

# The Role of the Not-for-Profit Housing Sector in Addressing the Affordable Housing Challenge

## The French experience

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**A MAJOR SOCIAL HOUSING  
BACKLOG**

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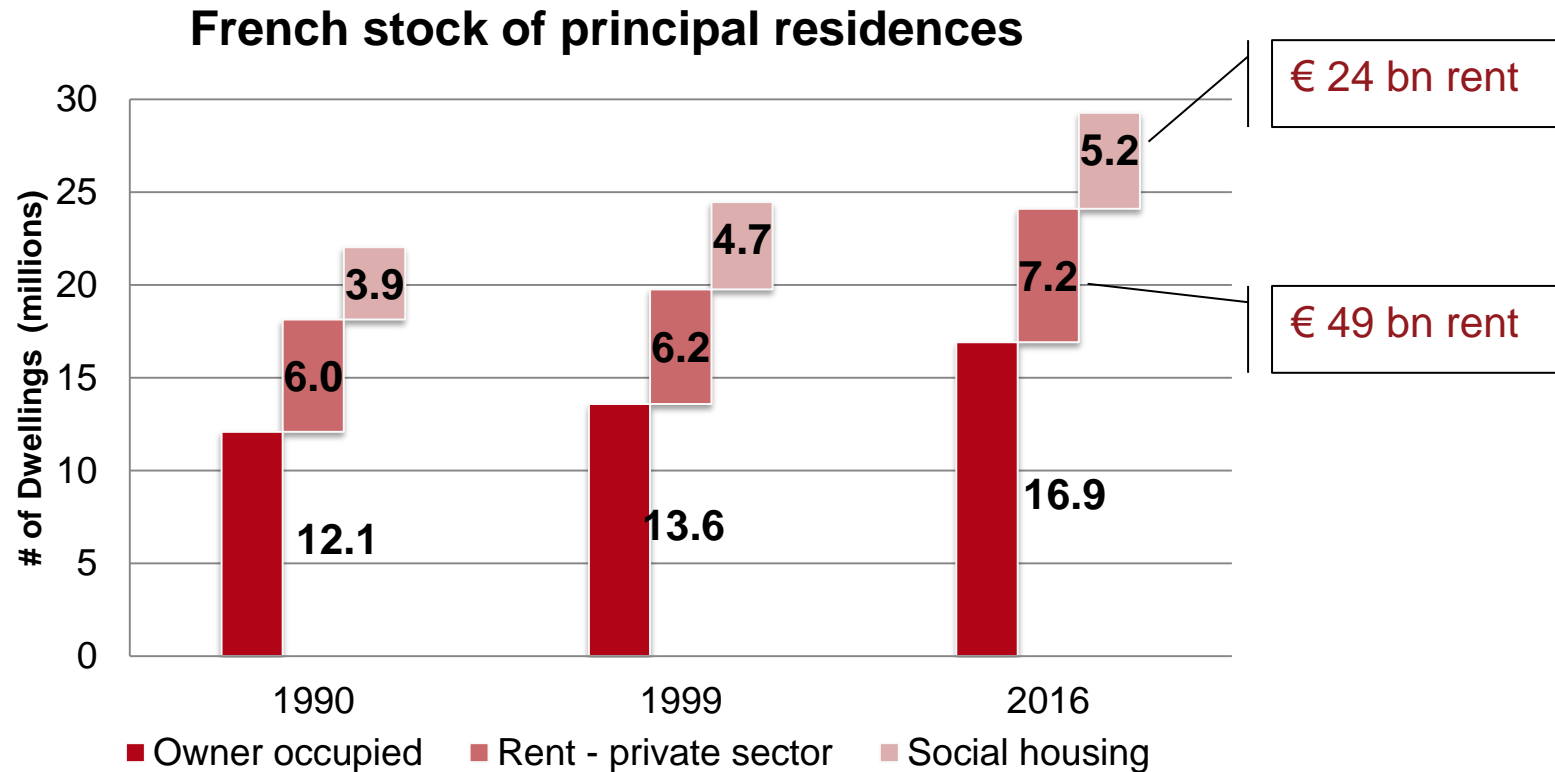
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**FINANCING SOCIAL HOUSING IN  
PARIS : BEST PRACTICES AND  
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# A MAJOR SOCIAL HOUSING BACKLOG

