid out either as a lump sum or in several instalments. The funds were only approved provided that the total costs did not exceed a specified upper limit, which in 1991 was 190,000 NLG (86,672 Euro). Rents could be freely negotiated, although still had to be within the bounds specified by the Housing Rent Act (Rosemann, 1992, 75). The result of this change in subsidisation was a substantial decline in the number of completions in the private rental sector (Boelhouwer, Heijden, Priemus, 1996, 89).

An overall grant was also calculated for social ownership subsidisation, which was paid out in annual instalments of 10 %. The subsidisation was linked to the compliance with cost and income limits. The total costs could not exceed 140,000 NLG (63,529 Euro), and the income could be no more than 61,500 NLG (27,907 Euro). Observation of the income limit was reviewed after 5 years. Ownership subsidisation amounted on average to 36,100 NLG (16,381 Euro) and was thus higher than the subsidisation of social rental housing (McCrone, Stephens, 1995, 81). There was also a further incentive subsidy for ownership measures of 5,000 NLG, which although granted irrespective of income, was still subject to the maintenance of upper cost limits (162,000 NLG or 73,512 Euro) (McCrone, Stephens, 1995, 81).

However, this served only to reduce the subsidy requirement for new cases of subsidisation, and not the high cost of the operating cost grants of past subsidisation projects. In order to

reduce this expenditure too, the trend based rent increases at 5.5 % were raised to a level above the anticipated rate of inflation. For housing subsidised by operating cost grants, the scope for rent increase had to be used to the full.

2.9 Decentralisation of residential construction subsidisation

From 1992, residential construction subsidisation was regulated under the Dwelling-linked Subsidies Order (*Besluit Woninggebonden Subsidies/BWS*), which gave the municipalities greater influence in the allocation of funds, and lead to a simplification of property subsidisation (Rosemann, 1992, 73). While every subsidy application had previously had to be approved individually by the government, the funds were now left to the municipalities for their independent approval (Boelhouwer, Heijden, Priemus, 1996, 92).¹⁴⁰ The joy at this newly acquired authority was clouded by the fact that the funds provided were relatively limited, and therefore only enabled low completion figures for social house building (Priemus, 1996b, 209). The subsidy funds were provided in the form of the following four budgets:

1. Budget for social residential construction (rented and owner-occupied) and for the modernisation of buildings built before 1940.
2. Budget for private rental housing and subsidisation of rented and owner-occupied housing by one-off grants.
3. Budget for one-off grants to compensate for adverse local situations.
4. Budget for rent reduction in special situations (Rosemann, 1992, 74; Gruis, 1997, 11).

The last two budgets, which were only relatively small (Rosemann, 1992, 76), were intended principally for urban renewal areas (Oxley, Smith, 1996, 111) where they were to enable higher-quality new construction measures. The allocation of the total housing policy budget between the municipalities and provinces was made on the basis of the criteria of housing shortage, the reserves of the housing associations, regional planning policy and structure of existing housing stocks (Oxley, Smith, 1996, 110-111).

2.10 Reduction of new construction subsidisation and the Bruterling Agreement

The most radical inroads into house building subsidisation were undertaken with the 1995 Dwelling-linked Subsidies Order (BWS). Subsidisation via operating cost grants was completely abolished. This was replaced by a one-off fixed subsidy of 5,000 NLG (2,269 Euro), which was only supposed to be in the nature of an incentive. This incentive subsidy has since also been discontinued, so that new construction now has to make do entirely without subsidisation (Aedes, 2003, 10).

The abolition of the still ongoing operating cost grants for social rented housing stocks appears to be even more dramatic than the curtailment of the new construction subsidy. These payment obligations arising from past subsidisation commitments were resolved as part of an overall compensation agreement (*Balance-verkorting geldelijke steuen volkshuisvesting / bruterling*) negotiated between the umbrella associations of the non-profit-making sector and the government. By this agreement, the cash value of future subsidy obligations (35 billion NLG, 16 billion Euro) was calculated and settled by payment of a lump sum. The state loans still outstanding were offset against the amount. To cover the re-financing requirements of the housing associations, which were involved in this compensation agreement, the Social House Building Guarantee Fund (WSW) received 150 million NLG (68 million Euro) from the gov-

¹⁴⁰ Municipalities with less than 30,000 residents received no budgets. From 1993, the budgets were held by the 12 provinces, who were to pass on the funds to the subordinate corporations, Priemus 1996b, 209).

ernment. This agreement led on the one hand to a significant reduction of administration, but above all, it also transferred the risks of future interest rate and rent developments to the housing associations (Priemus, 1996, 1898-1899).

With these changes, the housing associations were given their economic independence. Since this time, they themselves have been responsible for the risks of housing rental, and have had to adjust their rental and investment policy more strictly to maintaining their solvency (Boelhouwer, Heijden, Priemus, 1996, 94). This has also meant that they now react much more sensitively than in the past to economic fluctuations (Priemus, 1996b, 212). The supply situation of low-income households has also suffered from this increasing commercial orientation (Schutjens, van Kempen, van Weesep, 2002, 649). The subsidisation of the past and freedom to increase rents has made the housing associations financially independent, so that in the opinion of the government, they can maintain rents at a moderate level even without subsidisation (VROM, 2002, 1). The government regards the social sector as a sort of revolving fund, which can function without subsidisation. Individual companies with low revenues could be assisted by obtaining low-interest loans from high-yielding housing associations. The Central Housing Fund CFV can also provide a certain level of compensation with its membership fees (Gruis, 1997, 12).

2.11 The extended freedom of action of the BBSH 1993

A greater level of responsibility also demands greater freedom of action. This had already been given to the housing associations by the Management Decree on Social Rental Sector (*Besluit Beheer Sociale Huursector - BSH*) from the year 1993, which redefined the responsibilities and the controls on companies. Rules governing the commercial conduct of companies were abolished, and replaced by management decisions made on the company's own responsibility (Gruis, 1997, 7). While the housing associations in the past had to have their plans for the coming year approved by the municipalities and sometimes by the government, they have since 1993 been able to act independently, and are only later measured by their performance, which must be documented in an annual report (Oxley, Smith, 1996, 107).

2.12 The 1997 White Paper on urban renewal

The restructuring of city districts with a high proportion of social housing dating from the years 1945 to 1960 was extensively discussed in a White Paper on urban renewal published in 1997. Marginalisation tendencies and increasing concentrations of low-income households, Turkish and Moroccan households were increasingly being identified on these housing estates. It was feared that in relaxed market situations, this would lead to more vacancies, and in times of shortages, to further concentrations of underprivileged households. The reason for the increasing marginalisation of older social housing estates was held to be the growing demand for higher-quality housing, the extensive new construction of owner-occupied dwellings in den VINEX areas,¹⁴¹ the modernisation of pre-war stocks and the market-orientated housing policy, which automatically meant that the lowest wage-earners were forced into the lowest-quality housing. A radical restructuring of the affected areas was proposed. Larger and better-equipped dwellings were to be incorporated by means of demolition, new construction and modernisation. Although this would reduce the number of social dwellings and increase

¹⁴¹ The VINEX areas are new construction areas designated in towns or in outlying areas. 70 % of housing built here will be relatively expensive housing, most of which is owner-occupied. Only 30 % is social housing, of which only a small part is accessible to really low-income households.

the concentration of disadvantaged households in socially rented housing, it was hoped to avoid the increased spatial concentration of disadvantaged households by better distribution of the restructuring measures (Kempen, Priemus, 2002, 245-248).

Table N.5
Housing policy budget in million NLG

	1970	1975	1980	1985	1987	1990	1994	1995	1996	1997	1998	1999	2000
Administration								183	187	210	199	204	202
Subsidy loans	1790	2810	4435	5355	4590		417	0	0	0	0	0	0
Operating cost grants	275	980	1810	4050	5170	8950	5072	0	0	0	0	0	0
Bonuses	55	280	430	990	1020		704	606	531	432	0	0	0
Housing support	0	235	965	1445	1665	1817	2251	2189	2355	2551	2907	3190	3317
Urban renewal	100	395	805	1810	1125	1179	1035	1064	1071	1017	723	808	975
BWS								555	483	635	824	694	581
BLS								240	279	266	265	270	20
Brutering								36770					
Other	20	185	375	740	545		1183	1156	782	597	906	1692	1351
Total	2240	4885	8820	14390	14115	11946	10662	42763	5688	5708	5824	6858	6446
Tax concessions for owners								5720					

Donner, 2000, 414, 419 (1994-2000: 1 € = 2.20 NLG) (1970-1987: 1 € = 2.3 – 2.5 NLG)

1990: McCrone, Stephens, 1995, 93 (loans and property subsidies combined)

2.13 The 2000 Memorandum

In December 2000, a new memorandum on housing policy was presented under the title “People, Preferences and Housing: Housing in the 21st Century”. For the year 2010, the memorandum forecasts a surplus of rental housing in multi-family houses of 150,000, coupled with a shortage of single-family houses (de Feijter, 2001, 8). According to the memorandum, the objective of state intervention should therefore consist in increasing citizens’ freedom of choice. In order to achieve this aim, policy should not be directed so specifically at the institutions, but should leave greater leeway to market forces. In this way, supply would also be aligned much more closely with demand. State intervention would not be entirely superfluous, but could be restricted to compensating for undesirable market effects and taking into account external effects and collective interests (Boelhouwer, 2002, 227). Nevertheless, the housing associations are still to retain their status as approved, non-profit-making institutions for the next 10 years. They were indeed still needed for the intended restructuring of disadvantaged city districts, where they still own many dwellings. The objective of this restructuring was seen as increasing the variety of housing types in the affected areas, in order to combat the geographical concentration of poverty, and enable the recovery of rundown city areas. This would require demolition, new construction and modernisation. At the same time however, a core of low-cost housing is to be preserved for disadvantaged households. The idea of improved variety also meant increasing the proportion of owner-occupied housing, and reducing the numbers of social rented dwellings (Kempen, Priemus, 2002, 248). The memorandum therefore provides for the sale of 500,000 social dwellings (25 % of stocks) within the next 10 years. As private organisations, the housing associations cannot be forced to sell, although their conduct in this respect can also be taken into account in the annual assessment of the associations. In order to support this privatisation, a special subsidy for those acquiring their own property was introduced on 1.1.2001 (Boelhouwer, 2002, 230).

3. The private rental sector

As Table N.3 shows, most privately rented housing, in a similar way to housing belonging to the social sector, was subsidised by means of operating cost grants. The subsidisation was not linked to any access restrictions. Provided that the rents do not exceed certain upper limits, housing belonging to the private rental sector is subject to allocation restrictions.

3.1 Development of housing stocks

Both the proportion and the numbers of private rental dwellings have declined over the course of time, falling from 60 % in the year 1947 to only 12 % in 2000. Over the same period, actual numbers have slumped from 1.25 million to 0.79 million (see Table N.1). The proportion of private providers is well above the average in cities: in Amsterdam and Den Haag, this was 27 % in 1996.

Private rental housing remained the dominant form of housing until into the 1960's. At this time, the sector was occupied by many low-income households who could not afford the higher rents charged for better-quality social housing (Oxley, Smith, 1996, 148-149). The decline in privately rented stocks can be traced back to the low numbers of completions, demolitions and sales to owner-occupiers, housing associations and municipalities. Urban renewal in the 1970's and 1980's in particular resulted in huge levels of sales to the housing associations (see Section 2.6). Various reasons can be given for the low numbers of completions. First amongst these can be said to be the high availability of social housing, which absorbed a major part of the demand. The high social housing stocks in turn being attributable to the high subsidy quotas and the simultaneous preference given to non-profit-making providers. According to Schutjens, van Kempen and van Weesep (2002, 647), the rent and allocation restrictions were also responsible for the reluctance on the part of private investors. McCrone and Stephens (1995, 83) give two further reasons, according to which the production of private rental dwellings also declined because the close connection between retirement provision and the housing market was relaxed by pension funds and insurance companies, and because more attractive forms of investment became available. Before the war, rental housing was considered a good form of investment, which was made as a rule as a form of provision for old age.

While the majority of pre-war stocks were built by private persons, most post-war housing is owned by institutional investors such as pension funds and insurance companies (Boelhouwer, Heijden, Priemus, 1996, 88). Older housing is generally small and poorly equipped, and therefore very cheap. Since these are often found in city-centre districts, these locations are often in great demand. The tenants are either very young or old. The turnover rate is high. Private new dwellings are larger, better-equipped, and consequently more expensive. Such housing was built largely in the major cities, where their proportion is consequently well above the average (Stephens, McCrone, 1995, 83; Boelhouwer, Heijden, Priemus, 1996, 88; Oxley, Smith, 1996, 149-150).

3.2 Rent law

Rent setting

The rent can basically be freely agreed between the parties to the contract. Since the Second World War however, there have always been rent restriction regulations in force. These restrictions are applied for various purposes. On the one hand, the government wanted to keep rents affordable for those on low incomes. On the other, it was also intended to ensure and appropriate relationship between housing quality and rent levels even during tight market situations (VROM, 2002, 2). Finally, rent control was also essential to support tenants' security (Wiktorin, 1993, 95). The rent level regulations were laid down in the 1950 Rent Act (*Huurwet*), which was superseded in 1979 by the Housing Rent Act (*Huurprijzen Woonruimte/HPW*). The Housing Rent Act was finally incorporated into the Dutch Civil Code in the year 2003 (Rueb, Kaufmann, o. J.). The rent level regulations apply both to the private and the social rental residential sector. No government attempted to introduce different stipulations in the two sectors neither with regard to rent level law nor security of tenure (VROM, 2002, 1).

Fundamentally, the rent can be freely agreed, although the tenant has the right to have the rent reviewed by the rent tribunal. By means of the house rating system (*Woningwaarderingstelsel/WWS*), the tribunal then decides whether the rent exceeds the permissible maximum level. If this is the case, a rent reduction is ordered, which is binding for the contract parties. Since the landlord is obliged under the Civil Code to keep the housing in a proper state of repair, a rent reduction can also be brought about if such maintenance is neglected. The decisions of the tribunal can be contested before the courts (VROM, 2002, 3). The house rating system was introduced under the Housing Rent Act (HPW) of 1979: the permissible rent is determined by means of a points value, which depends on the quality features of the housing. The permissible maximum rent is obtained by multiplying the points total by a set price per point. The quality features and characteristics to be taken into account in the points assessment, and the price per point, are laid down by the government, after consultation with parliament (Rueb, Kaufmann, o.J.). Table N.6 shows an example calculation of the maximum rent. Following liberalisation of the rent law in the year 1989, housing whose permissible rent exceeds a certain minimum figure may be rented at normal market prices. In the year 2001, this liberalisation limit was 541 Euro. The liberalisation limit is also relevant for housing benefits, which are not granted for housing with higher rents (A. Ouweland, G. van Daalen, 2002, 42).

Table N.6
Example calculation of the maximum rent

Living area 60 m ² (1 P/m ²)	60	Age of the housing	-10
Additional utility area (0.75 P/m ²)	3	Private open area up to 25 m ²	2
Central heating	14	Housing type, 1 st floor with lift	5
Heat insulation	10	Residential environment	10
Kitchen	7	Disturbance factors	-12
Sanitation (Toil. 3 P, wash-basin. 1 P, shower 4 P)	8	Special services	0
		Points total	97
		Maximum rent in Euro	398,11

Source: A. Ouweland, G. van Daalen, 2002, 44

Rent increases are also regulated by the Housing Rent Act. Rents may be increased every year with effect from 1st July, whereby the government specifies the maximum rent increases allowed by means of the trend based rent increases. In 2001, the permissible increase was

3.8 %. Below this limit, the rent increase rate can be freely set by the owners. A rent increase is however only allowed provided that this does not exceed the maximum rent. The specified rent increases are presently based on the average price increases over the last 5 years. Depending on the actual rent and the quality of the housing, the rent increases in individual cases may also be up to two percentage points higher (Aedes, 2003, 19).

The initial rents of subsidised housing were subject to special subsidy-related stipulations. Up to 1993, these corresponded to the difference between the cost rent and the operating cost grants. The further increase in the rent was determined by the trend based rent increases described above. Since the rent increases reduced the necessary subsidisation requirement, they were obligatory for subsidised housing (Rosemann, 1992, 50). For private rental housing, subsidisation via operating cost grants was discontinued in the year 1989, and replaced by a fixed subsidy. The initial rents of housing subsidised in this way were governed by the Housing Rent Act. In the social sector, the operating cost grants continued to be made up to 1995. Due to the change in the subsidisation system however, it has since 1993 only been necessary in this case to observe the upper rent limits of the HPW (Wiktorin, 1992, 92).

Table N.7
Rent increases for providers of social housing

Year	Average rent increase	Cost of living increase rate
1991	5.9	3.1
1992	5.6	3.2
1993	5.2	2.6
1994	4.9	2.7
1995	4.5	2.0
1996	3.9	2.0
1997	3.6	2.2
1998	3.2	2.0
1999	2.9	2.2
2000	2.6	2.6
2001	2.6	2.6
2002	2.9	3.5

Source: Aedes, 2003, 19

The trend based rent increases fell from 6 % over the years 1980 to 1982 to only 2 % in the years 1986 and 1987. From 1988 to 1990, rents could then be increased by 3 % annually. In order to stem the rapidly rising costs of the operating cost grants (see Table N.5), the trend based rent increases at 5.5 % were from 1991 to 1995 again raised to a level significantly above the anticipated rate of inflation (Rosemann, 1992, 51; VROM, 2002, 1). If one summarises the developments from 1980 to 1995, the trend based rent increases produced a leeway for putting up rents of 97 %. This value was significantly higher than the rise in living costs, which over the same period was only 48 %.¹⁴² In the 1970's however, rents had risen even more slowly than living costs (McCrone, Stephens, 1995, 84). The actual average rent increase over the period 1980 to 1995, at 103 %, was above the scope provided by trend based rent increases. This can be attributed to rent harmonisation, which allowed a higher rate of increase in the case of rents below the minimum levels (see Section 2.4). Since rents have therefore risen significantly faster than living costs since the 1980's, this has resulted in a gradual convergence of rents with normal market levels.

¹⁴² The values have been calculated on the basis of the price and rent developments given by McCrone and Stephens (1995, 84) for the period from 1980 to 1991, and by Aedes (2003, 19) for the providers of social housing over the period from 1991 to 1995.

The proportion of low-cost housing is lower amongst private rental housing than for social housing, although the difference is not very great because of the many private old buildings (see Table N.8). Greater variations between the proportions of both sectors do however arise in the case of medium- and higher-price housing. In the medium price segment, the proportion of private rental housing is very low, and in the upper price segment, very high.

Table N.8
Rent level structure in rental housing stocks

Rent level	Privately rented	Socially rented	Rental housing
low	51	57	55
medium	26	37	35
high	23	6	10
	100	100	100

Source: de Feijter, 2001, 11

Despite the developments described above, the appropriate rents have today still not yet reached the market levels. This is also demonstrated by the fact that the purchase prices for owner-occupied housing differ more at the regional level than the rents. While rents in the individual provinces vary only slightly from the national average, purchase prices in relaxed market situations are significantly below the average (Boelhouwer, 2002, 231-232). Since the house rating system does not properly reflect the regional price differences, a new assessment system is to be introduced in 2005, in which greater account will be taken of the housing location and the quality of the residential environment (A. Ouwehand, G. van Daalen, 2002, 43).

Security of tenure

Since the Civil Code included no regulations on protection against eviction prior to the Second World War, 1940 saw not only the imposition of a rent freeze, but also the restriction of the landlord's right to cancel a rental contract. These regulations were incorporated into the Rent Act (*Huurwet*) in 1950. Since 1979, protection against eviction has been specified by the Civil Code (Rueb, Kaufmann, o.J.). Contracts can only be cancelled under certain conditions, which include breach of contract by the tenant and the own requirements of the landlord (Rosemann, 1992, 44). The protection against eviction also extends to the spouse or partner, as well as to joint tenants in a tenants' association. The law makes no provision for short-term contracts. In most cases, such contracts are considered by the courts to be indefinite.

3.3 Housing allocation

The system of municipal housing allocation, which is governed by the Housing Allocation Act (*Huisvestingswet*), applies both to social housing and private rental housing, provided that the rent is below a certain maximum limit (See also Section 4.4).

3.4 Taxation

The purchase of housing is subject either to Value-added Tax (VAT) or Property Purchase Tax. The VAT of 17.5 % is levied if an unoccupied new dwelling is purchased within 2 years of completion. The Property Purchase Tax of 6 % of the market value becomes due on the purchase of existing housing (Papa, 1992, 24; McCrone, Stephens, 1995, 82).

Income Tax or Corporation Tax and land Tax are levied during the usage phase. Rental contracts are not subject to VAT.

Loan interest and depreciation can be deducted from the income, which includes the grants as well as the rental income. There are no special investment incentives in the form of accelerated depreciation (Papa, 1992, 25). The net income of joint-stock companies is subject to Corporation Tax at a rate of 34,5 % (Bundesministerium der Finanzen, 2002, 14). Providers liable for Corporation Tax include the institutional investors, who have put up the major part of new construction in the private sector (McCrone, Stephens, 1995, 86). Private landlords pay income tax. The maximum taxation rate is 52 % (Bundesministerium der Finanzen, 2002, 21). As in Germany, reconciliation of losses between different types of income is allowed (McCrone, Stephens, 1995, 86).

The Land Tax is levied by the municipalities, and is paid half by the tenant and half by the landlord. Owner-occupiers have to pay the full amount. The tax rate is laid down by the municipality, and is on average 1 % of the market value (Donner, 2000, 423).

The Wealth Tax rate is 0.8 % of the market value. Owner-occupied housing is included in the assessment basis at 60 % of the market value. Debts are deductible. A further reduction of the assessment basis comes from the tax-free allowances, which are 80,000 NLG (36,302 Euro) for single persons below 27 years of age, 127,000 NLG (57,630 Euro) for older single people and 160,000 NLG (72,605 Euro) for married couples. If wealth tax and income tax from the previous year amount to more than 80 % of the taxable income, a wealth tax rebate can be applied for (EMF, 1997, 91).

3.5 Direct subsidisation

As Table N.3 shows, the major part of privately rented housing has been subsidised. Up to the end of the 1980's, privately rented housing, like social housing, was subsidised by means of operating cost grants. Up to 1975, these grants were determined by the simple cost rent system and then the dynamic cost rent system. Subsidisation did not entail any access restrictions. In 1989, subsidisation of private rental housing by the annual operating cost grants was abolished and replaced by a fixed subsidy (see Section 2.8), although this was not subject to any commitments. In 1995, this subsidisation was also discontinued. In the same way as in the social sector, the outstanding claims to future operating cost grants arising from past subsidisation were settled in 1997.

4. The social rented sector

In Germany, all housing subject to rent level and access restrictions by reason of subsidisation and limited in time is classified as social housing. All types of investors can be subsidised. In the Netherlands, all housing owned by non-profit-making providers is classified as social housing. In Germany, social housing reverts to the private rental sector after expiration of the commitment period. In the Netherlands on the other hand, social housing remains permanently part of the social sector.

4.1 Development and structure of housing stocks

The proportion of social rented housing grew from 12 % in the year 1947 to 41 % in 1991, since when it has declined to 36 % by 2000. The actual number of social dwellings, despite the relative decline, has however hardly fallen at all over the last decade. This development is also characterised by sales of housing, which have increased sharply over the course of time. While only 6,000 social rented dwellings were sold in 1993, the figure had reached 28,000 dwellings by 1998 (Kempen, Priemus, 2002, 248).

Social housing is distributed very unevenly at a regional level. While a national average of 37 % of stocks belonged to the social sector in 1997, the proportion was much higher in the four largest cities: 59 % in Rotterdam, 57 % in Amsterdam, 45 % in Utrecht and 39 % in Den Haag (Schutjens, van Kempen, van Weesep, 2002, 648).

In the 1950's, more than 50 % of all housing was constructed as social rental housing, and even during the 1960's, this proportion still remained very high at 43 % (see Table N.2). In the opinion of Boelhouwer (2002, 230), these high figures are attributable to the fact that the non-profit-making sector was able to construct cheap housing in large quantities, which the private sector would probably not have succeeded in doing. In the 1970's, the new construction of social rented housing then declined steadily (see Table N.3). This decline was cushioned by a higher level of completions in the owner-occupied sector. When the new construction of owner-occupied housing then started to tail off at the beginning of the 1980's, due to growing unemployment, rising interest rates and falling property prices, new construction figures in the social rented sector began to rise again sharply, even reaching the figure of 53 % of all completions in 1982. The proportion of completions then declined steadily to 30 % by the year 1990. It then remained at this level until the mid-1990's, before starting to fall again. In 1999, only 21 % of new housing was built by the social sector.

A further decline in the number of social rented dwellings must be anticipated in the future. According to the declared objectives of the memorandum "Housing in the 21st Century", 500,000 social dwellings are to be sold by 2010, mainly to the tenants. In this way it is hoped to achieve three aims. Firstly, to increase the ownership quota from the current 52 % to 65 % by the year 2010 (VROM, 2002, 4); secondly to stabilise the social structure of social housing estates (Kempen, Priemus, 2002, 248); and thirdly to liquidate funds for new investment by the housing associations. There is currently no state subsidy available to support such investment. The target sales have in the meantime been reduced to 275,000 dwellings (Aedes, 2003, 10).

Table N.9 shows the proportion of different building types, dwelling sizes and equipment variants in the various supply sectors in the year 1993. At this time, 40 % of housing was socially rented, 13 % belonged to private landlords and 46 % was owner-occupied (Boelhouwer, Heijden, Priemus, 1996, 85). Almost 67 % of all housing is found in single-family houses. The importance of this type of housing is naturally at its highest in the owner-occupied sector, at 91 %, although the proportion of single-family houses in the social rented sector is also surprisingly high at 49 %. At 40 %, it is at its lowest in the private rental sector (Boelhouwer, Heijden, Priemus, 1996, 86-87).

The percentage of small dwellings with at most three rooms (excluding the kitchen) is at its highest in the privately rented sector at 50 %. 56 % of social housing still has four or more rooms. Amongst owner-occupiers, dwellings of this size make up a proportion of 70 % (Boelhouwer, Heijden, Priemus, 1996, 85-86). The average living area of dwellings is less than in

other European countries. New dwellings with five rooms built by the housing associations have a living area of approx. 80 m², (children's) bedrooms often having an area of only 6 m² (Donner, 2000, 431).

Table N.9
Housing features by supply sectors in the Netherlands, 1993 (in percent)

	Total	Ownership	Rental housing		
			Total	Social	Private
Building type					
Single-family house	67	91	47	49	40
Flat in multi-family house	33	9	53	51	60
Number of rooms					
≤ 3	30	12	46	44	50
4	38	38	38	41	29
5	22	33	14	13	15
6	6	11	2	2	4
≥ 7	3	6	1	0	2
Equipment					
With bath or shower	98	99	98	98	96
With central heating	83	87	79	82	68
With exterior wall insulation	52	53	51	56	33
With insulated or double-glazing	75	79	72	79	48

Source: Boelhouwer, Heijden, Priemus, 1996, 86

The equipment of privately rented dwellings, with central heating, heat insulation and insulation glazing is notably of a lower level than that of socially rented or owner-occupied housing, although significant differences can be observed between housing rented by the companies and that of individual owners. For instance, 86 % of housing rented by companies is equipped with central heating, as compared to only 57 % of housing rented by individual owners (Boelhouwer, Heijden, Priemus, 1996, 85).

4.2 Provider structure

The social housing sector includes only those providers who are recognised by the government as social housing institutions (*toegelaten instellingen*). The requirements for such approval are defined in the 1901 Housing Act. According to these conditions, providers must restrict their activity to social house building, primarily for the supply of households, who due to their income or for other reasons, have difficulty in finding suitable housing. The approved organisations can be divided into private housing associations (*Woningcorporaties*) and municipal housing companies (*Gemeentelijke Woningbedrijven-GWB*). Social housing can also be offered by other non-profit-making organisations (*niet-winst beogende instelling / NWI*).

