

Australia  
Britain  
Canada

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▲ Salta Developments, Richmond, Melbourne  
– build to rent project design

# Shaping Futures Changing the Housing Story Final report

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# Foreword

The Shaping Futures project was an international housing research and knowledge exchange programme – focusing on comparative learning in a broad sense, not crude emulation or policy transfer. The work builds on the model suggested by ‘New Times, New business’, the earlier project on the changing needs of non-profit housing providers, led by Duncan MacLennan and Sharon Chisholm. Shaping Futures has been a genuine knowledge exchange and co-production across the three countries: Australia, Britain and Canada (ABC) with academics working with policy and professional leaders, drawing on high quality research, and learning from the direct experience of the street, the town hall and government.

The ‘pitch’ elaborated on in this report suggests that traditional housing narratives are not fit for purpose to meet the many challenges facing our cities, regions and housing systems. The new realities set out in the following chapters recognise the importance of pressured metropolitan markets, the role of housing as essential economic infrastructure and the centrality of housing to wider problems of inequality and exclusion. The new narrative needs to make housing complement these key economic and social goals and to develop the institutions and policies that will assist housing policies to flourish to different contexts.

Why have we written this now? This report is the distillation of more than two years co-production of work between the academic team and the Shaping Futures partners across the three countries. Each country faces it’s own challenges, but there are remarkable commonalities: the diminution of housing as a key area for policy and public resources, while pressured urban housing creates all manner of externalities and dysfunctional outcomes; rapidly growing private rental markets despite rather than because of policy; an absence of joined-up policy development and insufficient evidence that connects housing systems to policy processes and monitored outcomes; and, more than anything, a growing recognition that housing policies are no longer adequate, even if there is insufficient engagement with housing as a system. The housing market may be broken but we are often as unwilling to really understand it let alone contemplate the policies that are required to effectively counter and redirect housing processes and outcomes.



▲ Unity Housing, South Australia – St Clair affordable rental housing

Shaping Futures would not have been possible without the contribution and support and active participation of our partners from the three countries.

In the classic way, Shaping Futures diagnoses where we are and tries to understand the longer term processes, opportunities and constraints facing housing systems in the ABC countries and then moves on to drill down into the really important priority issues such as managing housing market pressure, the private rented sector and housing's ineluctable relationship with economic stability and performance. The policy platforms that flow from this analysis are both the outcome of the local and institutional contexts they occupy, but also the need for a long term but flexible framework of potentially consensual policies that can be sustained over enough time to make change that matters. Agreeing to this approach and the broader framework (as set out in the final chapter) cannot be stressed enough. The cost of not taking this progressive path is just too high.

Shaping Futures would not have been possible without the contribution and support and active participation of our partners from the three countries. We are very grateful to all of them. The institutional support came from:

- ▶ University of Glasgow (Policy Scotland, Urban Studies and the UK Collaborative Centre for Housing evidence) represented by Professor Duncan MacLennan, Professor Kenneth Gibb and honorary staff Sharon Chisholm.
- ▶ University of Toronto represented by Professor David Hulchanski
- ▶ University of New South Wales represented by Professor Hal Pawson
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- ▶ Britain (Places for People, Sanctuary, Aldwych, NIHE, Shelter, Scottish Futures Trust, Broadland Housing)
- ▶ Canada (Maytree Foundation, City of Vancouver).

From the organisations who acted as partners to Shaping Futures we particularly thank the following for their contributions: Eloise Atkinson, Steve Bevington, Abi Bond, Graeme Brown, Sir John Elvidge, Joe Frey, Michael Lennon, Amy Maynard, Ian McDermott, Elizabeth McIssac, Michael Newey, Noel Phillips, Barry White and Roger Wilshaw.

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How might one use this report? Readers interested in what is going on in the ABC countries, their differences and similarities will find the three national story chapters and the following chapter considering their commonalities useful and we hope interesting. If you are coming to this from an economics and markets perspective then the three chapters on the economic story, pressured metropolitan markets and the private rented sector might be a good place to start. Those with a social housing or not-for-profit orientation will find useful integrated and comparative material in the chapters on finance, diversification and institutions & governance. We recognise that this is a large and long report and suggest that you might therefore start with the introduction and conclusions or indeed go straight to the companion stand-alone and highly accessible summary report that complements the main report you have here. We have also sought to make the report digestible by producing it online in individual downloadable chapters as well as in the full version.



**Kenneth Gibb,**  
on behalf of the  
Shaping Futures team

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▲ Grocon – Parklands, Gold Coast, Queensland. Australia’s first ‘mainstream market’ build to rent project (re-purposed from its initial use as Commonwealth Games).

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▼ Brisbane Housing Company, Lutwyche, Brisbane – affordable rental housing



# Chapter One

## Introduction Shaping Futures for Housing: Routes to Change

Duncan Maclennan

## Shaping Futures, Pressing Interests

Research and policy-making for housing has increasingly recognised the importance of the space and place dimensions of housing systems and their outcomes so that regions, metropolitan areas as well as neighbourhoods are as much the focus of discussion as the nation, state or province. Time shapes housing thinking as much as space, with complex, past path-dependencies complicating our understandings of the present. With housing decisions creating the homes and places that will prevail into the next century, let alone meet the needs and demands of the decade ahead, it is equally imperative that housing policy discussions have acute forward vision beyond 2020. We must seek to comprehend what will shape future housing requirements, as well as how housing will shape emerging economic, social and environmental outcomes.

There are multiple methodologies for looking forward, ranging from witchcraft to econometric modelling. They all have their attractions; however, in this report we eschew a single, methodological approach and instead allowed contributions that took some view of the future to suggest better ways to attain widely agreed (within the working group) housing outcomes. In many senses Shaping Futures was about identifying the ‘best first moves’ for shaping better housing outcomes in Australia, Canada and the UK.

In adopting this approach participants recognised that, since (at least) the Global Financial Crisis, these were not ‘business as usual’ times in housing policy design and delivery. Uncertainties about the future always permeate housing decision taking, and future challenges of global warming, automation and immigration impact on all our current policy discussions. But there was also a wide sense of uncertainty about the present and the recent past. Policymakers, housing professionals and researchers are increasingly aware that complex, pervasive problems about housing affordability across middle- as well as low-income groups have emerged to accompany the long-running housing challenges posed by poverty and homelessness. Shaping Futures sought to think about future change, not just in its likely nature, but about how to better understand its effects. Project participants grappled with the complex issues that, after decades of neglect and misunderstanding, housing providers and policymakers must now confront. Such challenges need to be seen against the backdrop of changing political, media and popular narratives on housing – and the policy trajectories. The contributions in the next section, briefly outline the recent ‘housing stories’ of the three countries in these terms.

## Shaping Futures, Developing Narratives

The Shaping Futures project explored what seemed to be required, in Australia, Britain and Canada (ABC), to construct policy narratives robust enough to survive and thrive within the tough, diverse forms of competition for support for ideas and resources that prevail within public policy-making and budgetary processes. In responding to the public policy narratives and settings now prevailing in ABC governments, and indeed in many other OECD countries, the Shaping Futures Group paid attention to two key considerations. Firstly, constructing a well-evidenced, stronger story of the economic consequences of increasingly adverse housing outcomes (especially in large metropolitan areas, Chapter 6 below) and, secondly, how that possible narrative converged or conflicted with ‘housing sector narratives’ internal to governments (chapter 2-5 below). The capabilities, institutions and finance approaches required to deliver these changes are explored in Chapters 7-10.

As the Shaping Futures discussions progressed, with the involvement of practitioners and academics across the three countries, it became increasingly clear to us that in shaping a radically more effective housing system it was the ‘big policy settings’, or the meta framework of ideas about public sector roles, finance, regulation and taxation that had to be addressed. However, a key starting point was the recognition that the longstanding ‘merit good’ case for housing, reflected in the strong emphasis on contrasting socially and physically defined ‘needs’ for housing with actual provision, no longer had real traction in government resourcing debates (despite its continuing relevance). That view is well-founded in the experience of housing sectors in the UK since 2010, and in Australia (except for the term of the Rudd government) and Canada in this millennium until post-2016 changes. The stock of eligible households on official waiting list for non-market housing has grown steadily in all three countries through this millennium. In the fears of recession in the wake of the GFC it also became apparent that governments increasingly looked to other infrastructure sectors, with additional, reputed productivity effects, to last beyond the demand stimulus and multiplier effects, rather than simply expanding housing investment, in pursuing macro-stabilisation policies (MacLennan et. al. 2018).

Housing and housing systems have some characteristics that make compelling cases for stepped-up government commitment inherently difficult to make. The system issues are diverse: they involve supply and demand aspects, multiple policy instruments of taxes, subsidies and regulations, provision systems that are public, private and non-profit, and drivers and consequences that are not just local but regional, national and global. Housing policy often requires substantial, long-term commitments of scarce public capital: governments fear discovering 'housing problems', especially those that call for high cost programmes. Increasingly, they have come to focus not on system effects but on small minorities of poor households and marginal first home buyers (both of which can also be stigmatised as slackers/subsidy junkies). Housing often has multiple modest scale impacts on different sectoral issues (such as schooling, health, transport, economic development); so different interests may pull policy advocates in different directions, making constructing policy cases demanding. And, housing – in contrast to health, education and transport initiatives – has a weak record of research and evidence. If housing Ministries, or the Ministries now responsible for housing, will not construct the cases for themselves then the key central agencies within government are not usually well-disposed to constructing synthesis of effects for them. Indeed, within Finance Ministries/Treasuries there is often an instinctively hostile view on housing policy proposals, see further below in chapter 11.

## Shaping Futures, Abandoning 'Wisdoms'

By the first decade of this millennium the conventional wisdom framing housing policy decisions in ministries at national/federal levels in the ABC countries included five fundamentally important judgements about housing systems and policies. Three stemmed from the 'meta framework' for post-1970s policymaking. The first was that public, or state action, was generally to be reduced or minimised where possible. This belief pervaded decisions about planning and provider roles, for instance in the ABC countries post-1980 support for provision of new public housing and in the sharply reduced use of compulsory purchase in planning and land policies. The second conventional wisdom has been a judgement about the consequences of public debt. Namely, the firm belief that public borrowing and public debt was to be avoided wherever possible, irrespective of the investment/consumption nature of the associated expenditure (and this wisdom has persisted through the last decade of record low, and negative real, interest rates).

The third framing assumption was that markets are usually effective as well as efficient and that deregulation intrinsically enhances these qualities. Two more housing-specific 'policy norms' have also come to pervade the conventional wisdom. Thus, the fourth framing assumption has been that housing markets are essentially well-functioning systems, with few inherent market failures. Below we argue that it is important to distinguish between housing policy strategies that see markets as the main or core system for allocation and investment but that may require some policy action to address market failures, and those shaped by a well-functioning/leave it to the market policy approach. These are fundamentally different positions that shape housing policy agendas. Finally, there was the assumption in policy-making processes that housing policy expenditures were merely 'merit good' investments driven by re-distributional aims: there was a common explicit view that housing had no (or no evidenced) productivity effects or growth effects on the economy so that housing policy spending was usually regarded as displacement.

Programme reductions in housing quickly followed these beliefs and housing Ministries, and Ministers, became downgraded in significance as, for instance, in the UK; or eliminated entirely, as in Australia's federal government post-2013. These outcomes weakened the evidence and economics capacities of housing advocates within government to make and hear housing policy cases. Higher orders of government have been better at concealing these deficiencies but at sub-national scales, housing portfolios have been subsumed within Family and Social Affairs departments and increasingly focussed upon homelessness measures and the very poorest households (Dalton and Dodson, 2017; Pawson et al 2018). Analytical resources have been stripped away from housing. Usually, investment resources have shrunk. Ministries that were home to the crumbling foundations of old housing policies were rarely invited or resourced to make economic cases for housing investment and housing was seen to have no identifiable role in economic growth and productivity processes.

The dual crises of 'housing affordability' and 'affordable housing' have now become both sufficiently wide and deep that they pervade national popular media and debate on a daily basis (see, especially, the Australian Housing Story below)<sup>1</sup>. Housing policy expenditures (including tax expenditures), and indeed monetary policy measures, appear not to reduce inequalities within and between generations but to exacerbate them. There is a growing sense that tinkering within the current 'meta frameworks' is not going to make the differences required and that distributionally adverse housing outcomes may also be reducing growth and productivity.

<sup>1</sup> Wren-Lewis, 2018, is an excellent critique and analysis of what he calls 'media macro in the UK, including the impact of the housing market on the wider economy.

In the last few years the discussion of the ‘possible’ in housing policy change has broadened dramatically, at least in the UK and Australia. Land value capture as a means to funding affordable housing and tenancy reforms in the private rental sector, for instance, is now constructively discussed by Conservative as well as Labour and Green Party politicians in the UK, and taxation of rental housing is a major area of debate in Australia. We believe these are the harbingers of new approaches to housing policies. They will still see markets as the mainstream of providers but with renewed state interest in the effective functioning of housing and land markets and the appropriate non-market provisions where either expensive markets or low incomes deny the provision of housing that allows the development of individual capabilities. Housing policy is struggling towards a new synthesis and shaping better futures is both important and, optimistically, and can support thinking and, possibly, the necessary steers to deliver that synthesis.

## Shaping Futures, Research with Practitioners

As a reaction to these consequences of the conventional wisdoms, and the potential to improve policy debates and outcomes Shaping Futures housing sector participants recognised the need to improve sector understanding of the economic, and other, consequences of the housing system and make better economic cases for housing policies. This was an interesting policy research innovation inversion. Some of these understandings are applied below<sup>2</sup>.

In pursuing Shaping Futures, the collaboration of housing practitioners and housing economists also quickly came to recognise that economists within government might have to improve their understanding and modelling of housing, and that the five policymaker beliefs noted above needed to be challenged. In consequence, the final substantive chapter (11) is about both the use of economic ideas in the housing sector but also the understanding and application of housing sector evidence in the use of economics within public agencies. The different actors in the processes of shaping governments’ housing policies, including researchers, national and sub-national bureaucrats in finance, planning and housing ministries as well as politicians, all need to rethink their established policy narratives and thought frameworks if the current sub-optimal performance of ABC national housing systems is to be seriously addressed.

Post-2016 there have been some signs of ABC governments beginning to search for new housing narratives. Indeed, sub-national governments, which have often been left to manage the congestion and cost consequences of housing market malfunction whilst fiscal revenues have flowed to higher order governments, have taken the lead in some countries. British Columbia and Ontario in Canada, New South Wales and, more arguably, Victoria and Queensland, had edged ahead of their respective Federal governments in new policy formation by 2016, and in the UK the governments for Scotland and London have, for example, set a quite different course from the UK government where they have had autonomies to do so.

It is also fair to note that, at least in the past 2-3 years, national level responses have begun to grasp the scale and complexity of the issues involved. In April 2017, Scott Morrison, then Federal Treasurer of Australia, presented a well-evidenced speech on housing and concluded that resolution of emerging widespread affordability difficulties in addition to continuing affordable housing sector challenges meant that providers, states and governments could no longer approach housing with a ‘business as usual’ approach to policy. Similar sentiments have recently been expressed by the May Government for England. Since the fall of 2017 Canada’s Federal Government has embraced major changes of approach to housing policies and appears to be revitalising the role of CMHC. This is a welcome departure from the status quo position from the late 1990s until 2016, when CMHC was relegated to minor housing policy roles – like a rather grand Rolls Royce parked in a suburb of Ottawa without much fuel to follow any well-defined route map to significantly alleviate Canada’s housing challenges.

Policy change is in the air but there are still few new coherent narratives to shape the futures for housing policies. This report on the Shaping Futures discussions aims to help emerging debates about new approaches to housing policies in the ABC countries as some of the key policy framing beliefs of the last thirty years also begin to change.

<sup>2</sup> Much fuller examples of how housing-productivity arguments can be developed were initiated in an earlier report for the Toronto Community Housing Corporation (Maclennan, 2008), further developed and exemplified in Australia (Maclennan *et al.*, 2015) and have been much expanded in work developed for Sydney (NSW) as an outgrowth from Shaping Futures (Maclennan *et al.*, 2018).





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▼ St George Community Housing, Sydney – affordable rental housing



# Chapter Two

## The 'housing story': An Australian Perspective

Hal Pawson

“Underlying the traditional ‘housing story’ has been a faith in social mobility”

## The Historically Hallowed Role of Home Ownership

The notion of ‘an Australian dream’ and the central role of home ownership within it has exercised a powerful hold on Australia’s popular imagination for much of the post-war period (Kemeny, 1983; Paris, 1993). Seeking to explain the cultural attachment to owning one’s own dwelling, Burke & Hulse (2010, p826) note that ‘A dominant social value in Australia is individualism... and its housing manifestation is homeownership...’ Others have highlighted its central standing within the Australian notion of the ‘wage earners’ welfare state’ (Castles, 1993).

The position of home ownership as a national norm and the second-class status of renting is pithily summarised in the comment that ‘...you’re only supposed to be in [the private rental sector] temporarily while you’re saving up to be a real Australian’ (Kelly et al, 2013). Underlying the traditional ‘housing story’ has been a faith in social mobility and the associated ideal of a ‘housing career’ in which private renter status would be, for the vast majority, a temporary episode en route to eventual outright home ownership and retirement years cushioned by resulting minimal housing costs.

As some argue, the narrative of home ownership superiority has also been bolstered by active media denigration of other housing tenures – in particular, public housing. According to Arthurson & Darcy (2015), for example, negative portrayals of public housing in the Australian media have helped to support the idea that poverty is culturally reproduced and that public housing estates are therefore inimical to tenants’ interests.

The role of social housing in Australia’s ‘housing story’ has gradually morphed into one shaped by ministerial aspirations for the sector to function as a temporary resting place ‘only for the duration of need’ (Fitzpatrick & Pawson, 2014). Thus, it should be expected that those housed on grounds of need will soon improve their socio-economic position enabling them to cease ‘dependency’ through a return to the private market (New South Wales Government, 2016). This ‘ambulance service model’ of social housing is little challenged in the media or in popular debate.

## Normalising the role of the ‘rental investor’

Another important strand in Australia’s more recent housing story is the way that, especially since the early 2000s, the mainstream media has normalised the aspiration to become a ‘rental property investor’ – a term invariably preferred to ‘private landlord’. This often involves active promulgation of the real estate industry mantra ‘that using debt to purchase loss-making investment properties is a subsidised road to wealth’ (Blunden, 2016, p345). Here, Blunden is referring to the generous tax breaks open to individual investors and which have become especially controversial in the past few years (see below). As seen by Blunden ‘[the] popularisation of investing (via mass media) must be one factor driving the increase in investor-landlordism... in Australia’ (ibid p346).

## The celebration of rising property values

Although in recent times more strongly voicing sentiments of concern about ‘housing affordability’, the default setting of the mainstream media over the past half century has been the celebration of rising property values. This also reflects the orthodoxy that governments presiding over increasing house prices will be rewarded by the electorate.

Arguably, underlying an inherent pro-real estate industry tendency within the mainstream media is the commercial logic inherent in the fact that Australia’s two largest newspaper groups – Fairfax (in 2018 incorporated into the Nine media group) and News Ltd – own digital real estate businesses that have become increasingly important to their overall viability. While remaining relatively small by comparison with these companies’ publishing operations, these real estate ventures – unlike newspapers – have been both highly profitable and on a growth trajectory.

Scholars have also highlighted the highly influential role of well-funded conservative think tanks in perpetuating Australia’s traditional housing story and in aggressively defending it against critics (Jacobs, 2015). According to Gurran & Phibbs (2015), entities such as the Institute for Public Affairs, the Menzies Research Centre and Demographia have been especially important players here.

## Recent challenges to the traditional narrative

Australia's traditional 'housing story' narrative has been increasingly challenged, not just in the very recent past but to some degree for 20-25 years. The ideal of ever-expanding detached-house-suburban-home-ownership is incompatible with the 'compact city' notion that has increasingly infused official urban planning thinking since the 1990s – especially in Australia's large capital cities where the vast bulk of the national population lives.

More recently, since the early 2000s, home ownership of any kind has become an increasingly remote prospect for large swathes of the population as property prices have continued to increase at rates exceeding wage growth (Yates, 2011a). Sharply falling home ownership rates among young people (Yates, 2011b) have provoked much popular and media angst. And despite an apparent 2017 peak in the Sydney-Melbourne housing market cycle, subsequent property value reductions still left late 2018 prices at levels far above their 2011 (pre-boom) levels.

More generally, the traditional 'housing story' narrative has become increasingly out of step with an Australia where it has become more and more difficult to pretend that the housing status quo is delivering for all. For example, as argued by leading housing economist Saul Eslake 'Although most Australians are...well housed, it can no longer be said that we are, in general, affordably housed; nor can it be said that the 'housing system' is meeting the needs and aspirations of as large a proportion of Australians as it did a quarter of a century ago' (Eslake, 2013, p9).