# 5,2 millions social housing dwellings in France



Source: Comptes du logement 2016

- 18% of French households live in social housing
- 750 social housing providers
- Rent between 50 and 66% of market prices (between 6 and 13€/m<sup>2</sup> in the Paris area)

# Social housing is broad targeted...

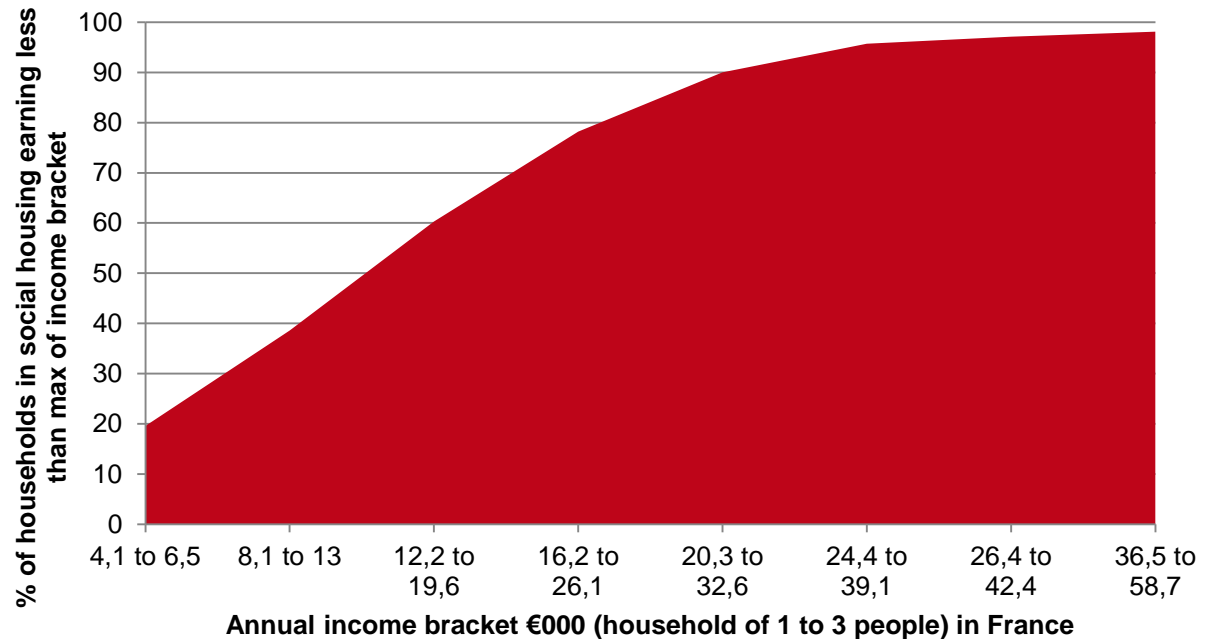
- **Access is means tested**

Income ceilings based on

- geographical area
- target population (very low, low and middle income)