In 1969, the housing associations were granted precedence over the municipal providers in the allocation of subsidy funds. The latter could only be subsidised if the housing associations did not want to invest. Since then, social residential construction has been provided mainly by the housing associations. The housing built by the municipal providers is therefore older, smaller and more centrally located than that of the housing associations. Since the 1990's, the municipal companies have increasingly been converted into housing associations. For this rea-

son, their numbers have declined from 213 in the year 1990 to only 24 in 1999. The number of dwellings provided by them has fallen over the same period from 315,000 to a mere 14,000. There are two reasons responsible for this restructuring. On the one hand, the municipal companies were regarded as too inflexible, and on the other, it was felt advisable to relieve the municipalities of their dual role as both social landlords and the supervisory authority (H. Priemus, 2003, 331-332).

The first housing associations date from the 2nd half of the 19th Century. Only after the passing of the 1901 Housing Act von 1901 did any notable increase occur in the number and size of these organisations. Between 1906 and 1930, the number of approved providers rose from 14 to 1,050 (Rosemann, 1992, 14). These were mostly founded by social organisations such as churches or trade unions (Oxley, Smith, 1996 105-106). Housing associations may assume the legal form of an association or a foundation. In the case of associations, the tenants are members of the association, and can exert a direct influence on decision-making through their representatives on the board and at the annual general meetings. In order to increase the independence of the management with regard to rent setting, investment in maintenance and financial management, many such associations were converted into foundations. This is often also regarded as necessary, because of the higher financial risks and the increased self-responsibility of the companies. Although this reduces the direct influence that can be brought to bear by the tenants, the BBSH specifies that decisions must still be agreed with the tenants (CECODHAS, 1999, 37; Gruis, 1997, 8-9). Although the number of dwellings provided by the housing associations increased from 1.854 million dwellings in the year 1990 to 2.362 million in 1999, the number of associations declined over the same period, due to mergers, from 824 to 724 (H. Priemus, 2003, 333). Since the mid-1990's, the number of regionally and nationally active organisations has therefore increased significantly due to such mergers, although most housing associations are still generally only active in one municipality (Gruis, 1997, 8). While these mergers mainly took place at a regional level until the beginning of the 1990's, national mergers have since become increasingly popular. In this way, economically strong companies are merged with housing associations who are still under heavy pressure from investment in urban renewal. More such mergers are anticipated in future (H. Priemus, 2003, 333). The size of the associations varies between less than 100 to 40,000 units (CECODHAS, 1999, 32).

In order to cover the financial risks, there are at the national level two funds, the Central Housing Fund (*Centraal Fonds voor de Volkshuisvesting* - CFV) and the Social House Building Guarantee Fund (*Waarborgfonds Sociale Woningbouw* - WSW). The Guarantee Fund guarantees the major part of the loans taken out by the housing associations. To this extent, it can be justifiably regarded as a replacement for the public loans and guarantees given up to the end of the 1980's. 80 % of the housing associations have become members of the WSW. At the time of its establishment, the government provided funds which were later topped up again under the Bruterling Agreement. The fund is financed at the moment by membership fees. An essential requirement for providing a guarantee is the creditworthiness of an association, which is audited annually. If this is not ensured, financial aid can be applied for from the CFV, whose support is however linked to restructuring measures designed to restore the financial independence of the company. The founding capital of the CFV was partly provided by the government. The fund is currently financed by membership fees. The tasks and responsibilities of the CFV were extended in 1998. Since then, it has had to keep the Housing Ministry informed of the financial situation of individual companies and the sector as a whole, and to point out the financial consequences associated with the approval of further housing associations. At the end of the guarantee chain come the municipalities and the government, who

then intervene if the associations, the WSW or the CFV can no longer resolve the financial problems (CECODHAS, 1999, 35-36).

4.3 The co-operation between municipalities and housing associations

The Heerma Memorandum instigated a policy directed at decentralisation and a strengthening of market forces. This was also the objective of the Management Decree on Social Rental Sector (*Besluit Beheer Sociale Huursector / BBSH*) passed in 1993, which significantly increased the freedom of action of the housing associations. The regulations prevailing up to this time, which made very detailed stipulations on the organisations in all areas of activity, were replaced by new decision-making systems (Gruis, 1997, 7). While prior to 1993, the annual plans had to be approved in advance by the municipality or the government, the housing associations can now act independently, and are only assessed in retrospect on the basis of their annual reports (Oxley, Smith, 1996, 107). Their performance is assessed in terms of the following objectives:

1. Accommodation of the target groups with suitable housing,
2. Maintaining the quality of existing housing stocks,
3. Consultation with tenants in the decision-making,
4. Safeguarding of financial stability,
5. Improving the quality of the residential environment and
6. Combination of housing and care.

Due to the withdrawal of the state from subsidisation, the responsibility for housing supply has increasingly devolved onto the local bodies, i.e. the municipalities and the housing associations. Together, and on the basis of the national objectives, they are now supposed to put together their ideas on local housing policy, and on the same basis, to specify the performance to be provided by the housing associations. For instance, they must jointly decide how many dwellings are to be built or sold, at what prices and rents, how many and which dwellings are to be modernised, and what residential environment improvements are to be aimed for (de Feijter, 2001, 20). In many municipalities, there were initially no such targets agreed between the municipality and the housing associations (Priemus, 1996, 1894, 1902-1905).

The assessment of the housing associations was originally carried out by the municipalities, to whom the annual report was submitted. However, many municipalities only partly fulfilled their duty of supervision, which was also certainly due to the fact that they hold no powers of sanction over the housing associations. Some companies also submitted either inadequate reports, or no report at all. With the amendment of the BBSH, the task of assessing the companies was finally transferred from the municipalities to the government, although the municipalities can still be involved in the assessment procedure (Priemus, 1996, 1894, 1902-1905).

The discussion over the social importance of the housing associations still continues to the present day. The 2000 Memorandum "Housing in the 21st Century" assesses their performance as rather unsatisfactory. In future therefore, they must show an improvement, both for those in search of housing and for society in general. The central government sees its task in supervising the housing supply and prompting the actors to the necessary actions. It must ensure for instance that the provinces and municipalities both formulate and actually implement housing policy objectives. With regard to the housing associations, it must ensure that the social capital committed here is used effectively and efficiently for the benefit of society as a whole. Although the dominant role of the housing associations has been regarded with criti-

cism, they are still needed for the accommodation of needy households, for combating the spatial concentration of poverty and for the revitalisation of the towns and cities. A new Housing Act is to establish the criteria by means of which the performance of the housing associations will be able to be assessed better than in the past (Boelhouwer, 2002, 227-230).

4.4 Access restrictions and housing allocation

Regulations on the access to social housing are specified in the Housing Act (*Woningwet*), the Housing Allocation Act (*Huisvestingwet*) and the BBSH.

According to the 1901 Housing Act (*Woningwet*), social housing must be allocated primarily to households who, because of their income or for other reasons, have difficulty in finding suitable housing. Normally however, the housing owned by the housing associations is open to all, so that the renting of social housing bears little real relationship to the actual income situation of the tenant. In contrast to other countries, social housing stocks have also never been regarded as a segment reserved exclusively for low-income households. Housing estates with a high proportion of social housing were in the past therefore not at all areas with a high concentration of low-income households (Kempen, Priemus, 2002, 237). The Heerma Memorandum of 1988 did however see a problem in the incorrect occupancy of such housing. While many high-income households benefited from subsidisation of the housing supply, many low-income households living in relatively costly accommodation have to be supported by housing allowance payments. For this reason, it was proposed that cheaper housing should be reserved for low wage earners. (Boelhouwer, Heijden, Priemus, 1996, 92).

Housing allocation was governed until 1993 by the Housing Allocation Act of 1947 (*Woonruimtetwet*), since when it has been supplanted by the Housing Allocation Act of 1993 (*Huisvestingwet*). This act gives the municipalities great influence over housing allocation. The regulations also apply not only to social housing, but also to private rental housing and parts of the owner-occupied sector (Rosemann, 1992, 539). The basic features of the old law will be examined below, followed by the new features of the current regulations.

Under the 1947 Housing Allocation Act (*Woonruimtetwet*), the municipality could make housing allocation dependent on the issue of a housing permit. The municipalities could largely determine themselves the allocation criteria, which had to be defined in the form of a housing ordinance (*Woonruimteverordening*). The allocation criteria were divided into three groups: the registration criteria, such as minimum age or economic and family links with the municipality, which were requirements for including a household in the allocation process, the urgency criteria and the suitability criteria. The regulations were gradually relaxed toward the end of the 1960's. For instance, municipalities in which the market situation was more relaxed were exempted from the allocation regulations. In 1990 however, the regulations still applied in 80 % of towns with more than 50,000 residents. The act also contained a series of regulations on the renting of social housing. These included the priority consideration of applicants who are unable to find suitable housing themselves (social commitment) and a state occupancy right for 10 % of social dwellings (Rosemann, 1992, 53).

The old Housing Allocation Act of 1947 (*Woonruimtetwet*) was superseded in 1993 by a new Housing Allocation Act (*Huisvestingwet*). The reason for the reform was the deficiencies of the old law. On the one hand, it was regarded as too inflexible to be able to take into account the differing local circumstances. On the other, it was focused too much to the municipality, although the housing markets are defined rather on a regional basis (A. Ouwehand, G. van

Daalen, 2002, 3). The right of the municipality to require a housing permit was adopted into the new law. Municipalities can however also do without the housing permit, or restrict it to certain market segments (Donner, 2000, 419). A social or economic link to the municipalities may no longer be required for the issue of the housing permit; a social or economic link to the region is sufficient. Under the Housing Allocation Act, the municipalities and housing associations must together ensure that the lowest-cost housing is allocated to households with low incomes or some other disadvantage (Aedes, 2003, 21). In 1998, the Housing Allocation Act was amended to the effect that a housing permit may now only be required for housing whose rent or purchase price does not exceed a certain figure. In 1998, the rent had to be below 1,085 NLG (490 €) and the price below 300,000 NLG (136,000 €) (Donner, 2000, 419).

Target groups for social landlords were first defined by the Heerma Memorandum (see Section 2.7), although these are not obligatory for the providers. These were single-person households with an income of less than 22,000 NLG (9,983 Euro) and multi-person households with an income below 30,000 NLG (13,613 Euro). There is no further differentiation on the basis of household size, because the housing costs of children are considered to be covered by the child allowance. Table N.10 shows how these income limits have developed over the course of time.

Table N.10
Target groups of social residential construction in the Netherlands
Income limits in Euro

	1994	1998	2002
Single persons	11,381	12,522	13,938
Multi-person households	15,519	17,075	19,007

Source: VROM, Beter thuis in wonen, WoningBehoeft Onderzoek 2002, 64

Table N.11 shows how the proportion of the target groups has developed over time. In 2001, the target group definition was harmonised and defined in the Housing Allowance Act. At the present, mismatched occupancy is no longer a pressing problem. 90 % of new rental contracts are concluded with target group households (Donner, 2000, 420, 421).

Table N.11
Target groups of social housing in the Netherlands (in 1,000 and %)

Type of housing		1994	1998	2002
Rental housing	Target group	1,648 (52.1)	1,665 (53.3)	1,432 (47.2)
	Non-target group	1,517 (47.9)	1,461 (46.7)	1,603 (52.8)
Owner-occupied property	Target group	675 (23.5)	702 (21.7)	532 (14.8)
	Non-target group	2,196 (76.5)	2,531 (78.3)	3,060 (85.2)
Other accommodation	Target group	279 (75)	220 (65)	205 (68)
	Non-target group	92 (25)	118 (35)	98 (32)
Total	Target group	2,602 (40.6)	2,587 (38.6)	2,169 (31.3)
	Non-target group	3,805 (59.5)	4,110 (61.4)	4,761 (68.7)
	Total	6,407 (100)	6,698 (100)	6,930 (100)

Source: VROM, Beter thuis in wonen, WoningBehoeft Onderzoek 2002, 32

The procedure of housing allocation can vary greatly from municipality to municipality, and ranges from largely liberal methods to procedures by which housing is allocated only via municipal allocation offices. The more liberal procedure is usually applied. In this case, a contract is concluded between the owner and the applicant, which must be submitted to the municipality, which then checks compliance with the allocation criteria. In towns with housing shortages, a housing permit is usually required, which depends on income, the household size, the age and economic or family links with the municipality. Since many landlords – including social providers – pick out the tenants who seem most acceptable to them, while still observing the allocation criteria, problem groups can often not be catered for in this way.

Municipalities with shortages in particular therefore operate a more active allocation policy. Two different procedures are used: the waiting list system and the advertisement system developed in Delft. Under the waiting list system, the applicant is placed on a waiting list. Housing becoming available is first offered to the applicant with the greatest urgency priority. If he declines the opportunity, it is offered to the next applicant, and so on. Since this procedure is very complicated, and the registered housing needs of applicants are not always up-to-date, its use is declining steadily. Under the advertisement system, housing becoming available is advertised in a special newspaper. Anyone seeking housing may apply. In the case of several applicants, the case is decided on the basis of urgency (CECODHAS, 1999, 42).

The housing allocation system used in Amsterdam is described below. A household wanting to buy or rent low-cost housing here needs a housing permit, which is linked to the following criteria:

- Minimum age 18,
- Dutch nationality or residence permit,
- A link to the town (employed there, studying there, resident for two years, or six years in the last 10 years, unemployed for at least two-and-a-half years, retired persons, refugees, without a dwelling as the result of a divorce),
- Taxable household income of a maximum of 28,000 Euro (39,200 Euro) for housing with a rent of up to 373 Euro (440 Euro),
- The housing must be suitable for the household size.

Of the 370,000 dwellings in 1998, approximately 207,000 were socially rented, 100,000 privately rented and 63,000 owner-occupied. Private landlords may rent housing with a rent in excess of 440 Euro without restrictions. One-third of low-cost housing is allocated by the municipality. The remaining two-thirds may be allocated by the landlord, although only to households who can present a housing permit. Due to the long waiting lists, an applicant has to wait approx. five years for an allocation. Waiting times are however considerably shorter for large housing estates and other less popular areas. There is also a black market in social housing, on which dwellings are sub-let for three times the normal rent (de Feijter, 2001, 14).

4.5 Occupancy structure

As Table N.12 shows, the proportion of low-income households (deciles 1 to 3) in the social rented sector grew significantly between 1981 and 1998, while the percentage of earners of medium and high incomes declined. It is also apparent that the medium and high income groups have increasingly gone over to owner-occupied property. In the case of medium-income households, this process did not begin until the 1990's, although starting earlier in the 1980's for earners of higher incomes.

Table N.12
Distribution of income groups according to form of tenure
Netherlands

Decile	Social rented			Private rented			Owner-occupied		
	1981	1990	1998	1981	1990	1998	1981	1990	1998
Total	40	41	37	18	14	12	42	45	52
1 to 3	47	57	59	24	20	17	30	23	25
4 to 7	45	45	38	17	13	11	38	42	51
8 to 10	26	20	14	15	10	7	59	70	78

Source: Kempen, Priemus, 2002, 243; own calculations

Table N.13 shows a similar picture for the four major cities. Here too, the proportion of low-income households in social rented housing increased sharply between 1981 and 1998. The percentage with higher incomes however fell dramatically. The migration of the medium-income groups did not start until the 1990's, while the proportion of this group even increased in the 1980's.

Table N.13
Distribution of income groups according to form of tenure
Amsterdam, Rotterdam, Le Hague, Utrecht

Decile	Social rented			Private rented			Owner-occupied		
	1981	1990	1998	1981	1990	1998	1981	1990	1998
Total	45	52	50	38	29	25	17	19	26
1 to 3	48	59	62	43	34	27	10	7	11
4 to 7	47	53	49	36	28	25	17	19	26
8 to 10	37	35	29	34	24	20	29	41	51

Source: Kempen, Priemus, 2002, 244; own calculations

It can therefore be established that when looked at over the whole period, levels of incorrect occupancy have been significantly reduced. A notable feature however is that the migration of higher wage earners away from social rented housing began as early as the 1980's. The changes in occupancy structure cannot therefore be attributed solely to the housing policy pursued in the 1990's, which was aimed specifically at reducing these levels of mismatched occupancy. It was probably the decreasing attractiveness of existing stocks which played the decisive role in the migration of higher-income households away from social housing.

Districts of major cities dominated by social housing are frequently referred to in the media as problem areas. While low wage earners were to be found mainly in areas of old building in the 1960's and 1970's, the 1990's saw increasing concentrations of low-income households – many of whom were of Turkish or Moroccan origin – in the areas built in the early post-war period (1945-1960). These districts are made up principally of small, low-quality dwellings, the residential environment is monotonous and is frequently referred to as socially unsteady. In the opinion of the Housing Ministry, the development of these city districts into areas with predominantly low-income populations can only be prevented by radical restructuring, and the integration of housing for higher-income households. This will necessitate the demolition, modernisation and privatisation of a part of the existing stocks. Although this would reduce the level of social housing stocks available to low-income households, the question of

whether this would also lead to further concentration depends on the spatial allocation of the restructuring measures (Kempen, Priemus, 2002, 245-247).

The planned sale of 275,000 social dwellings (see above) will probably also be associated with structural effects. Since the properties sold will be mainly single-family houses and larger dwellings, the proportion of multi-family houses and small dwellings in social housing stocks will increase. This will most likely also be accompanied by a corresponding change in the resident structure. The declining social housing stocks will be occupied by more low-income households, unemployed people, recipients of social assistance, single parents and immigrants. This creates the risk that social housing stocks will become even less attractive to potential occupants, and will change from a previously popular form of housing into a stigmatised sector. On the other hand, it must also be taken into account that the housing allowance also enables lower-income households to rent relatively good housing, and that from the sale of housing, the housing associations will receive funds that they can then use for the improvement of the remaining stocks (Kempen, Priemus, 2002, 248-251).

Since housing shortages are again becoming more acute in the large cities – unoccupied housing is found only in the border areas with Belgium and Germany – the demolition of stocks built between 1945 and 1960 is no longer a topic of discussion. With the increasing shortages, the number of removals has also declined, making it increasingly difficult to find accommodation for the target groups, especially young households getting into the housing market for the first time. This has led to increasingly long waiting lists. In view of the high social housing stocks and the still existing mismatched occupancy, the aim is not to prevent shortages by the new construction of social housing, but instead to support the construction of owner-occupied housing, which will also increase mobility amongst rental housing stocks.

4.6 Rent law

The same rent law basically applies to the socially rented sector as to the private rental residential sector (see Section 3.2).

4.7 Taxation

Under certain conditions, the housing associations could in the past be exempted from the property purchase tax (CECODHAS, 1999, 41), although this has no longer been possible since the 2001 tax reform.

The profits of housing associations from their commercial activities, such as the construction and sale of owner-occupied property, are subject to corporation tax. Rental income however is not liable to corporation tax. The land tax liability corresponds to that of privately rented housing.

4.8 Subsidisation

Up to 1989, social and private rental housing was subsidised in the same way by means of operating cost grants. Up to 1975, the subsidisation was calculated using the simple cost rent system. In order to save subsidy funds, the dynamic cost rent system was then introduced (see Section 2.4). The operating cost grants for privately rented housing were finally discontinued

in 1989. In order to reduce costs and transfer the risk of unexpected developments of interest rate and rent to the investors, the subsidy system was reformed again in 1989. For social housing, the operating cost grants were definitively established using the net cash value method at the time of initial approval (see Section 2.8). In 1995, subsidisation by means of annual grants was also discontinued for social housing. Instead, subsidisation now took the form of small, one-off grants, which in the meantime have also been phased out. Today therefore, the new construction of social housing has to get by without any subsidisation (see Section 2.10). In 1995, the future subsidy obligations arising from past subsidy approvals were also settled at a stroke by the overall compensation agreement (*Balance-verkorting geldelijke steuen volkshuisvesting/brutering*) (see Section 2.10).

5. The owner-occupied sector

5.1 Development of housing stocks

The proportion of owner-occupied dwellings has increased from 28 % in the year 1947 to 52 % in 2000 (see Table N.1). The ownership quota grew particularly sharply in the 1970's and 1990's, while increasing only slightly in the 1980's.

The strong growth in the ownership quota in the 1970's was associated not only with a rise in the number of completions in this sector, but also with a slump in the construction of rental dwellings. Both of these developments meant that the percentage of the ownership sector in completions increased from 36 % in the year 1970 to over 64 % in 1979 (see Table N.3). This growth can be attributed to the entry into the housing market of new householders born in years of high birth rates, the growth in real incomes, positive income expectations, the high inflation rate and the sharp increase in housing prices (Boelhouwer, Heijden, 1992, 63-64).

After 1979, stagnation set in, followed by a huge slump in the new construction of owner-occupied housing. By 1983, only 32 % of new construction was taking place in the ownership sector. Non-subsidised new construction in particular declined drastically. Subsidised new construction on the other hand declined only slowly. The relative stability of subsidised new construction can be traced back to the ownership subsidisation introduced in the mid-1970's, which was aimed above all at threshold households. The decline in non-subsidised new construction was put down to increasing unemployment and uncertainty, rising interest rates and the drastic fall in housing prices (Boelhouwer, Heijden, 1992, 65-67). As Tables N.12 and N.13 show, many households with a high income switched to owner-occupied housing in the 1980's. While the ownership quota of high-income households increased sharply over this period, the increase was much more modest in the case of medium-income groups, and even fell in the case of low-income households.

The transition into owner-occupied housing gathered strength in the 1990's. In contrast to the 1980's, the ownership quota increased over this period not just for high-income households, but also for households with a medium income. Even low-income households showed an increase, albeit a small one. This development can be attributed to various causes. For Kempen and Priemus (2002, 244), a major reason was the loss of attractiveness of social housing stocks to households with medium and higher incomes. This migration was further assisted by falling mortgage interest rates. New construction opportunities for owners were, and are still, being extended by the designation of Vinex areas. A final contributory factor to migration into ownership is the lacking regional differentiation of rent levels (Boelhouwer, 2002, 230-232).

Further growth in the ownership quota is also being aimed for in the future. In order to stimulate the move toward owner-occupancy for lower-income households as well, 275,000 social dwellings are to be sold to tenants by 2010. Such a sale would also conform with the wishes of many households to become owner-occupiers. According to a housing demand survey conducted in 1998 – when the ownership quota stood at 52 % – 65 % of households want to live within their own four walls. In order to support the sale of social housing, a new subsidy programme was introduced from 1.1.2001 specifically for low-income households.

5.2 Taxation

Taxes due on acquisition of property correspond to those of the privately rented sector (see Section 3.4.1).

Owner-occupied property is treated as an investment under income tax regulations: The rental value of the housing is taxable, while interest on loans taken out to finance the purchase can be offset against the income subject to tax and social security contributions without any restriction on the amount or time. Depreciation and maintenance costs are however not deductible.¹⁴³ It is not restricted to a single property (McCrone, Stephens, 1995, 82). Purchase of existing housing and new construction are treated equally. The notional rent was set in 1991 at 2.1 % of the assessment basis, instead of the previous 1.8 %. A gradual increase to 3.5 % was planned for the following years (Papa, 1992, 24), although this could not be implemented (Donner, 2000, 423). The assessment basis is 60 % of the market value.¹⁴⁴

For McCrone and Stephens (1995, 82), this is the most generous form of ownership subsidisation to be found throughout Europe. In contrast to the subsidisation of rental residential construction, which was almost completely phased out in 1995, no questions have yet been raised over ownership subsidisation by means of tax concessions, although the regressive effects have been criticised from a distribution policy point of view: high-income households enjoy greater tax relief than low wage-earners. This is due not only to the progressive taxation rate, but also to the unlimited loan interest deduction, by means of which expensive housing receives higher subsidisation than cheaper property. Direct ownership subsidisation was aimed at households with lower incomes, although this was discontinued in 1995. However, a subsidisation programme for lower-income households was re-introduced in 2001.

The regulations on land tax and wealth tax, and the taxation on profits from the sale of property, have already been described above with regard to the privately rented sector.

5.3 Direct subsidisation

Owner-occupied property was subsidised for the first time in 1953, when the subsidy took the form of a one-off grant. This system was replaced in 1968 by subsidisation with fixed, annual grants. The new subsidy was comparable to that for rental residential construction. The subsidisation amount was independent on income. However, because the grants were subject to income tax, this created a higher net subsidisation level for households with lower incomes (Boelhouwer, Heijden, 1992, 49). This subsidy was directed primarily at medium-income

¹⁴³ High maintenance costs can however be offset under certain very restrictive conditions (EMF, 1997, 89).

¹⁴⁴ This reduction is applied because the full market value reflects the value of the housing in an unoccupied state.

households, although it was also hoped to provide benefits for lower-income households due to the filtering effects (Lundqvist, 1992, 44).

Ownership subsidisation was extensively reformed in 1975, the aim of the reform being to facilitate the transition of low-income households into owner-occupied property. The new subsidy was made up of an A-subsidy and a B-subsidy, and was available only to households whose income did not exceed a specified upper limit. The limits of the A-subsidy were more restricted than the B-subsidy. The A-subsidy was also income-related. The subsidy conditions were modified several times. In 1984, an incentive subsidy was introduced in the form of the so-called C-subsidy, which consisted of a one-off grant of 6,500 NLG (Boelhouwer, Heijden, 1992, 49).

Social ownership subsidisation was last reformed in 1992. The purpose of the amendment was to limit the sharp increase in expenditure. The new subsidy was open to households with an income of up to 61,500 NLG (27,907 Euro), provided that the total costs did not exceed 140,000 NLG (63,529 Euro). The average amount of the total subsidy came to 36,100 NLG (14,339 Euro) and was paid out in annual instalments of 10 %. There was also a one-off grant for owners with a somewhat higher income in urban regions of 5,000 NLG, provided that the total costs did not exceed 162,000 NLG (73,512 Euro) (McCrone, Stephens, 1995, 81). Ownership subsidisation as part of social residential construction was completely abolished under the 1995 BWS, and replaced by a one-off grant of 5,000 NLG (2,269 Euro) (Donner, 2000, 419).

Direct ownership subsidisation for lower-income households was re-introduced with effect from 1.1.2001. This is similar to the rent support, and is also directed at the same target groups. The subsidy is only available to households acquiring their own property for the first time, and was instituted to support the planned sale of 275,000 social dwellings to tenants (Kempen, Priemus, 2002, 249; Boelhouwer, 2002, 231). The subsidy has however been little used so far, because the price limits up to which purchase can be subsidised have been set too low.

6. Housing benefits

Housing allowance (*Individuele Huursubsidie / IHS*) was first introduced in 1975, and has since been reformed many times. The funds are provided by the government (CECODHAS, 1999, 44). In some cities, such as Amsterdam, there are municipal programmes, which supplement the state housing allowance for very low-income households (de Feijter, 2001, 15). The following description relates only to the state housing allowance.

Housing allowance is granted only to tenants, and not to owner-occupiers. The assets of the applicant may not exceed certain amounts. This limit is 19,875 Euro for single persons below the age of 65, and 36,920 Euro for larger households. Housing allowance is also granted only for housing whose rent falls below a certain maximum amount. In 2001/2002, the upper rent limit was 541 Euro, rising to 585 Euro in 2003/2004 (van Steen, 2004, 7).

The housing allowance covers a certain percentage of the difference between the minimum rent and the actual rent. The minimum rent is dependent on income. A distinction is also made between single persons and multi-person households. For single persons (multi-person house-

holds), the minimum rent in the budget year 2003/2004 ranged between 175 Euro and 455 Euro (175 Euro and 370 Euro), whereby the lower limit applied for an income of up to 1,020 Euro (1,275 Euro), and the upper limit came into effect from an income of 1,525 Euro (1,770 Euro). The percentage rate at which the difference between the minimum rent and actual rent is covered depends on the actual rent. If this is below the first quality limit of 315 Euro, 100 % of the difference is covered. If it lies between the first and second quality limit, which is 455 Euro for single persons and 430 Euro for multi-person households, 100 % of the difference between the minimum rent and the first quality limit is covered, together with 75 % of the difference between the first quality limit and the actual rent 75 %. Rents above the second quality limit only lead to higher housing allowance in special cases, when 50 % of the difference between the second quality limit and the actual rent can be covered. A rent above the second quality limit is only accepted for single persons, old people and the handicapped provided that the municipality has confirmed in advance that the rent and the size of the housing are appropriate (van Steen, 2004, 6-9, 16-18). Children are not taken into account in determining the housing allowance, since their housing costs are considered to be covered by the child allowance (Kemp, 1997, 67-68). The housing allowance is reviewed annually in line with rent and income developments (Papa, 1992, 14).