A different argument for changing the traditional housing story narrative is that the tax-subsidised cultural preference for home ownership and property investment has created a situation posing growing risk to Australia's economic stability. Recent years have seen the Reserve Bank of Australia increasingly concerned about the contribution of housing loans to the continuing upward trajectory of the nation's household debt – on some measures, by 2017, the second highest in the OECD (Brissenden, *et al.*, 2017). Thus, the bank has recently challenged the traditional housing policy priority placed on maximising the home ownership rate – especially in terms of young people having any kind of right to buy in a desirable location (RBA, 2015).

## Changing public sentiments and popular discourse on housing

Australian public opinion and popular discourse on housing began to change markedly in the early 2000s – largely thanks to declining home ownership affordability that resulted from the property price boom which erupted at that time. Rising popular concern created the conditions where housing – normally a low-profile policy area – acquired rare political salience in the 2007 Federal election. For much of the subsequent decade housing (un)affordability has rarely been far from Australia's media headlines, as the nation's traditional 'housing story' has been vigorously contested and challenged.

### Concerns downplayed

One common establishment response to recently rising concerns about housing affordability has been to downplay the alleged problem, as in the 2015 comments of the then Federal Treasurer Joe Hockey who famously declared that 'if housing were unaffordable in Sydney, no one would be buying it' and that 'The starting point for a first home buyer is to get a good job that pays good money. If you've got a good job and it pays good money and you have security in relation to that job, then you can go to the bank and you can borrow money and that's readily affordable' (Sydney Morning Herald, 2015).

In a similar vein, some have dismissed concerns voiced by or on behalf of frustrated young would-be homebuyers with the claim that today's twenty and thirty-somethings are a spoilt and self-indulgent generation who have no one to blame but themselves. Disparaging claims of inter-generational housing inequity, the Australian's columnist Bernard Salt wrote 'I have seen young people order smashed avocado with crumbled feta on five-grain toasted bread at \$22 a pop and more. I can afford to eat this for lunch because I am middle aged and have raised my family. But how can young people afford to eat like this? Shouldn't they be economising by eating at home?' (Delaney, 2016). A spirited debate followed.

## Recent contestation on housing system stress, its causes and solutions

Among those concerned about Australia's declining housing affordability an often powerfully expressed sentiment has been the claim that recent property price hikes result largely from foreign investor demand and, most especially, from acquisition by Chinese nationals. 'From 2012, many of the mainstream media headlines for pieces covering foreign investment in Australian real estate linked Chinese investors to housing affordability concerns. For example, a broadsheet newspaper [the Sydney Morning Herald] published the following headline [in 2014]; 'Locals priced out by \$24 billion Chinese property splurge' (Rogers, *et al.*, 2015, p742).

Some of this discourse attaches specifically to those foreign citizens who invest in Australian real estate from 'offshore'. However, under national legislation overseas buyer acquisition is limited to newly built housing. Hence, such activity should inherently expand housing supply rather than bidding up the price of existing homes. But claims of widespread abuse in the broader market are thought to be largely the result of disappointed bidders incorrectly identifying buyers as foreign nationals when they are in reality Chinese-origin Australian citizens (Rogers, *et al.*, 2015; Zhou, 2016).

For national governments – especially those of the political right – a consistent discursive theme in Australia's evolving housing story is that housing unaffordability results entirely from state and territory restriction on the effective operation of housing markets. If only state and territory ministers would expand land release, the issue would be fixed. Hence, John Howard's 2006 contention that:

**'The fundamental cause of the high cost of the first home is the cost of land, and until state governments understand and accept that and they stop bowing to green pressure and they release more land... we're going to have a problem.'**

Cited in Gurrán & Phibbs, 2015, p721)

This stance is strongly supported by development industry lobbyists through their highly influential representative organisations such as the Property Council of Australia. Just abolish planning and, hey presto, problem solved!

On the other hand, especially stimulated by the post-2011 Sydney and Melbourne house price booms, there has been a growing focus on the demand side of the equation. And, in particular, the extent to which markets have been inflated by demand from landlord investors as opposed to owner occupiers. With housing finance approvals to investor purchasers rising to more than 50% of total loans in the period to 2017 (Martin & Massola, 2017) the media carried endless and often emotive stories of first home buyers cruelly outbid by investors. Critically, it has been widely observed that the vast majority of rental investor acquisitions involve existing, rather than newly-built dwellings (although it has also been true to say that a large proportion of newly constructed apartments have indeed been purchased as 'investment properties').

The increasing awareness that investor demand is strongly underpinned by generous tax concessions has fuelled a powerful new element within the overall discourse – the case that the housing affordability challenge is not (just) a housing supply problem but is substantially the result of tax-subsidised demand (Blunden, 2016). The iniquity of tax-advantaged property acquisition by private landlords, a concern voiced by some housing economists and academics for many years, has become an increasingly mainstream sentiment. Pro-reform think tanks such as the Australia Institute and the Grattan Institute have featured prominently, with the latter estimating that the annual cost to the national exchequer, in terms of forgone tax receipts, has reached \$11.7 billion (Daley & Wood, 2016).

The recent salience of such arguments has been such that, in an opening gambit in the 2016 Federal election, the opposition Labor Party was emboldened to pledge that the relevant concessions would in future be restricted to purchasers of newly built housing. Despite the Government's fierce defence of the status quo, polling evidence suggested that – contrary to orthodox wisdom – Labor's move drew substantial support and did the party no electoral damage. It also evoked backing from influential voices across the political spectrum and the mainstream media and – despite recent change in market conditions (see above) – looks set to form a plank in Labor's 2019 election pitch.

Enabling a re-focused housing story to gain traction will probably require that the economic critique of the current housing policy model is better quantified and promoted.

## Re-setting Australia's housing story narrative

A growing range of voices are represented among those challenging aspects of Australia's traditional housing story. As well as academics, advocacy organisations and philanthropic players, these include many mainstream media commentators, civic campaigners and (some) business lobby groups. Enabling a re-focused housing story to gain traction will probably require that the economic critique of the current housing policy model is better quantified and promoted. This is partly about bringing to the fore the risks arising from an overvalued property market floating on a sea of private debt; a situation fostered through investment choices distorted by dysfunctional tax settings.

The above arguments also suggest that a new housing narrative for Australia needs to de-stigmatise renting, needs to rebalance the presentation of home ownership in terms of its risks as well as its rewards, and needs to argue that current housing system trends are accentuating social polarisation.



▲ Mirvac, Pavilions, Olympic Park, Sydney  
– design for 'build to rent' project

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# Chapter three

## THE UK Housing Story: A Changing Frame of Reference?

Kenneth Gibb

## The Conventional Narrative

The framing of the UK housing narrative takes on different forms, traditionally coalescing around a dominant home ownership and market favouring paradigm that has displaced the once popular council housing model. The dominant story has a profound hold on British society and those who articulate it, but it is neither entirely fixed nor consistently held by governments, mass media or other important policy formers. There are several reasons for this. The volatility and instability of the housing system, still unable to achieve the norms of the early 2000s ten years after the GFC. The evidence of our own eyes in terms of unacceptable housing and housing-related outcomes on frustrated aspirations, unaffordability, homelessness, policy and market failure. And these problems have consequences, for instance, the UK has still to come to terms with the growing and dynamic private rental market that has emerged over the past 20 years. Moreover, devolved UK housing policy is increasingly diverging, further weakening (some) long-standing assumptions.

### Let's look at the conventional narrative more closely

The primacy of home ownership remains unchallenged as an assumption across all governments in the UK (even if in practice a focus on different priorities might allocate public resources in different ways). This longstanding feature of British housing and social norms drew strength from the pariah status that increasingly attached to private landlords in the post-war period and especially following the Rachman 'scandal' of the early 1960s (Rugg & Rhodes 2003). It was then significantly boosted in the 1970s and early 1980s by the combined effects of attacks on council housing (the belief in home ownership has always had a negative framing as well as a positive one), the tectonic effects of the right to buy, and, the accumulating effects of mortgage deregulation well into the 1990s (Forrest et al, 1990).

The media and indeed key politicians (George Osborne recently) have been explicit about the need to secure and maintain rising real house prices<sup>1</sup>. Back in the early days of the UK Coalition government (2011), there were comments by the then UK Government housing minister (Grant Shapps) that 'house price stability' could be a desirable policy goal (Asthana 2011) were only the briefest heretical departure from this mantra. Underlying the conventional narrative, in the context of very low interest rates, is the portrayal of home ownership as the embodiment of individual choice but also a rational investment that in the long term generates significant real returns important as a pension, inter-generationally and for equity withdrawal. That this relies on increasing unaffordability, 'kicking

away the ladder' into home ownership is ignored, de-emphasised or wished away. A feature of the breakdown in the structural integrity of the UK home ownership model in the last 15 years or so has been a sentimental yearning for how things used to be in terms of home ownership's alleged benefits (O'Sullivan and Gibb, 2012), without of course any recognition that, on many levels, this system is economically unsustainable and socially unjustifiable.

There are many paradoxes in promoting the virtues of a divisive and potentially self-defeating model. One is that free market choice to own one's own home is premised on tax privilege and massive public funding, albeit implicitly so, alongside a housing supply industrial organisation model that releases new build on a drip feed to maintain prices (the 'absorption' question, recently the subject of Oliver Letwin's government review seeking to speed up housing supply), and in which debates about land and new supply are constrained by politicians' unwillingness to challenge that great UK social movement – existing home owners and the protection of their property values<sup>2</sup>.

To some extent, the tabloid expression of rising house prices as an unalloyed 'good' is simple populism (Muller, 2017) but it masks an insider-outsider conflict, often between the generations, that does nothing for social integration, let alone social mobility. However, it has always been a myth that house price growth *raises all boats* – with its peculiar and arbitrary geography of growth and the historical accidents that mean certain buyers at certain points, in the many housing market cycles that post war Britain has experienced, have been able to capitalise on their good fortune and, as the classical political economist John Stuart Mill put it, simply stay in bed, and accumulate (now fungible housing) wealth. And there is a path dependency problem – politicians are much more reluctant to challenge the status quo in a mass home ownership society with this cultural baggage regarding the superiority of home ownership. In Enid Slack's terms (Slack and Bird, 2014), taxing housing raises questions of saliency (taxes on property are highly visible) and presumptiveness (taxes on property are simply not as legitimate to taxpayers and valuations are always questionable compared to other established tax bases).

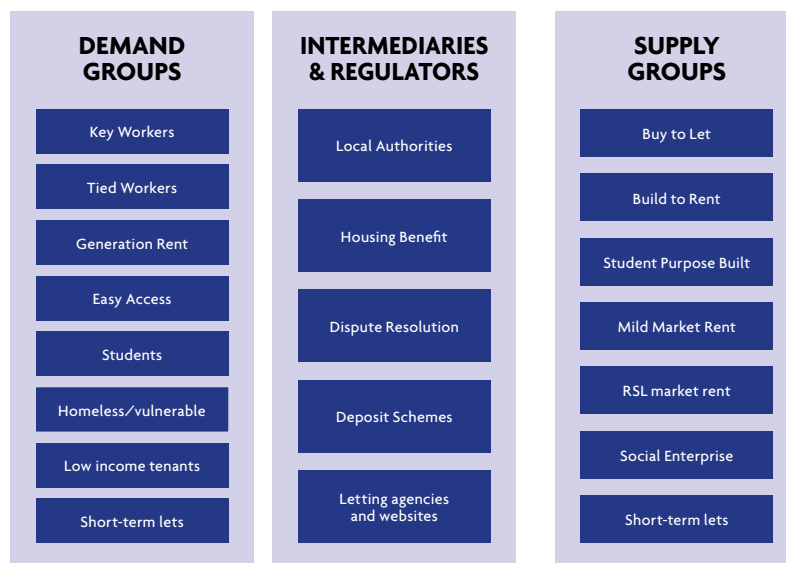
Against this baseline of the political virtues of home ownership per se, the last two decades have been angst-ridden, as home ownership rates have fallen through the combined effects of unaffordability and long term stagnant real earnings and, latterly, as a result of post-crisis tightened mortgage lending criteria. The average age of home ownership entry level has rapidly accelerated and has also cast an unforgiving light on the shortcomings of the alternatives: staying longer in the parental home or forging ahead in the private rented sector. The advent of the 'generation rent'

<sup>1</sup> Though the Scottish Government's national performance framework proposes the desire to support a well functioning housing system through the long term aim of stabilising house prices.

<sup>2</sup> A phrase coined by Glen Bramley speaking during the 2017 Housing Studies Association conference. Arguably 'home owners' here should be understood as encompassing private landlords as well as owner occupiers.



Figure 1: A Schematic of the Contemporary Rental Market



pressure group and growing appetite for rental market regulation, is in part the consequence of this frustrated aspiration to own. The policy response has been, since 2013, much greater public sector intervention in the housing market, particularly through equity loans and guarantees to support the Help to Buy project.

Rental market deregulation in 1988 was a necessary although not sufficient condition for re-growth and successive attempts to woo institutional investment into the sector failed to gain traction. But growth did return after the mid-1990s and with a vengeance from the early 2000s. This happened in part because of rising unaffordability and lack of access to home ownership on the demand side but undoubtedly largely because of the market-led, landlord as individual small-scale investor, buy to let model that allowed investors to treat their loans as a residential mortgage (but one that still attracted interest tax relief). Lenders and investors piled into this market in which expanding demand was in part underpinned by housing benefit for low income tenants. Of course, private renting is not one but several well-defined market segments, product and consumer groups, differently interacting with other parts of the housing system (see figure 1 which describes schematically the different segments of the contemporary rental market). In Scotland, the sector has trebled in size from its early 1990s nadir. It is larger in England and Wales and in London planners expect it to be the largest tenure overall in just a few years.

The very recent past – the period since 2012 – has seen what may be the first flickers of a revival in UK institutional landlordism of a kind last in evidence before World War 2 (Savills and LSE 2017). But putting this nascent ‘build to rent’ phenomenon to one side, the post-1990 revival of market renting has been overwhelmingly a story of private individuals setting up as amateur landlords. Indeed, in just a short space

of time, the ownership of an ‘investment property’ or properties has been ‘normalised’ in the popular imagination. In recent study of ‘buy to let’ investor motivations by Soaita, *et al.* (2017) one of the two identified landlord typology categories was termed the ‘Why not? Investors’. These were interviewees who explained their decision to buy an investment property primarily on the basis that ‘everybody does it’. As the researchers observed, this really means that “everybody I know does it’, but perhaps also the anticipation that ‘everybody who can does it” (p14).

Importantly, Soaita, *et al.* argued that, for typical buy to let landlords, homeownership constitutes an ideological ‘orthodoxy’ founded on a faith in capital gains, and meaning that believers do not base their related financial decision-making on a rational economic analysis. Thus, landlordism may be ‘an extrapolation of the internalised orthodoxy of homeownership rather than a business activity; a matter of belief rather than accounting’ (p.4). ‘The internalised confidence in ever-increasing house values, which turned homes into assets ... is extrapolated from the owner occupied home to rental property’ (p.19).

The unexpected rental market disruption has surprised the non-market sector and its supporters as much as those seeking to boost home ownership. Policy responses have been rather schizophrenic involving regulatory interventions to assist tenants over disputes, deposits and unscrupulous letting agents, through crude tax hikes on landlords but also, in Scotland the re-regulation of tenancies, piloting guarantees to support rental revenues for build to let investments and third generation rent controls. Perhaps this reflects the confusion in many stakeholders’ minds about rental markets – whether they should be supported and whether tenants are largely unwilling conscripts rather than proactive private renting volunteers (and similar comments could be made about landlords)<sup>3</sup>.

3 A binary distinction originally made by Peter Kemp.

The UK housing story of the past 50 years or so is then primarily about mass home ownership, deregulation, the significance of personal housing wealth and market forces – but all sustained over many decades by considerable state intervention, public money and foregone taxes. At the same time, the popular and media narrative has long viewed non-market housing, particularly council housing, as an inferior good both in economic terms and socially. This fits well with dependency narratives around welfare benefits, tabloid-style accounts of ‘benefit street’ and familiar fictional tropes of monolithic council estates as unsafe, lawless and decaying places frequently deployed in TV dramas.

Of course, council housing has created some of its own difficulties through previous development, management and maintenance decisions and strategies. However, the sector’s capacity to respond has also been constrained by a series of political actions that reflect the wider logic of the UK housing story: the aforementioned right to buy and the way receipts were not re-investible in large part, the strict borrowing<sup>4</sup> and spending controls on councils (though less so in Scotland) and the use of statutory housing standards to force councils to improve, demolish or transfer stock to other landlords (Pawson and Mullins, 2010). In recent years, particularly in England, successive governments have explored ways to dismantle hitherto fundamental aspects of the social housing offer, such as security of tenure (Fitzpatrick & Pawson 2014). Social housing has also been drawn into wider ideological discourses about ‘welfare dependency’ and ‘welfare conditionality’. Not surprisingly, apart from a brief period in the late 2000s, social housing (and especially council housing) has been in long term numerical decline.

For much of the period since that great watershed legislation, the Housing Act 1988, the social housing exception has been the housing association sector which benefited from the mixed funding model and its non-public but also not-for-profit status; a position from which it has levered in private housebuilding investment totalling over £60 billion over this period – investment that has generated well over 700,000 new homes<sup>5</sup>. But ambiguities have also abounded as housing associations have delivered government policy and have been strongly regulated by government agencies. The mixed funding model relied on both grant rates and programme scale to deliver new social homes. This was already in difficulty before the GFC with a sector increasingly reliant on cross subsidy from S106 planning obligations and mixed tenure development. After the financial crisis, the mixed funding social rent programme in England ceased to exist, albeit the Coalition government did pursue a time-limited, very different and much less generous, ‘affordable rent’ model.

Consequently, smaller numbers of associations now develop new homes in significant numbers, they have drastically reduced the scale of new social housing output and moved further into ‘affordable rent’ and market offers. The UK coalition government made their unhappiness quite apparent with what they saw as the relative conservatism of the housing association sector in England (i.e. which failed to meet the Government’s policy objectives despite the sense they had a strong balance sheet as a sector). The small number of large associations that now dominate development operate with financial and business models quite different to historic – or indeed contemporary – sector norms. In Scotland, unlike England, councils and housing associations continue to enjoy mixed funding, and in relative terms there is healthy supply programme<sup>6</sup>. Indeed, it is projected that if housing supply targets are broadly met – the social sector will actually grow in net stock terms.

The conventional housing story in Britain is evidently about appeals to the superiority of market mechanisms and in particular the innate (though highly contestable) desirability of home ownership. This also has a decidedly negative connotation in that it undervalues and rejects non-market solutions or indeed the very functional interconnectedness of housing systems. It is ironic that this is so since it is underpinned by a massive moral hazard of state intervention, policy infrastructure and public funding. Despite the fact that these strongly held beliefs remain apparent in government statements, think tanks, electoral calculations, the mass media and among commentators, it is increasingly clear that there are both internal or endogenous problems with this vision of housing, as well as vulnerability to external shocks – challenges which increasingly demonstrate the emptiness of the conventional narrative.

## Challenges from Within and Outside

The challenges to the overriding narrative come from within and outside of housing. The main internal problems concern unmet housing need, affordability and access, and the underlying causes of these dysfunctional symptoms. At the same time, the long-term consequences of the GFC, recession and austerity have reinforced the sense that the system is broken. Moreover, policy divergence across the UK suggests that the status quo is not necessary or inevitable. Third, the recognition that ‘something has to be done’ coexists with a time of unprecedented political uncertainty and crisis flowing from the continuing aftermath of the Brexit vote.

<sup>4</sup> Borrowing caps for council housing were only ended this year in England. One medium term impact of these controls has been to encourage councils to go out with these control to develop more than 150 local housing companies doing other non-council housing forms of housing development.

<sup>5</sup> Cumulative private finance contributions to housebuilding investment 1990-2015 (Great Britain) expressed at 2016/17 prices – Source: UK Housing Review Table 59. Note: Excludes private finance underpinning council housing transfer settlements.

<sup>6</sup> Scottish councils operate within a trinity of benign opportunities created by the abolition of council house sales, the absence of a borrowing cap and significant capital grants for council house building.

The UK prime minister has said more than once that housing is a national priority<sup>7</sup>. But is there the non-Brexit policy bandwidth to address the complexity of housing sufficiently to fulfil the lofty aspirations of the 2017 *Fixing Our Broken Housing Market* white paper? The underlying aspiration for mass home ownership (and the assumption that this is achievable) evidently remains. Meanwhile, at the sharp end of the housing world, there are the twin crises high in the political and popular consciousness: the unacceptability of visible and rising rough sleeping and homelessness, and, the aftermath of the horrendous Grenfell tower fire that saw more than 70 people die in one of the richest boroughs anywhere in the UK.