- **60% of households meet the income requirements**

## Distribution of households in social housing by annual income



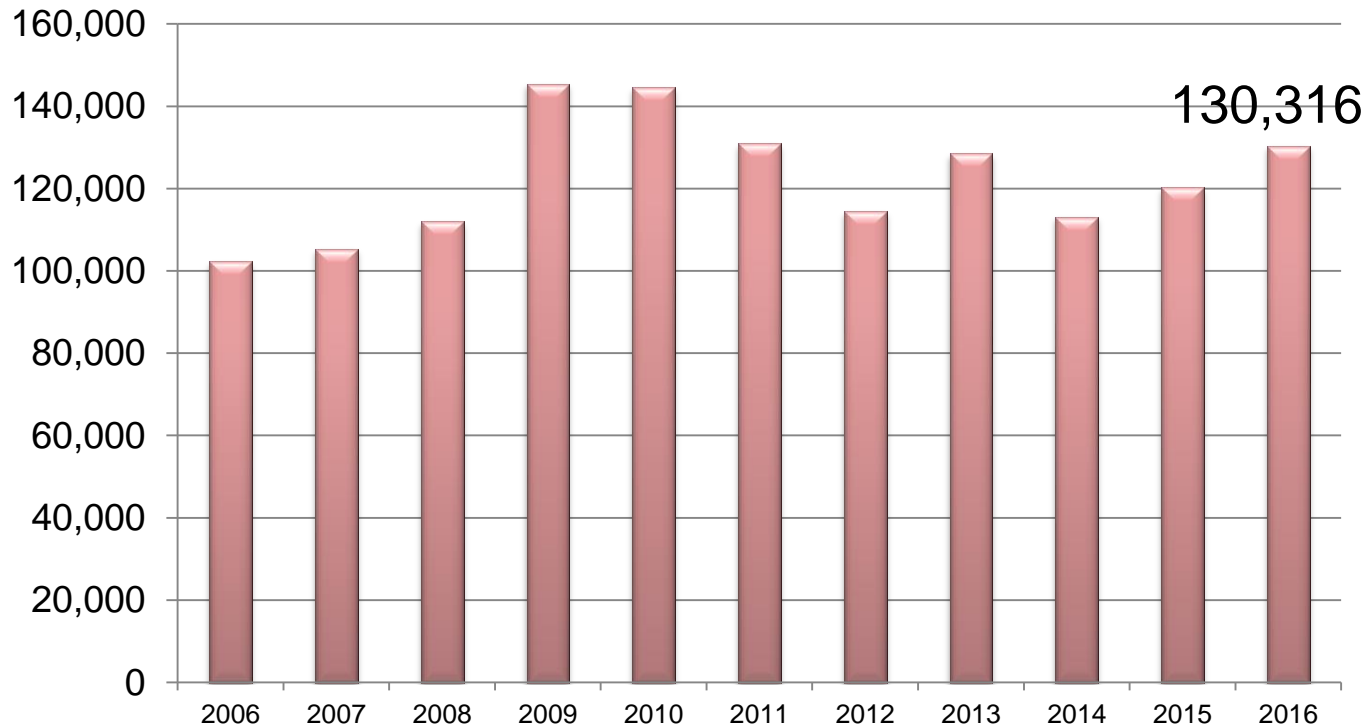
... but increasingly houses very low income households

60% of social housing households earn less than 60% of the « low » income ceiling (less than € 20 000 / year for a 3 people household in France, € 27 000 in Paris)

# A sustained investment effort in social housing...

- In 2016, social housing providers invested over € 20 bn in housing works
  - € 13,5 bn to produce new social housing
  - € 7 bn to work on their existing stock of properties

**Social housing production – France**



**... even during economic downturns**

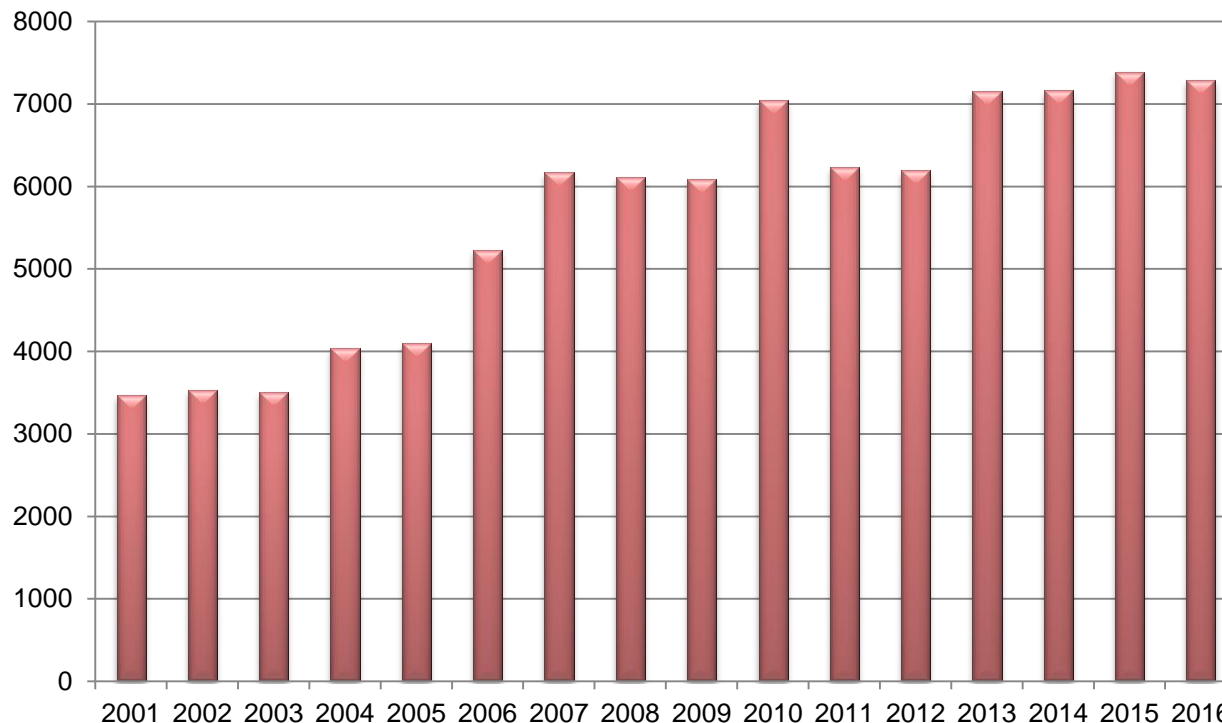
# But still, a major social housing backlog ...