The numbers receiving housing allowance rose from just on 350,000 in the budget year 1975/1976 to over 1 million in the budget year 1997/1998, with the rise being particularly sharp during the 1980's. From 80/81 to 90/91, the number of recipients rose from 456,000 to 953,000. In the first half of the 1980's, this was due to the increase in unemployment. Following stabilisation of the labour market, the growth can be attributed above all to the increase in the number of single-person households and the early departure of young adults from the parental home (McCrone and Stephens, 1995, 92). In the 1990's, the number of recipients remained relatively stable, not increasing again until 1998. The average housing allowance amounts rose sharply up to 1982/83, since when they remained largely constant for a long time. This stabilisation was due to the reform applied in the budget year 1983/1984 (Papa, 1992, 15). The sharp increase in the average housing allowance in 1998 is due to a reform in 1997.

The proportion of tenant households receiving housing support increased from 34 % in the year 1984 to 42 % in 1990. Thereafter, it fell to 24 % in 1995, before rising again to 28 % in 1998 (Donner, 2000, 422).

Table N.14
Recipients of housing allowance, average housing allowance and housing allowance expenditure

Budget year	Recipients		Average housing allowance per year			Housing allowance expenditure		
	abs.	%	NLG	€	%	Million NLG	Million €	%
1975-1976	348,320	100	974	442	100	339.3	154	100
1976-1977	356,939	102	1,001	454	103	357.5	162	105
1977-1978	383,619	110	1,081	491	111	414.8	188	122
1978-1979	394,718	113	1,198	544	123	472.7	215	139
1979-1980	417,903	120	1,277	579	131	533.7	242	157
1980-1981	455,864	131	1,380	626	142	628.9	285	185
1981-1982	529,991	152	1,562	709	160	827.5	376	244
1982-1983	628,834	181	1,700	771	175	1,069.0	485	315
1983-1984	635,255	182	1,782	809	183	1,132.0	514	333
1984-1985	715,323	205	1,777	806	182	1,271.0	577	375
1985-1986	777,692	223	1,729	785	178	1,345.6	611	397
1986-1987	830,500	238	1,767	802	181	1,467.0	666	432
1987-1988	880,000	253	1,763	800	181	1,551.0	704	457
1988-1989	907,000	260	1,765	801	181	1,600.9	726	472
1989-1990								
1990-1991	953,000						808	
1991-1992								
1992-1993								
1993-1994								
1994-1995	909,000						893	
1995-1996	922,000	265	2,384	1,082	244		998	
1996-1997	978,500	281	2,491	1,130	256		1,106	
1997-1998	1,030,060	296	2,843	1,290	291			
1998-1999			3,000	1,368	308	3,100.0	1,407	914
1999-2000								
2000-2001								
2001-2002				1,632	369			

Source: up to 88/89: Papa, 1992, 15;
1995-1998: Aedes, 1999,
98/99: Donner, 2000, 422
2002: Aedes, 2003, 20

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Austria

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1. Introduction

In Austria, the distinction is made between the private rental housing sector, the social rental housing sector and the owner-occupied sector. The demarcation between the two rental housing sectors is not made on the basis of subsidies, as is the case in Germany, but by means of the status of ownership.

Private rental housing is defined as rental accommodation provided neither by communities nor by the non-profit housing associations. This also includes housing which is subsidised, and is therefore subject to subsidy-related commitments. The number is however limited, since private providers received no subsidy funds for general residential construction up to 1989, but only for the construction of company flats. A large proportion of private rental dwellings were built before the First World War. Only few rental flats were built by private in investors during the inter-war period. The same also applies for the post-war period. This is essentially due to the fact that the major part (80 %) of rental construction was subsidised, whereas private providers have only been able to claim such subsidies since the 1990's. The old flats were regarded after the Second World War as an important source of housing for low-income households, and were consequently subjected to comprehensive rent regulation. The liberalisation process which started in the 1980's and has come to an end in the meantime, has lead to the fact that these older housing stocks now conform more closely to market rents in general.

Social rental housing is defined as rental flats provided by communities and non-profit housing associations. In the inter-war period and the first years following the Second World War, the communities were the most important builders in the area of rental accommodation. This was initially carried out without the benefit of state support, although increasing recourse was later made to state funding. Communities ultimately withdrew almost entirely from residential construction. The accommodation of the non-profit housing associations was built almost exclusively with state support, and as such is subject to subsidy-related commitments which are limited to 30 to 35 years, after which they are subject to non-profit restrictions. Since the state house building subsidies and the non-profit regulations are directed at the provision of an adequate housing supply for the population in general, particular importance is attached to municipal housing when it comes to the supply of the socially disadvantaged sectors.

The major proportion of owner-occupied dwellings were also subsidised, although in this case the percentage of subsidised properties is not as large as in the rental housing sector. Of the owner-occupied flats, just three-quarters were subsidised, and of owner-occupied one-family houses, about half. Over the course of time however, the proportion of subsidised owner-occupied houses has increased significantly over the years 1991 to 2000 to more than 75 %.

Table Ö.1 shows the distribution of residential stocks according to the form of tenure for different years. In the case of the data for the year 2001, Vienna and the other federal states are shown separately.¹⁴⁵ In the year 2001, 49 % of Austrian main residences were used by the owners themselves either as owner-occupied flats or single-family houses. If we consider Austria excluding Vienna, this proportion rises to 59 %. In the capital however, only 17 % of dwellings were owner-occupied. The proportion of rental flats in public ownership or that of the non-profit housing associations is just on 21 % at the national level. In Vienna it is twice as high at 42 %; in the other federal states, only 14 % of flats are counted among the social sector. The proportion of private rental flats declined sharply between 1971 and 2001 from

¹⁴⁵ In 2001, 23 % of main residences were located in Vienna.

27.5 % to 17.6 %. Since this time it has recovered somewhat, which is also attributable to the inclusion of private providers in general house building subsidies.

Table Ö.1

Main residences according to the form of tenure in Austria (main residences) (in percent)

	1951	1961	1971	1981	1991	2001		
						Austria	Vienna	Austria excluding Vienna
Owner-occupied houses			36.6	39.3	39.6	38.3	5.8	48.1
Owner-occupied flats			4.6	8.4	10.4	10.8	11.6	10.5
Public rental housing			10.6	10.3	10.3	9.3	27.6	3.7
Non-profit rental housing			8.3	9.4	10.8	11.3	14.5	10.3
Private rental housing			27.5	21.9	17.6	19.8	34.0	15.4
Company flats						2.2	3.0	2.0
Other flats ¹			12.3	10.7	11.3	8.4	3.4	10.0
Main residences (in 1,000)		2,153	2,432	2,691	2,968	3,315	771	2,544
Non-main residences		97	234	361	425	548	140	408
Total	2,138	2,250	2,666	3,052	3,393	3,863	911	2,953

¹ 1971, 1981 and 1991 including company flats

Source: 1971 – 1991: Donner, 2000, 131; 2001: ÖSTAT, Gebäude- und Wohnungszählung 2001

Immediately after the war, house-building subsidies were handled mainly by the Federal Government. Thereafter, a gradual “provincialisation” took place, which was completed in 1989 with the transfer of legislative authority for house building subsidies to the states. The house building subsidies however are today still financed by federal funds derived from purpose oriented state revenues and transferred to the federal states. The high proportion of subsidised properties is due above all to these earmarked funds, which comes on the one hand from a part (10 %) of income tax and corporation tax revenues, and on the other from house building contributions, which is paid half each by employees and employers. This financing system is more and more being called into question due to the increasing saturation of the market and the growing necessity for the consolidation of public budgets. Proposals for the abolition of the federal funds have so far obtained no majority, although the admitted purposes have been extended. In 1996, the federal funds earmarked for house building subsidies were frozen at the level of 1.78 billion Euros. In the year 2000, the special purposes were extended to include infrastructure projects and climate protection measures. The earmarking of loan repayments was even lifted entirely.

The conversion from Austrian Schillings to Euro made at various points has been made at the following exchange rate: 1 Euro = 13.76030 ASch.

2. Historical overview

2.1 Housing supply by the market before the First World War

Due to the changing economic structure, the urban population increased significantly from the middle of the 19th Century up to the First World War. For example, the population of Vienna and its suburbs grew between 1840 and 1918 from 440,000 to more than two million. With the exception of a few project for the construction of company flats, the housing supply at the time was left entirely to the market. Although the production of private rental flats lead to a substantial increase in stocks, housing available for workers remained in short supply. Due to

the modest income earned from small flats, many builders therefore preferred to construct buildings for a more affluent clientele. This ultimately leads to wide availability of relatively low-cost flats for the affluent, coupled with a shortage of relatively expensive small flats. Most flats built were so-called “Bassena” flats, which consisted of a single room and kitchen, with the kitchen being lit only from the corridor. A water tap (Bassena) and a toilet was provided in the corridor for general use. The building plots were laid out in grids, and built over by as much as 85 %, creating small, dark flats grouped around confined light shafts. In order to split the high rents amongst as many people as possible, many tenants took in “Bettgeher” (*people renting beds from the principal tenant during the day*) and sub-tenants, resulting in extremely dense occupancy of these small flats. Due to the low building quality, the overcrowding and the frequent change of tenants, the flats were subject to heavy wear and tear. Homelessness was at a high level, and epidemics broke out regularly. In the years 1910/11 this finally resulted in mass protests by dissatisfied tenants and the homeless, which in some cases were put down ruthlessly (Eigner, Matis, Resch, o. J., 2-9, 15).

Three-quarters of municipal tax revenue was levied at the time by means of a Building Tax (*Gebäudesteuer*), which was charged at the rate of 40 % of the rental income. Due to the disproportionately high rents, the tenants of small flats actually ended up paying more than their fair share of this tax. The burden on these small flats was relieved somewhat by the Building Tax Reform of 1911, and transferred to larger flats. From 1910, part of the Building Tax went into the National Housing Welfare Fund (*Wohnungsfürsorgefonds*), which provided low-interest capital for residential construction, and which later became the National Residential and Housing Fund (*Bundes- Wohn- und Siedlungsfonds*). These funds were available only to public corporations or non-profit housing associations in the form associations or building co-operatives. This was the origin of the link between subsidisation and non-profit organisations which has continued to exist until recent times (Eigner, Matis, Resch, o. J., 11, 13; Wurm, Österreicher, Bauer, 2001, 19).

2.2 House building subsidies and municipal house building after the First World War

In order to protect tenants against arbitrary eviction and rent increases, a temporary Tenants Protection Act (*Mieterschutzverordnung*) was passed in 1917, during the war, which also provided for a rent freeze on existing properties. These temporary regulations were permanently enacted in 1922. By reason of the hyperinflation that set in after the war, rental income lost its real value. In the following years, profit-oriented housing production came more or less completely to an end. Because of the lower rents, many principal tenants were also no longer compelled to take in sub-tenants or “Bettgeher”. The situation on housing markets became more and more tighter (Eigner, Matis, Resch, o. J., 9-11). The urgent need for housing was combated by the subsidisation of the non-profit housing sector and municipal house building.

The non-profit housing sector consisted largely of housing associations, which arose out of the uncontrolled housing movement given a legal foundation following the mass protests of 1921 (Eigner, Matis, Resch, o. J., 12). The non-profit housing sector was supported by means of the National Residential and Housing Fund, which was created in 1921 from the National Housing Welfare Fund, and by municipal housing funds. By 1934, approx. 15,000 flats were built in Vienna by the housing movement (Förster, 1996, 120).

The dominant instrument of the inter-war period was however municipal house building, which is described here using the example of Vienna. The financial basis of the first Vienna house building programme of 1923 was provided by the progressive, “special purpose” House

Building Tax (*Wohnbausteuer*)¹⁴⁶, whose introduction was only possible because Vienna, as a federal state, had the authority to levy its own taxes (Eigner, Matis, Resch, o. J., 12-14). 64,000 municipal flats were ultimately completed in Vienna by 1934 (Förster, 1996, 120). The main type of construction was multi-storey blocks, which were often constructed on empty construction sites in the city. Super-blocks consisting of over a thousand flats were however also built,¹⁴⁷ which were equipped with a wide range of community facilities such as washhouses, bathing facilities, kindergartens and counselling offices for mothers, while the garden areas provided greenery and children's playgrounds (Eigner, Matis, Resch, o. J., 14-16). The land and building costs were borne completely by the municipality of Vienna, while tenants had to pay only the maintenance and running costs. The funds were provided from the municipal budget, with around 40 % coming from the Housing Construction Tax (W. Kainrath, 88, 163).

At the beginning of the 1930's, the general conditions for municipal house building deteriorated: on the one hand, fewer and fewer funds were available because of the world economic crisis, while on the other, the differences between the Christian-Social dominated federal government and "Red Vienna" became even more acute, which led to a further decline in tax revenue. With the abrogation of the parliament and the introduction of an authoritarian corporate state constitution, Vienna in 1934 lost the status of a separate federal state (Eigner, Matis, Resch, o. J., 16-19).

2.3 House building subsidies and municipal house building after the Second World War

As a result of the many years without new construction work, the damage¹⁴⁸ and the influx of population caused by the war, a considerable part of the housing requirement could not be met after 1945 (Handler, Sommer, 2001, 13). An attempt was made to combat the lack of housing by means of national subsidies and municipal house building. The federal government provided house building loans initially through two institutions: the National Residential and Housing Fund (*Bundes-Wohn- und Siedlungsfonds - BWSF*) founded in 1921 and the Housing Reconstruction Fund (*Wohnhauswiederaufbaufonds - WWF*) established in 1948. Provincial funds were also available (Wurm, Österreicher, Bauer, 2001, 14).

The BWSF provided loans for the new construction of rental and cooperative flats, with support going exclusively to non-profit housing associations and municipalities. Although the declared aim was to improve the living conditions of the less affluent sectors of the population, no income limits were set. Instead, the size of dwellings was restricted, initially to 60 m² and finally to 80 m². The investor had to provide equity capital in the amount of 10 % of the construction costs. The subsidy loans covered 60 % of the building costs (Handler, Sommer, 2001, 13), were subject to interest at the rate of 1 % and had a term of 70 years (Donner, 2000, 111-112). With additional subsidisation by the municipality of Vienna, the loans covered 68 % of the costs (Czasny, 1987, 233). Since land costs are not subsidised in Austria, these percentage rates refer only to the building costs. In order to finance the BWSF funds, 1951 saw the introduction of the house building contribution, which still exists today. This

¹⁴⁶ 0.5 percent of the most expensive rental properties provided 45 % of the tax.

¹⁴⁷ The blocks of the first construction programme were made up of small flats, which comprised at least a kitchen cum living room and one further room. In contrast to the pre-war flats, all rooms had their own lighting. The flats were also equipped with a sink with running water, and in most cases their own WC. The flats of the second programme were larger, and had two rooms, in addition to the kitchen.

¹⁴⁸ 272,000 flats were totally destroyed, and a further 300,000 severely damaged.

consisted of an employer and employee contribution, which both make up 0.5 % of the health insurance assessment basis (Handler, Sommer, 2001, 13).

The WWF provided loans for the reconstruction of destroyed and damaged dwellings, and was aimed at both owners and tenants who had suffered losses (Wurm, Österreicher, Bauer, 2001, 14). Its purpose consisted solely in the reconstruction of residential buildings; socio-political objectives were not pursued, so there were consequently no income or size restrictions. The loans covered 100 % of the building costs (reduced in 1967 to 90 %), and were initially interest-free. The original term of the loans was 100 years, although this was reduced to 75 years in 1953, and again to 50 years in 1967. The rents were restricted to the level of the loan repayments. A total of around 200,000 flats were reconstructed with the aid of this fund (Donner, 2000, 112, Kainrath, 1988, 165). Since many flats were reconstructed as owner-occupied flats, this programme subsidised not only landlords, but also owner-occupiers. The financial means of this fund were raised from the earmarked part of the income and corporation tax (Handler, Sommer, 2001, 13-14).

The first House building Subsidy Act (*Wohnungsbauförderungsgesetz*) was passed in 1954. The funds provided for this purpose augmented subsidisation through the above two funds. Owner-occupied flats and one-family houses could be subsidised for the first time. Commercial companies were also allowed to act as builders in the home-ownership sector. In the rental construction sector however, subsidisation remained reserved for municipal and non-profit builders. The authority of the federal states was reinforced by placing in their hands the administration of the subsidies, although they also had to provide part of the funds (Wurm, Österreicher, Bauer, 2001, 15). There were no income restrictions to be observed, although certain size limits had to be maintained: small flats could be no larger than 90 m², and medium-sized flats could only be subsidised provided they were no larger than 130 m². The investor had to find 10 % of the costs from his own capital. The loans amounted to up to 90 % of the building costs (Czasny, 1987, 233), the interest rate was 1 % and the term of the loans ranged from 40 to 70 years. 123,000 flats were subsidised under the House building Subsidy Act of 1954 (Donner, 2000, 112).

In addition to national subsidisation, municipal house building was taken up once more, which is again described here using the example of Vienna. The building costs were initially financed to the tune of 100 % from the municipality budget. In contrast to dwellings subsidised by federal funds, the rents of the municipal flats initially included no contributions toward the capital, but only toward maintenance and upkeep. However, in 1958 the maintenance contribution was replaced by a basic interest rate of 2 % of the building costs. With the “Vienna social house building subsidy” introduced in 1967, municipal subsidisation was brought largely into line with state subsidisation. For the first time, the rent now included a contribution toward the amortisation and interest on the capital used. Independent municipal subsidisation was given up in 1971, since when municipal flats have been built only with the aid of state subsidies (Czasny, 1987, 37-38). For the time being however, the municipality still remained the major builder. In 1973, the non-profit providers for the first time completed more flats than the municipality. The proportion of dwellings completed by non-profit providers has increased continually since the war. While only a quarter of social flats were constructed by non-profit providers between 1956 and 1965, this proportion increased to 53 % between 1973 and 1982. A kind of task sharing developed between the municipality and non-profit providers: while the latter served the more affluent demand, the municipality took over the supply of less well-to-do households (Eigner, Matis, Resch, o. J., 29-30).

2.4 The 1968 House Building Subsidy Act and introduction of housing allowance

Federal subsidisation was standardised under the 1968 House building Subsidy Act. Both funds therefore discontinued their activities, leaving all the financing to be allocated under the new act. The management of subsidisation became the responsibility of the federal states, who augmented these funds by means of their own contributions. The municipalities and non-profit housing associations continued to be the only bodies who could apply for subsidisation for rental flat construction, with the sole exception of company flats built by private providers (Donner, 2000, 112).

Since the expenditures for the public loans continued to rise due to increasing costs, the loans per building project were curtailed, so that increasing use had to be made of capital market resources (Czasny, 1987, 36). A further reduction in the public loans came about in 1972 through the introduction of the supplementary annuity grants. The proportion of the public loans in the individual federal states was between 45 % and 70 % of the building costs. The loans were subject to interest at the rate of 0.5 % p.a., with the capital to be repaid at 1 % p.a. over the first 20 years and 3.5 % p.a. thereafter, and had a term of approx. 48 years. Builders still had to provide 5 % of the building costs in the case of rental flats and 10 % for owner-occupied dwellings as equity capital. The grants for the annuities on capital market loans could be up to 50 % and were reduced after 5 years at 10 % p.a. (Donner, 2000, 112; Kainrath, 1988, 164-166). From 1974 to 1982, the proportion of the annuity subsidies to the overall use of funds increased from 0.1 % to 12.2 %. Because subsidisation by means of annuity subsidies became very costly at the beginning of the 1980's as a result of increasing interest rates, the proportion of the loans to subsidisation was again increased to an average of 70 % of the building costs (Donner, 2000, 112; Kainrath, 1988, 164-166).

For the first time, income limits were also defined, although the qualifying limits were very broad (Donner, 2000, 112) and repeatedly adapted to developments in income levels over the following years. The adjustments were intended to avoid difficulties in renting out property, which were anticipated due to the increase in rents brought about by the falling subsidisation (Czasny, 1987, 36). The income limits were only lowered again under the 1984 House building Subsidy Act.

The 1968 House building Subsidy Act introduced a housing benefit for subsidised rental flats, the so-called housing allowance (*Wohnbeihilfe*). This was intended to provide a cushion against rent increases brought about by the reduction of subsidy loans and curtailment of the annuity subsidies. The housing allowance is financed from the "special purpose" funds earmarked for the house building subsidies. The concomitant income-related differentiation in rents is justified by the argument that in view of the broad entitlement to accommodation, equal rents would be both unjust and wasteful. From 1984, the housing allowance can also be granted to owner-occupiers (Czasny, 87, 33). Since "provincialisation", there are now also housing allowances for tenants of non-subsidised flats. In contrast to the planning however, the housing allowance did not remain restricted to peripheral groups. In the municipal flats of the City of Vienna, approx. 50 % to 70 % of all tenants were receiving this assistance in 1982. Although the subsidisation was actually intended to enable lower-income households to afford a subsidised new dwelling, most non-profit providers have assumed the practice of turning away lower-income groups (Kainrath, 1988, 166-167).

In addition to the housing allowance, there is also the rent support granted by the tax authorities, which is intended to compensate for rent increases brought about due to renovation

measures, and the rent support provided under social assistance regulations for very low-income households.

2.5 The House Building Subsidy Act and the Housing Renewal Act of 1984

The 1984 House building Subsidy Act again increased the freedom of the provinces in the configuration and administration of subsidisation. For example, they were allowed to apportion subsidy funds between new construction and renovation. For the subsidy conditions, the Act now defined only specific bands, within which the provinces were allowed to act freely as they saw fit. The subsidy loans for rental flats were to be between 50 % and 85 % of the building costs, the loans could have a term of between 25 and 50 years, and the interest rates could be set at a maximum of 6 %. Another new feature was the interest rate restriction for supplementary capital market loans, which could not exceed the secondary market returns by more than 1.5 percentage points. Owner-occupied houses were to be subsidised by fixed loan amounts (Donner, 2000, 113; Handler, Sommer, 2001, 14). In Vienna, loans for rental flats could be as much as 70 % of the building costs. The initial repayment rate of 0.2 % was increased annually by 0.2 percentage points, and then fixed at 8 % p.a. for the 25th to the 35th year. Owner-occupied flats were subsidised solely via annuity subsidies. The outside funds required were to be financed by capital market loans with a term of 25 years. The annuity subsidies of initially 7 % of the loan amount were progressively reduced to 0.5 % (Kainrath, 1988, 167-168).

Interest rate increases and term reductions were also allowed for existing contracts. On the one hand, this could be used to increase the revenues, and therefore the subsidisation possibilities. On the other, this also offered the facility of bringing rents for old buildings, which in some cases were very low, more into line with current prices (Kainrath, 1988, 164). The increase of interest rates for older subsidised flats were however viewed with criticism, particularly because of the associated rent increase and because only minor growth in revenues was expected (Czasny, 1987, 37).

The income limits were very broad (see Table Ö.2), so that 95 % of households had an access to social housing (Donner, 2000, 112-113).

Table Ö.2
Eligibility in subsidised residential construction in 1984

Single persons:	17,000 Euro
Two-person household:	25,500 Euro
Three-person household:	29,000 Euro
Four-person household:	32,500 Euro

Renovation subsidies were introduced by the 1969 Housing Improvement Act (Handler, Sommer, 2001, 14). With the 1984 Housing Renewal Act, this was extended to genuine subsidisation of rehabilitation (B. Gutknecht, 1994, 444), (see Section 3.3).

2.6 The provincialisation of house building subsidies

Under the Federal Constitution Act of 1.1.1988, legislative authority and administration of house building subsidies was transferred to the federal states. At the same time, the federal laws were enacted at province level. Amongst others, this applied to the 1984 House Building

Subsidy Act and the Housing Renewal Act, as well as the still valid regulations of the 1968 House Building Subsidy Act and the Housing Improvement Act. One year later, the Act for Earmarked Funds for House Building Subsidies (*Wohnbauförderungs-Zweckzuschussgesetz*) came into force, which specified that the purpose-oriented revenue from the house building contributions and income and corporation taxes would be made available to the federal states as federal grants for the subsidisation of house building (Verwaltung Steiermark, Geschichtlicher Überblick über die Wohnbauförderung, Internet). The process of “provincialisation” and the federal grants ensured a certain degree of continuity in subsidisation. Nevertheless, subsequent years have seen the development of a complex and hardly comprehensible range of subsidisation programmes and regulations.

2.7 The expansion of purposes of earmarked funds

Because the funding of house building subsidies was increasingly criticised, the federal grants dedicated to the house building subsidies were frozen in 1996 at 1.78 billion Euros. Although the excess revenue from the house building contributions and the 10 % income and corporation tax share still goes to the federal states, these funds are no longer earmarked for the previous purposes. The measures qualifying for subsidisation were also extended under the 2001 Earmarked Funds Act (*Zweckzuschussgesetz*). Since this time, and in addition to residential construction projects, these funds can now also be used for subsidising infrastructure maintenance or improvement measures and the reduction of greenhouse gas emissions. The earmarking of loan repayments was also lifted with regard to returns on subsidies granted prior to 2000. The intensively discussed cutback of federal grants was however not carried out (Verwaltung Steiermark, Geschichtlicher Überblick über die Wohnbauförderung, Internet). Following the abolition of the purpose orientation for the loan repayments, the federal states increasingly sell their claims arising from earlier loans to repay their own debts. This practise will reduce the future loan returns and will therefore have an adverse effect on the subsidisation of house building. Of the 2.42 billion Euro expended in 2001 for the house building subsidies, 1.78 billion Euro came from federal grants, while the rest was financed largely by the loan returns. Approx. 10 % of these funds went to the new subsidisation purposes (Internet-seite gbv, Wohnbauförderung und allgemeine Trends, 20.5.2004).

3. The private rental sector

In the Austrian statistics, a distinction is made between owner-occupied houses, owner-occupied flats, rented flats belonging to public, non-profit and private providers, and other flats¹⁴⁹ (see Table Ö.1).

Private rental flats are defined as dwellings owned by natural persons and commercial legal bodies. These also include dwellings which were subsidised, and are therefore subject to subsidy-related commitments. These can be rental flats which were subsidised as company flats, or which have been built since “provincialisation” with the aid of general house building subsidy funds. The company flats are only regarded as private rental flats if they are subject to general rent law. Normally however, the tenant protection of the Rent Act (*Mietrechtsgesetz – MRG*) does not apply to company flats. In Table Ö.1, the company flats that were not regis-

¹⁴⁹ “Other flats” are flats occupied without the payment of any rent. These will often be flats let to young people by family members or friends free of charge (E. Deutsch, 1999, 50).

tered as private rental flats are shown under “Other flats” for the years 1971, 1981 and 1991, and shown separately for 2001.¹⁵⁰

3.1 Development and structure of existing housing stocks

The proportion of private rental flats amongst main residences decreased sharply from 1971 to 1991 from 27.5 % to 17.6 %. Since then, it has since risen again, reaching a level of 19.8 % in the year 2001. There are two main reasons for the decline over the period 1971 to 1991. On the one hand, many old flats were torn down, combined or sold to owner-occupiers. On the other hand, private providers have built only few rental flats since the Second World War. The low number of private completions is essentially a consequence of the comprehensive house building subsidies and the fact that private investors received no general subsidy funds up to 1989. The increase in the proportion of private rental flats from 1991 to 2001 is due on the one hand to the extension of house building subsidies to private providers, and on the other to the rental of previously owner-occupied houses. Not subsidised new construction declined from 1991 to 2001 due to the increase in subsidised completions.