Despite these challenges, the conventional narrative reasserts itself in positive but also negative ways. Characteristic of the post-GFC housing market have been subdued transactions volumes, lower levels (and more conservative) lending and less house building than that demanded by government targets. Transactions depend in part on lending and new supply. Despite that, the political rhetoric does not yet translate into effective interventions that might lead the housing production system to sustained levels of new supply that would match consensus levels of required new housing. Lending and development are also impacted directly by interest rates and their future path is a critical driver of the housing system, including for the financial solvency of existing mortgage holders insulated for more than a decade by historically lower-bounded rates. However, the continuation of recent trends does serve to protect the interests of insider existing owners and investors. This is one explanation why in 2015 the UK Government went after buy to let landlords with a co-ordinated tax attack – that may reduce price pressure for first time buyers and may even in time shift some rental properties back into the home ownership sector (but it might simply shift much of the stock into unregulated short term lets). One can reasonably ask if that makes sense from a housing system point of view. Another possible target are foreign owners of residential property who have been a major part of London's housing market in recent years and are a readymade culprit (even if they are a symptom of high prices rather than a cause of unaffordability).

## Resetting the Housing Story

Housing is an essential part of any economy and polity. In recent years, mirroring the changes and pressures outlined above, it has risen to near the top of the domestic political priorities identified by voters. When specific priorities reach the top of voter agendas, it often reflects the immediacy of a major problem, its visibility and a clamour that something must be done.

These sorts of issues, however, rarely stay at or the top of the agenda without continuing and repeated or new evidence. Meanwhile, the underlying dominant narrative, populist and relatively unchallenged, carries on buttressed by neo-liberal ideas, stakeholder interests and, frankly, often faulty analysis of the problem.

## What can be done?

Recognising these peculiar political times and the lack of domestic policy bandwidth peculiar to the UK, it does make sense to hammer away at the opportunities, wherever they come from:

- ▶ Political scientists talk about an 'Overton window' i.e. the temporary opportunity to make progress politically over a specific policy problem. Arguably, this has a housing manifestation currently: social housing as a sector and a concept has the space to make a positive argument for non-market housing<sup>8</sup>. In England, a green paper on social housing was promised after Grenfell and while this is in part about listening to the tenant's voice, the sector has taken it on to make a stronger positive case for social housing, to unpick myths about who lives in the sector and what it does. The green paper, much delayed, focuses on tenant involvement and regulation (fire, health and safety) and governance, rather than investment – although government statements continue to argue that they will support social housing and practically government finally did end borrowing caps on council's ability to borrow to build or invest in their own housing.
- ▶ Governments and city-region authorities across the UK are actively pursuing homelessness and rough sleeping solutions through task forces, legislation and supporting non-governmental and partnership routes. This is also an opportunity for social housing.
- ▶ Research councils, charitable funders and government are supporting the UK Collaborative Centre for Housing Evidence (CaCHE), which is the first major sustained investment in housing research for decades<sup>9</sup>. A central objective of CaCHE is to make facts, evidence and rigorous policy analysis and evaluation part and parcel of how policy for housing happens and is assessed. This reflects what one hopes is the end a long term reversal or weakening of these principles.

<sup>7</sup> And reflected in the January 2017 UK government white paper 'fixing our broken housing market' and, after the 2017 election, the 2018, social housing green paper.

<sup>8</sup> [https://www.insidehousing.co.uk/comment/comment/campaigning-for-a-fairer-media-portrayal-of-social-housing-tenants-54996?utm\\_source=Housing60&utm\\_medium=email&utm\\_content=article\\_link&utm\\_campaign=H60](https://www.insidehousing.co.uk/comment/comment/campaigning-for-a-fairer-media-portrayal-of-social-housing-tenants-54996?utm_source=Housing60&utm_medium=email&utm_content=article_link&utm_campaign=H60)

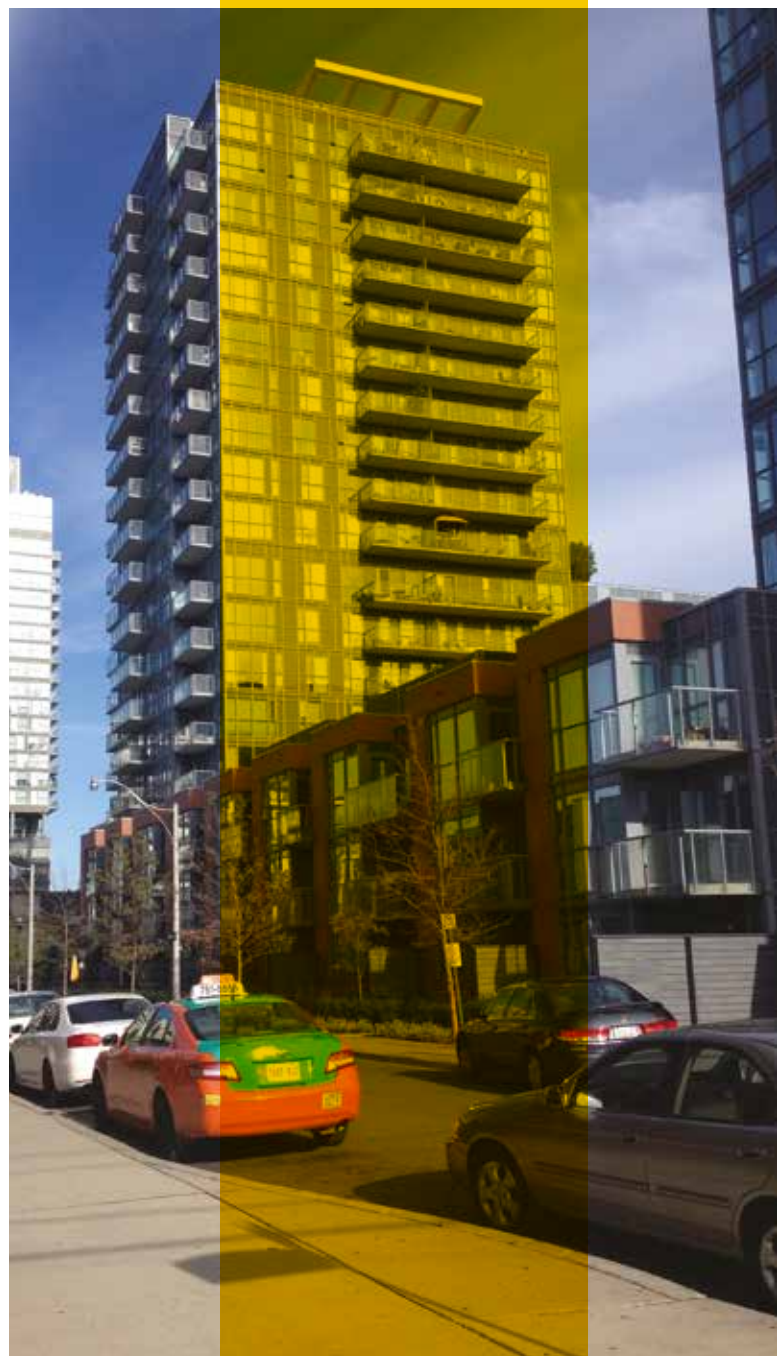
<sup>9</sup> The author is the Director of CaCHE. See <http://housingevidence.ac.uk>.

But if we are to promote a different, more sustainable and just vision of housing policy, the underlying premise must be challenged and on its home territory. Tax reform of housing should be phased-in and transparent, perceived to be fair, revenue-neutral, perhaps hypothecated to do good, and should be part of a battery of policies at the disposal of government aiming to stabilise real house prices over the economic cycle. This will also require intervention on the supply side to support SME builders on smaller sites and in particular through land development agencies and even reforms to land value capture mechanisms. Promoting home ownership is perfectly acceptable in terms of its inherent characteristics, rights and responsibilities (but not as a privileged asset class). On the same basis, a reappraisal of the many different forms of rental housing (market, intermediate and social) should welcome and support their role in serving the different requirements of our complex housing system, including recognising the different geographies and contexts found in different parts of the UK.

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“Promoting home ownership is perfectly acceptable in terms of its inherent characteristics, rights and responsibilities.”



▲ Regent Park, Toronto

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# Chapter Four

## Canada's Housing Story

Sharon Chisholm and David Hulchanski

Canada relies almost completely on market mechanism to supply, allocate, and maintain its housing stock. After the Second World War, improvements in housing finance, residential land servicing and building techniques, materials, and regulations produced high-quality housing for the vast majority of Canadian households.

About 68% of Canadians are currently homeowners. Homeownership, consistently supported by a variety of direct and indirect (tax expenditure) subsidies in the post-war era, has never fallen below 60% (see Figure 1). There is no pretence of housing policy tenure neutrality. Rental housing is in many respects a residual part of Canada’s housing system, concentrated in urban areas, housing more low-income households, single people, and minority groups compared to the ownership sector. The income of owners is now about double that of renters, up from about a 20% difference in the 1960s, making market provision of new rental very difficult (i.e., a condominium developer can always outbid a potential rental housing developer for land).

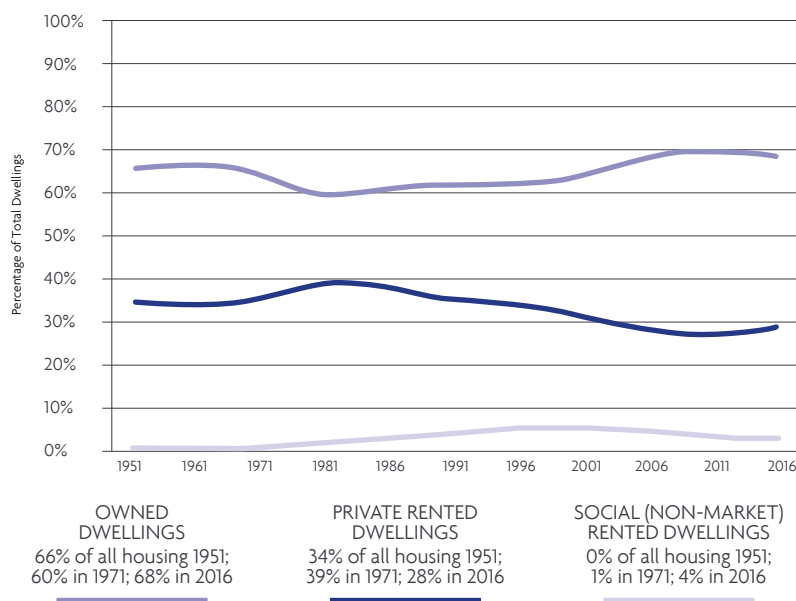
The private rental sector received significant direct and tax subsidies starting in the immediate post-war years until the beginning of government fiscal austerity in the early 1980s. The post-war subsidies for the private rented sector were, in part, a policy option that helped the government resist demands for non-market social housing at the time, as the UK had been providing since the 1890s and especially after 1945 (Bacher, 1993). Most of the non-market social housing – public housing and non-profit and co-operative housing, about 600,000 units, 4% of the current housing stock – was built between the mid-1960s and mid-1990s.

Unlike some comparator nations, the 2008 Global Financial Crisis (GFC) did not have much of an impact on the housing system. Canada’s home ownership rate has continued to increase slightly, whereas in some nations the private rental sector grew at the expense of the ownership sector, as a result of the GFC. What does all this mean now and for the future?

## Housing Narratives

There can be long periods in a nation’s policy history when a dominant policy narrative prevails across a wide spectrum of the polity and society. Such narratives may drive consistent policy actions over long periods, for example Canada’s post-war housing for returning veterans, the provision of purpose-built modernist rental residential towers in the 1950s to the 1970s, and the three decade-long federal and in some cases, provincial government support for community-based social housing from the early 1970s to the mid-1990s. However, there is always debate about policies for the housing system, debates that are based on differing philosophical positions relating to the role of market and non-market actors and the type, magnitude, and targeting of housing subsidies. There are thus more unsettled periods when multiple narratives compete and may be driven by tactical rather than strategic policy approaches.

Figure 1: Housing Tenure in Canada, 1951-2016 Ownership and Rental Occupied Dwellings



Source: Statistics Canada, Census 1951-1971 archives and Census 1981-2016 electronic databases, National Household Survey 2011. Social housing: CMHC annual reports, various years.

Canada, heading towards the 2020s, continues to be in a fractured period of widespread housing policy debate. The role of housing and related economic and social policies, government budgets and tax expenditures, and the role of private sector renting and provision of more social housing, are all being debated in the context of the tax and subsidy system that privileges the ownership sector with its rising property values in big city markets. Many question how seriously the Trudeau government, elected in September 2015, is actually re-engaging as promised with the housing needs of the nation.

In November 2017 the level of proposed new spending on housing was released after a consultation process. Canada, therefore, now has a national housing strategy, or at least a document with that name: *Canada's National Housing Strategy: A Place to Call Home*. It was released by the Prime Minister himself, which is very rare for a Canadian housing report.

**“Canadians feel a growing sense of housing insecurity.”**

The document outlines in general a variety of housing initiatives for various populations and parts of the housing system. There is unfortunately no assessment of Canada's housing system, what works well, what does not. The report notes that 1.7 million Canadians are in housing need (inadequate and/or unaffordable housing, called core housing need) and that another 25,000 are homeless on any given night. It acknowledges that many Canadians feel a growing sense of housing insecurity. But there is no analysis why this is a case. Rather than a hoped-for overall assessment, the programmes bring new money to some specific pressing needs but, in the end, the “strategy” is simply subsidizing some aspects of the more obvious failings of Canada's housing system, while keeping everything else the same. The term ‘affordable housing’ remains vague and while it is used extensively in the document, we still don't know how CMHC defines it. Speculation appears twice in the 40 pages. But, it is a start and it has helped inform the ongoing debate over the need for a more complete framing for strategic approaches to housing policies. Many feel Canada's housing system needs to take a serious, systemic turn.

## Original Narratives

Canada's housing narrative generally aligned itself with the opportunities that its evolving housing policy provided. Housing narratives are not static and the public can withdraw or engage in public discourse depending on the visibility of current housing issues. When homeless populations on the streets began to grow, the public supported programmes that would get people off the street. When young people could not access homeownership, a large expression of alarm echoed across the country, especially in the larger urban areas where price escalation was fastest.

In the early years of intervention (Chisholm, 2003; Bacher, 1993; Suttor, 2016), the physical standards of housing and their consequences for health and wellbeing, not just for the residents of poor dwellings, but for those affected by the ‘spillovers’ of disease and fire from poorer neighbourhoods were at the heart of housing policies. In the early years of government intervention, it was the cities and towns that cried out around fires caused by the lack of standards and the lifestyles of the day. With crowded wooden houses and the use of wood fires, a whole street could be destroyed by flames in a few hours. Governments responded by introducing standards and building controls, but federal financial support was needed to restore communities. After 1919, the urgent need to provide better homes for returning soldiers gave impetus to wider, national concerns about housing needs so that ‘merit good’ arguments for housing policies, that reflected a national willingness to redistribute to less well-off households, came to supplement the ‘externalities’ rationale of earlier policies. As in other countries with scale, wide distribution and relative urgency of these needs put pressure on a relatively young federation to respond, especially in pressured urban communities. Whilst housing systems and markets have strong local drivers and outcomes, it has to be recognised that local outcomes have spillover effects in wider geographies that may reach beyond municipalities and provinces. Housing outcomes in Saskatoon, may have global environmental impacts. Street homelessness in the downtown east side of Vancouver may shape Canadian sensibilities of fairness, and indeed be driven by non-local domestic difficulties, and house price outcomes in Toronto may have significant implications for young homebuyers in Cape Breton.

A significant change in housing policy and programmes took place following a great deal of debate in the late 1960s. The mortgage system had been reformed, mortgage insurance introduced, a growing middle-class majority dominated the housing market which was geared to their needs and budgets. But the method of housing low income households and replacing dilapidated unhealthy inner-city districts with better housing by building large public housing estates and using urban renewal to bulldoze central some central residential areas created a backlash. By 1968, the foundation for building a strong nation of well housed, middle-income Canadians with national universal health care, old age pensions, and a social assistance benefit system had been laid.

In April 1968 Pierre Elliot Trudeau became Prime Minister promising a “Just Society” defined as including improved urban and housing policies: “The Just Society will be one where such urban problems as housing and pollution will be attacked through the application of new knowledge and new techniques.” His minister of housing established a task force on housing and urban development that travel the country for most of 1968. The *Report of the Federal Task Force on Housing and Urban Development* is released in January 1969, recommending that the government formally adopt a set of 10 principles. The first states that housing and urban development “are an urgent priority” and “must be treated as such” by the government. The second declares housing a basic human right: “Every Canadian should be entitled to clean, warm shelter as a matter of basic human right.” Though the federal government does not immediately act on the recommendations in the report, prompting the minister, Paul Hellyer, to resign in protest, the report is the first major national study to frame the issue of adequate housing as a human right and recommended a new approach to meeting the social need for housing, replacing government managed public housing with community-based non-profit and co-operatives, leading to the very significant 1973 amendments to the National Housing Act.

The Trudeau government also established the Ministry of State for Urban Affairs. The MSUA (1971-1979) was an experiment in building a new kind of institution for policy development and for advising government on issues that cut across many departmental and governmental jurisdictions. The federal government, in one of the most urbanized countries, has had no such agency since 1969.

The set of programmes that emerged after changes to the National Housing Act in 1973 were innovative and unique to Canada in what they aimed to achieve. They were concerned with eliminating the stigma of public housing, settling well with the vernacular architecture of place and having a mix of incomes. They would be developed and managed by community groups and non-profit, non-equity co-operatives. They remain for the most part, highly successful in the provision of well maintained, well located developments. About 300,000 households continue to benefit from a secure and affordable place to call home, better access to employment, schools and other community benefits. Until the federal government terminated the social housing supply programmes in the early 1990s, another major bout of fiscal austerity, for about two decades 10% of total housing production was non-profit, municipal non-profit, or co-operative housing (Suttor, 2017).

All countries face these multi-scale effects of local housing outcomes and must assign resource and spending powers to different orders of government to resolve issues. In the Canadian context, those involved in early policy interventions did see the importance of the role that the federal government had in resourcing better housing outcomes and ensuring that the housing system worked well across the nation. Where Canada differs from other federal housing systems has been in two important respects. First, as time has passed there has been a singularly confused, debilitating narrative about the legitimacy of federal roles in housing policies. The second, has been the policy instruments that Canada has deployed to in pursuing national interests (Hulchanski, 2006).

The success of the smaller scale, widely scattered non-profit and co-op housing buildings, given that they replaced public housing, was very high. Those that benefited had a story that was generally went this way; “I now have a home. No one can tell me to leave. My kids can be involved in local sports and can stay in the same schools. I have no plans of ever moving.” This may be a simplistic take on their housing story, but residents have a sense of permanency, which allowed them to acquire training and move into the work force. Their children benefited from a stable environment in which to achieve in school and remain physically and mentally healthy. This is a powerful narrative that is similar in many ways to the homeownership narrative.



Many successful developments funded under these programmes remain invisible to the public because they do not stand out from other housing in the neighbourhoods in which they are located. In 1994, the highest point of support, Urban native housing units numbered 10,300, cooperatives 61,200 and community based non-profit 178,700. During the same period on reserve housing units increased by 15,900 and Rural and Native housing by 24,800, Canada’s affordable housing stock was increased by --- over the period of these programs, but that number has been decreasing yearly. What the public saw of government assisted housing was mostly the large public housing projects that were built prior to the mid-1970s. Support for more of the same was low. While those who could access homeownership found support in the mortgage insurance fund allowed them to acquire the mortgage insurance, government regulations and standards around how housing was to be built and maintained enabled them the comfort of knowing they had quality housing at prices they could afford to pay. The bonus, of course, was that any capital gain on the sale of the owner-occupied house is tax free. The non-taxation of capital gains is Canada’s largest single housing subsidy programme, costing in recent years \$5 billion to \$7.5 billion in lost revenues (depending on housing market conditions). The first-time home buyers tax credit program, introduced in 2009, costs about \$125 million a year (see Figure 2).

There is nothing in the Constitution of Canada that precludes Federal government interest in and support for housing outcomes and policies. Yet the federal role was greatly curtailed after the mid-1990s and often disputed and resisted since then although Canada’s dual crises, of provision in the affordable/community/public sector and of housing affordability for a wide income range of employed and younger households, has largely unfolded whilst provinces have been the key level of government with housing responsibilities. Few have strategic, well-defined and financed strategies for their provincial housing systems and policy has a piecemeal, under-funded, ‘experimental’ feel to it.

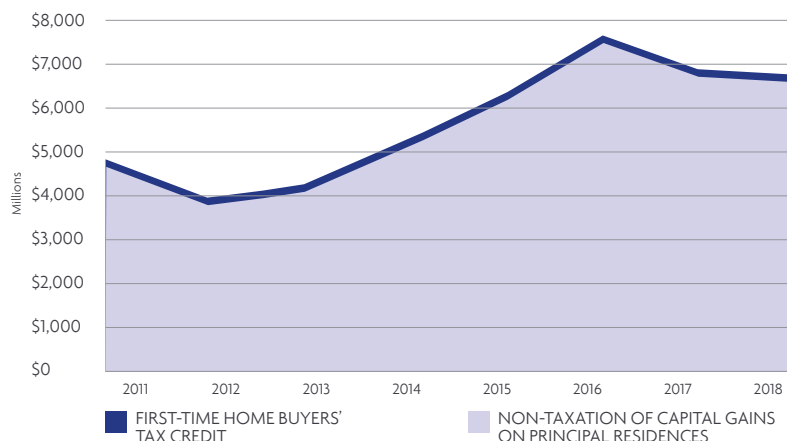
In the 1990s, the provinces pushed for a withdrawal of the federal government in active programme management. They asserted that, as providers of social programs, they would be better positioned to manage social and cooperative housing. The federal housing co-operatives fought for and were able to avoid devolution. They subsequently set up a new financial agency to improve their self-management and preserve the co-op housing stock (which is about 0.7% of all housing in Canada).