- Close de **1,8 million registered applicants** in the national common waiting list
- Of which **one third in the Paris region alone** (Ile de France)
  - $\approx$  50% of existing social housing stock (1,2 million dwellings / 171 social housing providers)
  - Applicants overwhelmingly (70%) below the « very low » income ceilings....
- And **over 170 000 registered applicants in Paris itself**
  - $\approx$  80% of existing social housing stock in Paris (216 000 units, 48 providers)
  - About 12 000 applicants get granted social housing in Paris each year (housing turn over + new production)

# ...that the City of Paris is committed to reduce

- Central and local authorities share the responsibility for public housing policies and funding
- By law, social housing must account for 25% of all dwellings in urban areas by 2025
- Paris aims for 30% by 2030 (vs.  $\approx$  21% end of 2017), along with major investments on existing stock to limit energy consumption (« Plan climat »)

## Social housing production - Paris





# A FUNDING SCHEME UNDER PRESSURE

# A MULTILAYERED FUNDING SCHEME

## Upfront investment subsidies

- Grants from State (2%) and Local authorities (6%)
- Employers' funds ( $\approx 2\%$ )

## Long term loans

- Caisse des Dépôts
- 40 years, up to 60 for land
- $\approx 75\%$  of investment outlay

## Social housing provider self-financing

( $\approx 15\%$ )

## Operating subsidies to social housing provider

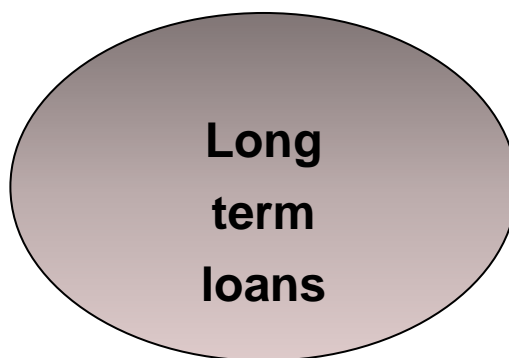
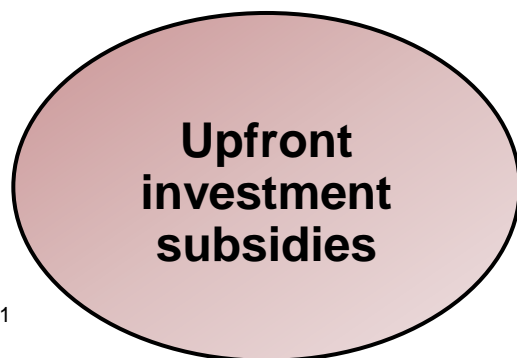
- State tax benefits (income tax, VAT)
- Local authorities (property tax)
- Loan guarantees