In case of private rental flats, a distinction can be made between old dwellings, subsidised and privately financed new dwellings. Old flats are defined as those built prior to 1953. The definition as old or new dwellings is relevant with regard to rent law regulations. While old flats are subject to certain rent-level regulations, this does not apply to privately financed new construction. Subsidised new dwellings of private providers are however subject to subsidy-related commitments.

The majority of private rental flats are old dwellings built before 1914. As a rule, these flats are in the ownership of natural persons.¹⁵¹ The number of privately financed new dwellings is very low (Förster, 1996, 114, 116; Donner, 2000, 122), since approx. 80 % of all rented, new dwellings has been subsidised (E. Deutsch, 1999, 100).¹⁵² Because commercial builders have only had access to the general house building subsidy funds since the “provincialisation” of house building subsidies, there are also only few subsidised rental flats from private providers.¹⁵³

The old dwellings were always regarded as the most important market segment for the accommodation of low-income households. For this reason, they were also the subject of a wide range of rent law regulations concerning both the establishment of the rent and renewal measures (Kainrath, 1988, 173). However, this old flats even today are still occupied by a disproportionately high number of households with a below-average income, foreigners, workers and students. The social rental dwellings on the other hand do not have an above-average level of occupancy by low-income households, due to the relatively high income limits. Private old flats were therefore also particularly important for foreigners, since they were only granted access to subsidised accommodation in the second half of the 1990's.

¹⁵⁰ “Private rental flats” also include formerly owner-occupied single-family houses and owner-occupied flats which have since been rented. According to estimates, approx. 120,000 of the 440,000 owner-occupied flats built since the war (subsidised and freely financed) are now rented or used as a second residence (Wurm, Österreicher, Bauer, 2001, 16, 20).

¹⁵¹ 50 % of private owners own only one building.

¹⁵² According to Table Ö.7, approx. 679,000 rental flats were subsidised from 1946 to 2000. If one assumes that 80 % of new rental flats were subsidised, this means that about 169,000 were built without subsidisation, of which 122,000 were built by municipalities and 47,000 by private providers. This was 1.4 % of the main residences existing in 2001.

¹⁵³ According to Table Ö.6 approx. 40,000 rental flats of private providers were subsidised from 1991 to 2000.

3.2 Rent law

We will first give an overview of the relevant rent law regulations. This will be followed by a description of the developments in rent law and the current regulations on rents, protection against cancellation, maintenance and improvement of property.

Overview

Rent law is extremely complex. A rough outline of the applicable regulations is given in Figure 1, which differentiates between four types of dwelling (see also Bundesministerium für Justiz, 2003, 6-13).

1. The first group comprises flats to which the Rent Act (*Mietrechtsgesetz, MRG*) does not apply. In addition to works and company flats, these also include, since the 2001 Rent Act amendment, flats in single- and two-family houses. Rent levels are governed by the Civil Code (ABGB), which allows the free agreement of rents, provided that the borderline with profiteering is not exceeded. Rent increases are only allowed to the extent agreed in the contract, which frequently takes the form of a so-called stable value clause under which the rent linked to an index. There are special regulations on cancellation protection for the different types of dwelling.
2. For the second group, the regulations of the Rent Act (MRG) apply only with regard to cancellation protection, while rents can be freely agreed according to the ABGB (see Type 1). This group includes the privately financed rental flats which were approved after 1953, and rented, non-subsidised condominiums for which building permit was granted after 1945. Privately financed flats also include municipal dwellings which were constructed without the use of house building subsidies.
3. In the third group, the regulations of the Rent Act (MRG) apply both with regard to cancellation protection and rent levels. The old dwellings and the subsidised flats of the municipalities and private investors belong to this type of dwelling. For the latter, and in addition to the Rent Act, the stipulations of the subsidy-related regulations also apply until the subsidy loans have been repaid. The rent level regulations of the Rent Act also apply to flats built without subsidies after 1945 when it comes to rent increases.
4. Most subsidised flats are under ownership of non-profit providers, who are subject to the regulations of the Non-profit Housing Act (*Wohnungsgemeinnützigkeitgesetz – WGG*). This Act makes frequent reference to the Rent Act. Rents are restricted to non-profit cost-rent regulations.

Developments in rent law

The developments in rent law will be sketched out briefly here principally because new regulations always apply only to rental contracts concluded after changes and amendments to the law. This has given rise to very complex rent law due to the many changes in legislation that have been made over the course of time. Dwellings of the same type may therefore be subject to very different rent level regulations, depending on when the contract was first concluded. The advantage of the particular feature is seen in the fact that the transition to new rent regulations takes place gradually and in a socially acceptable way.

Figure Ö.1
Rent law regulations by dwelling type

<ul style="list-style-type: none"> - Company flats - Flats in 1-2 family houses - Flats in hotel trade - Flats in residential homes¹⁵⁴ - Second homes - Flats rented out for ½ the year for professional reasons 	<ul style="list-style-type: none"> - privately financed new construction (post-1953) - Rented condominiums from 1945 (unsubsidised) 	<ul style="list-style-type: none"> - privately financed old flats prior to 1953 - Subsidised flats of private and municipal providers - For rent increases 	all flats of non-profit providers
Rent Act (MRG) not applicable	Rent Act (MRG) partially applicable	Rent Act (MRG) fully applicable	Non-profit Housing Act, reference to Rent Act (MRG)
<p>Rent levels ABGB</p> <p>Contractual agreement excluding usury no regulations</p>	<p>Rent levels ABGB</p> <p>Contractual agreement Excluding usury no regulations</p>	<p>Rent levels Rent Act (MRG)</p> <p>Flats (after 1945) Appropriate rent Additional subsidy regulations if subsidised</p> <p>Flats (before 1945) Contract conclusion -1.1.1982 – 1.3.1994 Category rent or appropriate rent - After 1.3.94 Guideline rent or appropriate rent</p>	<p>Rent levels Cost-rent according to Non-profit Housing Act</p>
Cancellation protection Special regulations	Cancellation protection Rent Act		Cancellation protection Rent Act and Non-profit Housing Act

The Rent Law dates back to an imperial decree issued in the year 1917, whose regulations were carried over into the 1922 Rent Act. This included

- the fixing of rents for existing dwellings,
- comprehensive cancellation protection, which could be bequeathed to relatives
- the earmarking of part of the rent for maintenance purposes.

Rental contracts could only be cancelled in the event of rent arrears, objectionable conduct or the landlord's own requirements. The rent reserve "earmarked" for maintenance and upkeep came to 50 % of the rental income over the last 7 years (Kainrath, 1988, 172).

In order to preserve old buildings as an important reservoir of cheap rental flats, the 1917 rents were converted under the 1951 Rent Act amendment from "Friedenskrone" to Schillings at the exchange rate of 1:1 (Donner, 2000, 114). This led to a pronounced distortion of rents between old and new buildings, which was associated with substantial negative effects. On

¹⁵⁴ Pupils, trainees, students or senior citizens homes.

the one hand, lo rents were circumvented by illegal key charges when renting out flats, while on the other, housing space was hoarded for many different purposes. In some cases, flats were used as second dwellings, offices or storage areas, in others they were sub-let at higher rates or simply left empty as reserve accommodation for the children of the family. The main sufferers were young families and mobile households (Kainrath, 1988, 173).

The Rent Act Amendment Law passed by the first conservative government in the year 1968 attempted to solve the problems by de-restricting rents and changing the regulations on cancellation protection. Protection against cancellation was restricted to rental contracts worthy of protection, which were then not deemed to exist if the tenant sub-let the flat or left it vacant. Flats built from 1968 with private funds were not subject to any cancellation protection at all. The de-restricting of rents lead to heavy rent level increases for new rental contracts. Since old contracts were exempt from the new regulations, extreme differences developed between rental levels of existing and new contracts. Mobile households were once again the ones mainly affected by this development (Czasny, 1987, 43).

In order to put an end to the worst rent level excesses, the Social Democrat government in power from 1970 again introduced an upper rent limit for sub-standard flats (without WC or running water) with the Rent Act amendment of 1974 (Czasny, 1987, 43). For all other non-subsidised flats of private providers, there were between 1968 and 1982 no rent level restrictions (Wiktorin, 1993, 80).

Rent law underwent comprehensive reform under the Rent Act of 1982. Cancellation protection for flats with freely agreed rents was re-introduced, and the permitted grounds for cancellation were restricted (Wiktorin, 1993, 81-82). The period for which the "earmarked" rent reserve had to be formed was also increased from 7 to 10 years (Kainrath, 1988, 174). Upper rent limits were re-introduced for old dwellings, the so-called category rents (*Kategorienmieten*), which were fixed significantly below market rents, and linked to the change in the price index. Large flats and flats that had been modernised with the substantial use of equity capital were exempt from these limits (Kainrath, 1988, 174). In order to reduce the market divergence between old and new contracts, the increasing of the old rents was allowed. By means of maintenance contributions, rents could be raised to a level corresponding to 66 % of the category rent (value-maintenance rent). However, 80 % of the additional income had to be invested within 5 years (Czasny, 1987, 43; Kainrath, 1988, 174). Tenants with contracts dating from the time after de-restriction were allowed to reduce the rent to the level of 150 % of the upper rent limit (Czasny, 1987, 43; Kainrath, 1988, 174).

Table Ö.3
Category rents in Vienna over the course of time (in Euro per m²)

Category	Category rent			Value-maintenance rent		
	1.1.1982 to 31.5.1984	1.12.1988 to 31.1.1992	from 1.7.2001	1.1.1982 to 31.5.1984	1.12.1988 to 31.1.1992	from 1.7.2001
A	1.60	1.95	2.64	1.07	1.30	1.75
B	1.20	1.61	1.98	0.80	0.98	1.32
C	0.80	1.08	1.32	0.53	0.65	0.88
D	0.40	0.54	0.66	0.27	0.32	0.66

Source: Wiener Wohnen, Internet site, 24.5.04

In 1986, flats in Category A were removed from the rent level restrictions of the category system. For these flats, the appropriate rent could be required, which in 1992 was significantly

higher than the category rents for flats in Category A (Wiktorin, 1993, 80-81). The maintenance contribution was also converted into a maintenance and improvement contribution.

Because the category rents lay below market rent levels, they were once again associated with the well-known phenomena of housing space hoarding, restricted mobility and illegal hand-over payments. Rent law was therefore fundamentally liberalised under the Housing Law Amendment Act (*Wohnrechtsänderungsgesetz*) of 1994. The category rents were replaced by guideline rents, which are much more in line with normal market levels. The reimbursement obligation of the landlord in the event of improper use of maintenance and improvement contributions was also lifted, so that the surcharge could now be applied without any proof of how the funds were used. Short-term rental contracts were also permitted.

Under the 2001 Rent Act amendment, the maintenance and improvement contribution was replaced by the right of the landlord to increase the rent of all old contracts to the co-called value-maintenance rent (Bundesministerium für Justiz, 2003, 29).

Rent regulations under the Rent Act (MRG)

For flats which are subject to the rent level regulations of the Rent Act, and have been rented since 1.1.1994, the guideline rent or the ‘appropriate’ rent applies. The ‘appropriate’ rent applies for the following types of dwelling:

- Flats whose building permit was issued after 8th May 1945,
- Flats which are protected as listed buildings, and were renovated subsequent to 1945 with the substantial use of equity capital,
- Flats of categories A and B (see below) with an area of over 130 m².

For flats let prior to 1.3.1994, the value-maintenance rent may be charged. The actual values of the different upper rent limits are shown in Table Ö.4.

The category rents generally apply in the case of rental contracts concluded between 1982 and 1994. The ‘appropriate’ rent applies however for Category A flats let between 1.1.1986 and 28.2.1994. yet other regulations apply to flats let prior to 1982. An overview is provided by the preceding historical outline.

Table Ö.4
Equipment/facilities categories and rents per m² in Vienna (in Euro)

Cat.	Equipment/facilities	Category rent from 1.7.2004	Value-maintenance rent	Guideline rent (2004)
A	At least 30 m ² , kitchen, central heating, bath, WC	2.77	1.89	4.37 ¹⁵⁵
B	Kitchen, bath, WC	2.08	1.39	Reductions
C	WC and running water	1.39	0.92	Reductions
D	WC or running water	0.69	0.69	Reductions

The guideline rent is set by the Federal Ministry of Justice (*Bundesjustizministerium*). This is done on the basis of a standard dwelling, and varies between federal provinces. For a concrete assessment, surcharges and reductions are applied, depending on the standard of facilities and equipment. The guideline figures are updated annually on the basis of the consumer price in-

¹⁵⁵ This value refers to an average location with a land cost share of 226 Euro. Surcharges are provided for in the case of better locations and certain higher levels of equipment. For example, with a land cost share of 653 Euro, a location surcharge of 1.41 Euro is allowed. A lift also enables the landlord to apply a surcharge of 0.40 Euro.

dex. The category rents are also adjusted to changes in the consumer price index by the Federal Ministry of Justice if certain threshold levels are exceeded (see Bundesministerium für Justiz, 2003, 14-21). The level of the appropriate rent is not defined by law, but the general rental levels published annually by the Federal Association of Property and Asset Trustees (*Bundesinnung der Immobilien- und Vermögenstreuhänder*) can serve as rough indicators.

In Vienna in 2004, and depending on the residential district, these freely agreed rents were between 5 Euro and 8.40 for an average residential value and between 5.40 Euro and 10.10 Euro for a good residential value. Like the guideline rent, these figures refer to the basic rent, to which must be added the running costs and sales tax. Apart from localised variations, the guideline rents correspond largely to market rents. To this extent the system now serves only as a protection against excessive rent increases that might otherwise occur due to major market imbalances. The number of flats subject to these guideline rates is decreasing steadily. In the year 2000 there were still approx. 300,000 such flats, $\frac{2}{3}$ of which were to be found in Vienna (Donner, 2000, 122, 134). Although the rents for old building stocks have now come largely into line with market rents, they are still comparatively low due to their accommodation features, so that such buildings are still occupied by a disproportionately high number of foreigners, workers and students.

Cancellation protection

With the Rent Act of 1982, the cancellation protection relaxed in 1968 and 1974 was once again tightened up. The only dwellings exempted from cancellation protection were company flats, half-year contracts and second residences (Donner, 2000, 114). The major grounds for cancellation under the current Rent Act are rent arrears, objectionable conduct, complete subletting or non-use of the flat, landlord's own requirements or when the building is ultimately due for demolition for economic or technical reasons.

With the liberalisation of rent law in the year 1994, short-term rental contracts became generally permissible. The 2001 Rent Act amendment fixed the minimum contract term at three years, and there is now no upper time limit. The term of a short-term contract can be extended as many times as required. After a period of one year, the tenant has the right of premature cancellation. The rents of flats let on a short-term basis, which are subject to the rent level regulations of the Rent Act, must be reduced by 25 % (Bundesministerium für Justiz, 2003, 1-2).

If the principal tenant dies, the rental contract can be taken up by close relatives who lived in the same household as the deceased. This applies to spouses, partners, children, grandchildren, parents and siblings. The rent remains the same for spouses and partners, as well as for children and grandchildren until reaching majority: all others have to pay the guideline rent. If the principal tenant vacates his flat, he can transfer the flat to his close relatives, provided that they have lived in a joint household in the last two years (or five in the case of siblings). The rent level regulations are in this case the same as in the event of death (Bundesministerium für Justiz, 2003, 16, 50-51, 53-61).

Maintenance and improvement

The regulations on maintenance and improvement of flats were very important for the function of old building stocks as a source of housing supply for low-income households. The landlord is obliged to maintain and improve the property. Repairs must be carried out in all cases, provided that the rent reserve of the last 10 years is sufficient to cover the costs. The

rent reserve is derived from the difference between the income and certain expenses. The expenses that can be offset include: 120 % of the costs of maintenance and improvement measures carried out, interest and capital repayment on public loans and 40 % of the difference between the income and the expenses offset so far.¹⁵⁶ If the costs of major repairs cannot be covered by the rent reserve, and if they exceed the main rental income to be expected over the following 10 years (distribution period), then the possibility of increasing the basic rent can be considered, in accordance with §§ 18 and 19 of the Rent Act, although this can only be applied through legal proceedings (Bundesministerium für Justiz, 2003, 34-36).

Every principal tenant can require the landlord to carry out any maintenance work that has been omitted by the landlord. The performance of any maintenance work requested by a tenant can however be refused by a majority of the principal tenants, if the repair would lead to rent increases because the costs are not covered by the qualifying rent reserves plus the main rental income over the next 10 years (Bundesministerium für Justiz, 2003, 39). Useful improvements must also be carried out by the landlord, if the costs can be covered from the rent reserve and any subsidies, or if the landlord and the majority of tenants can come to a written agreement on the performance and financing of the measures not covered in this way. Improvements to his own flat can however be refused by the tenant.

Major modifications that the tenant wants to undertake at his own cost must be notified to the landlord, who may not refuse his consent if the modifications or changes are in line with common practices and are carried out properly. Instead of withholding his consent, he can however require that the dwelling is restored to the original condition when the tenant moves out. This is not allowed however in the case of installation or modification of water or gas pipes, electrical wiring, heating or sanitation systems. On moving out, the tenant has a claim against the landlord for reimbursement of his costs, provided that the benefits extend beyond the term of the rental contract. Annual depreciation may be deducted (Bundesministerium für Justiz, 2003, 41-49).

Concluding assessment

Despite the negative effects described, many positive effects are also ascribed to the Rent Act. Rent level regulation and the good cancellation protection have led to the availability of a relatively large stock of affordable, simple flats for low-income tenants. The relatively low rental returns occasioned by the Rent Act have also stabilised the very piecemeal individual ownership with its utility-value-orientated investment behaviour. At the same time, the close bond between tenants and their dwelling, the right to require maintenance and the partial earmarking of rental income have largely prevented neglect and dilapidation of building stocks (Czasny, 1987, 45-46). In this respect, the Rent Act also had a positive effect on city renewal processes. The need for demolition has been lower than on other European states, extensive redevelopment schemes remained undone and city renewal has been carried out to the benefit of both residents and building stocks (Kainrath, 1988, 172).

3.3 Modernisation subsidies

Great importance was attached to modernisation subsidies in view of rent regulation. Subsidisation of housing improvements became possible for the first time with the 1968 House Building Subsidy Act, although this was not well accepted by owners, in the same way as

¹⁵⁶ This last item no longer applies from 1.1.2005.

subsidisation of so-called small housing improvements introduced by the 1969 Housing Improvement Act. These subsidies did however become much more popular after they were also made available to tenants in 1971. By 1984, 150,000 flats had been subsidised in this way, with 95 % of all such measures being applied for by tenants. This form of modernisation was so successful because it was tailored to the needs of the tenants, and did not overtax their ability to pay. Landlords could if necessary be compelled to give their consent. In case of a change of tenant, the credits had to be passed on to the successor. However, these subsidies failed to percolate down to the poorest residents and worst buildings. Only in 7 % of cases did sub-standard dwellings undergo any modernisation (Czasny, 1987, 46-47; Kainrath, 1988, 174-175, Donner, 2000, 114).

Under the 1984 Housing Renewal Act, not only the improvement measures, but also the necessary maintenance measures and implementation costs could be subsidised. The rents of the subsidised flats were only restricted for 10 years under the cost-rent regulations. The subsidies were very attractive. They consisted of grants to capital market funds with a term of 10 years. The subsidisation levels depended on the category of dwelling: 80 % of flats of Category D, 53 % for Category C, and 40 % for Categories B and A. Subsidisation of property was augmented by further support according to the regulations of new construction subsidisation. This support was taken up to a large extent by Vienna landlords in particular (Czasny, 1987, 47, Kainrath, 1988, 175-176, Donner, 2000, 114).

3.4 Taxation

3.4.1 Taxes on purchase

The 1955 Land Purchase Tax provided for a very high tax rate of 7.0 % to 8.0 %. However, not all transactions were subject to tax. The tax was not applied to the sale of owner-occupied flats built by non-profit housing associations, or the sale of newly built owner-occupied houses, provided that they had the character of workers' housing. Under the 1987 Land Purchase Act, the rate was reduced to 3.5 % and most exemptions withdrawn, so that the owner-occupied houses, terraced houses and owner-occupied flats built by the non-profit housing associations now also qualified for the tax (Donner, 2000, 115-116).

3.4.2 Taxes during the letting period

The rental income of natural persons was taxed in the form of progressive income tax, as a rule as income from rental and leasing. Losses from rental and leasing can be fully offset against other types of income. Legal entities, for whom rental income always constitutes commercial income, are subject to corporation tax at a normal rate of 34 % of company profit.

When calculating the surplus or profit, depreciation, maintenance and improvement costs can be offset against the income. From 1972 to 1988, either linear or degressive depreciation could be chosen, with the linear depreciation rate being 3 %. Since 1988, only linear depreciation of 1.5 % p.a. has been allowed (Donner, 2000, 115). Maintenance costs, i.e. expenditure on measures without improvement of the residential value, can be deducted immediately. In case of irregular work not carried out every year, the costs can optionally be distributed over 10 years. Improvement costs, i.e. expenditure on measures leading to increased residential value or longer possible usage, must be spread over 10 years. If only single flats are renovated (less than 25 % of the building), these are always considered as maintenance costs. Mainte-

nance and improvement costs directly following acquisition can be offset over 10 years. In case of houses covered by the Rent Act, immediate, full depreciation is possible. Subsequent production costs must be depreciated over the remaining usage life of the property. Subsequent production costs for listed buildings or buildings subject to the provisions of the Rent Act on the use of main rental income can be offset over a period of 15 years (Amann, 2002, 6-7).

In contrast to Germany, rental income is subject to value-added tax, coupled with reimbursement of tax paid in advance on building services. Since the rents are only taxed at a reduced rate of 10 %, irrespective of the legal form of the landlord, but the advance tax is reimbursed in full (20 %), this regulation constitutes significant subsidisation of building work on new construction and existing stocks (Donner, 2000, 123).

The land tax, which goes to the municipalities, leads to a permanent, if only minor tax burden. The tax is calculated on the basis of the tax assessment amount and the municipal multiplier. The tax assessment amount is the product of the taxable value and the general tax rate. The applicable taxable values are only 10 % to 20 % of the market value. The general tax rate is 0.2 % (Donner, 2000, 123). For single-family houses, the rate is reduced to 0.05 % to 0.1 %, and for rental property sites to 0.1 % to 0.15 % (Amann, 2002, 5). The multiplier of the municipalities can be as high as 500 %. The actual tax liability falls somewhere between 0.1 % and 0.2 % of the market value (Donner, 2000, 123). For subsidised flats, provincial laws confer land tax exemptions, which are also received by private investors (Amann, 2002, 9).

For undeveloped property, a land value charge (*Bodenwertabgabe*) of 2 % of the taxable value must be paid, in addition to the land tax (Amann, 2002, 5).

The property assets, after deduction of certain tax-free allowances for natural persons, were subject to a wealth tax of 1 %. Since properties were only assessed at the lower taxable values, from which the outstanding liabilities could be deducted, this often produced negative values for properties, which could be offset against other assets. The wealth tax was abolished in 1994 (Donner, 2000, 116, 123).

3.4.3 Sales taxes

Since 1988, profits from sales by natural persons are subject to tax as speculation profits if the property is sold again less than 10 years after purchase. This does not apply to one-family houses and condominiums which have been used as the main residence for at least two years (Donner, 2000, 123). Profits from sales are liable for tax as commercial income (Amann, 2002, 3).

4. The social rental sector

Social rental dwellings are defined as the flats of public and non-profit providers. Not all dwellings built by these providers were subsidised. The subsidised flats of private providers do not on the other hand qualify as social rental flats, although these are also subject to rent regulation and access restrictions. The subsidised rental dwellings of private providers are divided into two categories: company flats and generally subsidised flats, the latter only having existed since the “provincialisation” of house building subsidies. The restrictions of the

two subsidy types are almost identical. In this section, we will also describe subsidisation of private providers. As shown in Table Ö.6, of the approx. 724,000 flats subsidised between 1946 and 2000, about 135,000 (19 %) were constructed by private investors.

4.1 Development and structure of existing housing stocks

As described in Table Ö.1, the proportion of public and non-profit rental flats to main residences increased from 18.9 % in the year 1971 to 21.1 % in 1991, subsequently falling again to 20.6 % by the year 2001. The total number of social dwellings has however also increased over the last decade. If one makes the differentiation between public and non-profit providers, it can then be seen that the proportion amongst public providers declined from 10.3 % to 9.3 % from 1991 to 2001, while that for the non-profit housing associations shows an increase from 10.8 % to 11.3 %.

Table Ö.5 shows how the proportion of subsidised flats has changed over the course of time. No classification by owner-occupied, social and privately-rented flats could be made in this case, and the figures are categorised only by building type. Overall, the proportion of subsidised new construction has not declined over time, but has risen continuously, from 52 % over the period from 1945 to 1960 to 78 % in the 1990's. While the proportion of subsidised multi-storey dwellings remained relatively constant over time at 73 % to 79 %, this has increased sharply in the case of owner-occupied houses, from 24 % in the immediate post-war period to 78 % in the 1990's. It has to be taken into account that the multi-storey dwellings also include owner-occupied flats.

Table Ö.5
Proportion of subsidised flats by types and construction periods in %

	1945 - 1960	1961 - 1970	1971 - 1980	1981 - 1990	1991 - 2000
Multi-storey dwellings	75	78	73	78	79
One-family houses	24	34	49	63	77
dwellings, total	52	59	61	70	78

Source: Wurm, Österreicher, Bauer, 2001, 2001, 16

Table Ö.6 shows how subsidised flats are distributed over the rental and ownership sector, and what proportion of rental flats were completed by the different types of investor. Also shown as subsidised flats are those municipal flats which were constructed without state subsidisation. As well included are the company flats completed by private providers. The 2 million or so subsidised flats existing in 2000 corresponds to about half of the total housing stock. 50 % of subsidised flats can be allocated to the owner-occupied sector. No ownership measures were subsidised in the period leading up to the Second World War. Rental construction was dominated by municipal flats in these years. Following the war too and up to the end of the 1960's, the main dwellings subsidised were rental flats, while since the 1970's, the proportion of subsidised ownership measures has exceeded that of subsidised rental flats. Up to the end of the 1950's, the majority of subsidised rental flats were constructed by the municipalities, and were financed largely without state subsidies. Since the 1960's, the proportion of the municipalities in subsidised rental construction has however declined steadily.

Table Ö.6¹⁵⁷

Distribution of subsidised flats by types and construction periods (estimate)

	rental flats owned by								Owner-occupied condominium	
	Municipalities				GBV		priv./legal persons		Owner-occupied houses	Total
	unsubsidised		subsidised							
	Number	%	Number	%	Number	%	Number	%	Number	%
pre-1919	38,000	100	0	0	0	0	0	0	0	0
19 - 45	90,000	67	0	0	45,000	33	0	0	0	0
46 - 60	74,000	29	18,000	7	55,000	22	19,000	8	85,000	34
61 - 70	40,000	11	33,000	9	92,000	26	28,000	8	165,000	46
71 – 80	4,000	1	37,000	9	76,000	20	31,000	8	244,000	62
81 – 90	4,000	1	21,000	6	84,000	23	17,000	4	245,000	66
91 - 00	0	0	11,000	3	117,000	29	40,000	10	237,000	58
Total	250,000	13	120,000	6	469,000	24	135,000	7	976,000	50

Source: Wurm, Österreicher, Bauer, 2001, 13-14, own calculations

4.2 Providers of social rental housing

The most important developers of social rental housing are the non-profit housing associations and public builders. The smallest segment is held by private providers, who include private and legal persons.