In the mid-1990s the federal government decided it would no longer play a role in social housing. It transferred (downloaded) its social housing stock and remaining stream of about-to-expire subsidies to the provinces. The result of this move has been mixed. While a few provinces have remained active in housing provision, most reduced their own annual contributions to housing, limiting their financial involvement to funding received from the federal government.

Since the 1990s, the federal government has maintained an interest in affordable housing provision, but at a much-diminished rate of support and has increasingly leaned towards other infrastructure spending as a focus of federal stabilisation programmes.

The key chapters of Canada’s national housing story have been, first, a relatively stable and, by OECD standards, a moderately neutral approach to housing taxation and, second, the maintenance of a national housing agency with both housing and mortgage market roles, the Canada Mortgage and Housing Corporation, created in 1946. The federal government retained its role in the finance system via the mortgage insurance market. CMHC’s mortgage insurance is used for social and non-profit housing as well as for homeownership by individual households.

Figure 2: Canada’s Home ownership Tax Subsidies  
Department of Finances Estimates, 2011-2018



Source: Canada, Department of Finance (2017) Report on Federal Tax Expenditures: Concepts, Estimates, Evaluations.

The role of CMHC as a provider of mortgage insurance has been, and continues to be, instrumental in allowing households to access the long-term financing they require to purchase a house. Most Canadians are very aware of the important role played by CMHC in mortgage insurance. The provision of mortgage insurance does have potential risks for the government but in the main, it has been a profitable business for CMHC and the Federal government.

## House Price/Rent Inflation and the Current Crisis

For more than a decade, and increasing annually, is serious public concern over the cost of housing. Though the Global Financial Crisis had a modest impact on Canada's housing system, increased inequality and the increased financialization of urban land and housing have changed everything. Canada is a large country geographically. The once mainly local/regional housing markets are now increasingly national and global sites for speculation and serve as safe places to park money (in the form of houses and condominium units, many left vacant). This is particularly the case in the Toronto and Vancouver regions, but many parts of the country are affected. There is a regional spillover effect. As some households are pushed out of the City of Toronto housing market, they are showing up in surrounding municipalities. The urbanized region that has the Toronto metropolitan area at its core (6 million people) has a total of 9.3 million people (3.4 million households), about 25% of Canada's population (2016 Census). House prices and rents are increasing dramatically, wages for many are not.

The growth in inequality means that many households who still consider themselves middle class are no longer middle income. A largely deregulated housing

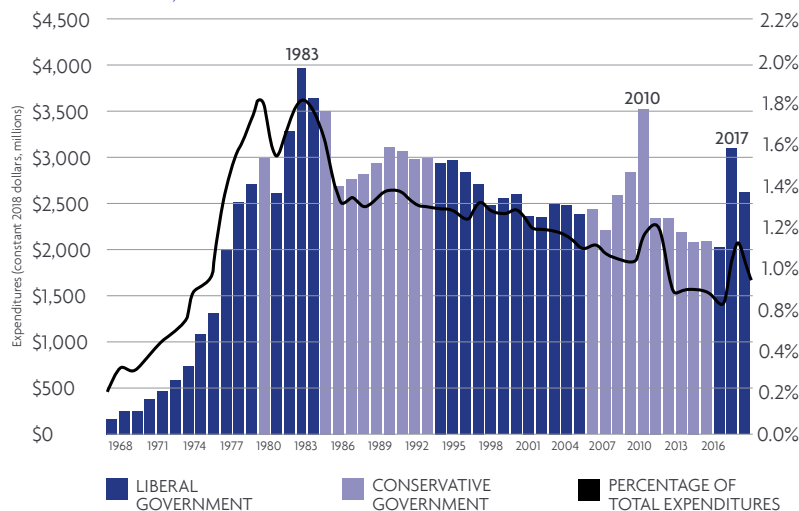
system relying on market forces for 96% of the housing stock with a small supplemental social housing sector was not built for the disappearance of most of the middle-income group. An increase in the number of high income households are now the group setting real estate prices, in conjunction with global forces, which the once vast local/regional middle class once did.

One reason the GFC had limited impact on the housing system is that a major economic stimulus was quickly implemented, and as Walks (2014:256) explains, Canada's banks needed and received substantial bailouts combined with a massive growth of federal government mortgage securitization and record household indebtedness. How sustainable is all this?

Canada's National Housing Strategy is largely silent on these systemic issues. Spending more money might help for a few for a while. We are told that about \$40 billion will be allocated by the federal government over ten years, about \$4 billion annually on average. The rollout has certainly been slow. Sceptics might be right. How possible is the promise of no new taxes and an eventually balanced budget together with massive spending in many sectors, including housing?

A large part of Canada's housing story to date is told in the fifty-year overview of the federal role in housing via its budget (see Figure 3). Prior to the late 1960s there was an incentive program for private sector rental construction, some joint federal/private lending on mortgages, and a very small public housing programme (only 12,000 housing units 1949 to 1964). Starting in 1965 more public housing was provided annually, more private sector rental construction was subsidized, and more ownership programmes were initiated from time to time. Each had a stream of annual subsidies resulting in the rise in the annual spending and the increase until the mid-1980s in the percentage of the federal budget spent on housing.

Figure 3: Housing Program Expenses, Parliamentary Appropriations, Canada, 1968-2018



Source: CMHC, Canadian Housing Statistics, various years; for 2016-2018, Public Accounts of Canada; Canada, Fiscal Reference Tables

In 1984, with the election of a conservative government, the private sector rental housing supply subsidy programme was cancelled and the number of social housing units funded by the federal government began to decrease annually, ending in zero units after 1993. From that peak spending in the mid-1980s the long fall in the annual housing expenditures, and as a percentage of the federal budget, began its steady fall, until ... the GFC. It was such a major shock that even the very austerity-minded conservative government of Stephen Harper became free spending economic stimulus Keynesians. About \$2 billion annually is required for the subsidy stream for all social housing ever built in Canada. In the fiscal years 2008 to 2010 an additional \$2.2 billion was spent on housing programmes by the Harper government (e.g., about \$1 billion on rehab of aging social housing; funds for on-reserve housing for First Nations, etc.). Then spending return to the minimum necessary to cover long term commitments.

The surprise for many of us is what came next. Contrary to all the press conferences and press releases about the federal government's new housing commitment to significantly address housing needs, the Harper government spent more new money on housing (the \$2.2 billion) in a three year period than the current Trudeau government has: about \$1.9 billion, 2016 to 2018.

In summary, the Canadian government's role in helping Canadians obtain adequate, appropriate and affordable housing has gone through four distinct periods.

1. The first is the period up to 1964 in which the government avoided any significant involvement, except in the ownership sector.

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2. The second was a two-decade-long commitment to building a non-market social housing sector as part of a broader social safety net, which ended in 1984.

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3. The third was a decade-long decline in the allocation of new federal money for housing assistance, ending with a full withdrawal in 1993.

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4. The fourth period, from 1994 to the present, is much like the first – no significant federal involvement. This period also saw a devolution to the provinces of most federally assisted housing built during the previous periods, and, like the first period, a small "affordable housing" programme that seems to produce more press releases than housing units.

We need to change the national dialogue on housing. We need to reframe our understanding of the important role housing plays in our economy and government policy must respond accordingly. Canada's housing system was not designed to adequately house all.

## The Missing Housing Stories

Canada's post-war housing story, consisting a several phases and changes, is now over. We are in an era of new and very different housing policy challenges. Housing is a key part of the economy. It is integrated into all aspects of the economy in so many ways. It can be both a strong element of productive economic development as well as a means to improve social well-being and the quality of life for all. But this key economic role housing plays is missing from the narrow and traditional policy framework. As Maclennan & Miao (2017:130) note: "Failure to understand housing systems and to implement policies to address them is arguably exacerbating income and wealth inequalities, reducing productivity growth and replacing entrepreneurial returns with a growing reliance on growing property rentier incomes."

When the Shaping Futures Partnership was started it was with the aim of acknowledging the changes that were made in the social and community housing sectors and how they had innovated and contributed. We need to reframe our understanding of the important role housing plays in our economy, in reducing carbon, in social inclusion and inequality. The purpose was to look at how policies would follow practice, in a changing environment and within an environment of governments pulling away from the funding of social and affordable housing. A new framework of "modern" housing policies is needed.

What would it mean in Canada to change the national dialogue? For one, we would need to acknowledge that there are several housing forms that provide secure and safe housing. Many non-profits and co-operatives have been immensely successful in providing mixed income, quality designed homes integrated within neighbourhoods. These communities have provided secure and affordable housing since the mid-1970s. At that time, the growth of community housing was significant about 10% of overall housing growth. Today, in Australia, Canada, and the UK, the absolute number of public and community housing units is in decline. There is an urgent need focus on this successful agenda, celebrating its success, and supporting modern business models for this sector that will allow it to grow and remain affordable. Community housing groups must have the intention to continue to meet need, even when it means increasing market rents. This option needs a profile with the public. It needs to reflect the values of a new generation that may not have cars, seriously cares about the environment, and are willing to live in more compact housing and are seeking to find like minded communities.

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The private rented sector needs to grow as well. This will mean that governments need to reassess taxation policy. Local governments should set higher targets in their official plans for multi unit housing. Inclusionary zoning needs to provide building opportunities to allow rental sector housing and especially community housing projects to be part of all new housing communities. Developers in Canada have shown themselves to be nimble and adaptable in Canada. They should work hand in hand with local governments to make this happen.

We are ready to admit that our housing policies are no longer fit for purpose and that we need a new dialogue that includes younger households, environmental imperatives, and tools to fight inequalities. Housing is well placed to support social inclusion. New housing can be developed in ways that help expand opportunities for work, daycare, education, and recreation. Most importantly location close to work or transit determines the work day for parents and the time that they can spend with young children. We can no longer afford and can no longer sustain a housing system designed as a mechanism for “encouraging rentier returns and increasing wealth and income inequalities” (Maclennan & Miao, 2017:143).

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▼ Brisbane Housing Company, Lutwyche, Brisbane – affordable rental housing



# Chapter Five

## Learning from Contrasts and Commonalities in Housing Policy Narratives: Australia, Canada and the UK

Duncan Maclennan

## Making Comparisons, Shaping Questions

Academics, more so than international organisations such as the OECD and the IMF, have long expressed caution about the limits to international comparative research in housing (Harloe, 1985; Kemeny and Lowe, 1998; Boelhuwer et al, 1999). The practicalities of overcoming differences in the substance and meaning of apparently similar data for making contrasts are well known. Equally, it is now well understood that apparently obvious ideas, such as home-ownership rates or homelessness, can vary considerably in their meaning and measurements across different national systems (and may even vary within countries, for instance different Scottish and English definitions of homelessness). Even where an important issue can be consistently defined and measured, for example, the tax subsidy to support rental housing, comparative conclusions may have to be qualified by differences that a particular tax plays within a national tax system. There is much to be said for approaches in international collaborations that see other contexts as helping one country to better frame questions to answer within its own national-regional policy system. It is much less likely that policy innovations cannot be plucked from one nation and simply transplanted elsewhere with any expectation of effectiveness.

It is obvious that local contexts and local systems matter in understanding housing policies. However, that does not render international comparisons and knowledge exchange as interesting but unproductive tasks. Aside from the virtue of understanding different contexts helping to shape better questions about local systems there are also national and international, even global dimensions to both housing market processes and policy developments. The national 'policy' stories highlight that there have been important commonalities in some of the broad approaches to policy across the ABC countries.

These commonalities can arise in at least four different ways. First, the social and economic processes of change that shape housing demand and supply systems may be correlated across countries. For instance, innovations in transportation, population ageing, and global warming have all induced new policy challenges for housing at much the same time in Canada, Australia and the UK.

The second consideration is that as globalisation has grown, not least since the start of the 1980s, there are closer, direct connections across countries in capital flows, FDI, skilled and unskilled labour and the share of trade in GDP has broadly increased. In consequence, single countries are more open to not only the opportunities for growth but to the adverse cyclical changes and sudden shocks originating in the wider world economy.

These global impacts on local housing systems may have minor effects in some localities but, as discussed below, they are of increasing significance in the major metropolitan areas of all the ABC countries

The third 'global' dimension to housing policy discussions arises because there are international communities of researchers, consultants and practitioners that transfer policy innovation propositions across national boundaries. Governments are also involved in these processes and, although internet access to policy experiences across the world is growing (and exceptionally informative for Australia and the UK, less so for Canada), there has been now a decade of downward pressure on the travel and analytical capacities of national governments on 'international comparative' work. The OECD has raised its commitment to understanding housing issues, but it is not one of the areas in which it leads international debate. The IMF has had a narrow, if important, focus of interest in macroeconomic stability of national housing markets that has been theoretically driven rather than empirically informed.

The fourth and final driver of 'common experiences' has been the widespread shift, across the OECD countries, in the major settings in economic, monetary and fiscal policies. Housing systems and outcomes are usually significantly impacted by macroeconomic and economic policy beliefs and measures, indeed possibly more so than by the detailed housing sector instruments that preoccupy housing specialists. Views about how to control inflation, the efficacy of quantitative easing, the nature of monetary policy, the virtues and limitations of deregulation, the efficacy of public ownership, borrowing and debt, the role of fiscal policy in growth and the role of the state and sub-national governments all changed after the 1970s (ending Piketty's 'short twentieth century'). They have, arguably, had profound effects upon the functioning and outcomes of housing systems.

The Shaping Futures project, by connecting leading practitioners and academics, in a prolonged discussion based on co-produced papers, allowed those involved to understand differences in meanings and data and to take a broad view of what drove similarities and differences in housing policy choices and whether instruments or ideas had some potential for transferability. The remainder of this brief chapter sets out some of the main commonalities across the ABC countries. The next section looks at the major policy settings that countries shared and some general housing policy consequences and the next section addresses specific housing policy changes before a short conclusion.

## Shaping Futures, Abandoning ‘Wisdoms’

### Key Beliefs Changing

By the first decade of this millennium the conventional wisdom framing housing policy decisions in ministries at national/federal levels in the ABC countries included five fundamentally important judgements about framings for policy that applied not just to housing but to the broad approach to policy. It is important to note that the specific measures to implement these approaches differed across countries as did the extent to which they displaced other policy approaches. Whilst it can be readily agreed that the ABC countries all embraced the ‘neoliberal’ shift in economic policy framing this still left considerable scope for policy differences. Protestant Christianity in Britain embraces the very different cultures and consequences of High Anglicanism in Westminster Cathedral, thoughtful Quakers in York and the austere unaccompanied psalms of the Free Church of Scotland in Stornoway. We need to get beneath the label of ‘neoliberalism’ and understand the middle-ground between state and market (Miao and Maclennan, 2016) to avoid anything but lazy comparisons of different national policy approaches.

Reflections across the three countries make it clear that four fundamental changes in the new ‘meta framework’ of quasi-principles for policymaking emerging at the end of the 1970s had fundamental implications for housing policies. These were *‘smaller state’*, *‘reducing public debt’*, *‘localisation-devolution, decentralisation and subsidiarity’* and *‘a presumption of the efficacy of market provision’*.

The ‘smaller state’ narrative argued that public, or state action, was generally to be reduced or minimised wherever possible, and this approach applied both in the UK with its historically large welfare state and in the more market-oriented economies of Australia and Canada. The ‘smaller-public-sector’ belief pervaded decisions about planning and housing provider roles, for instance in the ABC countries post-1980 support for provision of new public housing and the use of compulsory purchase in planning and land policies sharply reduced.

The ‘reduced public debt’ mantra reflected the new conventional wisdom that public borrowing and public debt were to be avoided wherever possible, irrespective of the investment/consumption nature of the associated expenditure (and this wisdom has persisted through the last decade of record low, and negative real, interest rates).

The ‘localisation’ argument was often based on the logic that devolution facilitated better local choices that would also be more effectively provided. However, ‘devolution’ often morphed into ‘dumping’ (Maclennan and O’Sullivan, 2013) where the downloading of housing roles from higher to lower-order governments were not matched by effective re-assignment of controls over resources and taxes. This raised, in all three countries, the vertical fiscal imbalance between national/federal and more local entities as the task of addressing housing problems remained resolutely local but the elastic tax base to deal with them usually remained in national/federal hands. This became a particularly serious issue, after the mid-1990s in faster growing metropolitan areas with rising needs, no coherent metropolitan structures of government and limited local resources and it is evident in all three national narratives. This raises a further common change across the ABC countries in question, namely there is a significant possibility that the major cities, more linked to global flows of trade, labour, and capital may have become progressively ‘de-linked’ from other cities and rural regions, and this adds complexity to framing national level policy initiatives. Different places may have different tales to tell.

The framing assumption that ‘free-functioning markets were effective’, and by implication that needed to be as fully deregulated as possible to work well had major implications not just in reducing state investment but in setting the dominant mindset for policy-making. This meant that housing markets were to be regarded as essentially free of inherent market failures. This view has, in recent decades, been challenged in the UK Treasury, but it has dominated economic thinking for housing-policy-making at Federal and sub-national levels, especially in Canada (where few official publications cite evidence from outside of north America or the conventional neoclassical framework for economic analysis, see for instance CMHC (2018)). Below we argue that it is important to distinguish between housing policy strategies that see markets as the main or core system for allocation and investment but that may require some policy action to address market failures, and those who hold strictly to a well-functioning/leave it to the market policy approach.

Two further, housing-specific framings have also had major effects on housing policy expenditures. The further framing assumption in policy-making processes was that *housing policy expenditures were merely 'merit good' investments* driven by re-distributional aims and of some use for *macro-stabilisation policies* in periods of economic downturn: there was a common explicit view that housing had no (or no evidenced) productivity effects or growth effects on the economy so that housing policy spending was usually regarded as displacement. The final policy framing, greatly emphasised after the Global Financial Crisis of 2008, was the *potential financial instability* effects of 'riskier' mortgage lending. Naturally nations do not wish to promote unduly risky borrowings but there needs to be clarity that excessively safe lending rules are not distorting housing choices and asset accumulation for the future. Both the UK and Australian governments have recently begun to reflect upon how the affordability problem also means a productivity challenge but there was an absence of any real justification of where the safe margins of debt and lending lay.

### **The General Housing Policy Consequences**

Programme reductions in housing quickly followed these changed beliefs. There have been periods of recovery in housing budgets either for cyclical stabilisation reasons, as in all three countries between 2009-12, or where there was some period of recognition that housing difficulties were mounting, in for example the Blair and Rudd governments, in the UK and Australia respectively. In general, however, Housing Ministries saw their share of public investment allocations fall. Housing Ministers, became downgraded in significance, for instance in England (until 2016 when the 'Housing' portfolio was added to lead the appellation of the Secretary for State for Housing, Communities and Local Government); or eliminated entirely, as in Australia's federal government post-2013.

These spending outcomes weakened the evidence and economics capacities of housing advocates within government to make and hear housing policy cases. Higher orders of government have been better at concealing these deficiencies but at sub-national scales, housing portfolios have been subsumed within Family and Social Affairs departments and increasingly focussed upon homelessness measures and the very poorest households (Dalton et al 2017; Pawson et al 2018). Analytical resources have been stripped away from housing. Usually, investment resources have shrunk. Ministries that were home to the crumbling foundations of old housing policies were rarely invited or resourced to make economic cases for housing investment and housing was seen to have no identifiable role in economic growth and productivity processes.

## **Changing Housing: Specific Issues**

### **Growing Problems, Secularly Unfolding Crises**

The three country narratives revealed that at metropolitan and national/federal levels the ABC countries display an emerging trio of housing difficulties. Homelessness, struggling social housing sectors as official housing 'needs estimates' are rising, and an increasingly system widespread difficulty of paying for what has come to be regarded as appropriate housing. Housing affordability issues are no longer focussed upon low income renters and there is a recognition in the UK and Australia, and just emerging in Canada, that younger households up to the middle of the income distribution are encountering greater difficulties in accessing rental as well as home-ownership options.

These three broad policy concerns constitute well-evidenced, demonstrably rising challenges to existing policy settings. All three issues have been evident problems in many places since the mid-1990s (MacLennan, 2008) but the relatively recent recognition of the affordability issues has sometimes led to a mistaken belief that the patterns observed have been consequent to the GFC in 2009. The GFC, largely driven by the policy management of the US housing and finance systems, may have exacerbated some of these developments and frustrated the resourcing of policy solutions. However, the adverse policy outcomes identified above appear to have grown for a decade and more before the GFC (Arundel & Doling, 2017). Indeed, the GFC had minor effects on the growth of the Australian and Canadian economies. Rather than severe cyclical instability we must look to the longer term, broad settings for housing policies across the ABC to explain why economic growth has been manifested into intensifying housing system stresses.