## Individual housing benefits

## Social housing provider operating revenues

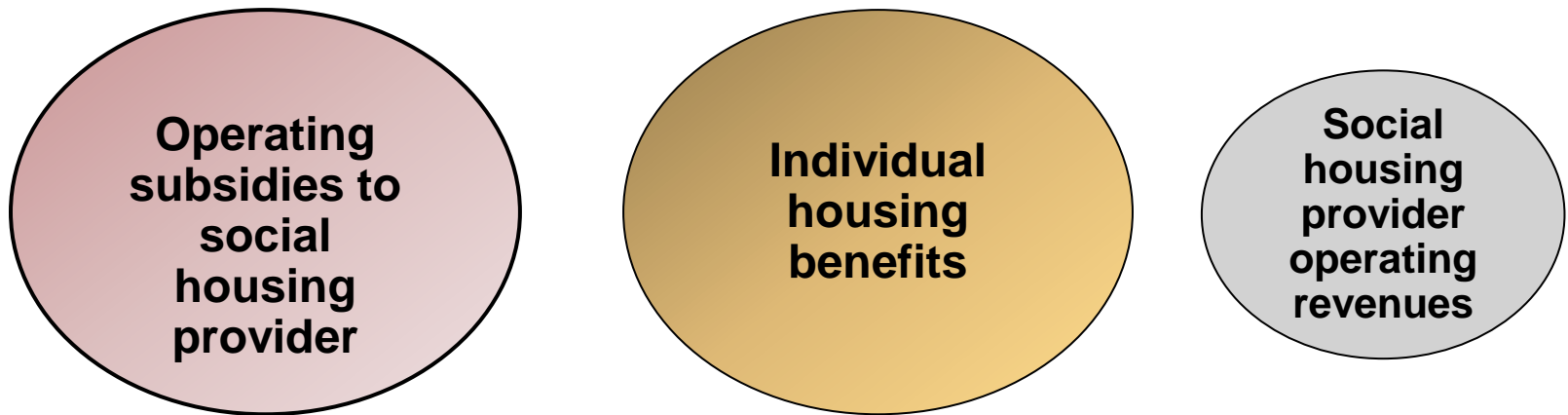
# A MULTILAYERED FUNDING SCHEME

- ✓ **Upfront investment subsidies («aides à la pierre ») and a secure financing framework reduce housing providers' upfront self-financing needs**
- Low rents are subsidized via public grants to social housing providers
  - ➔ State and local authorities approve investment plans
- Rent levels are set according to the target population **and** for the length of the loans with maximum growth set annually by the government
- The Caisse des Dépôts provides a secure financing framework with long term loans (40 up to 60 years for land in some urban areas)
  - Tax-free short term saving accounts (406bn assets) transformed into €182 bn long term funding
- ✓ **Public funding accounts for 30 to 42% of investment cost, depending on the target group**
- ✓ **But still, social housing providers generate positive cash outflows after 40 years...**



# A MULTILAYERED FUNDING SCHEME

- ✓ **Individual housing benefits (« aides à la personne »)**
- Added to the scheme since the late 70's
  - To tackle growing affordability issues for household ....
  - And to compensate the decrease of upfront investment subsidies and operating subsidies ....
- € 8,2 bn for the social housing sector in 2016 (≈ 33% of rent)