Private providers

Until the “provincialisation” of house building subsidies, general subsidisation of rental house building was provided only to the non-profit and public providers. Since then, some provinces have also opened up their general subsidisation programmes to private providers. Prior to “provincialisation”, private construction was only subsidised in the form of company flats. Although the reconstruction subsidies given immediately after the war was also available to private owners, the subsidised dwellings cannot be regarded as social housing because the assistance was not directed at any social objectives. The opening up of subsidisation to private investors was justified by several arguments. On the one hand, attention was drawn to the capacity of the private sector, which it was hoped to mobilise in order to satisfy the construction boom. On the other, the monopoly of the non-profit housing associations over subsidised rental house building was to be broken in order to stimulate competition in this sector. In light of this wider access, there is now much discussion as to how far the non-profit restrictions on the housing associations are still justified, since these forbid the unrestricted availability of the housing following the end of subsidisation (Wurm, Österreicher, Bauer, 2001, 20-21). What the percentage of generally subsidised rental flats of private providers might be, cannot be established accurately (see also Section 3.1).

Non-profit providers

Although the origins of the non-profit providers go back to the workers’ housing associations, many housing associations today have adopted the legal form of capital companies. At the end of 2001 there were 105 cooperatives, 83 limited liability companies and 10 joint-stock com-

¹⁵⁷ The figures shown in Table 7 were calculated by means of a peripheral total process on the basis of the information in Wurm, Österreicher, Bauer (2001, 12-14). For this reason, they can only be regarded as rough estimates.

panies. 12 companies were owned by regional corporations, while substantial shareholding in a further 10 were held by churches, trade unions or chambers (Internet page GBV (*Austrian Federation of non-profit Housing Associations*), 19.5.2004).

The purpose of non-profit activity consists in providing residential accommodation for broad sectors of the population at prices below the prevailing market levels. In order to ensure this objective, the non-profit housing companies have to comply with certain rules and regulations, which restrict their commercial freedom in comparison to other builders. In compensation, the state grants them financial benefits in the form of tax concessions and preferential subsidisation (B. C. Funk, 1994, 329-330).

Non-profit housing associations must be approved and licensed by the provincial governments, and must devote all their assets to social housing needs. They may only engage in such activities as those covered by the Non-profit Housing Act. Their main area of business activity is the construction and management of flats, which in turn is restricted to properties for social housing, i.e. small flats. Since they have an obligation to build, which can only be suspended on compelling grounds for a maximum of 5 years, they are not allowed to restrict their activity solely to property management. In addition to this main area of business, they are also allowed to conduct the subsidiary and additional business specified by law, although these may not become the main fields of business. These include the construction of social dwellings on behalf of other bodies, the management of other flats, the construction and operation of public facilities and the implementation of publicly subsidised renovation work. These activities must be provided at prices appropriate to the costs involved. Purchase prices and rents must however also not be below cost prices. Interest on the company capital is allowed, although this is restricted to a maximum of one percent above the base interest rate (B. C. Funk, 1994, 334-340).

On expiration of the subsidy-related commitments, non-profit providers become subject to the regulations of the Non-profit Housing Act (*Wohnungsgemeinnützigkeitgesetz/WGG*), while private providers can rent out their dwellings without special regulations (Wurm, Österreich, Bauer, 2001, 21). Due to the generous income limits, there is no major difference between the subsidy-related and the non-profit occupancy regulations, which do not contain any income-related access restrictions. It has been suggested from many sides that the accommodation of non-profit housing associations should be allocated much more clearly according to social criteria than has so far been the case (W. Blaas, B. Brezina, 1994, 165). Until a few years ago, the rents charged by non-profit providers remained unchanged following the end of subsidisation. The last annuity (expiry annuity) was set as the cost rent. In order to reduce the repayment profits thereby earned (the loans being repaid), upper limits were introduced in 1999, which are set at 70 % of the guideline rent for the 'Burgenland' (3.20 Euro). However, this upper limit has so far lead to rent restriction in only a few cases, although more cases are anticipated in the future.

In return for this social responsibility of their building stocks, the non-profit housing associations are granted certain tax concessions. They are thus exempt from corporation tax, provided that their activity is restricted to certain areas of business. They are also exempt from the land value charge for undeveloped properties and from the speculation tax applicable to profits from property sales, if deliberate speculation can be excluded, which is clearly the case with pricing under the Non-profit Housing Act. There are also provincial tax concessions for subsidised properties, which are also available to other investors. Until a few years ago, the non-profit providers also enjoyed exemptions from various charges (entry charge in the land

registry, credit charges, court charges etc.), although these exemptions have since been abolished (Amann, 2002, 8-10).

At an early date, a close connection developed between the non-profit housing associations and the house building subsidies. In this way, the funds of the National Housing Welfare Fund, founded in 1910, were allocated only to public corporations or non-profit housing associations (Eigner, Matis, Resch, n. d., 11, 13). The non-profit providers retained this special position for many years during the post-war period. Commercial builders could only be considered as applicants for subsidies for the construction of owner-occupied and company flats. With the deferment of the house building subsidies to the federal states and the creation of other forms of subsidisation, such as renovation subsidies, the close relationship between house building subsidies and non-profit housing associations has however been relaxed. Since this time, and depending on the federal state, subsidies are now also available to commercial builders. Almost all flats built by non-profit housing associations were subsidised. Their privately financed building activities did however increase in the 1990's (B. Gutknecht, 1994, 439-454).

The non-profit housing associations, which were owned exclusively by the regional corporations, were taken out of the non-profit sector with effect from 1.4.2001. The individual associations were nevertheless offered the opportunity of opting to remain in the non-profit sector. This affected 61,000 flats of federally-owned housing associations and 46,000 flats of housing associations owned by the federal states and municipalities. The aim of this legislation was to privatise existing stocks, and use the proceeds to reduce the level of public debt (Holoubek, 2001, 51, 55). The divestment of the federally-owned housing associations was anticipated to bring in revenue of approx. 2.18 billion Euros (G. Schuster, 2001, 30). With the exception of the federal companies however, the associations opted to remain as non-profit organisations. The federal companies were sold to a banking and insurance consortium. Although the companies themselves have therefore been taken out of the non-profit sector, the non-profit commitments continue to remain in place under current legislation.

In the year 2002, the non-profit housing associations had 453,700 of their own rental and co-operative flats under management.¹⁵⁸ Added to this figure were 34,600 council flats and 239,100 flats occupied by the owners themselves. The total stock in hand therefore came to 727,400 flats (GBV(*Austrian Federation of non-profit Housing Associations*), 2004, 5-7). However, due to the large number of owner-occupied flats and owner-occupied one-family houses completed, the building activity of the non-profit housing associations extended well beyond their own flats. Up to the end of 1991, they had completed about 650,000 dwellings, of which approx. 266,000 (40 %) were sold to owner-occupiers.

The municipalities

As clearly shown in Table Ö.1, the proportion of public rental flats to the total stock of main residences fell from 10.6 % in the year 1971 to only 9.3 % in 2001, most of which are located in Vienna. In the year 2001, approx. 214,000 of the 308,000 public rental flats were located in Vienna, and only 94,000 in the other federal states. The two other large cities of Graz and Linz have sold their flats to non-profit housing associations, although the allocation of housing can still be influenced by the municipality. Table Ö.6 shows that municipal house building

¹⁵⁸ According to the 2001 building and housing census, only approx. 375,000 main residences were owned by the non-profit housing associations. The 69,100 flats of the former federally-owned housing associations are also included in the higher figures of the GBV. Flats not used as main residences were also included.

has declined sharply since the 1970's – while the municipalities still completed approx. 73,000 flats in the 1960's, the figure for the 1990's was only 11,000.

4.3 House building subsidies

The federal subsidisation law prevailing at the time of “provincialisation” under the terms of the 1984 House Building Subsidy Act and in the Housing Renewal Act, was largely enacted as provincial law. The further development of provincial law has in the intervening period grown into an extremely complex range of subsidisation programmes and regulations. The funds however continue to be provided largely by the federation (see Section 2.7).

New construction subsidies, renovation subsidies and the housing allowance are all financed from the house building subsidy funds. At the beginning of the 1990's, 76 % of such funds went to new construction (rental and ownership), 18 % to renovation and only 6 % to the housing allowance. In the year 2001, 69 % was devoted to new construction, 25 % to renovation and 6 % to the housing allowance (gbv, 2004, 9). We will now look first at the subsidisation of rental house building, and then go on to describe renovation subsidisation. The housing allowance will be reviewed in a separate chapter.

New construction subsidies

Rental flats, owner-occupied houses and owner-occupied flats and residential homes are subsidised under new construction subsidisation. In multi-storey house building, the property subsidisation must be applied for by a so-called subsidy applicant. These consist fundamentally of the municipalities and the non-profit housing associations. Until “provincialisation”, natural persons and commercial builders could only act as subsidy applicants for owner-occupied flats, owner-occupied houses and company flats. Since then, they have also been allowed to perform this function for rental flats too in some provinces (B. Gutknecht, 1994, 444-450). Only the building costs are liable for subsidisation, and not the land costs. Building projects are only approved if the building costs are appropriate or do not exceed certain upper limits. Subsidisation takes the form of low-interest subsidy loans or one-off or ongoing grants. There are also income-related subsidies available. In Salzburg, income-related annuity grants are offered, in Lower and Upper Austria, the level of loan repayments is dependent on income, and in Vienna, income-related ‘equity capital’ replacement loans are available (Donner, 2000, 119). In some provinces, special programmes are also offered in cases of particular social need, in addition to the general house building subsidies (B. Gutknecht, 1994, 444-450). With the repayment of the public loans, the subsidy-related commitments also expire. The terms of the loans vary, depending on the individual province, between 23 and 44 years (Amann, 2001, 62). In the case of non-profit providers, the subsidy-related regulations are then replaced by the non-profit restrictions, while in the case of private providers and the municipalities, the commitments come to an end entirely (Wurm, Österreicher, Bauer, 2001, 21). Since private providers have only been subsidised since the beginning of the 1990's, they have as yet no flats where these commitments have expired.

The new construction subsidisation of the federal state of Vienna is described below. Prior to 1989, subsidies took the form of annuity subsidies and loans, the loans having a term ranging from 30 to 90 years. From 1989 to 2000 the subsidisation was changed to non-repayable building costs grants. This subsidisation was accompanied by an extended eligibility and a

commitment period of initially 20, and then 40 years. Under the new construction regulations of 2001, subsidisation reassumed the form of preferential loans with a term of 35 years.

Besides municipalities and the non-profit housing associations, natural and legal persons may now apply for subsidisation for rental flats. Hardly any flats are built at the moment by the municipality. Private providers also rarely make use of the subsidisation. The subsidies take the form of a federal loan in the amount of 510 Euro per m² of living area (585 Euro for small projects with less than 4,500 m² living area). The federal loan is subject to interest at the rate of 1 %. Repayment of the principal only starts after repayment of the capital market loan, although at the latest from the 28th year. Repayment of the principal must be completed after 35 years. The total building costs may not exceed 1,120 Euro per m² of usable area. For small projects, amounts up to 235 Euro higher are allowed, depending on the size.

The financing is made up from three sources: house building subsidies, the capital market loans and the financial contribution of the tenant. The latter comes from the tenant's own funds contributed to the overall building costs and the land cost contribution. The land costs can also be charged via the ongoing rental charge. In the case of municipal building projects, the land cost contribution is waived. The own funds contributed to the overall building costs may not exceed 12.5 % of the total building costs. On moving out, the tenant is reimbursed for the financial contributions paid, after deducting annual depreciation of 1 %. The financial contributions of the tenant make the financing easier for the builder, and reduce the tenant's ongoing rental payments. However, these can also act as an access barrier to low-income households.

If financial contributions of more than 50 Euro are required from tenants, then they have the right, under a recently added stipulation of the Non-profit Housing Act, to purchase the flat in question after 10 years. If a housing association wants to prevent this eventuality, it is therefore forced to keep the financial contributions of the tenant below the 50 Euro level. If the tenant's financial contributions are restricted to 50 Euro per m² of living area, an additional loan of 150 Euro per m² of living area is granted as "super-subsidisation". The supplementary loan is subject to interest from the tenant at 1 %, and is repaid at the rate of 0.70 Euro per m² of living area.

4.5 Rent restriction

As long as the subsidy loans have not yet been repaid or ongoing grants are being received, rents remain indexed to costs, an upper limit for the cost rent being set in all provinces. Once the commitment has expired, the flats of private and municipal providers are subject to the regulations of the Rent Act. For the flats of non-profit housing associations, the non-profit cost rent regulations come into effect when the commitment expires (see above). Since the rent level is determined by the building costs and the subsidies, substantial differences occur between flats built in different years.

The basic rent for the term of subsidisation is made up as follows:

- repayment and interest on the loans,
- repayment and interest on the equity capital not shifted over to the tenant,¹⁵⁹
- 6.5 % of the taxable value, provided that the land costs are not shifted over to the tenant,
- the maintenance and improvement contribution (0.55 Euro per m² per month).

¹⁵⁹ The repayment period is 25 years. The interest rate corresponds to the secondary market returns.

If costs for other loans or the own funds cease before repayment of the provincial loan, these can be further charged to boost repayment of the principal of the provincial loan. For servicing the loan and capital, the upper rent limit is currently 3.54 Euro, plus 0.70 Euro in the event of super-subsidisation. Land costs can be charged in addition, which is possible in the form of a one-off land cost contribution or as part of the ongoing rental charge.

There are two measures applied for the income-related relief of tenants. ‘Equity capital’ replacement loans are granted to provide relief from the capital contributions. The loan amounts and the term of the loan are dependent on income (see Table Ö.7). The loans are subject to half-yearly interest at 0.5 %. The entitlement is reviewed every five years.

Table Ö.7
Income limits for own capital replacement loans in Euro

	12.5 % 150 Euro	7.5 % 90 Euro	5 % 60 Euro	2.5 % 30 Euro
Loan amount in Euro/m ²				
Term in years	20	15	10	5
1 person	12,750	17,200	19,230	21,240
2 people	19,000	24,280	26,310	28,330
3 people	21,500	27,310	29,340	31,350
4 people	24,000	30,335	32,360	34,380
every further person	+1,400	+3,030	+3,030	+3,030

In the event of super-subsidisation, relief can also be provided for low-income households by an income-related reduction of the rent. Here the same income limits apply as for the equity capital replacement loans. At the lowest income level, the capital repayments (0.70 Euro) are waived entirely, while at higher income levels, a reduced repayment amount of 0.35 Euro is applied. No concessions are granted in the case of higher incomes. In order to ensure that this subsidisation goes where intended, the regulations provide for a five-yearly income review.

4.6 Access restrictions, housing allocation and occupation structure

Access restrictions

Until “provincialisation”, the same income limits applied throughout the whole of Austria, although these were so broad that by the mid-1980’s, 95 % of households had an access to social housing (see Table Ö.2). Following the devolution of housing policy authority, the western provinces initially lowered the access barriers. In order to avoid the exodus of middle-class households, they were however soon raised again substantially, so that a very broad entitlement to accommodation once again exists throughout the whole of Austria. The high income limits were also accepted because they are regarded as an effective instrument for avoiding segregation (W. Förster, 1996, 115). An income review is only carried out on occupation. The entitlement to accommodation is not lost, even if the income limit is subsequently exceeded.

The access entitlement is described below using the example of Vienna. Here, subsidised flats can only be rented to persons with an urgent need for housing, if their annual income (family income) does not exceed the amounts shown in Table Ö.8. The figures refer to net income, i.e. the income after deduction of income tax and social security contributions. As can be seen from the table, lower income limits apply for the municipal flats than for the flats of non-profit and other providers. The more restricted access in the municipal flats is justified by the lower rents resulting from the waiving of the land cost contributions. In the municipal flats,

the distinction is also drawn as to whether these were built with state subsidies or resources from the municipal house building fund. Particularly large amounts were subsidised by these funds between 1967 and 1974, so that the rents for these flats are especially low. These figures are however still significantly above those of the German Housing Subsidy Act (*Wohnraumförderungsgesetz*) (12,000 Euro for single persons, 18,000 Euro for two-person households and 4,100 Euro for every further person).

Table Ö.8
Maximum annual income limits (Euro) for subsidised flats in Vienna

	Rental flats			Rental flats Building cost grants Ownership annuity grants	Owner-occupied flats	
	Municipality		Other provider		Subsidy loans	Building cost grants
	House Building Fund	Other				
1 person	21,420	25,500	30,600	35,700	38,250	40,800
2 persons	31,920	38,000	45,600	53,200	57,000	60,800
3 persons	36,120	43,000	51,600	60,200	64,500	68,800
4 persons	40,320	48,000	57,600	67,200	72,000	76,800
Add. pers.	+2,352	+2,800	+3,360	+3,920	+4,200	+4,480

Subsidisation by building cost grants was abolished from 2001

Source: Wien web-service, 30.10.2003

Housing allocation

The flats of the non-profit housing associations are normally allocated and let by the companies themselves. Since the housing associations are most interested in more affluent tenants, this hardly benefits low-income groups at all in actual practice. Lügger (2001, 26-27) on the other hand states that the housing allocation is frequently carried out by the municipalities. The municipalities often retain the right of allocation due to the provision of land at reduced prices.

By reason of the subsidisation, the City of Vienna has the right of allocation to one third of the non-municipal flats for the first 6 months. The municipal flats are all owned by the municipal company "Wiener Wohnen", which allocates housing on the basis of social aspects. Amongst other things, care is taken to ensure that the cheapest flats are also rented to those households with the lowest income. Approx. 7,000 flats (approx. 3 % of stocks) are allocated in this way every year (Donner, 2000, 131). Housing allocation is linked to various requirements: an urgent housing need, tenants must be at least 17 years old, the income limits must not be exceeded, the existence of a main residence in Vienna for at least two years and Austrian citizenship or application by EWR citizens, Swiss nationality or recognised refugees. A housing need can be founded amongst other things by unhealthy housing, overcrowding, young Viennese without their own accommodation or a need for housing due to illness or old age.

Occupation structure

According to Blaas and Brezina (1994, 145) it can be seen from Table Ö.9 that in the year 1985, the lower income groups were significantly under-represented in subsidised multifamily buildings, and the upper income groups clearly over-represented.¹⁶⁰

¹⁶⁰ In the interpretation of the table, it should be noted that the figures could also be influenced by the differing size structure of households in the stocks categories.

According to Czerny (1987, 372-373; cited from W. Blaas, B. Brezina, 1994, 146), more house building subsidisation funds go to middle- and upper-income groups than to lower-income groups. Of the house building loans, only 20 % go to the lower income group, and 40 % each to the middle- and upper-income groups, although it should be taken into account that the purpose-oriented tax revenue moderates the regressive effect. The lower-income groups contribute only 6.5 % to this earmarked tax revenue, while the middle- and upper-income groups contribute 27 % and 66.5 % respectively.

Table Ö.9
Households by income classes, 1985

Income class		Subsidised stocks	Total stocks
ASch	Euro	%	%
up to 6,000	up to 436	10.0	22.5
6,000 to 9,500	436 to 690	18.4	19.6
9,500 to 13,000	690 to 945	22.7	21.7
13,000 to 17,500	975 to 1,271	24.9	17.6
17,500 and above	1,271 and above	24.0	18.6
Total	Total	100.0	100.0

Source: Bauer/Stagel 1986, 119, cited from W. Blaas, B. Brezina, 1994, 145

Considered overall, the house building subsidies therefore mainly support the middle- and upper-income groups. The lower-income groups on the other hand benefit more from tenant protection and the housing allowances. Major shortages in the supply of low-income and disadvantaged households have therefore been avoided, despite the middle-class orientation of the house building subsidies, largely by means of the low-rent, old building stocks. However, due to renovation measures and sales to owner-occupiers, this segment is continually decreasing in size.

4.7 Renewal subsidies

Subsidisation is available for blocks of flats, residential homes and individual flats. Maintenance and improvement measures qualify for subsidies. Newly built flats are also often subsidised, provided that they were built as part of renovation projects. The subsidisation is linked to the fulfilment of various conditions concerning the building itself and the measures in question. The buildings must be worth preserving, and must be of a certain minimum age. The flats must also not exceed certain maximum size limits. The measures must be economically sound and reasonable, must include a high level of improvement, and must bring the building up to the contemporary standard. The costs must not be covered by the rent reserve. Foreign owners are as a rule not subsidised. Subsidy applicants can include landlords, administrators and tenants. Income limits are applied only in some provinces (B. Gutknecht, 1994, 444-451).

Subsidisation of renovation is also described using the example of Vienna. Housing improvement subsidies are available to landlords, tenants and owner-occupiers. An essential requirement is that the property is occupied all year round as the main residence, has a living area of 22 m² up to a maximum of 150 m², and is at least 20 years old. Renovation measures are only subsidised if the costs either cannot be covered by the rent reserve, or can be covered by 80 % over the rent reserve anticipated over the next 10 years. The subsidisation draws the distinction between the renovation of a) multi-family buildings, b) owner-occupied houses and c) individual flats in a building. In all three cases a loan must be taken out for financing the renovation work, the actual cost of which is reduced by annuity subsidies. As a rule, subsidisation is not subject to any access restrictions.

There is however also renovation subsidisation available for non-profit housing associations, which is linked to an access restriction. They can obtain one-off, non-repayable amounts of 50 % of the qualifying building costs for improving the standard of the equipment categories D and C up to a maximum of 200 Euro/m² for Category C and 250 Euro/m² for Category D. A further requirement is that the flats are only made available to households whose income does not exceed the limits applicable to municipal flats (see Table Ö.8).

4.8 Taxation

The taxation of subsidised flats depends on the type of investor. Non-profit housing associations are exempt from corporation tax, trade tax, wealth tax, land tax and the land value charge. For the private providers and the profit-making municipal companies, the information given on private rental flats applies.

5. The owner-occupied housing sector

5.1 Development of existing housing stocks

As shown in Table Ö.1, the proportion of owner-occupied houses and owner-occupied flats increased from 41.2 % in the year 1971 to 50 % in 1991. The ownership quota has since declined slightly to 49.1 % in the year 2001. The number of owner-occupied flats has however increased over the last decade. The regional variations in the ownership quota are very large. While only 18 % of main residences were occupied by the owners in the year 2001 in Vienna, the figure for the rest of Austria was 58 %.

5.2 Taxation

For taxation on purchases and sales, reference is made to the information provided on the private rental sector.

For income tax purposes, owner-occupied property is regarded as consumer goods (Donner, 2000, 123). A special expenditure deduction is granted as subsidisation. Under the Income Tax Act (*Einkommensteuergesetz*) of 1972, expenditure for the purchase of accommodation¹⁶¹ could be offset as special expenditure up to an amount of 10,000 ASch (727 Euro) per person. Under the 1988 Reform, the special expenditure deduction was increased to 40,000 ASch (2,907 Euro) per adult and 5,000 ASch (363 Euro) per child, although within these limits, insurance premiums and voluntary pension contributions could now also be deducted.¹⁶² Since the special expenditure deduction is largely used up by the insurance premiums and

¹⁶¹ These include a) amounts to builders committed for at least eight years, b) amounts for the construction of owner-occupied houses and owner-occupied flats, c) expenditure for the renovation of residential accommodation and d) repayment and interest on loans (Amann, 2002, 10).

¹⁶² The deduction of expenditure for the purchase of accommodation was also reduced to 50 %. The rate was reduced again in 1996 to 25 %. The deduction cannot be claimed at all by those with an annual income above 700,000 ASch (50,871 Euro) (Donner, 2000, 115, 122-123).

voluntary pension contributions, this has practically no more relevance with regard to housing policy.

Purchasers of directly subsidised owner-occupied property are exempted from land tax by the individual federal states for up to 20 years (Donner, 2000, 123).

5.3 Direct subsidies

A notable feature is the high proportion of directly subsidised ownership measures and the increase in the subsidisation quota over the course of time. According to Table Ö.5, 77 % of one-family houses were subsidised over the period from 1991 to 2000. For the one-family houses built between 1945 and 1960, the proportion was only 24 %. It has since increased steadily over the course of time to the present levels. The figures in Table Ö.5 do not differentiate between rented and owner-occupied flats in multi-family houses, although it can be assumed that one-family houses are generally owner-occupied. Due to the high proportion of subsidised measures and the insignificance of tax subsidisation, direct ownership subsidisation can be compared to the German Home Ownership Allowance (*Eigenheimzulage*).

The subsidy quotas for ownership subsidisation in the different federal states are compared in Table Ö.10.¹⁶³ The comparison standard is the share of the accommodation costs falling to the subsidy provider for a flat of 80 m². The accommodation costs include, in addition to the land and building costs of 1,526 Euro, the financing costs, which have been calculated for a consumer price increase of 1 % and mortgage interest of 5 %.

Table Ö.10
Subsidy quotas for ownership subsidisation in Austria

	Accommodation costs including financing costs in Euro			Subsidy quota
	Total	Residents	Subsidisers	
Burgenland	2,289	1,889	407	18 %
Kärnten	2,769	2,231	545	20 %
Niederösterreich	2,187	1,613	574	26 %
Oberösterreich	2,456	1,766	698	28 %
Salzburg	2,347	1,795	552	24 %
Steiermark	2,820	2,500	320	11 %
Tirol	2,412	2,035	371	15 %
Vorarlberg	2,304	1,999	305	14 %
Vienna	2,122	1,759	363	17 %
Austria	2,413	1,955	458	19 %

Source: W. Amann, 1998.

As a result of the different subsidy models, accommodation costs vary greatly from state to state. At average accommodation costs of 2,400 Euro, the specific figures vary between provinces from 2,100 Euro in Vienna to 2,800 Euro in the Steiermark. The subsidy quotas for the individual provinces also vary sometimes considerably from the national average of 19 % (W. Amann, 1998).

Ownership subsidisation is described below using the example of Vienna. As shown in Table Ö.8, the income limits for ownership subsidisation are even broader than those for rental

¹⁶³ It should be noted that the subsidy conditions can have changed in the meantime. In Vienna for example, the subsidy has since been converted. At the time of the comparison, lost grants were awarded here, while subsidies now take the form of loans (see above).

housing, so that a very broad entitlement can safely be assumed. For owner-occupied flats, a provincial loan is granted in the amount of 365 Euro per m² of living area (440 Euro, if the total living area is less than 4,400 m²), which is subject to half-yearly interest of 0.5 %, and with no principal repayment for the first 5 years. From the 6th year, 1 % of the loan principal must be repaid half-yearly. The half-yearly repayment rate subsequently increases every 5 years by 0.5 percentage points, reaching a level of 3 % from the 26th to the 30th year. For owner-occupied houses and terraced houses, a provincial loan is granted of 365 Euro per m² of living area. The loan conditions correspond to those for owner-occupied flats. The subsidy applies only to the ‘appropriate’ living area, which is 50 m² for the first person, 20 m² for the second person and 15 m² for every additional person. The total living area may not exceed 130 m² (or 150 m² for 5 persons).

6. Housing benefits

A distinction must be drawn between the housing allowances granted by the federal states and the rent support of the tax authorities. Added to this is the further rent support offered as part of social assistance.

Housing allowance

Prior to “provincialisation”, the housing allowance was only granted for flats whose construction or renovation was subsidised by means of house building subsidy funds. Today, it is also granted in various federal states for non-subsidised flats. The support systems vary from state to state. No accurate figures are available on the actual numbers of recipients, although it is estimated that 5 % of all households receive the housing allowance. Personal subsidisation in Vienna is described below.

Vienna offers three different forms of the housing allowance: housing allowance for flats built with public funds, housing allowance for flats renovated with public funds and the general housing allowance for non-subsidised properties, which was only introduced in 2001. In all three variants, the support is calculated on the basis of the difference between the allowable and the reasonable accommodation costs. The subsidisation is reduced by grants toward accommodation cost relief provided by third parties, such as the rent support given by the tax authorities. The ‘reasonable’ costs, which depend on the size and income of the household, are set at the same level for all three support systems. Differences arise with regard to the allowable accommodation costs and the persons receiving benefit. Basically, only those accommodation costs are calculated that refer to the ‘appropriate’ living area.¹⁶⁴ The housing allowance for flats built with public funds is available to tenants and owner-occupiers, while the other two support systems are available to tenants only.