In examining the broad thrust of policy change internationally it is important to recognise that policy directions have oscillated within countries. For instance, the UK government fundamentally altered, and then reversed, regulatory and grant support levels applicable to England's non-profit sector within the space of 6 years; the Rudd government broke from the austere path of the Howard administrations housing policies in Australia but his Labor successor (Gillard) divided and diminished the housing portfolio. The subsequent Liberal Prime Minister (Abbott) tightened that contraction while his, still Liberal, successor (Turnbull) allowed a somewhat more open discussion about legitimate Federal housing policies that was also espoused by, his then Treasurer and now successor as Prime Minister, Scott Morrison.



Similarly, after almost a decade of diminishing government in general – and housing, in particular – the Conservative administrations of Stephen Harper have been replaced by the Trudeau government that has stressed the importance of national housing strategies and has identified areas of policy renewal. In 2016 the May government in the UK attached a new significance to housing policy spending and by 2018 had begun to announce some additional resources for the affordable housing sector. Despite these more positive signs for housing policies, oddly, across all three ABC countries there remains little positive narrative of how housing can more effectively impact social justice, competitiveness and sustainability goals. The underlying policy imagination and narrative has shifted little and still seems rooted much in an unimaginative ‘best leave it to the market’ mentality with support or social housing and homelessness seen as crises measures.

The national narratives demonstrate important commonalities in how policy choices after the 1980s have shaped the three main problems nations now face.

### **Social Housing**

In relation to the non-market sector, in the UK social housing investment fell sharply after the 2010 election and policy came to constitute an incoherent mess of poorly designed measures for housing investment set within a punitive reform of wider welfare provision and public-sector budget cuts. In the last three years of the Cameron led-coalition housing policy in England was led by a series of ad hoc initiatives from the Prime Minister’s Advisers rather than the Housing Ministry at DCLG (where most of these policy efforts had been previously consigned to the dustbin as unevidenced and or unworkable).

After almost three decades of cross-party support for expanding the roles and resources of the sector, housing associations suddenly endured a surprising deluge of criticism (in 2015) from senior government Ministers and the Chancellor of the Exchequer and media allies. Associations were deemed inefficient and overly insulated from the market; all of this, a matter of weeks before the government introduced a bill to extend the right to buy to the association sector. More centralised control over the supposedly independent association sector occurred when, after the public spending round was signed off by Ministers, a hole in the social security budget was filled (literally overnight) when it was announced that associations would have to lower rents (and reduce housing benefit bills) for the next three financial years, despite having largely resourced projects with private finance.

These heavy-handed approaches certainly concerned private lenders to NFPs, but even more important, policy was so badly designed that ‘independent’ non-profits were being so controlled by government that they were redefined (reflecting a longstanding concern by the Office for National Statistics) to be ‘public bodies’. Across the UK, this added, at a stroke, £80 billion to public debt in a nation driven to ‘austerity’ to reduce such debts. Albeit that a softer and more careful approach in housing policy has emerged in the post-2016 May administration there is yet no coherent re-understanding of what non-profit and social housing providers are for and how they might change for the new times. Social housing, at least the non-profit sector, after being greatly damaged by policy between 2011-16, in the UK is now beginning to recover policy credibility and resources.

In Australia, a new institutional architecture is being put in place that could help to underpin an expanding, efficient non-profit sector but there has been little sign of the state or federal supports that will lever adequate investment levels or any strategic sense of how to revitalise stagnating stocks of declining quality public housing (Pawson *et al.*, 2017). In Canada, there are significant parallels. Two decades ago the nation delivered close to 25,000 non-profit units per year but – paralleling Australia – now builds only around 3,000 such units annually: housing needs totals are growing. A new funding system for social housing is envisioned as part of a new national housing strategy that, inter alia, aims to remake the social housing sector and introduce income related housing allowances for significant numbers. It is clear, however, that the scale of supporting resources so far announced, does not offer the step-change in affordable housing output required to meet housing needs. Nor, as discussed further below, and in Maclennan and Graham (2017), have housing policymakers grappled with the ‘economic’ as opposed to financial consequences of housing system outcomes. Indeed, looking across all three narratives there appears to be a largely missing narrative about promoting effective housing market policies.

In Australia and Canada there is an emerging urge to give the non-profit sector a bigger role and Australian Federal efforts have intensified in 2017-2018 to create a better conduit for non-profits to access larger volumes of lower cost capital market funds for non-profits. The creation of the THFC in the UK in 1987 did not in itself drive the expansion of the sector. An important lesson from the UK policy narrative (Maclennan and Miao, 2018) is that getting the non-profit sector to a more effective scale required public housing stock transfers and significant capital support to UK associations to lead change. Neither stock transfers nor significant grant support have made much progress on political agendas in Australia and Canada.

## Homelessness

However, in belated response to the growing scale of the problem there has been substantial innovation and progress across countries in advocating programmes to address homelessness. In its approach to tackling homelessness in England, the UK Government has recently emulated its Welsh counterpart by adopting new legislation mandating a more pro-active, prevention-centred approach (Fitzpatrick, *et al.*, 2018). These approaches stress the need for integrated action and recognise the benefits of reducing homelessness as – at least in relation to chronic rough sleepers – manifested in savings on other sectors of public service provision and investment (Parsell, *et al.*, 2017). In Australia, meanwhile, Governments instinctively sceptical about any significant investment in social and affordable housing have demonstrated tolerance to homelessness services expenditure rising at rates far in excess of general inflation (Pawson, *et al.*, 2018). Across all these more hopeful directions, arguably, there is no new narrative and little real policy innovation and a reluctant commitment to raising investment levels sufficiently to reduce existing needs, let alone deal with the emerging issues driven by population growth and ageing (*inter alia*).

## Widening, Deepening Affordability Difficulties

Of the three housing difficulties identified above, governments in all ABC countries seem to have been slow to recognise and understand the growing middle-income/younger household affordability issue. Rent to income ratios have risen in all three systems across a wide spectrum of renters, not just for the poorest households and despite pro-homeownership narratives in all three that age specific home-ownership rates for the 25-40 age groups have been declining for decades in the UK and Australia and more recently in Canada. In effect the rising longevity of over-65s with high achieved home-ownership rates floated national average rates upwards for much of the period after 1980 masking the growing difficulties facing potential first time-buyers. The outcomes now faced by younger households in all three countries seems to reflect a sustained lack of attention to effective housing market policies consequent, arguably, to the naive view of housing markets embedded in policy framing for housing.

With reduced commitments to public investment in housing and the effective demand for early years home-ownership falling it is unsurprising that the private rental sector has grown significantly in all three nations. Rising house prices constrained the choices of first time buyers. Rising property values attracted both long term, often retirement, savers and speculators alike to purchase and let to the ‘priced out’ young. The new challenges of the PRS and new forms of ownership, with growing buy-to-let were common themes in all three countries.

As price to income ratios (moving in the same direction as more sophisticated measures of the burden of housing payments) for first time buyers have risen steadily (from around 3 to 6 in all three countries in all three countries over the last 20 years) the most common national/federal policy response has been more restrictive financial, regulatory measures requiring larger deposits from potential buyers. That is, financial stability goals have come to dominate efforts to raise home ownership rates from for younger households. These measures are likely to have needlessly damaged ownership prospects for younger households in localities with relatively stable prices and there is little evidence in any of the three national housing narratives that major markets, with more pronounced global connections, have unlinked from other urban and rural settings. CMHC, the RBA and the Bank of England have led the calls for such measures in their national settings but they do not appear to have had much regard to the uninking of major markets (for evidence for the UK, see Chowdhury and Maclennan, 2014) and the different roles that family wealth (as opposed to individual and household wealth) plays in facilitating the purchase of homes by younger households.

In the UK, the slow recovery from the GFC, reflecting ‘austerity’ policy settings, and more recently the short-term effects of the Brexit process have seen more efforts to raise younger home-owner rates. The initially poorly designed Help to Buy programme (National Audit Office, 2016), that has evolved in focus and design since its introduction in 2014, has recently come to support some 40pc of new first-time buyers and been extended to 2021. Younger (25-40-year-old) voter attitudes to the housing choices they are confronted with, in all three countries, seem to be increasingly influencing public sentiment, giving housing a political salience, it has lacked since the 1980s. Households may still have options but housing costs rising ahead of household incomes have narrowed their housing choice sets and shifted decisions about tenure, quality and location trade-offs and impacted more fundamentally important pathways such as forming relationships, having children and accumulating assets for old age.

As in the social sector, problem recognition has not yet been met by new narratives, ideas and means for housing market policies. Opposition parties have, at least in the UK, tended to look back to earlier times and have accordingly played up rent controls and council housebuilding provision in their housing policy programmes. There is no clarity across the ABC in how different balances of support for market rental provision or augmented home-ownership assistance will impact the housing system, life-cycle savings and assets of the young and their abilities to accumulate pension assets by saving through ownership (Maclennan and Graham, 2017). Whilst the right has argued for ‘innovative’ approaches and the left called for more ‘resources’ (and we accept that both will be needed to progress policy aims) the missing discussion is what has happened to housing policy-making and the narratives to support it. The Shaping Futures Group, most of whom had been deeply involved in making housing policy cases for decades confirmed that needs arguments, the conventional ‘merit goods’ cases for housing policy support had lost traction.

## Conclusions from Contrasting the Three Narratives to 2018

National/Federal level governments, as they prepare to rethink policies for homelessness, affordable housing and housing affordability need to set their policy ambitions as a clear set of intended policy outcomes for major national (and local) objectives.

Reading across the narratives from these 3 advanced economies it is striking how little housing policy actions, or reduction of actions, are tied to housing. There is little framing of how the big outcomes that governments strive for are seen to be impacted by housing outcomes. Housing policy has long been about more than ‘housing needs’. Policies are failing to meet needs, and failing to prevent needs queues lengthening. There is good prima facie evidence that housing policies now raise income and wealth inequalities rather than reduce them (Maclennan and Miao, 2017). In Canada, for instance, inequality has increased faster than most OECD countries since the start of the millennium. New doubts are emerging that housing outcomes may be eating up the gains of productivity growth in major metropolitan areas (Maclennan et al, 2018), and it has been long established that the patterns of new housing development in Canada and Australia have some of the worst environmental footprints in the world.

Governments must develop a policy approach that understands and tracks how housing system outcomes impact not just some quantitative needs target or desirable rent to income ratio, but how they influence performance in relation to major government goals such as competitiveness, social justice and mobility and environmental sustainability. We must question, on reading across the policy narratives for the three countries, whether housing policy first advocated to reduce negative externalities, promote fairness for all and – in downturns – stabilise economies, now performs any of these roles.

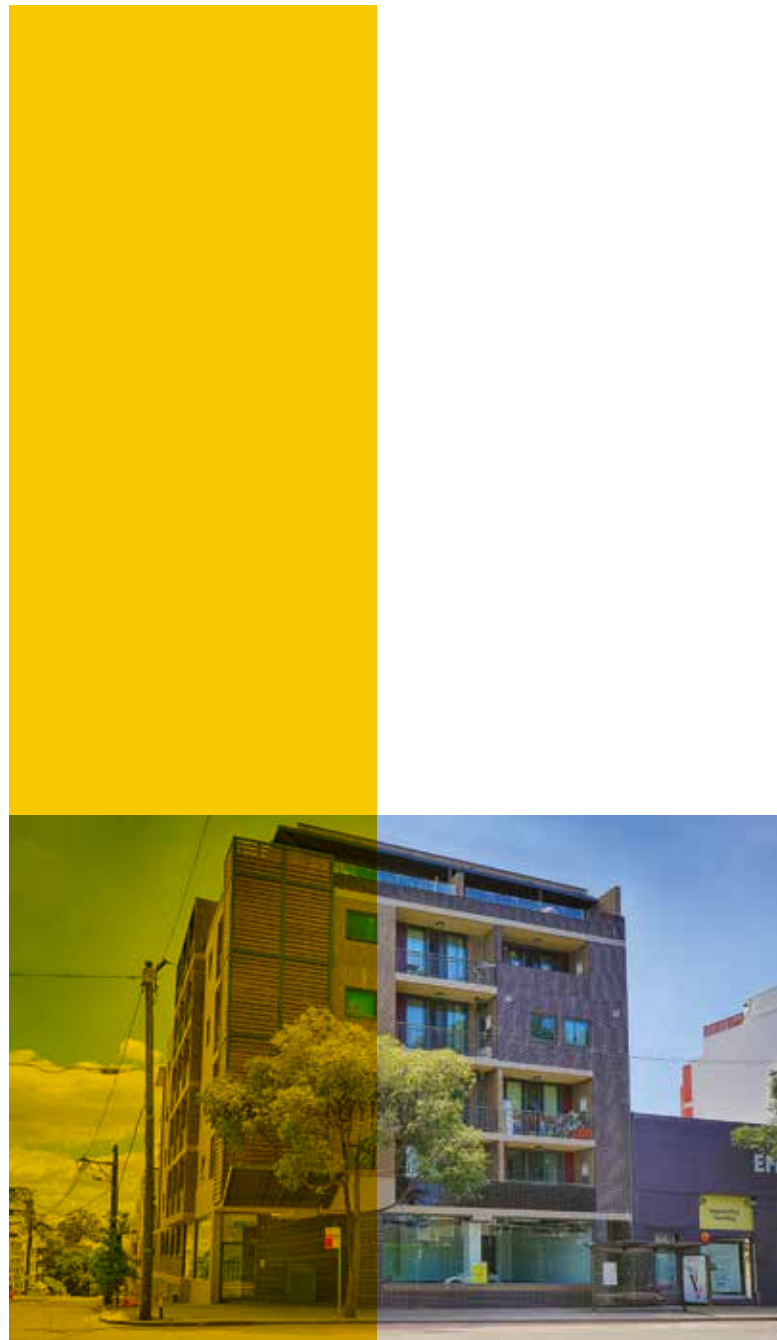
In discussions the Shaping Futures Group drew attention to several limitations of current policy narratives. The group highlighted missing economic understandings as a particular Achilles heel of narratives to support better housing outcomes, and this issue is addressed in Chapter 11. The Group, in looking at the roles of major metropolitan areas, drew attention to the need to give a new outward looking dimension to national and local housing policies as the discussions revealed that national and metropolitan housing policies had been generally weak in considering the global context. They also remarked on the absence of any strategic approaches to the widespread housing affordability pressures identified in all three countries and took the view that they will not be resolved unless there is a rebalancing not just of housing policies but major policy settings shaping housing investment. These, and other issues raised in the national policy narratives, will be explored in the subsequent chapters of this report and broad approaches for the future set out in the concluding chapter.

**There is no clarity across the ABC in how different balances of support for market rental provision or augmented home-ownership assistance will impact the housing system, life-cycle savings and assets of the young and their abilities to accumulate pension assets by saving through ownership**

(Maclennan and Graham, 2017)

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▲ Boyce Housing Group, Camperdown, Sydney  
– New Generation Boarding House

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# Chapter Six

## Metropolitan Growth and Shaping Future Housing Policies

Duncan Maclennan and Julie Miao

## Metropolitan Matters

Housing issues and policies are often discussed at national scales although both market processes cohere, and policy autonomies are located, ‘locally’ (Brenner, 2004; Maclennan and O’Sullivan, 2013). This chapter focusses upon economic change, housing outcomes and policies in major metropolitan areas in Australia, Britain and Canada (ABC). A metropolitan focus is adopted because important housing market policies and adjustment processes, as suggested by travel to work and residential mobility research, function at metropolitan scales. There is also a growing awareness that agglomeration economies and greater global connections may give distinctive characteristics to metropolitan growth processes. The geographies of housing market areas rarely mesh with those of political jurisdictions and as policy has increasingly relied on market signals and solutions to achieve housing policy outcomes there is a growing discussion that strategic metropolitan authorities might be the locus of future autonomies in housing policies. Further, in nations, such as the ABC, where a small number of large cities drive total national system change, important differences in market pressures and outcomes between high growth cities and other places are masked by national averages. Researchers may then fail to reveal the key processes operating and governments may inappropriately pursue regionally undifferentiated policy responses. Finally, there is an emerging view that housing outcomes in these pressured places drive national pictures, not just statistically, but in housing processes, expectations and policy responses.

This chapter, in Section 2, discusses the growth of metropolitan areas and the roles of ‘agglomeration economies’ and globalisation (Glaeser, 2010; McCann, 2013). Most economic models of housing markets would predict that the ‘core’ housing market responses to demand increases would include changes in supply, prices and affordability and they are outlined in Section 3. and key ‘stylised facts’ identified. The housing system is a complex sub-system, producing and allocating housing with multiple attributes and, in consequence, these core, or first-round, impacts may promote a range of ‘second-round’ adjustments of producer and consumer behaviours, such as changing locations of search and delaying household or family formation, that go well beyond simple housing price-quantity adjustments. Ways of framing these ‘second round’ consequences of housing choices, that may catalyse recursive effects and make emergence and evolution of the housing market as likely as equilibrium (Glaeser and Gottlieb, 2009), are outlined in Section 4 and applied to the recent experiences of pressured metropolitan housing markets. Section 5 then illustrates how housing system ‘outputs’ may reduce growth gains and productivity ‘outcomes’.

The ways in which the real housing economics of metropolitan markets require changes in the framing of economic policy decisions, the structures of governance and the instruments of housing policies are briefly discussed in the concluding part, Section 6.

## From Core City Decline to Wider Metropolitan Growth

### From Decline to Growth

Until this millennium, urban economic policies in the OECD were primarily concerned with the decline of ‘inner cities’, including Melbourne, Sydney, Toronto and London. Housing quality and property values were widely recognised as reinforcing factors in city economic difficulties (HMSO, 1977; Robson, *et al.*, 2000; OECD, 2006). Finance ministries widely regarded financing policies for cities as redistribution that displaced ‘productive economic’ investment. In the ABC countries, as in most OECD economies, the long boom disproportionately created growth in employment and incomes in metropolitan areas and revitalised city cores so that the emphasis on ‘inner-city’ withered (Advisory Committee on Cities and Communities, 2008; Parkinson *et al.*, 2006)<sup>1</sup>. Managing metropolitan growth had become the key urban policy challenge in the advanced economies. That emphasis is likely to continue as it is widely expected that future growth will be predominantly within existing metropolitan regions (see Henry, 2009). Economic policies for cities are increasingly aimed at facilitating growth – e.g. City Deals in the UK and Australia, albeit with an emerging emphasis on ‘inclusive growth’ (see Waite, *et al.*, 2018), although this changed perspective is rarely applied to constructing growth-facilitating housing policies (Maclennan, *et al.*, 2018).

A small number of large metropolitan areas now comprise substantial ‘meso’ segments of the three (ABC) national economies considered here; Sydney, London and Toronto contribute a quarter of their nation’s growth, and in the ABC nations the three largest metropolitan areas produce 50 to 60pc of GDP (SGS, 2017; Conference Board of Canada, 2016, Centre for Cities, 2017). In these economies, metropolitan outcomes, that reflect the interaction of local economic systems with regional, national and global supply and demand influences, are therefore crucial to overall national performance.

<sup>1</sup> Though poverty concentrations were also growing in other parts of metropolitan areas in most countries, for the UK, Australia and Canada, see, respectively, Bailey and Minton (2017), Pawson (2017), Hulchanski (2011)

In designing economic policies for housing, the typical divide between meso and macro-perspectives fails to grasp the modern spatial realities of how these different system levels function and interact. Not one of the national ABC governments, for example, has any macro-to metropolitan economy modelling framework and hence no formal modelling of how these major metropolitan housing markets is driven by, or may drive, change in the national economy. Clearly, the locally fixed factors in metropolitan production, such as infrastructure and housing systems, receive relatively little attention in 'macro-modelling' and national productivity debates and their economic roles may be under-valued in policy decisions (Maclennan, *et al.*, 2018). This clear gap in policy thinking mirrors a longstanding focus of urban and regional economic models on the roles of labour, skills, capital and innovation in driving regional economic performance. That emphasis may have been appropriate but metropolitan growth makes the understanding of how 'locally fixed' systems are impacted by, and recursively shape, change important. Once change ensues then drivers and reinforces may be difficult to disentangle.