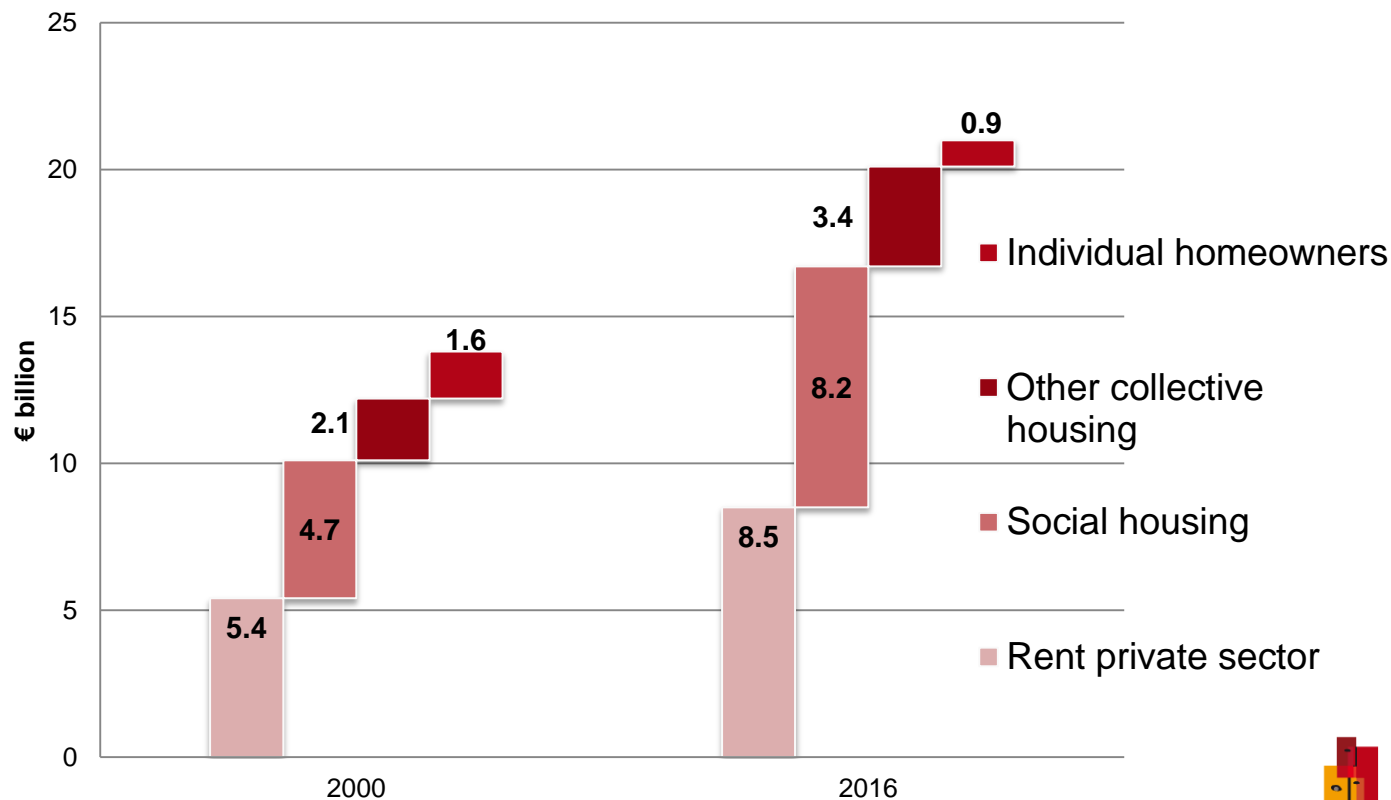
- ✓ **But total government spending for individual housing benefits is over € 21 bn, growing exponentially (€ 14 bn in 2000)**
- ✓ **Benefits are granted regardless of housing status → private and public sector alike**
- ✓ **Over 5 million beneficiaries, + 1M€ since the 2008 crisis ...**

# A FUNDING SCHEME UNDER PRESSURE

➤ **Global public spending for housing amounted to € 42 bn in 2016, +3% compared to 2015 , half of which being individual housing benefits**

- ❑ 41% of global public spending for housing is for the social housing sector (€ 17 bn)

## Individual housing benefits



# A FUNDING SCHEME UNDER PRESSURE....

## The 2018 Finance Law : 1,5 bn € annual cut in spending for social housing

- VAT reduced rate of 5,5% rises to 10% in 2018 and 2019 :  $\approx + 0,7$  billion € fiscal income
- Annual **cut in individual housing benefits paid to tenants of social housing alone**: €0.8 billion in 2018 and 2019, rising to € 1.5 billion in 2020
  - “Neutral” for tenants : **reduction of individual housing benefits and rents** paid by tenants to social housing provider
  - Cut of more than **6% of social housing providers rental revenues**  
Social housing entities will contribute to a fund to share among themselves the burden of this rent reduction

## ELAN Law being discussed in Parliament covers the broader social housing market. Draft legislation includes :

- a **reorganisation of social housing providers in the next three years** (a minimum of 10000 or 15000 housing units will be set );
- an **increase of asset sales**, which would allow social housing providers to replenish their cash reserves and to improve their self-financing capacity,
- a **reform of rent policy** to better align rents to tenants' incomes.