For flats that were built with public funds, the allowable costs correspond to the repayment of the loans (see Section 4.5). The maximum permissible amount is 120 % of the Category A rent (3.32 Euro/m²) in the case of rental dwellings and 80 % of this amount for owner-occupied flats (2.66 Euro/m²). Somewhat higher amounts are allowable if ‘equity capital’ replacement loans are granted. For flats renovated with public funds, the allowable costs consist of the monthly amount to be paid for the financing of the renovation costs (currently a maximum of 3.09 Euro/m²) and the Category C rent (currently 1.39 Euro/m²). In case of non-

¹⁶⁴ The ‘appropriate’ living area is 50 m² for a single person, 70 m² for a two-person household and 15 m² for every further person.

subsidised flats, the allowable costs correspond to the rent level allowed under the Rent Act or the Non-profit Housing Act, with the maximum of the guideline rent (4.37 Euro/m², 3.24 Euro/m² for short-term contracts).

The reasonable costs are defined by tables relating to the household size and income. The maximum reasonable costs correspond to the product of the appropriate living area and the guideline rent/m². For single persons with allowable costs amounting to the maximum reasonable costs, the housing allowance runs out at a monthly income of approx. 1,130 Euro. Four-person households receive the housing allowance at the maximum reasonable rent up to a monthly income of 1,790 Euro. The percentage rent burden therefore comes to 19 % for single persons, and 24 % for four-person households. It should be noted here that only the rents were taken into account, without operating costs and sales tax.

Rent support

Rent support can be obtained if the rent is increased by the mediation office (*Schlichtungsstelle*) following renovation, or if the owner levies a “maintenance or improvement contribution”. The annual income level up to which rent support is granted is 7,300 Euro for single persons, 9,125 Euro for a two-person household and 9,745 Euro for a three-person household. The entitlement limits are thus significantly lower than for the housing allowance. With the rent support, the costs are covered provided that the basic rent exceeds 0.33 Euro/m² (Bundesministerium für Justiz, 2003, 32-33).

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Sweden

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Bibliography

1. Overview

In Germany, social housing is characterised by the fact that access to such housing is restricted, the entitlement to accommodation being determined by income and other features of the household. Social housing in this sense does not exist in Sweden. More than half of rental housing is however provided by the non-profit-making municipal housing companies, whose traditional task consists of providing housing for needy households. Access to housing owned by municipal companies is however not restricted. Nor do the rents for publicly and privately rented housing differ, the rents negotiated in the public sector also being largely applicable to the private sector. In this way, it was hoped to prevent the development of separate housing stocks for low-income households. The affordability of housing for average wage earners was to be achieved by means of very generous house building subsidisation, which benefited all forms of tenure equally. Subsidisation of supply was supplemented by a housing allowance for low-income tenants. Due to the high costs however, house building subsidisation was cut back drastically at the beginning of the 1990's.

A further special feature of Sweden is the high proportion of cooperative housing, which can be traced back to two causes. On the one hand, it is legally allowed to acquire individual ownership of housing in multi-family houses. On the other, the cooperative residential right is framed in a similar way to ownership law: it can be sold at market prices, and is accepted by the banks as security. To this extent, cooperative housing is similar to German owner-occupied housing, and can be considered as part of the owner-occupied sector.

Table S.1 shows the development of housing stocks and their distribution across the different forms of tenure between 1945 and 1990. The differentiation shown for the year 2001 makes no distinction between public and private rental housing.

Table S.1
Proportion of tenure forms to total housing stocks, 1945 to 1990 (in percent)¹⁶⁵

	1945	1960	1970	1980	1990	2001 ^a
Owner-occupied housing	38	34	34	41	40	41
Cooperative housing	4	9	13	14	15	18
Public rental housing	6	14	23	24	25	41
Private rental housing	52	43	30	21	20	
Total	100	100	100	100	100	100
Housing stocks in millions	2.1	2.7	3.2	3.7	4.0	4.2

^a Not all Swedish households were included in the 2001 survey. The housing stocks are based on an estimate by Boverket (2000a, 6) for the year 2000.

Source: Proportions up to 1990: B. Turner 1997, S. 478;

Proportions in 2001: Ministry of Finance, Housing and housing policy in Sweden, 2004

Total stocks: Donner, 2000, 472; McCrone, Stephens, 1995, 118; Boverket, 2000a, 6.

Housing stocks have almost doubled from 2.1 million dwellings in the year 1945 to 4.0 million in 1990. Because of the demolition of many old buildings, new construction significantly exceeded the overall growth in stocks (Donner, 2000, 472).

The proportion of rental housing has declined considerably over the course of time from 58 % in the year 1945 to 45 % in 1990. The downward trend continued further after 1990: by 2001, only 41 % of housing stocks were rented. If one differentiates between publicly and privately

¹⁶⁵ No regular population census has been carried out in Sweden since 1990. Information on housing stocks are therefore simply estimates based on random samples. The next survey will not be based on a housing census, but on the combination of official records. The first results are not due however until 2006 (Boverket, 2000a, 6).

housing, a notable difference can be established: while the stocks of private rental housing fell from 1945 to 1990 from 52 % to only 20 %, the stocks of public rental housing have risen over the same period from 6 % to 25 %. Unfortunately, there is no classification available for the year 2001 into public and private rental housing. The enormous decline in private rental housing can be attributed to various causes. First amongst these is the low number of completions in this sector (Boelhouwer; Heijden, 1992, 237). A further cause however is also the conversion to cooperative housing (McCrone; Stephens; 1995, 130) and the demolition of many old buildings. The percentage of owner-occupied housing has remained relatively constant over the course of time. In contrast, the proportion of cooperative housing has increased sharply, from 4 % in the year 1945 to 15 % in 1990.

On 30.06.2004 the exchange rate was 1 € = 9.1451 SEK. On 31.1.1992, 1 DM was worth 3.63 SEK. The following conversions are based on the Euro exchange rate on 30.06.2004.

2. Historical overview

2.1 The time prior to the Second World War

State subsidisation programmes were first instituted during the economic depression of the 1930's, at which time the housing supply was very poor. The subsidisation programmes were concentrated on those households with the poorest supply (Bengtsson, 1994, 187). The main support went to tenants' cooperatives, which enabled their members to move from privately rented housing into cooperative housing of better quality (Boelhouwer, Heijden, 1992, 246). The level of state involvement however remained only modest. The proportion of completions provided by municipal housing companies and cooperatives was below 10 % (Lundqvist, 1992, 90).

During the Second World War, the sharp decline in completions created growing shortages. In order to cushion the effects of the housing crisis, a system of rent controls was introduced in 1942, and security of tenure was also improved. In return, house-building subsidisation was also opened up to private investors. Under the new rent system, the rents were only allowed to cover the original capital costs, the maintenance expenses, and the operating and administration costs (J. Kemeny, 1993, 6). The permissible rent level for a building was set by a government authority. Rent increases were only allowed in the event of modernisation or an increase in the capital costs and maintenance expenses, which had to be officially approved (Turner, 1988, 258). In 1969, the state rent controls were superseded by a new rent level system, which was aimed at transforming cost-related rents into benefit-related rents.

2.2 The realignment of housing policy in the post-war period

A radical change in housing policy took place in 1946/1947. While pre-war policy was still concentrated on the most needy households, the declared aim was now to provide good housing for all (Danermark, Elander, 1994, 98). The government hoped to achieve this objective by means of general house building subsidisation, which comprised interest subsidies and low-interest state loans. By means of the grants, the interest rates of the market loans to be taken out in the primary lending areas were reduced to a figure specified by the state, the so-called guaranteed interest rate. The more risky subordinate financing was covered by low-

interest state loans (Boelhouwer, Heijden, 1992, 247; Bengtsson, 1994, 187). In the 1950's, 93 % of all housing completed was subsidised in this way. Subsidised housing was also subject to the rent controls introduced in 1942. (Lundqvist, 1992, 90).

Because the housing crisis of the 1930's, in the opinion of the time, indicated basic weaknesses in the private, market-orientated supply of housing, the cooperatives and especially the municipal housing companies were in future to play a central role in housing production (Lundqvist, 1992, 90). During the late 1940's and early 1950's, most municipalities therefore formed their own housing companies (Ministry of Finance, 2004, 4), by which it was hoped to limit the profits in the private sector and prevent the development of segregation, as well as improving the housing supply (Boelhouwer, Heijden, 1992, 246). Housing in municipal and private hands was to be a good, if not perfect, substitute (Turner, 1997, 479). Preference in subsidisation was given to the municipal providers and the cooperatives. The proportion of these companies in new construction figures therefore increased accordingly. In the 1950's, 33 % of housing was built by municipal housing companies and 20 % by the cooperatives (Lundqvist, 1992, 90).

Family housing allowance was introduced in 1948, which is aimed at low-income households with children. This was supplemented in 1960 by a housing allowance for retired people.

Due to the increasing inflation rate, the interest guarantees led by the second half of the 1950's to increasing budget deficits. In order to restrict the financial burden, the guaranteed interest rates were raised as a result. This further increased the existing rent distortion between old and new housing, and the pressure to abolish the system of rent controls became greater. The rent increases brought about by the rise in interest rates were cushioned by improvements in the housing allowance (Lundqvist, 1992, 91-92).

From the mid-1950's, the rental value of owner-occupied housing became subject to taxation. The taxable income was set at 3 % of the assessed value, although the loan interest could be deducted. The original aim of this regulation was to take advantage of the unrealised capital profits of owner-occupiers. Following the abandonment of the low-interest policy however, this in fact led to subsidisation of owners, who were further assisted by the reduction of the taxable rental values (Lundqvist, 1992, 92). During the 1980's, the taxable rental value was between 2 % for assessed values of up to 450,000 SEK (49,207 Euro) and 8 % for assessed values above 750,000 SEK (82,011 Euro). 97 % of all housing however fell into the lowest category. The assessed values were reset in the year 1981 at approx. 70 % of the market value. This value fell to 40 % by 1989, when it was re-assessed again, subsequently climbing to 52 % (Englund, Hendershott, Turner, 1995, 8).

The growth in the size of households caused by the post-war baby boom, the migration of large parts of the rural population into the towns, and the unrivalled economic growth boosted the need for housing so much, that the housing shortage had still not been overcome even by the mid-1960's. In order to put an end to the housing shortage once and for all, a programme was instituted in 1964 for the construction of one million dwellings, which were to be completed within the next 10 years. The number of completions was actually achieved by 1974, with the major part of the new construction having been carried out by the municipal housing companies. In 1970, they were responsible for 43 % of new construction, with 16 % coming from the cooperatives, 28 % from owner-occupiers and 13 % from private rental housing construction. As in the rest of Europe, the majority of buildings constructed during this period in Sweden also consisted of high-rise blocks. The Swedish housing estates were however much more

attractive than those in the rest of Europe, and especially those in France (Boelhouwer, Heijden, 1992, 247-249).

2.3 Use-value-related rents and subsidy-free housing finance

The increasing fiscal burden caused by house building subsidisation led at the end of the 1960's to a reform of the rent regulations, house building subsidisation and housing allowance.

The increasing new construction costs brought about by inflation have over the course of time created considerable distortion between the rents for older and newer housing. Measured by the use value, the old dwellings often located in inner-city areas were often too cheap, and the new housing too expensive. This rent distortion led to excess demand for the older housing, coupled with an increasing surplus of new construction, which was often located on the outskirts of towns and mostly belonged to the municipal housing companies. The cost rent system could therefore only have been maintained at the cost of declining numbers of completions or increased subsidisation. Since an increase in expenditure was out of the question for fiscal reasons, and a decline in construction activity unacceptable for political reasons, it was decided to reform the rent level system. From the late 1950's therefore, the rents for municipal housing were no longer related to the costs, but to the use value. The cost coverage of individual buildings was in this way given up, although the covering of the companies' total costs was still intended. Non-profit-making providers were not allowed to make a profit. The idea behind the new system can be referred to as cost-pooling, in which the total costs of the municipal providers are converted into use-value-related rents. (Kemeny, 1993, 6). The deficits in new construction were to be covered by minor rent increases for older housing (Turner, 1988, 261). This use-value orientation was established by means of a system of negotiation between municipal housing companies and tenants' associations. In order to harmonise rents in the private and public sector, the same system was also gradually introduced in the private sector from 1969 to 1978. The rents negotiated for the municipal housing companies were now also to be binding on private landlords. The aim was a standardised rent system for the private and the public sector, leading to appropriate rents. A dual system was considered inadvisable because of the negative effects on the allocation of housing, the mobility of the population and employment. The appropriate rent level was to be brought about by connecting all rents to the rents negotiated for the public sector (Kemeny, 1993, 5). Complete deregulation of rents was out of the question for several reasons. On the one hand, it was essential to avoid the deterioration of protection against eviction due to excessive rent demands, while on the other to avoid windfall profits for the landlords of older building stocks. A requirement for the implementation of this system was the now substantial housing stocks of the municipal providers (Turner, 1988, 258-259).

In order to save subsidy funds, the interest subsidy was replaced by an unsubsidised, dynamic loan system, with which the capital cost burden was to be kept low in the initial stages, and then gradually increased over the course of time. The intended balance between the initial and later burden was however never achieved (Lundqvist, 1992, 93-94). In order to keep new construction costs down, municipalities were urged to adopt an active policy of supply of building land. In support of this policy, they were granted powers of compulsory purchase (Boelhouwer, Heijden, 1992, 249).

In order to cushion the rent increases associated with the above measures, housing allowance payments were increased, so that ultimately 40 % of households were entitled to the allowance (Boelhouwer, Heijden, 1992, 249).

2.4 The reform of house building subsidisation in 1974

Since the objectives of social housing policy could not be achieved by unsubsidised housing finance, this form of financing was discontinued in 1974, and replaced by a system of interest subsidisation that continued in effect until 1991 (Lundqvist, 1992, 94). The new subsidisation was based on a fundamental restructuring of Swedish housing policy. The main idea of the reform consisted of supporting the different sectors of the housing market equally, thereby increasing the freedom of households to decide on one of these sectors. The following principles were pursued, amongst others:

- The general subsidisation level was to reduce the capital costs to the extent of ensuring the affordability of modern housing of adequate size for average wage earners (affordability objective).
- State support was to be equally high for all forms of housing (municipal and private rental housing, cooperative housing and owner-occupied housing) (neutrality objective).
- Subsidisation was to be aimed at improving the position of the most disadvantaged households (social objective).
- The subsidisation system was to try and balance the growth in assets of owners due to inflation and the increase in house prices (anti-speculation objective).

With regard to housing quality, the target of building more single-family houses, both in the social rental sector and in the cooperative sector was set (Boelhouwer, Heijden, 1992, 249-250).

The difference between the interest rate guaranteed by the state and the market interest rate was made up for by means of the interest subsidy. The guaranteed interest rate was very low in the initial stages, and was brought up to the market level over time in specified stages.¹⁶⁶ In order to meet the neutrality objective in the case of varying tax treatment, the guaranteed interest rates and the interest increases were set at different levels for the different forms of tenure. Both were at their highest in the case of owner-occupiers. In this way it was hoped to balance out the favourable tax regulations. The subsidy was granted for the 1st mortgage taken out on the market and for the state loan. The 1st mortgage covered 70 % of the permissible costs. The more risky subordinate area was financed by the state loan, which was also subject to interest at market rates. Depending on the investor type, this covered 25 % to 30 % of the permissible costs. Modernisation and energy-saving measures were also subsidised in addition to new construction, the latter however only for rental housing and at much higher guaranteed interest rates (Papa, 1992, 141-143). In addition to the observance of upper cost limits (Papa, 1992, 146), the award of the state loans was also dependent on two further conditions: firstly, the land had to be purchased by the municipality, and secondly, the construction work had to be put out to tender (Lundqvist, 1992, 95).

The difference between the guaranteed interest rates and market interest rates was still relatively minor at the time of introduction of the subsidy, although the differences have since increased sharply due to inflation.¹⁶⁷ State expenditure on house building subsidisation has

¹⁶⁶ The interest rate increases were however repeatedly subject to unforeseen discretionary changes.

¹⁶⁷ In 1975, the market interest rate was 7 % and the guaranteed interest rate 3.9 % for rental housing and 6 % for owner-occupied housing (Boelhouwer, Heijden, 1992, 259; Donner, 2000, 461). By 1990, the market interest rate had risen to 14 %, while the guaranteed interest rates were 2.7 % for municipal rental housing, 2.45 % for

thus risen just as dramatically. Although it had been anticipated that subsidisation would lead to greater financial burdens due to increasing numbers of completions, building costs and interest rates, a restriction on the subsidisation expenditure had not been considered.

The bourgeois coalition which came into power in 1976, which had actually been expected to reduce state intervention, changed only very little with regard to subsidisation policy. A few slight cutbacks were made to interest rate adjustments. In order to increase the profitability of housing construction for investors, existing upper cost limits were even abolished, and replaced by the more generous system of real production costs (Lundqvist, 1992, 101).

Between 1975 and 1982, the last year of the bourgeois coalition, expenditure on interest subsidisation multiplied from 1.8 billion SEK (197 million Euro) to 8.9 billion SEK (973 million Euro), although completions declined from 75,000 to 45,000 dwellings (Lundqvist, 1995, 95). Tax subsidisation for owners also ballooned over the same period from 2.7 billion SEK (295 million Euro) to 10.3 billion SEK (1,126 million Euro) (Boelhouwer, Heijden, 1992, 254).

A further law passed by the bourgeois coalition allowed for the conversion of public and private rental housing into cooperatives, although this law produced no noticeable effects. This facility was also made more difficult again by the social-democratic government immediately after its return to power (Lundqvist, 1992, 95, 106).

2.5 The introduction of land tax and the reform of tax subsidisation for owner-occupiers

The social democrats, who have been back in government since 1982, were immediately confronted with the rising expenditure on house building subsidisation. Curtailment of the subsidisation was out of the question. On the one hand, it was not wanted to put the construction target at risk, while on the other, it was essential to maintain the affordability of modern, sufficiently large housing for average wage-earners, which in itself would require further subsidisation. In order therefore to set a limit on net expenditure for house building subsidisation, a land tax for existing housing was introduced in 1983.¹⁶⁸ By means of this instrument, it was hoped to bring about an intra-sector redistribution from existing housing in favour of new housing. All sectors were to be subjected to the same tax burden, and redistribution between tenants and owners avoided (Lundqvist, 1992, 102-103).

The system of tax subsidisation of owner-occupation was reformed over the period 1982 to 1985. The aim of the reform consisted firstly in maintaining the balance of subsidisation between tenancy and ownership, and secondly in restricting the tax losses which also resulted from the sharply increasing use of this subsidy (Papa, 1992, 151). Up to this time, interest payments could be deducted in full from taxable income, which led to a tax reduction in the amount of the product of the applicable tax rate and the interest payments. The maximum marginal tax rate, which at the time was approx. 80 %, was made up of the proportional municipal income tax, at a rate of approx. 30 % and the progressive state income tax (Lundqvist, 1992, 105). Following the reform, only a maximum of 50 % of the interest payments, reduced by the imputed rental income, could be deducted from the tax liability, even if the other income was subject to a higher tax rate (Englund, Hendershott, Turner, 1995, 9).

private rental housing and cooperatives and 4.9 % for owner-occupied housing (Boelhouwer, Heijden, 1992, 259; Papa, 1992, 142).

¹⁶⁸ For details of this tax, see Sections 4.3.2 and 7.2.2.

Despite the introduction of the land tax, net expenditure on housing policy continued to increase, from 25.5 billion SEK (2.8 billion Euro) in the year 1982 to 37.9 billion SEK (4.1 billion Euro) in 1989. The land tax by this time brought in a revenue of 6.1 billion SEK (0.7 billion Euro). Interest subsidisation doubled to 17.7 billion SEK (1.9 billion Euro), while tax subsidisation for owners rose by 70 % to 17.9 billion SEK (2.0 billion Euro), and housing allowance expenditure increased to 8.4 billion SEK (0.9 billion Euro) (Boelhrouwer, 1992, 254). In contrast to most other European countries, the proportion of completions in the public sector also remained very high during the 1980's (Lundqvist, 1992, 102-103).

2.6 The tax reform of 1990 and the reform of house building subsidisation

The principal aim of the major tax reform of 1990/1991 was to drastically reduce income tax rates, which were very high in comparison to the rest of Europe. The high tax burden was held responsible for the low level of growth, and was also seen as an obstacle to entry in the European Union. Following the tax reform, income is divided into three types: employment income, commercial income and investment income. The state income tax for employment income and commercial income of natural persons was reduced to a maximum rate of 20 %. With the largely unchanged proportional municipal income tax of 30 %, this produced a reduction of the maximum tax rate to 50 % (Blomquist, Eklöf, Newey, 1997, 4). For most wage earners, the marginal tax burden was reduced from 47 % to 30 % (Turner, 1997, 480). A separate fixed rate of 30 % was introduced for investment income, which also includes rental income and profits from sales, provided that these are not obtained from the running of a business (Swedish Institute, 2001). The income tax losses were financed by increases in value-added tax (VAT) and cutbacks in expenditure.

Additional VAT revenue was generated by increasing the basic rate to 25 %, raising reduced tax rates and extending the tax to previously exempted circumstances (McCrone, Stephens, 1995, 120). The reduced VAT rate for building materials was raised by 12 % to the normal level for other goods and services. The tax exemption for certain operating costs such as heating, waste water and waste disposal was also abolished (Englund, Hendershott, Turner, 1995, 13, 15). Maintenance expenses were also made subject to VAT (Turner, Whitehead, 2002, 210).

The tax reform also saw the reduction of tax concessions for owner-occupiers. The reduction of tax liability by the deduction of loan interest was limited in 1990 to 40 % and further reduced in 1991 to 30 % of interest payments. Taxation of imputed rents was abolished, being compensated for by an increase in the land tax on owner-occupied housing to 1.2 % in the year 1991 and 1.5 % in 1993 (Englund, Hendershott, Turner, 1995, 14-15). The assessment of housing was also adjusted at the same time (Blomquist, Eklöf, Newey, 1997, 4). The taxation of the increase in value of housing was also increased by abolishing the previously allowed deferment of taxes in the event of re-investment, although this was re-introduced in 1995 (Englund, Hendershott, Turner, 1995, 14-15).

The intended reductions in expenditure for the financing of the income tax losses were to be achieved mainly by the curtailment of house building subsidies, which had grown hugely over recent years, and were increasingly regarded as unsupportable. This was also the view of the social democrats, who were replaced in September 1991 by a liberal government which continued in office until 1994. In 1992/1993, the proportion of the total state budget taken up by house building subsidisation, at 8 %, was just as high as those for labour market subsidisation or defence (Danermark, Elander, 1994, 105). In view of the excess supply of housing and the

high per-capita availability, no further requirement was seen for subsidisation at such a level (Turner, Whitehead, 2002, 202). High subsidisation had in many places even created surplus supply, because in smaller towns in particular, housing construction had often continued without taking into account the level of demand (Ahs, 1997, 38). Subsidisation was however not attacked only from the fiscal aspect, but also criticised on the basis of equity and efficiency arguments. Doubt was expressed as to whether the general subsidisation system was at all a suitable instrument for improving the accommodation of the most needy households. Subsidisation was also criticised as having been wasted, at least to some extent, in higher building costs and land prices (Turner, Whitehead, 2002, 202). Liberal economists also criticised the housing policy on the grounds that it had hindered the balancing of supply and demand, created a supply not in tune with actual demand and caused excess consumption of housing (Danermark, Elander, 1994, 104).

A new system of interest subsidisation finally came into force in 1993. The new subsidy pursued two aims: firstly, the overall level of subsidisation was to be reduced significantly, and in concrete terms to one quarter of its present levels within the next 5 to 10 years (Turner, 1997, 480); and secondly, state expenditure on subsidisation was to be made more independent of interest rate changes (Boelhouwer, 1997, 86). Instead of compensating for the difference between the guaranteed interest rate and the market interest rate, as previously, only a fixed percentage of interest payments were granted as a subsidy from 1993. This percentage was then reduced from year to year. In 1993, it was 57 % for cooperatives, private providers and municipal companies, and 42.67 % for owner-occupiers. For owner-occupiers it was reduced by 5.5 percentage points p.a., and by 4 percentage points p.a. for the other providers. In the year 2000, the interest subsidy for the owner-occupiers then ran out completely (McCrone, Stephens, 1995, 122, 128, 130, 134). The other providers receive a subsidy of 30 % of the interest payments in compensation for the benefits enjoyed by owner-occupiers from the tax deductibility of the loan interest (neutrality objective) (Turner, Whitehead, 2002, 205). As a further measure toward reduction of the overall level of subsidisation, the subsidy was from 1993 no longer calculated on the basis of the actual costs, but only on the basis of fixed building costs.

In order to cushion the effects of the reform for lower-income households, who hardly benefited at all from the reduced tax rates, the housing allowance was increased. The most important change consisted in raising the upper limit up to which the housing costs (rent and charges) were included in the housing allowance calculation, by 35 to 40 %. In this way, rents for new construction also qualified for housing allowance, and the number of recipients consequently increased sharply (Englund, Hendershott, Turner, 1995, 15).

The cost of the interest subsidies thus fell significantly from 36 billion SEK (3.9 billion €) in the year 1993 to only 7 billion SEK (0.75 billion €) in 1999 (Turner and Whitehead, 2002, 207). Since this time, the expenditure on this form of subsidisation has fallen further to 1.7 billion SEK (0.19 billion Euro) in 2001 (Ministry of Finance, 2004, 13). This decline is however not only a result of the curtailment of subsidisation, but has also been aided by falling interest rates and numbers of completions.

The reform described above gave much greater weight to targeted income-related subsidies. To this extent, the reform represents a change away from a general and generous subsidy system, and toward more complementary and selective support of weaker groups in the market (Lundqvist, 1992, 107). The restriction of general subsidisation and tax concessions designed to reduce overall expenditure, the greater emphasis on dedicated aid for disadvantaged households and regions, and the deregulation of the markets are all features that can also be ob-

served in other countries (Turner, Whitehead, 2002, 202-205). The neutrality of the subsidisation between different tenure forms is also increasingly criticised, on the grounds that it neither guarantees the attraction of housing investment, nor allows generally positive results from an equity and housing policy point of view (Turner, Whitehead, 2002, 215-216).

2.7 The developments of the 1990's and the current problems

Due to the curtailment of subsidisation and the higher tax burdens, rents increased sharply during the 1990's (see Table S.3). Since the housing allowance failed to compensate in full for the rent increases, this resulted in significantly increasing rent burdens. The costs of owner-occupied housing for new owners were also greatly increased by the reform. Together with the preceding over-production and the economic recession, this caused a fall in prices of single-family houses, which continued until 1995. Prices have since recovered, sometimes reaching previously unmatched levels, particularly in urban regions (Turner, Whitehead, 2002, 207-209). As Table S.2 shows, building activity also declined sharply in the 1990's. This decline can be attributed to the preceding over-production coupled with falling demand, which resulted from increasing unemployment, falling wages and the increased housing costs for both tenants and owners brought about by the reform (Boverket, 2000a, 4-5).

The housing market situation differs greatly between regions. In small and medium-sized towns in particular, over-production and falling demand has led to relatively large numbers of vacant dwellings. In 1999, 56,000 dwellings or 3.7 % of rental housing stocks were not occupied. Of these, 40,000 belonged to the public sector (vacancy quota 4.7 %) and 16,500 to the private sector (vacancy quota 2.4 %). While the quota of unoccupied dwellings in the wider Stockholm area came to only 0.3 %, 7.1 % of dwellings in towns with less than 75,000 residents were vacant, public housing stocks again being most heavily affected (Boverket, 2000b, 4). In 2002, a national commission for the support of municipal housing companies was set up, whose task was to help municipal housing companies with high levels of unoccupied stocks in restructuring by change of use or demolition (Ministry of Finance, 2004, 15). A regional fund of 700 million Euro is available for this restructuring (Nyström, L., 2003).