### **Rediscovering Agglomeration Economies**

Cities are always key points of connectivity for consumers and producers in economies but there are new emphases in the understanding of the drivers of metropolitan growth and productivity. Growing globalisation of product, labour and finance markets reinforces the reach and roles of connection (McCann, 2016). However, it is the important work of Glaeser (2008) and Glaeser and Gottlieb (2009) in rehabilitating earlier ideas on 'agglomeration economies' (Marshall, 1890), that has persuaded economic policy-makers of the distinctive, positive productivity possibilities arising in larger cities. These agglomeration economies arise due to both the increasing scale and density of employment and/or residential land uses in cities (see Puga, 2010). Large cities with 'thick' labour markets attract and integrate high quality and other kinds of labour supply more efficiently than smaller places. Larger cities facilitate the networking, clustering and face to face contacts that are required to create trust that is key to innovation and flexibility in fast changing economies and they foster effective sharing of scarce facilities. Growth in key parts of modern economic bases include fast innovation in information technology and financial services. These sectors are concentrated in and grow faster in metropolitan areas and appear to thrive on agglomeration economies. Technological and financial innovation in London, Sydney and Toronto are clear examples of such effects (SGS, 2013). There is evidence emerging over the last decade that cities now produce shares of national economic output that exceed their population shares and that urban size and density enhance productivity (Ciccone and Hall, 1996; Rosenthal and Strange, 2004; Puga, 2010; Abel *et al.*, 2010; Mare and Graham 2013; Melo *et al.*, 2013; Ahrend 2015).

Metropolitan density and spatial forms, that are extensively shaped by housing market decisions, are now recognised as significant economic growth policy issues (OECD, 2006; McCann, 2013). These ideas have been applied in the selection of metropolitan transport infrastructure investments, for instance by including estimates of how productivity-raising labour market densities can be increased by reducing travel times and costs. They have not been deployed to assess impacts of residential investment as economic infrastructure.

Several studies (McCann, 2013; IPPR North, 2016; Cottineau, 2018) have suggested that agglomeration economies may not operate everywhere and always. They may be more potent in newly emerging economies and subject to threshold effects. There are also key notes of caution emerging (Maclennan, *et al.*, 2015) that the net benefits from earlier existing agglomeration economies may have been reduced by growth driven congestion costs, and this is a central concern in the emerging cases for active metropolitan housing market policies. Some research (IPPR North, 2016) suggests that uncritical use of agglomeration rhetoric in making policy support claims means that there are significantly more specific claims for the existence of agglomeration economies than there are solid, empirical research studies establishing their existence and extent.

## **Metropolitan Growth and Core Housing Outcomes**

### **Complex Market Systems: Drivers and Reinforcers**

Metropolitan growth has, potentially, major effects on local housing outcomes. Regional economics, aside from initial employment multiplier effects regional economics has traditionally had little to say, other than generalised statements about 'congestion costs' and 'cycles of disadvantage', about the longer term and recursive effects between housing and the economy at the regional scale and has not theorised the relationships. For instance, recent work on economic change in UK cities (Martin, *et al.*, 2014) largely ignores the sector. Housing economics has, until further work by Glaeser on GSE models (Glaeser and Gottlieb, 2009) focussed on first round price effects of growth rather than assess growth and productivity consequences.

This paper recognises that a connected suite of major, problematic housing outcomes has emerged within ABC metropolitan areas since the start of this millennium and these changes and their consequences are outlined in two stages, in this section and the next. The first part, in this section, focusses on reviewing demand drivers and supply responses, and the major 'first-round' effects on price and output outcomes. The second part, in Section 4, recognises that core market pressures induce a series of multiple, 'second-round' adjustments in the housing market, some that include spatial spillovers and others with recursive effects capable of triggering complex dynamics of adjustment.

### **Metropolitan Growth Experiences**

There is diversity in the economic trajectories of metropolitan areas within a nation. There are shocks and sectoral effects that have more pronounced impacts in some metropolitan areas more than others. Some metropolitan areas are more connected to global flows of trade and talent. Within the ABC countries, for example, fluctuations in the price of oil have had significant effects on housing prices in the oil-oriented economies of Edmonton, Calgary, Aberdeen and Perth (Australia). However, there are more pervasive influences on growth that operate over wider ranges of cities and sectors, such as agglomeration economies. Gyourko, *et al.*, (2006) have explored 'superstar' cities in the USA that have sustained growth and house price uplift over prolonged periods and CMHC (2017) have highlighted that different real price growth in Canadian metropolitan areas reflects, in the main, differences in economic growth rates. In this chapter, to simplify the arguments, population change is taken as proxy for broader metropolitan growth.

The patterns observed in the ABC countries indicate that metropolitan areas have not only had faster rates of productivity growth (per worker) than national averages but that population, household and employment numbers have risen fastest in existing metropolitan areas. In Australia and Canada, the largest metropolitan areas have, with some exceptional periods, grown fastest and other metropolitan areas have grown faster than 'regional' or rural areas. The Canadian figures show that, from 1997-2017, the high and consistent Canadian population growth rate exceeding 1pc per annum (in each of the five-year periods illustrated) was outpaced by growth rates in the larger metropolitan areas of Vancouver and Toronto (with Montreal lagging national growth rates). The largest three metropolitan areas increased their share of national population from 33pc to 35.6pc. Ottawa, Calgary and Edmonton, for different reasons, all incurred nationally high rates of expansion and after 2007 the smaller metropolitan areas, such as Halifax and Winnipeg had begun to grow faster than the (rising) national average.

Some similar patterns are apparent in Australian data (with overall growth population close to the Canadian rate). Sydney grew by 6.6pc between 2006-11 and at almost double that rate (12pc) from 2011-16. Melbourne grew even faster between 2011-16, at 13.2pc. Brisbane and Perth both had double digit growth in population in both periods and the slowest growing large city, Adelaide still managed to grow by 5.9 pc between 2006-11. These growth surges, in both countries, were generally associated with rising incomes and employment. The UK pattern of change is more complex, but London grew disproportionately in population, employment and productivity (Martin *et al.*, 2014).

Stylised Fact 1

**In the ABC countries economic growth in metropolitan areas drove significant, sustained increases in populations and households and those pressures appear to have increased after the GFC. Economic change has underpinned a significant increase in demand for metropolitan housing.**

Growing metropolitan housing demands impact on local housing supply systems. There are several studies that estimate the price elasticity of the supply of housing for metropolitan areas in the United States (Green, Malpezzi and Mayo, 2005; Saiz, 2010; Glaeser, Gyourko and Saiz, 2008). They suggest that measured elasticities vary across metropolitan areas with some elastic but the majority not. For example, Green, *et al.* (2005) establish that stringent land use regulations in a metropolis are associated with lower elasticity but they also note that inelastic responses can also be found in localities with little regulation. Saiz (2010) stresses how the nature of the terrain in a locality, in addition to regulation, induces limited responses. Glaeser, Gyourko and Saiz (2008) make the important observations that metropolitan areas with low supply elasticities are more prone to price bubbles and that bubbles are less likely and shorter in duration in localities with responsive supply systems. There are good a priori grounds for assuming that such patterns and influences will prevail in other metropolitan systems though the extent and causality of inelasticity may vary from system to system and city to city. Though this literature identifies the potential house price effects of 'stringent' regulation it also does not rule out other causalities of low responses and indeed few studies test for regulatory effects simultaneously with, for example, infrastructure shortages, and construction sector shortages and these are important omissions in understanding inelasticity drivers.



None of the ABC countries have a similar, strong set of metropolitan studies. There are two significant studies for Sydney, Gitelman and Otto (2017) and Liu and Otto (2017). The later study, for 1991-2012, suggests that the price elasticity of housing supply in the municipal areas of metropolitan Sydney is low (well below unity), is lower for houses rather than flats, though for flats it exceeded unity in a third of municipalities, and fell after the start of the millennium. Localities with existing high housing densities (already filled-up) and slow planning processing times had lower elasticities. Higher, but still low elasticities have been estimated by McLaughlin (2016) for Adelaide. Metropolitan scale estimates in the Canada and the UK are notable for their absence but Kalhor (2014) estimates that elasticities for Canadian metropolitan areas are low, at 0.2, and that the construction sector is largely insensitive to house price changes. The academic literature that is available, and is broadly comparable, suggests that the price elasticity of supply of housing is very low in the short period and moderately low in the longer term. It also suggests that the supply of housing within existing cities and metropolitan areas (with much land already developed) is particularly inelastic.

Stylised Fact 2:

### **The supply of housing in metropolitan areas is inelastic and especially in the short term.**

Taking the first two stylised facts together it can be reasonably be deduced that the rate of growth of housing demand in metropolitan areas in short to medium term periods, and often into the longer term, will exceed the housing supply response and that market pressures will be quickly more apparent in such localities. The key, but not the only, signal of pressure in any market is rising real market prices adjusted for changes in the quality of dwellings traded over time. There are a multitude of caveats regarding citing housing prices unadjusted for housing quality as there are many qualitative adjustments that consumers make, for instance moving to smaller, more remote homes, in pressured markets and price index studies often omit such considerations (as do many housing affordability indices).

The evidence across all three ABC countries is that where population and employment grew fastest housing prices and rents rose fastest too. Price change patterns in Australia saw the major, larger capital cities with price rises running ahead of smaller cities and regional-rural Australia. After, 2013-14, both Sydney and Melbourne (but particularly the former) saw annual price rises in the 10-15pc range until the end of 2017. The Canadian pattern is broadly similar, with Vancouver (and nearby Victoria) and Toronto outpacing metropolitan and national house price inflation rates from 2012-17. In the UK, London and surrounding cities, post the GFC, exceeded national house price inflation rates until 2018.

Stylised Fact 3.

### **House price inflation rates of major metropolitan areas have run ahead of other cities, towns and rural areas within their national systems for sustained periods. That divergence has slowed but not disappeared and there is a growing concern that major metropolitan areas may now, driven by greater impacts from globalisation, have partially 'de-linked' from national developments.**

High house price growth in expanding metropolitan areas has produced historically high real house prices and inflation rates. Vancouver's successes as an attractor of households and jobs saw, in the decade to October 2016 rents in the city rise by 40pc, Eastside condos appreciate by 60pc and Eastside Townhouses by 70pc (and that patterns of owned houses outstripping flats and both outpacing rents has been typical of other metropolitan areas). In Sydney, the sequence of annual price appreciation rates in excess of 10pc per annum from 2013-17 illustrates both the scale and persistence of the problems. The sustained divergence from national averages raises major policy challenges not just for metropolitan governments but for national/Federal governments introducing policies to 'cool' or stabilize metropolitan housing markets housing markets.

Rising demands, sticky supply and consequent price pressures, are the core Stylised Facts of metropolitan housing change. They are also the predicted housing market outcomes that most economic models of housing markets would anticipate. For instance, in different ways the RBA in Australia (2017), CMHC (2018) in Canada and Maclennan and Chowdhury (2015) in the UK all, in different ways, demonstrate that real economic changes, and not simply speculation, drive these metropolitan-regional house price change patterns.

Rising prices are usually only the first phase of adjustment in a pressured housing market and supply shifts are not the only route to change.<sup>2</sup> The metropolitan areas in the Shaping Futures discussion also displayed increasing homelessness, growing queues for social housing and deepening difficulties in paying for housing for younger and middle income and middle-aged households. The generally growing housing affordability stresses experienced in this millennium in Australia, Britain and Canada, and their knock-on implications for economic stability, wealth, growth and productivity are the focus of concern here.

<sup>2</sup> Static or slowly falling house prices have been recorded in some of the major metropolitan markets in the ABC countries since mid-2018. This has raised concerns of further price falls and potential instabilities for wider financial systems (Globe and Mail, 14<sup>th</sup> January 2019) and it is widely accepted that housing market instabilities are detrimental to growth and productivity (Priemus and Maclennan, 2011). The chapter comments on these recent developments but it focusses on the growing, sustained divergence between housing prices in growing metropolitan regions and other regional settings that has been typical of the last two decades in the ABC and many other OECD countries (Katagiri, 2018; Alter, *et al.*, 2018). It is likely that upward price pressures will re-emerge in growing cities.

# Housing System Effects over Sectors, Time and Space

## Framing the Issues

Housing policy research and framing must both use key economic ideas and recognise the real complexities of metropolitan economic growth, the housing system and economic-housing system interactions. Economists, especially in North America, in the academic, financial and government sectors typically use conventional neoclassical microeconomic models to explore such issues. The General Spatial Equilibrium (GSE) model developed by Glaeser (Glaeser and Gottlieb, 2009) is often the 'go-to' model of government economists dealing with metropolitan housing issues in the ABC economies. These conventional reductionist descriptions of housing outcomes, market processes and economy-housing interactions are not adequate to many policy framing tasks.

Although the GSE model usefully links housing outcomes to growth, and vice versa, and has a 'systems' perspective we rejected it for framing policy issues for metropolitan housing markets. It is important to explain why. The model analyses the choices of firms, households and developers that are assumed to be fully-informed and rational, operating within a set of well-functioning metropolitan markets that are competitive, free from frictions and failures and that reach equilibrium outcomes through the 'self-regulating' effects of price, output and profit signals. There is also often an implicit assumption that markets adjust quickly and fully.

These assumptions do not necessarily have any basis in empirical evidence of how people behave and markets adjust, indeed the house price inflation experiences since 2010 of, for instance, Vancouver and Sydney suggest that disequilibrium may be prolonged and market adjustments may take place slowly. Rather than attaining a new equilibrium the consequences of disequilibrium may fashion emergent change and housing market evolution. We chose to use an applied focus on the economics of housing markets within a looser heuristic framework that allows for market failures, protracted disequilibrium and market evolution.

## Recursive, Spillover and Dynamic Effects from Core Pressures

Pressures often work themselves down the quality/price ranges of the housing system and a recurrent feature that shortages driven by growth in middle-income demands may impact low-income renting submarkets. In this section some of the system-wide effects of shortages are examined and there is a well-defined suite of issues that arise for pressured metropolitan areas.

Three Stylised Facts, that taken together comprise the traditional 'merit good' case for housing policies, were established.

Stylised Fact 4:

**Homelessness has increased significantly in all three countries, and especially in major metropolitan areas after 2008.**

This has a major impact on the productive economic capabilities and participation of the poorest individuals and households<sup>3</sup> (Von Scheel 2017; Fitzpatrick, *et al.*, 2018; Pawson, *et al.*, 2018) as well as augmenting net cost to government (Parsell, *et al.*, 2017). The inherently regressive outcomes may also create new sets of market failures and policy disconnects e.g. homeless individuals face difficulties in participating in labour and credit markets with 'no permanent address'.

Stylised Fact 5:

**Lengthening Social Housing Queues have become the metropolitan norm as stocks of non-market housing, or private stock within the reach of low income subsidy levels, have been falling or failing to keep pace with rising populations with accepted housing needs (Stephens, *et al.*, 2018; Pawson, *et al.*, 2018).**

As social housing has become more precisely targeted at lower income households such reductions in entry probabilities, meaning waiting times now typically average 10-20 years, are usually regressive in impact and they may also add to market instabilities as more marginal households have to face market prices for homes.

<sup>3</sup> Key references, homelessness since 2000

Stylised Fact 6:

**Burdens of paying for rental housing have markedly increased for those at the lower end of the income scale (Stephens, *et al.*, 2018; Pawson, *et al.*, 2018), reducing residual incomes for poorer households<sup>4</sup>. These adverse outcomes are worse when affordability calculations include the additional costs of transport that households have to meet as they are forced further away from jobs as housing pressures grow.**

The rent to income ratio for the lowest income decile of Australians (Australian Bureau of Statistics, 2017) has risen the most over the last two decades, from 33pc to 43pc. Similar shifts have occurred in Canada and the UK and they are more pronounced in metropolitan areas. These changes have been largely regressive and reduced consumption of non-housing items.

Stylised Fact 7:

**There are rising problems of entering home ownership: they arise from increases in the non-housing debt burdens of younger households, often associated with paying for post-school education in the UK and Canada, the growing deposits required for house purchase, as well as the cost of repaying larger mortgages, despite a long period of historically low mortgage rates (Maclennan and Graham, 2017).**

The period, especially since the GFC, has been marked by historically low mortgage rates and a low user cost of housing capital (Stephens, *et al.*, 2018; RBA, 2017; Bank of Canada, 2017); however rises in the prices of homes typically used as entry routes to home-ownership relative to household incomes have led to a sharp rise in loan-to-value and loan-to-income ratios for First-Time-Buyers and especially in core metropolitan areas. (CMHC, 2018; Property Council of Australia, 2017b; Daley, *et al.*, 2018; Stephens, *et al.*, 2018).

Stylised Fact 8:

**There has been a downward shift, in consequence of Stylised Facts 6 and 7, in the home-ownership rate of the specific age groups from 25 to 50, and a corresponding increase in the share of each of these age groups living in rental housing; Canadian changes have only become apparent since the middle of this decade but are moving in the same direction.**

It is important to note that these tendencies pre-date the GFC and reflect longer term policy settings and their scale has been so significant that, despite the increased longevity of older age groups with high ownership rates, overall rates of home-ownership in the UK and Australia have been falling and Canada now appears to be following with emerging signs of similar processes as early-age ownership rates have been falling in the major pressured markets over the last five years. For 'partner' households the rising share is accompanied by two other widespread patterns. The process has been more pronounced within growing metropolitan areas than other areas and, for those who ultimately become home-owners, the duration of households in rental housing has risen from, typically, 2-3 in the 1990s to more than a decade. The 'priced-out' group reportedly grew significantly in all the metropolitan areas in this project.

Stylised Fact 9:

**Gross debt to household income ratios in the ABC countries have risen, since 2010, to near record levels, primarily as a result of increased mortgage borrowing.**

These high household gross debt to income ratios have raised concerns about the financial stability consequences of any future interest rate increases and house price falls. In both Australia and Canada, it is arguable that the only concrete housing market policy actions reacting to house price inflation by national governments have been financial measures to reduce the riskiness of mortgage borrowing by placing additional deposit requirements on first time buyers. The 'financial policy' communities within all three countries have also been swayed by recurrent IMF and the OECD warnings about 'speculative booms with high bust potential' and 'bubbles' in metropolitan housing markets with London, Sydney, Melbourne, Toronto and Vancouver all having attracted their attention. There have been wide claims of 'bubbles' in particular metropolitan markets.

<sup>4</sup> Burdens of paying for rental housing have risen, key references

Housing market stability is an important policy goal and it is perhaps unfortunate that the necessary closing of the stable door has waited until the inflationary horses are on a new high plateau. There are however some concerns about the ways in which the balance of policies has been chosen and the policy instruments used to seek stability. They focus unduly on gross housing debt and ignore the substantial, rising value of housing assets held by households and the extent to which these investments have been facilitated by family wealth transfers and require further reflection on how the growing debt taken to invest in buy-to-let homes (close to half of debt incurred in Australia between 2014-17) will be managed in cyclical downswings. Nor has there been open debate on what the effects of rationing households out of ownership now, say for a decade longer than before the millennium, are upon the life-course formation of households, families and asset holdings of younger people in the ABC. A search for family lifestyles within home-ownership may drive more households out of high-productivity, high-income but high housing cost localities to locations lying outside pressured metropolitan areas (we return to this issue below).

These points are more widely discussed in Maclennan and Graham (2017) and are summarised briefly here. Neither OECD, IMF nor national governments have undertaken any modelling of the whether price trends have reflected fundamentals or speculative trading in housing (see further below). Nor, in Australia and Canada is there any macro to metro level modelling of how new policy measures would impact different spatial housing markets. In particular, the Canadian evidence points to a set of smaller and slower growing areas that have household debt to income ratios at half of that of the three larger metropolitan areas, modest price appreciation rates prior to the policy actions and relatively small historic amplitudes to price downswings so that new restrictions seem both excessive and inappropriate outside of the major metropolitan areas. Monetary and financial policy instruments, introduced in isolation, are not effective policy tools in the context of regional and metropolitan divergences in housing prices. National actions that facilitate fuller, faster strategic supply side responses where they are needed, what might be labelled a housing market strategy, are what is require for more stable housing and economic growth. Financial policymakers need to inform and modernize their empirical understandings of the housing systems their last 30 years of policy settings have shaped.

The ratios perceived as problematic are markedly higher in growing metropolitan areas than in lagging cities and for the nation and the nature and efficacy of national policy responses on this topic are noted in the concluding section. However, empirical evidence for Canada and the UK suggest that metropolitan price changes reflect real economic growth patterns rather than unfounded speculation (CMHC, 2018)<sup>5</sup>. Although most metropolitan areas in all three countries saw booms slow or top out in 2017-18 there has, by the start of 2019, been no rapid house price unwinding with significant contagion effects into the wider economy.

National and international government agencies dealing with housing markets are most interested in housing markets in periods of booms and bubbles and busts, arguably the macroeconomic or metropolitan contexts where their conventional theoretical perspectives are least relevant (Maclennan and O'Sullivan, 2013), and when dynamic disequilibrium that others have labelled as 'irrational exuberance' (Shiller, 2009) or 'animal spirits' (Keynes, 1934) prevail. A key feature of housing markets is how households understand, expect and extract changing asset values in housing. Most obviously, when demands for housing ownership in a metropolitan area increase ahead of supply (the norm) in more than ephemeral fashion then rising house prices do not inevitably reduce the demand for housing in the next period. Rising prices may feed increased asset demands on the part of households so that prices and demand both rise. This is illustrated in the broad heuristic set out in Figure 1 and it is an important trigger mechanism to inducing wider system adjustments. Two further stylised facts of contemporary metropolitan housing markets flow from this price mechanism. Sustained high house prices gave a new importance to two significant processes

Stylised Fact 10:

**For a decade, and longer in some metropolitan areas, the growing demand for market renting, occasioned both by static totals of non-market renting and reducing shares of new cohorts able to afford ownership options, induced a significant expansion of ownership of market rented property by individual investors, mainly already home-owners who had the equity to borrow low cost funds and could outbid first-time-buyers for properties flowing onto the market.**

<sup>5</sup> Further, the personal debt to GDP figures that have driven 'central bank' concerns have invariably been gross borrowing figures so that if consumers borrow to purchase an asset, such as housing, appreciation in asset values is not netted off to generate an effective financial exposure measure

This process appears to have been most pronounced in growing metropolitan areas and it reinforced demands and price rises after price pressures had already been well established. Tax policies, particularly in Australia, may play roles in exaggerating these processes but it is the overall balance of the growth of housing supply and demand outcomes in metropolitan housing markets that have turned housing ownership from a savings/income-earning vehicle to become more a speculative venture.