# **FINANCING SOCIAL HOUSING IN PARIS : BEST PRACTICES AND CHALLENGES AHEAD**

# Paris : a supply side challenge...



- **Very limited land opportunities** : a small city with high population density (21 000 inhabitants/km<sup>2</sup>, 2,3 million inhabitants)

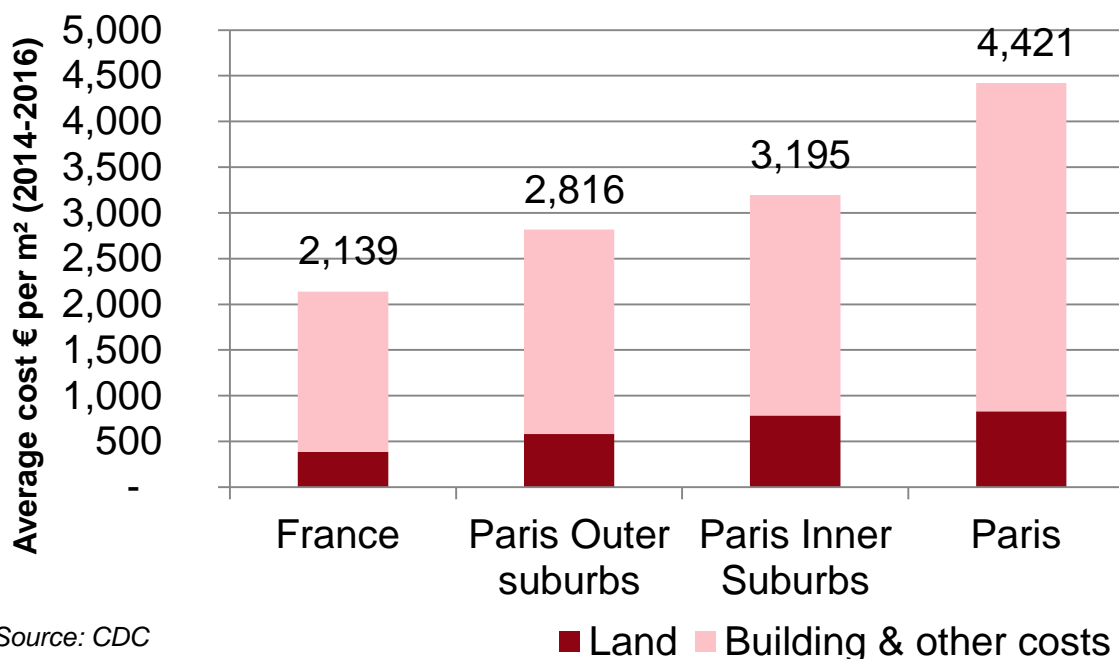


- **Expensive construction costs**



- **No residential ladder : low turnover rate**
- (rent in social housing is  $\approx$  €7/m<sup>2</sup> vs. More than € 23 /m<sup>2</sup> in the private sector)

## Average cost of social housing investment





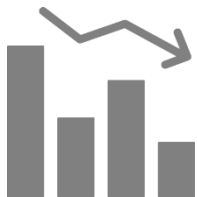
# Paris Habitat : Paris' largest housing provider



- 125 000 dwellings, over 50% of social housing in Paris
- 286 000 tenants (12% of Paris' population), 40% of which benefit from individual housing benefits
- Close to 10 000 new social housing delivered in the last 5 years
- Major investments needed on existing housing stock (over 55 years old on average vs. 34 nationwide)



- € 700 million annual rental income, € 112 million self-financing (net profit) in 2017
- 532 M€ committed in 2017 to produce 2 466 new social housing and refurbish 1 770 existing dwellings



- **Government measures will :**
  - deteriorate self-financing capacity : € 30 million cut in 2018 and 2019, € 52 million in 2020
  - increase the level of self-financing needed to balance investment plans (lower rents expected, function of tenants' income)

**The challenge ahead : sustain our investment effort with diminishing resources**