Since the mid-1990's however, increasing shortages have developed in the three metropolitan areas of Stockholm, Göteborg and Malmö and in some other University towns. These shortages have since even come to be seen as posing a risk to the overall economic growth process. Between 1997 and 1999, the population total in the growth areas increased by 87,000, while decreasing in other towns by 70,000. From 2000 to 2010, the number of residents is forecast to increase by a further 155,000, and the number of households by as much as 193,000 (Boverket, 2000a, 3). The resulting need for new construction is estimated at 30,000 dwellings per year (Nyström, L., 2003). As Table S.2 shows, the actual completion figures fall well below this level. The completions of rental housing in particular are too low. Housing construction is concentrated above all on more expensive cooperative housing, the ownership sector and new construction for special groups, which is supported by special subsidisation (Boverket, 2000a, 3-7). The acute housing market situation in the growth areas is however attributed not only to insufficient building activity. A further cause can also be identified in the conversion of rental housing into owner-occupied housing. This is further exacerbated by the fact that older owner-occupiers, whose children have already left home, continue to occupy the family house, and are not prepared to move out into smaller and more convenient, although also more expensive new housing (Nyström, L., 2003). The situation in the growth areas has become difficult particularly for young and for mobile households. Due to the in-

creasing shortages, existing housing sometimes changes hands at black market prices (Turner, Whitehead, 2002, 209-211).

Table S.2
Completions in total and by sectors

Year	Total	Non-profit-making		One- and two-family houses	Multi-family buildings
		Total	Proportion		
1957	64,455			17,120	47,335
1958	62,225			17,384	44,841
1959	69,318			17,946	51,372
1960	68,293			17,334	50,959
1961	73,778			20,436	53,342
1962	75,124			21,559	53,565
1963	81,405			23,182	58,223
1964	87,167			26,751	60,416
1965	96,843			27,575	69,268
1966	89,361			27,121	62,240
1967	100,213			28,305	71,908
1968	106,234			28,656	77,578
1969	109,055			31,699	77,356
1970	109,843			34,617	75,226
1971	107,188			31,945	75,243
1972	104,046			37,135	66,911
1973	97,484			43,752	53,732
1974	85,311			46,542	38,769
1975	74,499			47,057	27,442
1976	55,812			40,141	15,671
1977	54,878			40,750	14,128
1978	53,742			40,169	13,573
1979	55,491			39,878	15,613
1980	51,438	13,400		35,536	15,902
1981	51,597			33,996	17,601
1982	45,108			26,783	18,325
1983	43,374			23,143	20,231
1984	34,988			17,903	17,085
1985	32,932	9,200		15,808	17,124
1986	28,791	8,600		13,517	15,274
1987	30,884	8,900		15,145	15,739
1988	40,574	11,700		19,480	21,094
1989	50,402	13,000		23,026	27,376
1990	58,426	14,600		24,680	33,746
1991	66,886	15,400		28,685	38,201
1992	57,319	15,500		19,532	37,787
1993	35,088	9,500		9,400	25,688
1994	21,630	8,200		5,246	16,384
1995	12,678	4,900		3,726	8,952
1996	13,085			3,695	9,390
1997	13,007			3,868	9,139
1998	11,459			4,280	7,179
1999	11,712			5,061	6,651
2000	12,984			5,579	7,405
2001	15,411			7,884	7,527
2002	19,941			7,227	12,714
2003	19,986			8,143	11,843

Source: Completions in total and by building size: Statistics Sweden

Non-profit-making sector: Boelhouwer, 1997, 90

The inadequate completion figures are put down to various causes. Rental housing construction is slowed down by insufficient returns, which is also a consequence of rent regulations. A

further cause for complaint is the lack of land available for development, which above all restricts the construction of single- and double-family houses. According to Boverket (2000a, 2), many municipalities are not aware that they are responsible for creating the development plans necessary for an adequate housing supply. In many municipalities therefore, the planning bases for adequate new construction are simply not available. Although the responsibility for an adequate housing supply lies in Sweden expressly with the state, which is responsible for legislation and financial support for new construction, the municipalities themselves are still responsible for planning and implementation (Ministry of Finance, 2004, 5).

Various measures have been undertaken over recent years in order to improve the housing supply. The law on housing supply, which came into force in 2001, further specified the municipal responsibilities with regard to housing supply (Ministry of Finance, 2004, 5). This calls on the municipalities to define housing supply plans at least every four years, which must in particular take into account the needs of those households who are in need of help. Municipalities are also asked to establish housing agencies, if this can help to improve the housing supply (Nyström, L., 2003, Sahlin, I., 2004, 4). In the year 2002, a law was passed which was intended to make the sale of municipal housing more difficult. Under this law, such a sale may be prohibited if the municipal housing stocks become too low to serve as a comparison basis for local rent negotiations (Sahlin, 2004, 4). In order to boost completion figures once more, investment grants were introduced in 2001 to subsidise new construction in growth areas. This programme is restricted in time, and is due to run out in 2006. By the end of 2003, 7,300 dwellings had been subsidised under this programme, of which half were built by public providers (Sahlin, 2004, 10). This was supplemented in 2003 by a further programme, which offers investment incentives for student housing and small dwellings with a living area of up to 70 m² (Ministry of Finance, 2004, 15).

3. The private rental sector

3.1 Development of stocks and ownership structure

Prior to the Second World War, most housing was privately rented. After the war however, the proportion of private rental housing in relation to overall stocks declined dramatically, from 52 % in the year 1945 to only 20 % by 1990 (see Table S.1). This decline can be attributed to three causes: the demolition of many old buildings, the conversion to cooperative housing and the low completion figures. Two reasons can be given for the low completions: the preferential treatment of the municipal housing companies and cooperatives with regard to subsidisation during the early post-war decades (Lundqvist, 1992, 90) and the system of rent setting (McCrone and Stephens, 1995, 129-130), under which the rents negotiated between the tenants' organisations and the non-profit-making municipal housing companies are also binding for the private rental housing sector.

There are about 46,000 owners of private rental housing, of which 18,000 are companies, and 28,000 natural persons. 70 % of these owners own fewer than 10 dwellings, and 3 % more than 100 dwellings (Boverket, 2000b, 9). As Table S.4 shows, the proportion of older dwellings amongst private rental housing stocks is significantly higher than that amongst public rental housing. In 1993, about 50 % of privately rented housing had been built up to 1950. In the public sector, the proportion of older housing was only about 12 %.

3.2 Rent setting and security of tenure

Rent regulations

Under the system of rent controls introduced in 1942, rents were linked to the historical costs. Inflationary price increases consequently led to substantial rent distortion between housing constructed in different years, with new construction being much too expensive in comparison to older housing. This resulted in an excess supply of new construction, which put further building activity at risk. Since declining completion figures were undesirable for political reasons, and greater subsidisation to reduce rents for new construction was out of the question for fiscal reasons, it was decided to abolish cost rents, and replace them with a new rent level system based on the use value of properties. This system was introduced for the municipal providers at the end of the 1950's. The cost coverage for individual buildings was thereby given up, although it was still intended to ensure coverage of the total costs of the company. The idea behind the reform can be referred to as "rent pooling": the deficits created by new construction were to be covered by moderate rent increases for older housing (Turner, 1988, 261; Kemeny, 1993, 6). The use values were to be established by a system of negotiation between municipal providers and tenants' associations. In order to harmonise the rents of the private and public sectors, the use value orientated rent was also gradually applied to the private sector from 1969 to 1978. In order to guarantee the appropriateness of rents, the rents negotiated in the public sector were also to be binding for the private sector. Complete deregulation of rents was out of the question. This was intended on the one hand not to endanger tenants' security due to excessive rent demands, and on the other to prevent high windfall profits accruing to the providers of older housing (Turner, 1988, 259). The rents were also intended to reflect the long-term balance, while being largely independent of short-term fluctuations in demand (Turner, Whitehead, 2002, 214; McCrone, Stephens, 1995, 131). Cost coverage was to be ensured at all times by the new rent level system, both in the private and the public sector.

Under the Rent Act of 1978, rents are regarded as inappropriate if they are significantly above those for housing with a similar use value. The determination of appropriate rents is based on the rents for housing provided by the municipal housing companies (Turner, 1988, 260). The rents established for the public sector thus represent the upper limit for the rents in the private sector (Turner, Whitehead, 2002, 214). Private landlords therefore have only little latitude when setting the rent. Their rents can only be approved if they do not exceed the rents charged by municipal providers by more than 5 % to 10 % (Ditch, Lewis, Wilcox, 2001, 145).

The rents of the municipal housing companies are set by negotiations between the local municipal housing company and the local representatives of the tenants' association. Once the rents of the municipal housing companies have been established, negotiations are instituted with the local association of private landlords (Turner, 1988, 261-262). These negotiations are however not concerned with setting the rent level, but only with the implementation of the rents in the private sector. The objective of the negotiations between the municipal housing companies and the tenants' organisations consists in establishing rents related to the use value, and which cover the costs. The procedures practiced in the individual municipalities differ from each other. The following example describes the situation in Stockholm. As the basis for the negotiations, the municipal housing companies calculate the actual costs which must be covered by the rent, both for the company as a whole and for each individual building. These include the capital costs, depreciation, maintenance expenses, insurance, administration costs and rent default. The tenants' organisations may lodge an objection to these

costings (Boelhouwer, 1997, 87). The allocation of the overall costs to the individual dwellings is made by means of a housing assessment system, which assigns certain points to the housing, depending on various factors and properties. These include the age of the property, equipment, quality and distance from the inner city (Turner, 1988, 261).

So far, these rents have never attained the level of normal market rents. The age of the property still exerts the decisive effect on the rent level, and much too little weighting is given to the location. In this connection it should be taken into account that the rent pooling between old and new housing is always restricted to the stocks of the municipal housing company. Since the municipal providers largely own younger stocks, and the private landlords mainly older stocks, the municipal companies have only a limited interest in increasing rents for older housing stocks (Kemeny, 1993, 7). Tenants' associations too are generally not in favour of any closer alignment with market levels. An increase in rents for the older and more attractive housing of the municipal housing companies close to city centres would in this case also lead to rent increases for comparable private stocks, which are much more extensive, and which in many cases are occupied by members of tenants' associations (Turner, Whitehead, 2002, 214). It is also feared that any greater rent differentiation might increase the concentration of disadvantaged groups in poorer housing stocks (Boelhouwer, 1997, 87-88). The rent distortions have led to the development of a black market (Turner, Whitehead, 2002, 214). Substantial concessionary payments can sometimes be demanded when cheap, centrally-located old housing becomes available. Over recent years however, a greater change in the direction of market rents has been observed. This change is a result of the increasing economic pressure to which the municipal companies are exposed, and which forces them to increase the rents for their attractive stocks, in order to be able to maintain or even reduce rents in less popular areas.

The effects of the rent level system on investment activity are considered as rather negative. Some companies for example are no longer in a position to afford adequate maintenance for their stocks, because the significant influence of the tenants' associations in the negotiations has prevented the creation of adequate reserves (Boelhouwer, Heijden, 1992, 243). In the opinion of various authors, the rent level leadership of the non-profit-making municipal housing companies has also led to returns which are significantly below those of alternative forms of investment, and which have therefore had a negative effect on the readiness of private providers to invest in housing (McCrone, Stephens, 1995, 131). The already-mentioned low rents for old housing also prevent adequate returns which might then be invested in new construction.

Table S.3 shows the development of average rents per m² from 1991 to 2003. Over the period from 1991 to 1998 in particular, rent increase were significantly above the corresponding rise in living costs. This increase is attributed above all to the tax reform and the cutbacks in subsidisation. Because this increase was not compensated for by the housing allowance, such housing has become much less affordable for low-income households. The increase in housing costs also reduced housing demand and new construction activity, with consequent negative effects, especially in the growth regions. New construction is devoted primarily to high-income households, while only little rental housing is built. Prices for owner-occupied housing are also at a record high. The situation is very difficult for mobile households with a low to medium income. Rental contracts are sometimes negotiated at black market prices. (Turner, Whitehead, 2002, 207-211).

Table S.3
Average annual rent per m² by housing type

	Rent increase									Price index increase
	2 rooms plus kitchen			4 rooms plus kitchen			Total			
	SEK	Euro	% increase	SEK	Euro	% increase	SEK	Euro	% increase	
1991	527	57.63		506	55.33		524	57.30		
1992	571	62.44	8.3	551	60.25	8.9	568	62.11	8.4	2.3
1993	618	67.58	8.2	591	64.62	7.3	614	67.14	8.1	4.6
1994	645	70.53	4.4	611	66.81	3.4	640	69.98	4.2	2.2
1995	663	72.50	2.8	628	68.67	2.8	658	71.95	2.8	2.5
1996	692	75.67	4.4	647	70.75	3.0	685	74.90	4.1	0.5
1997	711	77.75	2.7	666	72.83	2.9	705	77.09	2.9	0.5
1998	715	78.18	0.6	671	73.37	0.8	711	77.75	0.9	-0.1
1999	719	78.62	0.6	675	73.81	0.6	716	78.29	0.7	0.4
2000	726	79.39	1.0	680	74.36	0.7	724	79.17	1.1	1.0
2001	735	80.37	1.2	685	74.90	0.7	732	80.04	1.1	2.5
2002	758	82.89	3.1	707	77.31	3.2	755	82.56	3.1	2.1
2003	779	85.18	2.8	725	79.28	2.5	774	84.64	2.5	1.9
Total	47.8			43.3			47.7			22.4
Average	3.3			3.0			3.3			1.7

Source: Rent increases: SCB, Statistiska meddelanden, serie BO 31, own calculations

Price index: SCB, Consumer Price Index (CPI), own calculations

Security of tenure

Rental contracts are basically unrestricted in time, but can be cancelled in the event of damage caused by the tenant, unsociable conduct or rent arrears. Contracts can also be cancelled in the event of demolition or extensive modernisation. In the latter case, the tenant must be provided with alternative housing. The tenant also has the right to move back into his old dwelling on completion of such measures (Boverket, 2000b, 2).

3.3 Taxation

Taxes on purchase

A charge of 1.5 % of the purchase price is levied for entry in the Land registry when purchasing a property (Donner, 2000, 468). Building work is subject to the general VAT rate of 25 %. Up to the 1991 tax reform, a reduced tax rate was levied on building work, which was 12 % below the current rate (Englund, Hendershott, Turner, 1995, 15).

Taxes during the usage period

During the usage period, income tax, land tax and wealth tax must be paid.

In Sweden, income is divided into three types, which are subject to taxation at different rates: employment income, investment income and commercial income.

- Employment income is subject to municipal and state income tax. The municipal tax rate ranges, depending on the municipality, from 26 to 35 %. The state income tax rate is 20 % for annual incomes from 252,000 SEK (27,556 Euro) to 390,000 SEK (42,646 Euro), and 25 % for higher incomes (Sweden Institute, 2001).

- Investment income is taxed at a rate of 30 %, irrespective of the level of income. In case of losses, a deduction from the overall tax liability is granted, which is 30 % for losses of less than 100,000 SEK (10,935 Euro) and 21 % on any deficits in excess of this figure. The tax reduction may not exceed the tax liability (Blomquist, Eklöf, Newey, 1997, 4, 30).
- Commercial income of natural persons is taxed as employment income. Commercial income of joint-stock companies is taxed at a rate of only 28 %.

The rental of housing generates investment income, provided that this is not obtained from the running of a business (Sweden Institute, 2001). The taxable income consists of the rental income, after deduction of the capital costs, depreciation at a rate of 2 % and the maintenance expenses. Since the system of rent setting is aimed at cost coverage by the non-profit-making companies, taxation of income is of little significance for the rental housing sector (Englund, Hendershott, Turner, 1995, 11-12).

The land tax was introduced in 1983 in order to cover part of the expenditure on house building subsidisation, and has since been altered several times. At the moment, this is set at 1 % of the taxable value for single-family houses and 0.5 % for multi-family houses. For single-family houses, the taxable value is approximately 75 % of the market value. Multi-family houses are assessed on the basis of their rental income. New construction is exempt from land tax for the first five years, is then taxed at half the rate for the next five years, and the full tax then levied only after 10 years. Since the land tax can also come to a considerable sum as a result of the increased taxable value, an upper limit was introduced in 2001 for households with low to medium incomes in growth areas. Under this limit, the land tax may not exceed 5 % of the taxable income (Ministry of Finance, 2004, 12).¹⁶⁹

In case of assets of over 800,000 SEK (85,985 €), a wealth tax is levied at a rate of 1.5 % of the taxable property value. Loans are deductible when determining the assessment basis. The wealth tax is payable at the full rate only if the burden on income due to income and wealth tax does not exceed 60 %. Otherwise the wealth tax is reduced accordingly (EMF, 1997, 120).

Taxes on sale

Profits from sales are taxable at a rate of 30 % (McCrone, Stephens, 1995, 130). In the case of owner-occupied property, only 50 % of the profit is taxable, and ancillary costs of the sale and maintenance expenses can be offset against the profits. If the profits are re-invested in a subsequent property, the tax is deferred, and only becomes due on the sale of the subsequent property (McCrone, Stephens, 1995, 125; EMF, 1997, 118).

3.4 Direct subsidisation

Under the old subsidisation applicable up to 1993, the interest subsidies amounted to the difference between the market interest rate and the guaranteed interest rate. The later was laid down by the state, and increased annually until it finally matched the market interest rate. The interest subsidies were granted for a market loan and a state loan. The market loan covered the

¹⁶⁹ In 1993, directly following the tax reform, the tax rates were 2.5 % for rented and cooperative housing, and 1.5 % for owner-occupied housing (McCrone, Stephens, 1995, 130). The above exemption for the first five years and the reduced rate for the next five years were introduced under the 1991 tax reform and therefore applied from this time. The land tax for rental housing was reduced in 1999 from 2.5 % to 1.3 % of the taxable property value (Donner, 2000, 467). In 2003, the tax rate was 1.2 % for single-family houses and 0.7 % for multi-family houses.

primary financing area (70 %) of the costs, and the state loan the more risky secondary financing area (25 % of the costs). For cooperatives, the state loan was 29 % of the costs, and for municipal housing companies 30 %. The state loan was not subsidised, but made at the refinancing costs. The interest subsidies were granted both for new construction and for modernisation measures. In accordance with the neutrality principle, the guaranteed interest rates and the interest rate increases for the different tenure forms varied from each other. In 1990, the guaranteed interest rate for private investors was 2.45 % for new construction and 5.1 % for modernisation, with the annual increase being set at 0.25 percentage points. The first mortgage was at this time subject to interest at 11.2 % and the more risky state loan at 11.75 % (Papa, 1992, 142, 149). For the state, the costs of this generous subsidisation system were completely open-ended and incalculable. While the interest subsidies were still relatively low on introduction of the system, they increased drastically with rising market interest rates. Arbitrary interest rate changes also made the system difficult to assess and forecast by investors.

The state loans were abolished in 1992, since when all loans have to be sourced on the capital market. A state security bond can however be obtained for a charge of 0.5 % (Donner, 2000, 465), which depending on the investor type comes to 25 % to 30 %.

The system of interest subsidies was fundamentally reformed in 1993. This was necessitated by the substantial reduction of tax subsidisation of ownership. In order not to infringe the neutrality principle, according to which all forms of housing are to be subsidised equally, subsidisation of rented and cooperative housing also had to be reduced. The risk of rising interest rates was also to be transferred to investors. Instead of the difference between the guaranteed interest rate and the market interest rate, only a certain percentage of qualifying interest payments are reimbursed. This percentage, which in 1993 was 57 % for private landlords, municipal housing companies and cooperatives, was reduced by 4 % for each subsequent year of subsidisation. From 1998, the above investor types have received a grant of 30 % (Turner, Whitehead, 2002, 205).

The qualifying interest payments are calculated by multiplying the subsidy interest rate by the investment costs, which in contrast to the old system, consist of a fixed amount. Under the old system, the actual investment costs could be applied. Under the new system, costs of 13,000 SEK (1,422 Euro) are applied for the first 35 m² of living area, and 6,000 SEK (656 Euro) for any further living area between 35 m² and 120 m². Housing with an area of over 120 m² is no longer subsidised. The subsidy interest rate is established weekly as the weighted average of interest rates for 5-year mortgage loans (Bengtsson, 1994, 192).

As already described, numbers of completions fell drastically in the 1990's. In the growth regions such as the three metropolitan areas of Stockholm, Göteborg and Malmö and some other University towns, increasing shortages have developed since the mid-1990's, with a particular shortage of low-cost rental housing. In order to alleviate these shortages, an additional subsidy was introduced in 2001 for rental housing construction in growth areas, under which investment allowances of up to 150,000 SEK (16,402 Euro) can be granted. This is a restricted programme which runs out in 2006. In contrast to the interest subsidies, the available funds are also restricted. This was augmented in 2003 by a programme which offers investment incentives for the construction of student housing and small dwellings with a living area of up to 70 m² (Ministry of Finance, 2004, 15).

4. The public rental sector

In Germany social housing is subject to rent control and access restrictions. Social housing in this sense does not exist in Sweden. Instead there is the public rental sector made up of the municipal housing companies. But this housing is available to all households, and the rents do not differ from those of the private sector. The municipal housing companies act therefore as providers of housing for all household groups, and are as a result in direct competition with private providers. As municipal companies, they however fulfil the traditional role of providing housing for needy households (Turner, 1997, 484).

The social character of Swedish housing policy resulted above all from the comprehensive and equitable subsidisation of all new construction, which was intended to ensure affordability of housing for average wage earners. This subsidisation was supplemented by a housing allowance for low-income tenants. A separate segment for the target groups was to be prevented by the unrestricted access and the uniform rents in the public and private sectors, since this would inevitably have been associated with segregation and stigmatisation. Publicly and privately rented housing should instead serve as mutual substitutes.

4.1 The municipal housing companies

The municipal housing companies are non-profit-making organisations, who do not aim to make profits, and are under the ownership of the municipalities. Although they are constituted as independent and financially viable organisations, the state and the municipalities ultimately stand security for these companies, and in many cases, losses were covered by municipal grants (Boelhouwer, 1997, 91; McCrone, Stephens, 1995, 133, 134). The administrative boards are appointed by the municipalities, and to this extent reflect the political balance of power within the municipalities. While people from the political scene were mostly appointed to these administrative boards in the past, they are now increasingly being staffed by those with commercial and economic experience (Boelhouwer, 1997, 84-85).

In the 286 Swedish municipalities, there are 315 municipal housing companies, who administer a total housing stock of approx. 900,000 dwellings (Donner, 2000, 474). Every municipality has on average one company, although some of the larger cities operate several companies. Stockholm and Gothenburg for example each have three companies (Turner, 1997, 479). The area of responsibility is restricted to the relevant municipality (Wiktorin, 1993, 147). These companies manage an average of 2,800 dwellings, while the actual stocks range from 40 to 54,000 dwellings each (Donner, 2000, 474).

4.2 Development of stocks and housing structure

The proportion of the public sector in total housing stocks increased from 6 % in the year 1945 to 25 % in 1990. The strongest growth took place in the 1950's and 1960's. From 1945 to 1960, the percentage of municipal housing increased from 6 % to 14 %, and from 1960 to 1970 from 14 % to 23 %. Between 1970 and 1990 the proportion increased only slightly to 25 %.

The structure of public and private rental housing varies considerably. Private rental housing is generally older, with a smaller living area, and is composed of smaller units (Boelhouwer, Heijden, 1992, 237) in more central locations than that of the municipal companies.

Table S.4
Housing by age and type, 1993 (in percent)

Year of construction	Publicly rented	Privately rented	Ownership	Cooperatives	Total
up to 1940	4.7	32.7	23.6	8.2	19.1
1941-1950	7.2	15.3	5.5	10.5	9.6
1951-1960	20.2	13.6	11.4	20.5	15.2
1961-1970	32.4	17.7	17.6	27.7	22.5
1971-1980	21.4	8.9	28.7	13.3	20.4
1981-1990	11.3	7.3	9.8	15.0	10.3
1991-1992	2.8	4.4	1.4	5.0	2.9

Source: Turner, 1997, 478

Table S.4 shows the age structure of the different housing forms in 1993. While 48 % of privately rented housing dates from the time prior to 1950, the figure was only 12 % for public rental housing. 74 % of publicly rented housing was constructed during the 1950's, 1960's and 1970's, while only 40 % of privately rented housing dates from this period.

As Table S.5 shows, privately and publicly rented housing is on average of about the same size, although there are both more small and large dwellings amongst privately rented housing.

Table S.5
Dwelling size by tenure forms, 1989 (in percent)

	Dwelling size: number of rooms plus kitchen					Average
	1	2	3	4	5	
Publicly rented	15.1	40.7	32.3	9.9	2.1	2.44
Privately rented	19.7	38.0	27.7	10.8	3.8	2.41
Cooperatives	10.5	37.2	34.5	13.6	4.2	2.64
Owner-occupied	0.1	3.3	12.6	36.0	48.0	4.29

Source: Turner, 1996, 102-103

The majority of housing built in the 1960's is located on large housing estates on the outskirts of towns and cities. However, since these estates were invariably provided with adequate landscape and play areas, shopping facilities and other infrastructure features, they are much more attractive than their counterparts throughout the rest of Europe (Boelhouwer, Heijden, 1992, 247-249).

Only 3 % of housing owned by municipal housing companies is located in single-family houses. In recent years however, many more such houses have been built. In 1990 and 1991, 10 % of new construction in the public sector took the form of one-family houses (Boelhouwer, 1997, 85).

4.3 Rent setting

The rent setting procedure has already been described in Section 3.2. Tenants' protection corresponds to that of private rental housing.

4.4 Access to public housing, housing allocation and occupancy structure

In order to avoid segregation and stigmatisation, access to municipal housing stocks is not subject to any restrictions. The provision of needy households is however one of the traditional tasks of the municipal providers (Turner, Whitehead, 2002, 211).

In combination with the reform of house building subsidisation, 1993 also saw the deregulation of housing allocation (Boverket, 2000a, 1) by the abolition of the housing supply act and the housing allocation act. Under the allocation act, municipalities had under certain conditions also been entitled to make allocation of empty housing belonging to private providers. Although this right was never exercised, it did serve to support voluntary agreements, in which private landlords undertook to allow a certain proportion of housing becoming available to be allocated by the municipality. Many municipalities therefore operated housing agencies, although many of these offices have been closed since the abolition of the housing allocation act. A new and somewhat watered-down housing supply act came into force in 2001. According to this act, the municipalities must compile housing supply plans at least every four years, i.e. once within the legislature period, which also take into account the needs of households requiring assistance. They should also again set up housing agencies if this has any prospect of improving the housing supply. In the first four years since the passing of the act, only 88 of the 289 municipalities have submitted housing supply plans, although they are all legally obliged to do so. Only 10 municipalities have established housing agencies (Sahlin, 2004, 3-4). In 1977 however, 158 municipalities claimed to operate such a housing agency, while 47 had transferred this task to the municipal housing companies (Lundqvist, 1992, 98).

Since deregulation in 1993, housing allocation has therefore in effect been the responsibility of the housing companies. The guiding principle when it comes to allocation and renting is the waiting period (Boverket, 2000b, 6). Waiting lists are however only maintained by 170 of approximately 340 municipal companies (Sahlin, 2004, 4). There are also municipalities in which a certain proportion of housing is allocated on the basis of need. The allocation can be carried out either by a housing agency or by the municipal housing company direct. The establishment of a housing agency is completely voluntary on the part of the municipality and the housing companies. The criteria applied when making the allocation can also be freely agreed between the municipalities and the housing companies concerned, and can be based either on the need of the people in search of housing, or the needs of the municipality, e.g. for certain types of skilled workers (Boverket, 2000b, 6).