Market rental housing across the ABC countries continues to be dominated by individual buy to let landlords. Once house prices are a relatively safe one-way bet, households with savings and retirement plans recognise that buying a house to let is a rational investment strategy: housing shortages drive up rental returns making letting easier and, at the same time, tax advantages of different kinds lower the user cost of capital to acquire an appreciating asset<sup>6</sup>. The combined asset uplift and rental income returns usually exceed returns on other available financial assets<sup>7</sup>. This augmented demand for units to own-to-let raises competition for smaller properties and it is likely to be fiercest in what had been typical sub-markets for first-time homebuyers.

The development of Air BnB, which may be more of a 'speculating' than 'sharing' economy where it leads to letting by non-resident landlords, created a further flow of demands for rental properties in metropolitan markets. Half of UK private sector rents now accrue to baby-boomer home owners in the UK and Paul Johnson (IFS) notes that 1 in 6 households in the UK in their 50s and 60s now own multiple homes. In the major Canadian metropolitan markets, it is estimated that small landlordism has increased by at least 10 per cent since 2010. In all three countries, growth in private rental provision has been an important component of alleviating metropolitan housing shortages since the millennium but also played a role in metropolitan housing markets acquiring a new important dynamic demand for 'investment' properties.

Stylised Fact 11:

**Rising demands for metropolitan properties, to own and to let, were largely driven by domestic demands, mortgage systems, tax arrangements and pension alternatives. Booms were essentially domestically driven. However, in a further reinforcing round of impacts the sustained price increases in major metropolitan economies then attracted interest from non-local and overseas investors so that domestic restraints in cyclical housing upswings (flows of mortgage funds, flows of potential buyers) no longer set limits to expansion.**

The ability of capital to flow to housing uses across national boundaries has risen markedly in the last 30 years (Smith and Searle, 2010). When a metropolitan area in a deregulated financial system manifests sustained house price growth market lending is not limited by supplies of national housing finance nor indeed national originated demands. Globally 'visible' markets may then come to be regarded by more affluent households living in politically unstable (highly risky) countries as 'safe havens'.

In the UK, Canada and Australia, Chinese investors have been regarded as key sources of speculation in, for example, in London, Vancouver, Toronto, Sydney and Melbourne. The evidence on Canadian cities is that, since 2015-16, the rate of purchases by foreign buyers is usually less than 3 percent in metropolitan markets and has not been a major driver of house price increases (Matheson, 2018). However, there are some neighbourhoods-submarkets within the major metropolitan areas that in measurement periods displayed foreign purchase rates between 7 and 10 percent (RBC, 2017). Usually these have been central city neighbourhoods also disproportionately subject to Air BnB expansion (Crommelin, *et al.*, 2018) and impacted by growing numbers of overseas students studying in metropolitan universities. Policy action in this general area has sometimes preceded any real research into the patterns and impacts of foreign ownership. The empirical evidence suggests that foreign buyers pay much the same prices for equivalent dwellings as do other buyers. There is little evidence to support claims that these properties are often held vacant for solely speculative purposes and they are generally either being used as a principal residence, to house offspring studying in Canadian universities, as a source of rental income or as a second home. Similar remarks apply in the UK. The numbers involved in ownership simply for speculation appear to be a thin additional layer of demand in already pressured markets and the housing boom of the metropolitan areas of the ABCs was not made in Beijing. However, these tightened housing markets are now drawn into global flows of housing finance and demand in ways that further reinforce real house price increases and may reinforce the 'delinking' of these markets from their national settings (Stylised Fact 10).

<sup>6</sup> And they, unlike younger potential buyers, have the equity-deposit capacity to be able to borrow at historically low interest rates

<sup>7</sup> Increase in renting and buy to let

Stylised Fact 12:

### **Housing Wealth and its Consequences.**

Housing assets have come to form an increasing share of the net assets of households in the ABC countries and the pattern of increases has resulted in significantly higher wealth inequalities in all three countries, within generations (with renters and poorer households losing ground), between generations (with older households gaining, and two thirds of net UK housing wealth is held by the over 65s, relative to under 35s) and between places, with growing metropolitan areas experiencing the most rapid rises. The importance of housing related wealth gains since the mid-1990s, most of which are ‘unearned’ suggests that the major economic and fiscal policy settings have facilitated the growth of a ‘rentier’ economy, driven by the ownership of scarce assets, rather than innovation, investment and productivity gain. Housing market outcomes have, in all three countries, increased inequalities and, arguably, reduced productivity gains. (Maclennan and Miao, 2017).

Sustained metropolitan house price increases have meant that housing wealth is now the largest element of household wealth across the ABC countries, comprising around half of household wealth. Housing wealth impacts consumption and stability in the economy as housing equity release has tended to reinforce economic upswings and static or falling prices prolong recessions (recent Australian evidence is in Ong, *et al.*, 2017). Redistribution within generations, between and between places. The distribution of wealth in all three countries has been significantly impacted with owners gaining over renters, older households benefitting relatively to younger households and higher and middle-income wealth groups accumulating resources more rapidly than less wealthy households<sup>8</sup>. Inter and intra-generational differences in unearned housing wealth have become increasingly apparent in all three countries (Ronald, 2016; Resolution Foundation, 2018; Eslake, 2017; Maclennan and Graham, 2017).

Housing wealth now plays a supplementary role to income in driving housing choices. Older owners are now using their acquired wealth, even withdrawing their own housing wealth, to transfer chunks of equity to their children/grandchildren. In the UK, some 80 percent of first time buyers have a substantial tranche of equity provided by parents and is estimated that UK parents will supply £6bn of such loans/gifts in 2017. But what about large families? What about the daughters and sons of rental sector parents? There is evidence that these processes are now well entrenched in the UK and Australia but there is a dearth of relevant research in Canada.

The same factors have led older households, with rising societal longevity, to under-occupy large homes that many hold for gift and bequest motives rather than housing consumption. This reinforces the shortages of larger family housing in metropolitan areas noted in Stylised Fact 3. In Australia, for example, there are some 1 million owner occupied homes with three or more bedrooms more than resident needs; a number that has increased markedly over the past decade (Pawson, 2017) and a similar figure has been reported for London alone. In the absence of a ‘house price index asset’ to purchase, and the existence of management or transaction costs that discourage them owning separate properties to let and live in, the real set of consumption/investment choices for older households may be constrained and lead to an inefficient use of metropolitan housing stocks.

Stylised Fact 13:

**Housing market pressures have reshaped the residential geographies of metropolitan areas over the last three decades with so that there has been a steady weakening of the association of low income households with the inner city and the more affluent with the outer suburbs.**

<sup>8</sup> Wealth effects and patterns

Household and population numbers have been recovering in the cores of growing metropolitan areas and this has often involved not just new apartment construction but the gentrification, of older, poorer neighbourhoods proximate to city centres (Lees, 2016) and in some instances, the demolition of social housing, and its replacement by market sector properties (Pawson, 2016) have reinforced these effects. Growing volumes of non-profit land purchase have also shifted outwards (Pawson & Herath, 2015). In order to access cheaper housing with lower land costs, lower and middle-income home-owners have increasingly located on cheaper land at the edge suburbs of metropolitan areas (Hulchanski, 2011; Bailey and Minton, 2017). That shift inverts the distance from CBD-income patterns predicted in neoclassical economic models of residential structures (Muth, 1969)<sup>9</sup>.

Stylised Fact 14:

**There is growing evidence of increasing segregation of lower income households into poorer neighbourhoods<sup>10</sup>.**

Within all three countries low and high income neighbourhoods exist both in city cores and in the suburbs. Metropolitan housing an income processes have operated to concentrate larger proportions of rich and poor into neighbourhoods defined as rich and poor and this compromises the ability of metropolitan areas to attain goals for social cohesion and inclusion.

There is no claim here that the broad generalisations outlined above apply across all countries and all major metropolitan areas and, importantly, second-order cities will have different challenges but be buffeted by the processes and policies aimed at metropolitan areas. More detailed empirical assessment of outcomes across a wider set of growing cities is required. However, looking across the ‘condensed’ experiences outlined above, is there a prima facie case that the stylised facts characterise an equilibrating housing system? We concluded that they did not. Regardless of equilibrium, are housing markets working well to attain the key outcomes sought by governments of metropolitan areas?

## Housing Affordability as a Productivity-Growth Problem

### Housing, Productivity and the Stylised Facts

An overall evaluation of metropolitan outcomes requires a detailed account of how metropolitan housing outcomes impact environmental sustainability, not least as Australian and Canadian metropolitan areas top the global rankings for the ‘dirtiest’ development footprints, and a wider assessment of social outcomes, including cohesion, inclusion and income/wealth distribution. The discussion here is limited to how the economic outcomes of growth processes are impacted by housing outcomes. Piketty’s (2014) work on capital in modern economies highlights that questions of wealth distribution are inevitably linked to issues of growth and productivity and the central role of housing assets in shifting wealth distributions (Maclennan and Miao, 2017) naturally leads to the relationships between metropolitan growth, housing and productivity. The Shaping Futures discussions highlighted that the productivity concern is not simply a theoretical question but has been voiced by business and housing sectors in all the metropolitan areas in the collaboration. Several studies in recent years have begun to explore this issue, not least research that grew out of the Shaping Futures collaboration. The evidence base is fragmented and incomplete, but it is growing, and the paragraphs below illustrate how the housing affordability issue becomes an economic productivity concern.

The housing-productivity issues can be explored by regarding housing as a good with multiple characteristics (such as size, type, location, neighbourhood context and price/rent and asset characteristics). These attributes that may individually impact the established growth drivers of spending patterns, human capital formation and utilisation, business capital and innovation systems (Maclennan, *et al.*, 2015; Maclennan, *et al.*, 2018, Reuschke, *et al.*, 2015). Using that broad framework a number of potential housing-productivity connections become apparent:

<sup>9</sup> ???????????

<sup>10</sup> ???????????

- a. *Urban transformations and booms* raise construction activity as a share of economic activity and the diversion of factors from the production of other goods and services is likely to reduce short to medium term productivity given the comparatively low productivity of the construction sector (Productivity Commission, 2016).
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- b. *Instability in new construction demands* is likely to reduce construction sector productivity as it destroys the network of small, multi-firm co-operations required to deliver products and impacts long term labour productivity (Maclennan, 1982).
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- c. *Housing price growth and instabilities may drive and exacerbate wider economic instabilities*, and this may arise either through prices rising ahead of income growth leading to mortgage borrowing that is riskier in downturns or through the growth in housing wealth that is essentially pro-cyclical and reinforces consumer booms and recessions.
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- d. *House price rises ahead of wages and the general price level over sustained periods* may generate increasing returns in 'rentier' investments rather than entrepreneurship and innovation and disrupting established patterns of tenure choices for given age and income groups may have significant effects on lifetime patterns of savings and asset accumulation that may have productivity effects.
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- f. *Patterns of housing costs may impact overall consumption* (Ong, et al., 2017) and when rising rents and mortgage payments, that essentially do not add to output, reduce residual incomes (Maclennan, et al., 2018) and divert household spending from other goods and services (produced with higher productivity) productivity falls ( and are not offset by transfer of incomes to, and increased consumption, by property owners).
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- g. *Rising housing rents and prices in metropolitan areas are now typically associated with longer commuting distances and times for workers and commuting distance* and this raises the probability of labour market mismatches and of reduced labour productivity.
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- h. *Where low income households have to live in low quality housing, or at worst become homeless, that capabilities to learn and remain healthy for work reducing labour productivity and that growing segregation of low income households into poorer neighbourhoods can expose residents, especially children and teenagers to negative 'neighbourhood effects' on human and business capital.*

A quick perusal of the 'stylised facts' of housing change in the previous section highlights that most of these potential productivity effects from housing are more likely to have become problematic with metropolitan growth in the 21<sup>st</sup> century. Housing practitioners are aware of these issues and in all the metropolitan areas in the study business leaders and organisations have expressed the views that rising housing costs have made it more difficult to attract and retain the skilled labour that firms require, creative sector workers in the culture sector (most of whom are low-waged) and essential public (and private) service workers to meet the 24 hour demands of the modern metropolis. Microeconomic evidence of these effects is patchy, partly because it has seldom been systematically looked for but also because particular effects may matter in one locality but not another. The need to garner systematic evidence is crucial because the questions is, essentially, are rising housing cost-congestion effects now eating-up the agglomeration gains from growth?

### **Do feedback effects consume agglomeration gains?**

In fast-growing cities some systems come under immediate demand pressures but take long periods to adjust supply capacity. Sluggish responses ramp up congestion costs, prices, and scarcity rents for urban asset owners. The income and profit gains arising from agglomeration processes may be offset by the wider costs that growth may impose on a metropolitan area. This trade-off has been long recognised in urban and regional research Brown (1972).

Different kinds of evidence, with different underlying economic rigour, highlight growth-congestion effects. Indices of 'city success and performance' for cities such as Sydney, Melbourne, Brisbane, Vancouver, Toronto, London and Edinburgh, tell a common story about the last decade of housing effects on competitiveness. Sydney<sup>11</sup> is, arguably, the example par excellence, (Maclennan, et al., 2018). It scores highly as a place to locate and form a business, has high quality labour and has world class institutions in research and human capital formation. Agglomeration 'pulls' still seem to figure strongly and consistently place Sydney in the global top 10 for these attractors. However, on indices of cost-of-living, housing prices, rents and availability it consistently ranks towards the bottom of the range of 25-50 leading world cities. This has an impact of the choices of households and firms who might come to Sydney or choose to remain there.

<sup>11</sup> E.g. The Economist Intelligence Unit City Livability Index: <https://www.economist.com/blogs/graphicdetail/2016/08/daily-chart-14>



Indicators have their limitations on their policy relevance but it remains surprising, not least as business lobbies in Sydney (Westacott, 2018), Vancouver (Vancouver Sun, 2017) and London now firmly espouse the notion of housing outcomes dysfunctional for economic growth, that metropolitan economic policymakers have much heeded these well-established market concerns.

More formal analysis, from an applied economics perspective (in the GSE framework), has usefully highlighted, for instance, that in the USA housing 'scarcities are quickly reflected in greater wealth and income inequalities and in increased dispersions in incomes and home values with lower income households forced out of the 'superstar cities' (Gyourko et al., 2006). Albuoy and Ehrlich (2013) have explored the connections between city size, growth and economic performance and concluded that increasing city scale raises productivity in the tradeable goods sectors but reducing scale increases housing productivity. In short, rising congestion costs in housing, and other, systems, may eat up the productivity gains from the tradeable sector and curtail national and metropolitan growth. Some of these difficulties are also recognised in Glaeser and Gyourko (2018) though planning controls are assumed to underpin the difficulties rather than market failures or wider frictions in supply response mechanisms. Hsieh and Moretti (2014) have presented evidence that firms requiring high skills have been moving away from New York and Boston to localities with lower housing costs, as skilled households seek different lifestyles and lower housing prices to establish families. Several studies have drawn attention to the shift of households and firms away from their optimum long-term productivity (agglomeration-rich) locations to lower cost localities, that makes their enterprises/lives affordable but that, at the same time, impairs national productivity (Krugman, 2014; Maclennan, Ong and Wood, 2015). Some large cities have also drawn attention to a fall in their favourable productivity differential (vis-à-vis national averages) in recent years and to reported flights of 'creative' and public sector 'key' workers (Auckland, Vancouver, Sydney, New York, San Francisco).

This growing body of evidence of housing systems producing negative feedbacks for metropolitan growth and real incomes does need more work but there is a prima facie case that housing and economic policymakers need new perspectives, conversations and actions on the role of housing in metropolitan economies.

## Shaping Future Economic Policy Approaches to Metropolitan Housing Markets

### **Reframing the economics of housing policy-making**

Berthaud (2014) has argued that agglomeration gains are only *potential* and are realised only where firms, workers and households can trade and exchange their goods, labour and ideas with minimal frictions of time and costs (and presumably secure housing at rents and prices that do not offset their gains from metropolitan market participation). This implies that metropolitan areas need to be managed for agglomeration gains net of congestion costs to be captured by firms and households. Failure to manage them will reduce productivity and redistribute income and wealth away from the productive sector of the economy and the effort-led earnings of workers and reward instead the unearned gains of metropolitan property owners. Failure to have metropolitan supply system responses to agglomeration driven demands can only impede metropolitan productivity growth and exacerbate adverse distributional wealth and income outcomes.

Recent research in Australia (Maclennan, *et al.*, 2015, and Maclennan, *et al.*, 2018) suggests that these issues are not well managed at national and local levels and this concurs with smaller earlier studies for Toronto (Maclennan, 2008). These studies suggest that within economics/finance ministries at national/federal and state/province levels there is a propensity to regard the housing market as a 'well-functioning system' and to sustain the old belief that housing policies are essentially redistributive and do not impact productivity.

Housing was not regarded as essential economic infrastructure, and this contrasts markedly with the views of economics/finance ministries about transport investment. For instance, The Major Cities Unit (MCU), then located at the core of the Australian Federal government, reported in 2014 (p.90) that: *'There are indications that the major cities may be losing their edge in contributing to economic growth... over a 33-year period from 1976 to 2009 the major cities recorded economic growth that was, on average, 0.201 per cent greater than the national average... However, over the past decade, the contribution of the major cities has resulted in an average economic growth only 0.037 per cent more than the national average.'* The MCU recognised the potential significance of growth-congestion costs noting that *'contributing factors may have included increased inefficiencies and productivity losses arising from an infrastructure backlog, transport congestion, and increased costs associated with the movement of freight, and the provision of services such as water, power and sewerage associated with the growth of cities.'* But what happened to the housing arguments?

In the UK, Canada and Australia, economic analysis of and arguments for disappear across the silos of government departments. A major interview study across Victoria and Western Australia (Maclennan, *et al.*, 2015), supplemented by more recent interviews in New South Wales in 2017 (Maclennan, *et al.*, 2018) leads to the conclusions that: ministries and agencies responsible for economic development and productivity growth in Australian states do not ask questions about housing effects on economic outcomes and focus on issues concerned with skills and innovation; housing ministries and agencies struggling to deal with needs queues well beyond their resource capacities focus only on the homeless and the worst housed households and have no time to ask nor answer economic questions; planning authorities neither model the economic drivers of metropolitan housing market change nor the likely consequences of planning decisions.

The MCU approach is still illustrative of a broader Australian approach to policymaking for the economy and infrastructure sectors that ignores the effects of housing on growth. There are perhaps some signs for optimism; the State of Victoria has recently assessed *social* housing as economic infrastructure but excluded, surprisingly, market-led housing investment (Government of Victoria, 2017); NSW has recently established a Productivity Commission and placed housing on its agenda. Similar, mixed, observations can be made for major Canadian and British cities. In the UK the National Infrastructure Commission, despite seeking the addition of housing to its portfolio of activities, has had its request rejected by the Government (Financial Times, June 12<sup>th</sup>, 2017) although key arguments it confronts in its major projects, as in the Oxford-Cambridge corridor, revolve around housing shortages and their economic consequences. In Canada there is little interface between national and provincial level debates on housing and infrastructure. In all the ABC countries there is no macro to metropolitan modelling of housing markets. None of the states, provinces or devolved administrations encompassed in the study regularly tested outputs of housing policy propositions within widely used Computable General Equilibrium (CGE) models, and this is an omission that is difficult to defend when housing commonly comprises a fifth of fixed investment, a quarter of household spending and is the largest component of both household assets and debts.

At Canadian Provincial levels the economics approach, as in Australian states, relies heavily on informal analysis within a GSE framework. Metropolitan economic policy-making, however, needs recourse to wider than GSE models of change that include rather than assume away evidence of disequilibrium and real recursive effects. It is problematic when markets fail or adjust only slowly for GSE oriented policy analysts, rather than challenging the adequacy of the empirical and conceptual science underpinning their model, to conclude that planning or policy distortion is at the heart of difficulties. For those who believe, in effect, in 'perfect markets', 'policy problem' explanations in terms of 'imperfect' policy and planning distortions make perfect sense. If city economies are, however, more complex economic systems, with propensities for disequilibrium or slow adjustment or evolutionary, emergent properties and market failures, then strict and sole adherence to a GSE model basis for metropolitan economic advice may be the problem.