Table S.6
Housing allocation by municipal housing agency in Stockholm

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Waiting list	13,287	14,480	17,802	21,845	28,389	37,856	47,696	62,491	80,454
Housing allocation	3,870	5,226	5,841	5,168	4,667	3,434	3,260	3,788	4,427
from waiting list	2,174	3,029	3,684	3,702	3,263	2,263	2,490	3,060	3,775
urgent cases	689	1,011	972	977	1,032	840	602	527	528

Source: Sahlin, 2004, 6

To illustrate the procedure, the allocation practice in Stockholm is described below. As Table S.6 shows, the waiting list of the municipal housing agency “Bostad Stockholm” grew continually from 1995 to 2003. The number of allocations however remained relatively stable, although increasingly fewer urgent cases were able to be accommodated. The housing agency made agreements with the association of private landlords and the three municipal housing companies. It was agreed with the private providers that half the housing becoming available would be allocated through the housing agency. The municipal companies make all vacant

housing available to the agency, where this is not allocated by means of an internal waiting list. In practice, only those applicants are proposed who largely comply with the landlords' specifications with regard to type and level of income, age and sex. The final decision on renting remains with the owner. The housing agencies thus in effect provide a service function for the landlords (Sahlin, 2004, 7-8).

People in search of housing who are not accepted by any landlord often receive housing which is rented by the municipality and then sub-let. In these cases, there is no protection against eviction in effect.

The increasing financial pressure is forcing the municipal housing companies to increase segregation. In order to achieve high rents in the more attractive housing stocks, they are compelled to try to keep needy households away from such housing, and accommodate them instead in dwellings that are not in such demand. This development is being exacerbated by growing levels of unemployment amongst low wage earners and immigrants (Turner, Whitehead, 2002, 214-215).

Table S.7 shows the proportions of households categorised by income deciles in the various forms of tenure. For the sake of clarity, the deciles have been summarised into three groups: households with low, medium and high incomes. If the income groups in the different tenure forms were distributed in the same way as in the general population, this should give a figure of 30 % for low incomes, 40 % for medium incomes and 30 % for the high income deciles.

Table S.7
Income structure¹⁷⁰ by tenure forms in %, 1989

Income decile	Income	Publicly rented	Privately rented	Owner-occupied	Cooperatives
1 to 3	low	37	31	23	27
4 to 7	medium	38	41	45	37
8 to 10	high	25	29	33	36
Total		100	100	100	100

Source: Turner, 1996, 101; own calculations

In the publicly rented housing stocks, the households with low income are somewhat over-represented, and the households with high income slightly under-represented, although the deviations from the proportional distribution are minor. In the private rental stocks, the income groups are distributed in approximately the same way as the general population. Households with medium to high incomes are over-represented in the owner-occupied sector.

Table S.8
Household types by tenure forms in %, 1993

Household type	Publicly rented	Privately rented	Owner-occupied	Cooperatives	Total
1 adult without children	61	67	16	55	43
1 adult with children	10	7	3	5	6
2 adults without children	20	19	43	29	30
2 adults with children	10	8	37	11	21
	100	100	100	100	100

Source: Turner, 1997, 479

¹⁷⁰ The incomes have been weighted according to household size, number of adults and number of children. A household with two adults was allocated a factor of 1.61, a household with one adult and one child a factor of 1.4.

Single people are strongly over-represented both in the publicly and privately rented housing stocks (see Table S.8). Single parents are also more heavily represented in the public rental sector. Families with children are significantly under-represented both in publicly and privately rented housing. According to Donner (2000, 478), most households in search of larger housing are forced to become owner-occupiers, while on the other hand, households in search of rental housing have to be satisfied with a smaller living area.

Table S.9
Age of households by tenure forms in %, 1989

Age	Publicly rented	Privately rented	Owner-occupied	Cooperatives	Total
up to 30	34.9	34.4	11.9	18.9	100
31 - 40	20.7	20.3	47.5	11.5	100
41 - 50	17.1	10.2	61.5	11.2	100
51 - 60	17.5	15.4	54.8	12.2	100
61 and older	23.2	28.9	33.5	18.1	100

Source: Englund, Hendershott, Turner, 1995, 4

As Table S.9 shows, the proportions of young and older households in rented housing and cooperative housing are higher than the proportions of middle-aged households, most of whom live in owner-occupied property.

In the year 2000, 178 out of 289 municipalities had a housing surplus, while 45 municipalities suffered from a shortage. The housing shortage affects in particular single parents, foreigners and homeless people released from institutions following the psychiatry reform. There is a particular shortage of small dwellings for students and young people and larger dwellings for foreign families with children, who have no chance of getting into the ownership sector.

4.5 Taxation

See the statements under Point 3.3.

4.6 Direct subsidisation

Under the new system, privately and publicly rented new construction are subsidised to the identical extent (see Point 3.4).

Under the old system there were several differences. The state loan for municipal housing companies was larger (30 % of the qualifying costs) than that for private providers (25 % of the qualifying costs). The guaranteed interest rate for the municipal housing companies in 1990 was slightly higher (2.7 % for new construction, 5.25 % for modernisation) than for private landlords (2.45 % for new construction and 5.1 % for modernisation) (Papa, 1992, 142-143).

4.7 The future of the municipal housing companies

The tax reform, cutbacks in subsidisation, the strained municipal finance situation and the number of dwellings standing empty have all subjected the municipal housing companies to increased cost pressure, which is forcing them to react accordingly. At the same time, the mu-

nicipalities are becoming continually less able to support their companies financially (McCrone, Stephens, 134), and in some cases they have even requested repayment of funds provided in the past (Turner, 1997, 483).

According to Turner (1997, 483-486) and Turner and Whitehead (2002, 211-215), the companies have a range of possibilities for reacting to this financial pressure. They can:

1. organise their administration and management more efficiently,
2. refrain from new construction to improve their liquidity,
3. liquidate their undisclosed reserves,
4. leave maintenance expenses to the tenants,
5. increase their capital base by taking in new shareholders or shareholding by tenants,
6. sell a part of their stocks,
7. bring rents more into line with market levels,
8. accept more social segmentation.

The last three options face the companies with the strategic choice of either keeping their stocks generally available, or splitting them into two segments, one of which would be reserved for the target groups, while the other remains generally available.

Since the 1990's, many municipalities have sold part or all of their housing stocks. Most such housing was acquired by private companies. In Stockholm in particular, many buildings were sold to cooperatives founded by the tenants (Boverket, 2000b, 5). Only the higher-income tenants generally become members of such cooperatives, while the others remain ordinary tenants. The municipalities who want to sell their housing companies completely are generally those in economically weak areas, in which the companies can no longer be operated to cover their costs due to the lack of demand. However, economically strong municipalities with profitable companies are also planning similar sales, this intention often being substantiated by the fact that the operation of housing companies is not considered a municipal task. The sale of whole companies has attracted much criticism, as has the sale of partial stocks, which is often planned for short-term budget considerations. Since only the more attractive stocks can be sold at a profit, the municipality is left with the less attractive housing on its hands. This strategy can lead to a concentration of social problems, and also makes cross-subsidisation between stocks increasingly difficult (Turner, 1997, 484-485; Turner, Whitehead, 2002, 213-214). In the year 2002, a law was passed which was intended to make the sale of municipal housing more difficult. Under this law, sales have to be approved by the regional administration (which are central state authorities). For example, such a sale may be prohibited if the municipal housing stocks become too low to serve as a comparison basis for local rent negotiations (Sahlin, 2004, 4).

However, the companies can also improve their financial situation by increasing the rents for their more attractive stocks. This would at the same time allow them to keep rents constant, or even reduce them for housing which is less in demand, although this is a laborious process because of the negotiation system (Turner, 1997, 485-486; Turner, Whitehead, 2002, 214).

Rents more in line with market levels allow a balance between the deficits created by less attractive stocks and the surpluses obtained from more attractive stocks. To achieve this however, the companies must operate an active segregation policy. In order to uphold prices in attractive areas, they have to keep low-income households and immigrants out of such housing, accommodating them instead in less attractive stocks (Turner, 1997, 486; Turner, Whitehead, 2002, 214-215).

According to McCrone and Stephens (1995, 134), this gives rise to the danger of a blurring of the distinction between private and municipal providers, and the consequent transfer of stocks to the private sector. This development could lead Sweden into a situation in which the housing allowance alone would have to ensure an acceptable housing supply for less affluent households. Although supply subsidisation in most European countries has been curtailed in favour of income-related demand subsidisation, these countries still want to maintain their social sectors.

The level of vacancies empty represents a considerable problem for many municipal housing companies outside growth areas. Of the 56,000 dwellings nationwide that could not be rented in 1999, 40,000 are owned by the municipal housing companies. The losses associated with this empty property can become a problem for the municipalities. In order to reduce the vacancy quota, rent rebates are granted or alternative uses sought. Increasing consideration is also being given to demolition. About one third of the 289 municipalities plan to demolish such unoccupied property. In 1999, 3,600 dwellings in multi-family houses were demolished, while 10,000 demolitions were anticipated for the year 2000. Approximately 80 % of the buildings concerned were built in the 1960's and 1970's, and 20 % in the 1940's and 1950's (Boverket, 2000b, 4-5). A fund of 700 million Euros has meanwhile been established to support the restructuring of municipal housing companies with high vacancy quotas (Nyström, 2003).

5. Cooperative housing

5.1 Development of stocks

Although the cooperative movement traces its origins back to the 19th Century, the main growth did not take place until after the Second World War. The proportion of cooperative housing to total stocks increased from 4 % in the year 1945 to 15 % in 1990 (see Table S 1). Overall there are approx. 9,000 cooperatives with a total of 600,000 dwellings (McCrone, Stephens, 1995, 126). The strong growth of the cooperatives is also due to the fact that individual ownership of dwellings in multi-family houses is not allowed in Sweden, while cooperative ownership approximates very closely to owner-occupancy. The proportion of the cooperatives in completions has increased steadily since the mid-1970's.

Although the cooperatives generally own multi-family houses (McCrone, Stephens, 1995, 126), these dwellings are on average larger than rental housing. They also hold a higher proportion of larger dwellings (see Table S 4). Since the building boom of the late 1980's, the cooperatives have been building more single-family houses, achieving a proportion of completions for this type of building of over 40 % at the beginning of the 1990's (Donner, 2000, 472). This was also due to the more generous subsidisation granted to the cooperatives in comparison to owner-occupiers resulting from the higher qualifying building costs (Boelhouwer, Heijden, 1992, 261; Papa, 1992, 142). Since the reform of house building subsidisation of 1974 it was an official aim to increase the proportion of single-family houses in the other forms of housing.

5.2 Institutional regulations

Originally, all cooperatives had to belong to one of the two parent associations, either the HSB¹⁷¹ founded in 1923, or the Riksbyggen established in 1940 by the trade unions (Boelhouwer, Heijden 1992, 238). Many independent cooperatives were created after this membership requirement was abolished. The HSB numbers approx. 4,000 cooperatives with 325,000 dwellings, and the Riksbyggen only 1,900 cooperatives (Donner, 2000, 474).

The first cooperative act was passed in 1930. The current regulations date from the year 1972. The cooperatives must register with a regional commission, at which time their financing plans are also reviewed. Cooperative members receive an unrestricted residential right. Since 1969, the residential right can be sold at market prices, so that its value has since been determined on the basis of supply and demand. Up to 1969, the residential right could only be returned to the cooperative on vacating a property. The price was fixed and allowed no increase in value. Currently the prices are very high particularly in sought-after city locations (McCrone, Stephens, 1995, 127, 129). Very high value increases sometimes took place in the past for residential right in new housing. There are consequently long waiting lists for membership of a cooperative (Boelhouwer, Heijden, 1992, 239).

For new housing, new members have to pay an initial fee, by which they acquire a share in the cooperative. The amount of this initial fee is 1 % of the building costs for municipally supervised cooperatives and 5 % for other cooperatives. The remaining costs are financed by the subsidised loans. The management can however have a higher proportion financed by members' contributions. This decision affects the amount of the monthly payments and the tax concessions of members (McCrone, Stephens, 1995, 127).

Since the residential right can be accepted by banks as security, the purchase price or initial fee for the residential right can be financed by means of loans. The interest payments due on such loans, as for ownership, can be deducted at a specified percentage from the income tax liability. Value increases on sale of the entitlement are subject to tax (Boelhouwer, Heijden 1992, 239; McCrone, Stephens, 1995, 127, 129).

Households with higher incomes benefit most from the procedure for allocation of new housing (Boelhouwer, Heijden, 1992, 239). This also corresponds to the figures in Table S.7, which shows that the cooperatives number an above-average proportion of high-income households.

The cooperative members have the right to make changes and modifications to the housing. The management decides on the extent of the services, the upkeep investments and therefore also the ancillary costs. Since the management is elected by the members, the latter have an indirect influence on the monthly costs (Boelhouwer, Heijden 1992, 238-239). In addition to the charges for services and maintenance expenses, these also include charges for interest, capital repayment, depreciation, water, electricity and heating. Although comparable to rent, these payments are usually lower than the rents for comparable rental housing, which is partly due to the obligation on members to carry out repairs themselves (McCrone, Stephens, 1995, 127). The running of cooperative housing also appears to be more efficient than that of rental housing.

¹⁷¹ Hyregästernas Sparkasse och Byggnadsförening.

5.3 Taxation

The distinction must be made between the tax treatment of the cooperative on the one hand, and its members on the other. The companies as a rule pay no taxes (Englund, Hendershott, Turner, 1995, 12). The interest on loans used to finance the initial fee or the purchase price for the residential right can, as in the case of owner-occupied property, be deducted from the tax liability to a level of 30 % (Boelhouwer, Heijden, 1992, 239; McCrone, Stephens, 1995, 127). This creates an incentive for the cooperatives to take out no loans wherever possible. This is however counterbalanced by interest subsidies, which are only given for the loans granted to the cooperative (Englund, Hendershott, Turner, 1995, 12).

5.4 Direct subsidisation

Under the new system, privately and publicly rented and cooperative new housing are subsidised with identical amounts (see Point 3.4), whereas previously there were differences between these forms. The state loan for cooperatives was larger (29 % of the qualifying costs) than that for private providers (25 %), but lower than that for municipal companies (30 %). The guaranteed interest rates in 1990 corresponded to those for private landlords (2.45 % for new construction, 5.1 % for modernisation) and were thus somewhat lower than those for municipal housing companies (2.7 % for new construction, 5.25 % for modernisation). The qualifying costs on which the interest subsidies were calculated were higher for cooperatives than for owner-occupiers (Papa, 1992, 142).

6. The owner-occupied housing sector

Since individual ownership in multi-family buildings is not allowed, owner-occupied dwellings are exclusively single- or double-family houses.

6.1 Development of stocks

The proportion of owner-occupied housing to total housing stocks fell from 38 % in the year 1945 to only 34 % in 1960. This decline resulted from the lower number of completions in this sector, despite rising absolute figures. Between 1970 and 1980 however, the percentage of owner-occupied housing then increased sharply, from 34 % to 41 %, because of higher completion proportions. Since then, it has remained more or less constant (see Table S 1). The divide between town and country is very large, and the ownership quota in rural areas is 80 % (Boelhouwer, Heijden, 1992, 236).

As Table S.5 shows, large dwellings are found above all in owner-occupied housing, so that households requiring a large living area are forced to switch to owner-occupancy. This applies particularly for households with children, of which 72 % already live in owner-occupied property, while 21 % live in rental housing and 7 % in cooperative housing. For low-income households however, home ownership is difficult (Boelhouwer, Heijden, 1992, 250, 252, 256, 259).

As a result of speculative expectations, new construction costs and housing prices increased steeply at the end of the 1980's, increasing by 30 % between 1987 and 1991 (McCrone,

Stephens, 1995, 125). Over-production, tax reform and economic recession then caused prices to fall again by 30 % between 1991 and 1993, which meant that the value of many owner-occupied homes fell below the still outstanding debts (Donner, 2000, 470). House prices have recovered again since 1996, although this development has taken place very differently at a regional level. While values in the metropolitan areas and University towns significantly exceed the maximum levels of the year 1991, prices in rural areas have not recovered so well at all. In large city areas therefore, only very few low- or medium-income households can afford to become homeowners. New owner-occupied housing is only built for high-income households. This situation is exacerbated by the very tight rental housing market, where rental contracts are sometimes negotiated at black market prices (Turner, Whitehead, 2002, 209).

6.2 Taxation

Taxes on purchase

The regulations correspond to those for privately rented housing (see Section 3.3.1).

Taxes during the usage period

Up to the tax reform in 1991, the imputed rent of owner-occupied housing was subject to taxation. The net rent was set as a percentage of the assessed property value, whose relationship to the market value varied over the course of time.¹⁷² The percentage varied, depending on the assessed value, between 2 % and 8 %, ¹⁷³ although 97 % of all housing fell into the 2 % category (Englund, Hendershott, Turner, 1995, 8).

Up to 1982, interest payments could be deducted in full from taxable income, which at a marginal tax rate of 80 % could lead to tax reductions of up to 80 % of the loan interest. From 1982, the tax liability could only be reduced by a maximum of 50 % of the interest payments. This percentage was reduced further to 40 % in 1990. These reductions were intended to maintain the balance of subsidisation between rental and ownership (Papa, 1992, 151).

Taxation of the imputed rent was abolished under the 1991 tax reform, since when 30 % of the interest payments up to a maximum of 100,000 SEK (10,935 Euro) can be deducted from the tax liability. Interest payments in excess of this amount may be deducted at a rate of only 21 % (EMF, 1997, 119). The maximum amount is doubled for married couples (McCrone, Stephens, 1995, 124).

Since interest subsidies were given only for new construction, tax deductibility of loan interest proved particularly attractive for purchasers of existing housing. The tax regulations for new construction became more important when interest subsidies for owner-occupied property were discontinued (McCrone, Stephens, 1995, 125).

¹⁷² Following re-assessment in 1981, the assessed values were approx. 70 % of the market value. By 1989 they declined to 40 % and increased again to 52 % following re-assessment in 1989 (Englund, Hendershott, Turner, 1995, 8).

¹⁷³ 2 % for the first 450,000 SEK (49,207 Euro),
 4 % for values between 450,000 SEK and 600,000 SEK (48,366 Euro and 65,609 Euro),
 6 % for values between 600,000 SEK and 750,000 SEK (65,609 Euro and 82,011 Euro) and
 8 % for values above 750,000 SEK (82,011 Euro).

The regulations on land tax and wealth tax correspond to those described in Section 3.3.2, and will therefore not be examined further here.

Taxes on sale

For owner-occupied property, since 1993, only 50 % of the profits on a sale are liable to tax, and ancillary costs of the sale, together with maintenance expenses incurred over the last 5 years, can also be offset against the profits. If the profits are invested in a subsequent property, the tax is deferred, and only becomes due on the sale of the subsequent property (McCrone, Stephens, 1995, 125; EMF, 1997, 118).

Between 1991 and 1993, the whole proceeds from the sale were subject to tax at a rate of 30 %, although the tax was limited in the case of a main residence to 9 % of the sale price (18 % in the case of a second residence) (Donner, 2000, 467-468).

Up to 1991, the purchase price and maintenance expenses could be adjusted for inflation up to the time of sale, provided that the original purchase and maintenance expenses took place at least 4 years before (Papa, 1992, 151-152).

6.3 Direct subsidisation

Since 2000, owner-occupied housing has no longer been subsidised directly. Private and municipal rental housing and cooperative housing are still subsidised directly, in order to balance the tax subsidisation of owner-occupied property.

The interest subsidies granted prior to 2000 were revised in 1993, when 42.67 % of the qualifying interest payments were reimbursed. This percentage fell to 36 % in 1994, and was subsequently reduced annually by 5.5 %. The subsidies ran out completely in the year 2000. The qualifying interest payments were calculated as a fixed amount (see Section 4.4).

Up to 1992, the subsidy consisted of the difference between the guaranteed interest rate and the market interest rate. The interest subsidies were paid for the 1st mortgage sourced on the market and the state loan. The 1st mortgage covered 70 % of the subsidised costs, and the state loan 25 %. Cooperatives and municipal housing companies received a higher state loan (29 % or 30 % of the costs). From 1992 the state loan was replaced by a bond in the amount of 25 % of the subsidised costs. The interest subsidies remained unchanged. Owner-occupiers had to pay a higher guaranteed interest rate than landlords and cooperatives. In 1990, this was 4.9 % for new construction and 10 % for modernisation, and was increased annually by 0.5 percentage points (Papa, 1992, 142). The subsidy was only granted for housing that did not exceed a certain cost limit, although only very few, extremely expensive dwellings failed to qualify for the subsidy. The subsidy was also subject to the submission of several quotations, and was calculated on the basis of the qualifying costs (McCrone, Stephens, 1995, 121), which were lower for owner-occupiers than for cooperatives (Papa, 1992, 142).

The interest subsidies were restricted to new construction and modernisation measures, with no direct subsidisation for the purchase of existing housing, although purchasers could assume the low-interest financing. New construction subsidisation also influences the prices of existing housing (McCrone, Stephens, 1992, 124).

7. Housing benefits

In Sweden there are two major housing allowance systems, the family housing allowance and the housing allowance for retired persons. These are augmented by a third system for handicapped persons (Chen, Enström, 2003, 6). The family housing allowance is directed at households with children and young households without children, in which no member of the household is older than 28. The housing allowance for retired persons is granted to people receiving a retirement pension or other type of pension, such as a widow's or disability pension (Ditch, Lewis, Wilcox, 2001, 145,147). In all three systems, tenants, cooperative members and owner-occupiers are entitled to make a claim (Chen, Enström, 2003, 6). The costs are borne by the central government. Prior to 1995, the housing allowance for retired persons was financed mainly by the municipalities. The housing allowance is administered by the social security authorities, who have at least one office in every municipality (Kemp, 1997, 110).

The housing allowance regulations have been revised frequently over the course of time. The amendments coming into effect at the beginning of the 1990's were intended to cushion the increases in housing costs brought about by the tax reform and the cutbacks in subsidisation. Amongst other things, the maximum limits up to which the housing costs are included in the housing allowance calculation were raised (Englund, Hendershott, Turner, 1995, 15). The housing allowance entitlement was also extended to households without children, in which one member of the household is older than 28 (Kemp, 1997, 64). This naturally resulted in an increase in the number of recipients and housing allowance expenditure. In order to reduce costs again and increase concentration on the intended target groups, the housing allowance was again reformed in 1996 and 1997. Young households without children were once more disqualified from housing allowance entitlement, while the income determination for couples with children were tightened. This led to the proportion of single parents to families receiving housing allowance increasing from 50 % in the year 1994 to 80 % in 1997. An upper living area limit was also introduced, although the limits for owner-occupied housing are broader than those for rental housing. Housing allowance has since been calculated only on the basis of housing costs attributable to the appropriate living area. Finally, a limit was placed on the interest costs included in the calculation of housing allowance for homeowners. As a result, the proportion of owners to total recipients of housing allowance fell from 22 % in the year 1994 to 10 % in 1999 (Chen, Enström, 2003, 7).

The housing allowance calculation is made in two steps. First, the maximum housing allowance amount is determined, which depends on the rent, the household size and the age. In the second step, this amount is reduced in relation to income. The calculation of the housing allowance differs for households with children, households without children and retired persons, and is less generous for households without children and retired persons than for households with children (Kemp, 1997, 71).

Table S.10
Family housing allowance: qualifying housing costs in SEK (Euro)

	Minimum housing costs	Medium housing costs	Maximum housing costs
Young households without children	1,800 (197)	2,600 (284)	3,600 (394)
Household with 1 child	2,000 (219)	3,000 (328)	5,300 (547)
Household with 2 children	2,000 (219)	3,300 (361)	5,900 (645)
Household with 3 or more children	2,000 (219)	3,600 (394)	6,600 (722)

Source: Ditch, Lewis, Wilcox, 2001, 146.

The maximum housing allowance amount for families with children consists of a fixed amount and a further variable amount related to the housing costs. The fixed amount is 600 SEK (66 Euro) with one child, and increases by 300 SEK (33 Euro) for every further child. The variable amount related to the housing costs depends on the household size and the rent. The housing costs are only taken into account above a certain minimum figure dependent on the size of the household. The housing costs falling between the minimum figure and the medium figure are subsidised to the level of 75 %, and the costs between the medium and maximum figure at 50 % (see Table S.10). The fixed amount is not granted to young households without children. The maximum housing allowance amounts are shown in Table S.11. If the income exceeds the upper limit (see Table S.11), 20 % of this excess income is deducted from the maximum housing allowance amount. For single parents, the income limit is 117,000 SEK. The same amount applies for couples. A further deduction is however made in this case if one of the couple's incomes exceeds half the allowed amount (Ditch, Lewis, Wilcox, 2001, 146).

Table S.11

Maximum family housing allowance: maximum housing allowance and income limits

	Maximum housing allowance SEK (Euro)	Upper size limit	Single persons income limit SEK (Euro)	Couples income limit SEK (Euro)
Young households without children	1,100 (120)	60	41,000 (4,483)	58,000 (6,342)
Household with 1 child	2,500 (273)	80	117,000 (12,794)	2 x 58,500 (6,397)
Household with 2 children	3,175 (347)	100	117,000 (12,794)	2 x 58,500 (6,397)
Household with 3 children	3,900 (426)	120	117,000 (12,794)	2 x 58,500 (6,397)
Household with 4 children	4,200 (459)	140	117,000 (12,794)	2 x 58,500 (6,397)
Household with 5 or more children	4,500 (492)	160	117,000 (12,794)	2 x 58,500 (6,397)

Source: Ditch, Lewis, Wilcox, 2001, 146.

The relevant housing costs include rent or mortgage interest, heating and running costs (water, waste water, maintenance, insurance and land tax). Cooperative members can also include the interest payable for financing the residential right acquisition (McCrone, Stephens, 1995, 135).

The housing allowance payments are calculated by means of an income estimate made by the household itself. 15 % of assets above a specified upper limit are also counted as income. For homeowners, the value of their home is also taken into account. The definitive housing allowance calculation is only carried out following the income tax assessment. If the household has overestimated its income, it receives an additional housing allowance payment, otherwise any excess housing allowance paid must be returned (Ditch, Lewis, Wilcox, 2001, 146-147).

Table S.12 shows the change in housing allowance expenditure over the period 1995 to 2000. Due to the reform, expenditure on family housing allowance decreased substantially from 1995 to 1997.

Table S.12
Housing allowance expenditure

	Family housing allowance in million SEK (Euro)	Housing allowance for the handicapped in million SEK (Euro)	Housing allowance for retired persons in million SEK (Euro)	Housing allowance Total
1995	9,220 (1,008)	2,297 (251)	8,142 (890)	19.659 (2.150)
1996	8,373 (916)	2,183 (239)	7,740 (846)	18.296 (2.001)
1997	6,195 (677)	2,233 (244)	7,311 (799)	15.739 (1.721)
1998	5,749 (629)	2,346 (257)	7,245 (792)	15.340 (1.677)
1999	5,067 (554)	2,498 (273)	7,437 (813)	15.002 (1.640)
2000	4,373 (478)	2,564 (280)	7,055 (771)	13.992 (1.530)
2001	4,000 (437)	10,400 (1,137)		14,400 (1,574)

Source: 1995 to 2000: Chen, Enström, 2003, 7
 2001: Ministry of Finance, 2004, 13

The number of recipients of family housing allowance fell from 660,000 in the year 1975 to 250,000 in 1987. This decline can be attributed amongst other things to the increasing number of women in employment, which brought about an increase in family incomes. By 1992, the number of recipients then rose again to 580,000 (Donner, 2000, 463, 477), before starting to fall again. In 2000, there were only 494,000 registered recipients of family housing allowance. In 1995, 33 % of couples with children and 99 % of single parents were receiving housing allowance (Chen, Enström, 2003, 7).

The number of retired persons receiving housing allowance fell from 780,000 in the year 1979 to 548,000 in 1990, before rising again to 593,000 in 1993 (Kemp, 1997, 77). Since this time it has fallen again, so that by 2002, there were only 455,760 retired persons registered for housing allowance. In 1993, 33 % of all retired persons were receiving housing allowance (McCrone, Stephens, 1995, 135).

If one considers recipients of housing allowance by sectors, this gives the following picture: in the municipal rental housing sector, 37 % of all tenants were receiving housing allowance in 1997, while the proportion in the private rental housing sector was 29 %. The housing allowance reduced the rental burden on income in the public sector from 43 % to 27 %, and in the private sector from 42 % to 28 % (Boverkett, 2000b, 6, 9).

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