The fresh start towards better metropolitan housing policies for the economy requires an evidenced and informed approach to changing housing market outcomes and their economic consequences.

### **Policy Structures and Settings**

There are some key aspects of public policies for housing, framing aside, that need to change if Berthaud's gap between achieved and potential metropolitan economic potential is to be reduced or removed. This involves rethinking the structures and settings for housing policies in major metropolitan areas in the ABC. It will be essential, *inter alia*, to manage the real housing system to facilitate faster supply responses, to better connect housing and other areas of policy activity, to deal with market failures, and to avoid demand stimuli that needlessly raise prices or under-utilise existing residential spaces.

An initial change will be to reconceive housing policies as being, in part, concerned with real economic infrastructure to facilitate economic development. A second step is to move away from a narrow focus on the poorest households and the homeless and to set their concerns within a broader housing systems framework that has regard to all housing outcomes in the metropolitan area (and the nation). That systems framework has several other important dimensions. First, the connections between housing and the economic system must be clearly understood. Second, these system drivers and impacts may be local, national and global. Third, housing outcomes within a metropolitan area are influenced by policy actions by different orders of government, from Federal to municipal and it is essential that housing policy influences emanating from different levels, albeit potentially pursuing different kinds of interests, cohere at local-metropolitan scales and that non-housing policies that combine with housing investment as inputs to broader policy goals are similarly co-ordinated.

It is easy to see such statements as a recipe for 'motherhood and apple pie' but they are not, simply because coherent national to local policy coordination is the exception rather than the rule. In the UK, devolved administrations have key housing policy roles but tax and, still many, social security provision are managed by the UK government. Municipalities frequently control social housing provision. There is no formal coordination between devolved areas do in housing policy and national policy actions, for instance the UK shapes the Help-to-Buy housing policy and mortgage rates throughout the UK, but the Scottish government set transfer tax rates and other low-cost home-ownership policies in the Scottish metropolitan areas. In Canada some provinces simply don't spend the housing moneys they accrue from the Federal government, and in responding to the perceived pressure of overseas buyers in Canadian metropolitan markets after 2016 there was little coordination across Provinces and no obvious coordination with federal regulatory responses in the mortgage market. In Australia different state level attitudes to the disposal of public housing lead to quite different capabilities for the non-profit sector to grow and access federal supports.

Two important policy changes are required to deal with 'multi-order' issues. First, multi-order cooperation in housing policy needs to be incentivised and this may be a matter for federal/state/provincial governments developing performance conditional housing deals with metropolitan governments. Secondly, there is a strong case given their important role in national economic development, to refocus the leadership roles in housing policy strategy and delivery down from Federal/state/provincial levels and up from municipal scales as metropolitan scales are where key housing policy decisions increasingly rest. Arguably municipal scales of policy have been overtaken by the growth of multi-municipal, functional metropolitan areas; in the UK the city deal process has led multiple municipal housing providers to merge into a combined (metropolitan) housing authority. Where state/provincial levels control most housing policy levers there is potentially a case to devolve these powers, especially in jurisdictions such as Ontario and New South Wales that are larger than a significant number of European countries in population and area, to new, functionally defined metropolitan housing and planning authorities, such as the Greater Sydney Commission.

**For city municipalities, or multi-municipalities in a functional metropolitan area the problem is that costs (affordable housing, traffic congestion, green space requirements) all rise with economic growth as do tax revenues.**

There may, of course, be little point in placing metropolitan areas at the core of housing policies unless they are effectively structured to deliver change. Ahrend (2015) has indicated how productivity does increase with city size but he also highlights three other important issues (Ahrend, 2015; Brookings, 2015). Metropolitan boundaries are rarely well aligned with daily functional system boundaries. Although around half of metropolitan areas in OECD have now evolved some form of metropolitan governance less than 1 in 6 have any resource/fiscal powers. So, the best geographic and fiscal structures to take forward more effective metropolitan housing powers may currently be missing. Yet Ahrend also highlights that jurisdictional fragmentation within metropolitan areas diminishes productivity at quite potent rates. The inherited governance structures for housing within multi-municipality metropolitan areas may need radical change in all the ABC countries.

Similar remarks may be made in relation to the assignment of fiscal powers to different orders of government. In all the ABC countries national levels of government have kept significant control over elastic tax bases and in all three (or Scotland in the UK) provincial/state/devolved administrations have elastic tax bases and share in resource equalisation programmes. For city municipalities, or multi-municipalities in a functional metropolitan area the problem is that costs (affordable housing, traffic congestion, green space requirements) all rise with economic growth as do tax revenues. However, the problems remain in the functional city but the tax revenues to address them accrue to other orders of government. There is no automatic flowback of locally-generated resources to pressured localities for action to reduce negative growth consequences. These issues have been extensively analysed by Slack and Cole (2014) and by the Brookings Institution in the USA (Katz, 2015) who now argue for a 'metropolitan federalism' to rebuild major city infrastructure.

Metropolitan federalism, or even the ad hoc substitute of multiple, conditional metropolitan-federal infrastructure and housing deals might induce a more elastic faster response to housing shortages. Glaeser and colleagues (2009, 2018) have consistently emphasised supply inelasticities from stringent or slow metropolitan planning and that is always an important to set of issue to check. However, it is apposite to note that the periods of prolonged, high house price inflation have coincided in time with more restrictive policy stances towards public borrowing and the public provision of major infrastructures. And a reinforcing policy setting, since the 1980s, has been a conventional wisdom in market-oriented jurisdictions that public intervention in land assembly, such as compulsory purchase, is anathema in a market system and likely to erode growth and productivity. There is a recurrent strand in supply-side research results that is seldom emphasised, is how non-price responsive new construction has become since the 1980s and this leaves open the question as to whether there may have been too little planning, in the sense of strategic planning for market provision, by metropolitan areas (or at least these who governed them).

**“...periods of prolonged, high house price inflation have coincided in time with more restrictive policy stances towards public borrowing and the public provision of major infrastructures.”**

There are new views emerging about the potential roles for state investment in market economies with uncertainty and change (Mazzucato, 2018). Given the vast scale of the housing shortages now prevailing in the major growth localities of all the ABC nations a serious attempt to reduce house price growth for the future might have to include compulsory purchase of land, requirements for inclusionary zoning (both of which ‘tax’ the unearned economic rents accruing to landowners and that have no negative effect on productivity, unlike housing supports raised from taxes and borrowing) to facilitate the development of significant scale places. That is, housing policy should be a key element in ‘place-making’ policy, at metropolitan and neighbourhood scales. This also requires related infrastructure and services, as well as transport links to jobs and services, built into the proposal ex ante and infrastructure and planning gains taken, to the greatest extent possible by metropolitan governments.

The sustained disequilibrium and rising real housing costs encountered in major metropolitan areas in recent decades suggest that ‘first-best’ economic instruments will have limits in shaping desired growth and distribution outcomes. The ‘well-functioning’ market stance that leads to policy inaction clearly needs to change. Equally ‘efficient’ instruments such as ex ante, income related housing allowances, may be left to play out in imperfect systems with persistent shortages and simply raise housing costs charged by providers. Deregulating planning, of a strategic place-making nature, may well raise uncertainties over where development may occur and exacerbate mismatches between residential and production location choices. Consumer choice (ex ante allowances) and reduced regulatory burdens (reducing planning controls and delays) are desirable but they require effective markets to work. In contrast, ‘planning-state’ solutions also have their inherent failures and in some contexts there is a re-emergence of arguments for housing policy instruments extensively abandoned after the 1980s. (Limited) rent controls have received a new advocacy as affordability problems for renters rise. Calls for major public housing investment programmes have resurfaced, at least in the UK. Both calls have been un-matched by any clear thinking about the housing system and economic consequences.

To deliver real gains, planning must be well designed, informed and economically literate. Going beyond the ‘well-functioning’ market basis for policy requires a planning approach not driven by state power and bureaucracy but by intelligent, informed, economically literate approaches to developing metropolitan infrastructure plans, including housing, that engage multiple sectors (public, private and non-profit) and that work collaboratively with all levels of government. We cannot discount the possibility that a failure of politics will perpetuate the failures of markets in metropolitan management and make cities less fair and less productive than their potential. Poorly designed policy settings for the housing sector have created a context in which housing failure is a near inevitability of economic ‘triumph’. That needs to change.

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# Chapter Seven

## Private Renting

Kenneth Gibb, Hal Pawson and David Hulchanski

Commercial market renting, the private rented sector (PRS), has returned to the centre of international housing policy debates after a long period of relative neglect and – at least in the UK – decades of absolute decline. The PRS, in contrast to the various forms of social housing, is generally defined as “rented housing that is not allocated according to socially determined need” (Haffner, *et al.*, 2010:370). In liberal-market developed countries such as the Australia, Canada, and UK, the sector is the site of many perceived housing system problems including insecurity, poor conditions, unaffordability, and owner/tenant power imbalances, often leading to difficult relations and poor residential outcomes (McKee and Soaita, 2018).

The sector’s resurgence in the UK and Australia, alongside a modest decline in Canada, in size relative to the ownership sector (see Figure 1), has helped reignite long-standing debates about the proper place and scale of the PRS, and the depth, extent and efficacy of rent and non-price regulations and subsidies. In short, as a key part of the housing system, the PRS is often poorly understood and more complex than generally acknowledged. This fact is both a constraint on and a possible facilitator of housing policy reforms that could result in a more efficient, just, and sustainable housing system.

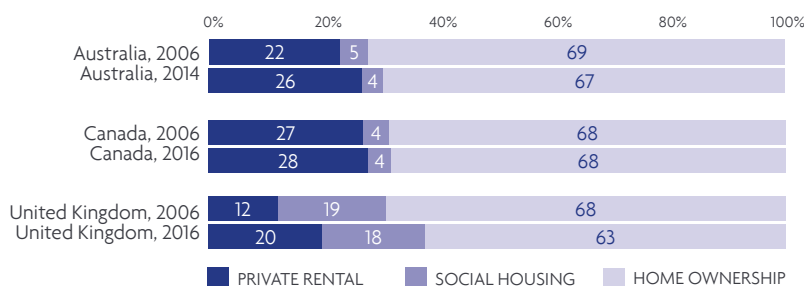
In the UK and Australia there are shared concerns about the relatively uncontrolled and/or unmanaged form of ongoing PRS growth. While UK home ownership has stalled over the last 15 years and social renting continues its long-term decline, the PRS has bucked its long-term trend and shown remarkable growth, from 12% of the housing stock, to 20% (2006 to 2016). This has, come about not as the result of conscious policymaking but by market responses to an evident gap and the presence of willing investors seeking better

returns in an historically hostile market for personal savings. The sector, however, remains varied in quality and practice and the lived experience of renting is highly contingent on many factors outside of individual control. In this context, it is not surprising that there has been widespread concern in the UK about this uncontrolled growth not balanced by better planning and regulation of quality and conditions but also about the unanticipated consequences of such growth.

In Australia, where the PRS expanded from 22% to 26% of the nation’s housing stock (2006 to 2014), growth has continued to be driven exclusively by small-scale investor property acquisitions. Indeed, the post-GFC housing market boom most pronounced in Sydney and Melbourne was widely attributed to surging ‘landlord investor’ demand. While the possible emergence of a new build-to-rent industry has begun to be widely debated since 2017, the feasibility of establishing an institutionally-backed ‘mainstream market’ rental sector in Australia remains to be demonstrated. As in Canada, private rental oversight is a state/territory responsibility and although the general approach continues to favour light regulation in terms of rents and security, there has been an increasingly active debate on possible enhancement of tenants’ rights. In 2018 the State of Victoria enacted a modest reform package that may prove to be a spur to action in other jurisdictions.

In contrast, Canada’s PRS has a long history of regulations by provincial and territorial governments (PRS regulation is not a federal government responsibility). As a proportion of the nation’s housing stock the PRS decreased from a peak of 40% in the early 1970s to 28% in 2016. Even after the Global Financial Crisis (GFC) the rate of homeownership continued to increase slightly. Canadian real estate sales and values experienced increases after the GFC rather than declines. As Walks (2014:256) explains, this is because Canada’s banks needed and received substantial bailouts combined with a massive growth of federal government mortgage securitization and record household indebtedness, combined with record low mortgage interest rates. Highrise condominiums accounted for much of the growth in ownership in Canada’s major metropolitan areas, where most of the rental housing is located. In the City of Toronto,

Figure 1: Rental Housing and Home ownership Rates  
Australia, Canada, United Kingdom, 2006 & 2014/2016



Source for Australia, U.K: Martin *et al.* 2018 *The changing institutions of private rental housing: an international review*, Melbourne: Australia Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2006 and 2016 Profile Series. Social housing (2016) in Canada refers to whether a renter household lives in a dwelling that is subsidized. Subsidized housing includes rent geared to income, social housing, public housing, government-assisted housing, rent supplements and housing allowances. Canada Census 2006 does not identify subsidized rental therefore the private rental/social housing mix of rental housing for 2006 is based on Martin (2018) figurers.



for example, 80,000 condominium units were built between 2014 and 2018. Condominium construction, though intended for the ownership market, have a significant share of non-resident investor owned units (i.e., units for rent). One-third of condominium units in Canada are renter occupied, which in turn means that 14% of all PRS units in Canada are in condominium buildings (2016 Census). These investor-owned condominium units are responsible for most of the growth in new supply of apartments in the PRS.

The PRS, though representing a smaller share of the Canada's housing stock, grew in absolute terms by 13%, from 3,880,000 occupied dwellings in 2006 to 4,480,000 in 2016. High annual rates of immigration are responsible for Canada's population growth of 11%, from 31.6 million in 2006 to 35.2 million in 2016 (Canadian Census, 2016). The growth rate of renter households is faster than the population growth rate due to aging and other factors that are creating many one and two-person households, which tend to be renters rather than owners.

In this chapter, we seek to do the following four things. First, to set the discussion within a framework that aids our subsequent analysis, we briefly lay out how the PRS plays multiple roles in the wider housing system. This tendency leaves market renting particularly exposed to changes in both the drivers of system change and, indirectly via changes in other parts of the highly interconnected housing system. The implication is that the PRS is actually multiple segmented markets across which a wide range of 'shocks' have differential and complex effects on market rented outcomes (Gibb, *et al.*, forthcoming).

Second, we use this framework to help us understand and explain growth, change and development in the rental markets of the three countries studied, in turn informed by wider comparative analysis of rental markets (Arundel and Doling, 2017; Maclennan, *et al.*, 2016; Martin, *et al.*, 2018; Rugg and Rhodes, 2018). Third, we explore the contemporary policy suite being initiated, contemplated and tested in the different countries in terms of supply innovation, price and non-price regulation. Fourth, and with particular concern for low-to-moderate income households of different ages, and cognisant of the policy context for market renting, we ask: how would standard policy and regulatory settings be re-configured to achieve efficient, just and sustainable PRS outcomes that meet our wider *Shaping Futures* goals, for each of the three countries in our focus but also more generally.

## Conceptualising the Sector

The conventional starting point for characterising the rental market is via the supply and demand scissors of the self-equilibrating competitive market model (neo-classical economics). The model draws on the atomistic nature of market supply and the equivalent lack of market power on the demand side. This simple framework characterises the market as price competitive and then applies the model to assess government interventions, such as rent regulations (as in Economics 101), concluding that, in the case of rent controls, it is the classic example of the welfare losses associated with regulated rents set below the market clearing rent. The starting assumption in this conventional analysis is, therefore, that any problems of the rental sector are simply a temporary aberration in the performance of the market mechanism. The problems of the rental sector, it is assumed, represent not a failure of the market mechanism as such, but rather a failure of government policy to allow that mechanism to function. If government policy created the right conditions, the private market could solve the problems of the rental sector (i.e., reach equilibrium; achieve efficiency and equity).

Housing economics has, of course, evolved from the original 'housing services' flow model of the housing market (Arcelus & Meltzer, 1973) to, for instance, a stock-adjustment model that combines new flows with the existing housing stock (Robinson, 1981; Hanushek and Quigley, 1979). There are long standing concerns about the validity and evidence surrounding key model assumptions both about how competitive specific rental markets are in practice as well as their legal or social context.

The conventional microeconomic analysis has subsequently broadened to focus on the commodity complexity of housing across several dimensions. Housing is a durable good (physical depreciation and maintenance matter). It is fundamentally heterogenous (all properties have a degree of uniqueness, differentiating demand and complicating the notion of a common price of housing). Third, rental markets are spatially-influenced (location accessibility and neighbourhood attributes are important determinants of value and spatial externalities are the norm) and, fourth, extensive state intervention in housing, including the rental market, is the norm. Each of these features is a departure from the standard competitive model and make the analysis of rent regulation more realistic but much less straightforward than in introductory economics.

The second important strand in conceptualising the sector is to recognise the inherent structuration or segmentation of contemporary private renting found across national housing systems. Going back to Peter Kemp's work on the UK rental market in the 1980s it has been repeatedly recognised that the rental market plays a series of distinct roles catering for different demand groups including:

- ▶ Those needing easy access and/or short-term housing – e.g. students, young mobile working adults, people subject to relationship breakdown
- ▶ People with longer-term housing needs – including middle- or higher-income households saving for home ownership, as well as low income earners permanently excluded from home ownership but with insufficient priority to access social rental

Landlord typologies often differentiate between purposive and accidental proprietors (volunteers versus conscripts, in Kemp's evocative terms) or between purposive investors who are 'amateur' versus 'professional'. A related distinction contrasts small-scale individual players with institutional or company landlords. Gibb, *et al.*, forthcoming, bring this type of segmentation up to date by mapping it against the contemporary range of demand and product groups in the UK rental market. Not everyone agrees with this approach to structuring the sector – Rugg and Rhodes (2018) prefer a framework which is based on housing career stages.

Third, and returning to a theme running throughout *Shaping Futures*, we should locate the rental market within a wider conceptualisation of housing as a system (see the modern institutions and governance chapter, for instance). System approaches to housing (reviewed in Gibb, 2018) recognise the underlying complexity of the flows and interrelationships between different parts of the market which are shocked by external drivers, where impacts on one sector, e.g., owner-occupation, impact on private rental demand and vice versa. Likewise, such interconnectedness creates emergent properties (the system as a whole may be more coherent than its components), positive and negative feedback loops, as well as uncertainty dynamics.

This brief reflection on how we might conceptualise or understand the rental market helps prepare the way for how we might explain recent patterns of growth and change in the PRS found in Australia, Canada and the UK.

## Growth and Change

### Overarching trends

What are the key lessons from broad trends internationally in the size and composition of private renting? Maclennan, *et al.* (2016) identify a number of demand-side drivers of global growth in private renting in richer economies. In part, these drivers reflect constraints that make achieving home ownership more difficult. These include:

- ▶ less access to growing deposits required by lenders and mortgage regulation,
- ▶ lower productivity growth reducing disposable income,
- ▶ a widening income distribution increasing the numbers of especially younger households left behind,
- ▶ higher housing costs in the face of tighter metropolitan housing systems where new jobs are increasingly sought,
- ▶ complementary demographic and compositional increases in households who might demand market renting (e.g. student numbers and international job-induced migration).

Arundel and Doling (2017) argue that key PRS growth dynamics – in particular, the growth of insecure or precarious working – were operating before the GFC. They were, however, compounded from 2008 by the GFC-induced credit squeeze. This halted and reversed the previous trend of accommodating less and less sustainable home ownership access through mortgage debt expansion.

At the same time, on the supply side, housing wealth seeking out economic returns has shifted or expanded into residential investment landlordism, thereby – through a kind of feedback loop – helping to boost rental demand by pushing up house prices beyond the reach of many aspirational first-home buyers. As argued by Ronald, *et al.* (2015), the 'emergence of a younger 'generation rent'... excluded from owner-occupied housing' is coming about 'in part as a result of the rise of an older 'generation landlord'" (p53)

Martin, *et al.* (2018) review 10 countries' rental market systems, including the three Shaping Futures nations. Recent trends had seen rental markets larger and growing in most countries studied, often associated with increased leverage and financialisation of housing on the supply-side. The sector profile in most places tends towards apartments, lower incomes, and smaller households. Interestingly, however, the Martin, *et al.* systems analysis found several contrasting policy and fiscal settings associated with rental market growth (see also Whitehead and Williams, 2018).

## Developments in Shaping Futures countries

In contrast to Canada, long term renting has been on the rise in Australia and the UK as a proportion of all households. Australia and the UK fit the global norm in terms of post-millennial PRS supply growth being largely associated with small-scale investor property acquisition (Lewis, 2016). At least in Australia and the UK 'investment property' ownership has become increasingly ubiquitous among moderate to high income individuals making provision for retirement through amateur landlordism. Some 2.1 million Australians (16% of all taxpayers) are now rental property owners (Pawson, *et al.* 2019), whereas UK private landlords now number some 2.3 million (Rugg and Rhodes 2018). In both countries, however, around 70% of landlords own a single rental property only. In Canada small investors own about half of the private rental stock with medium and large investors owning the other half. There is rapid growth in corporate ownership: public real estate companies, real estate investment trusts (REITs), and pension funds (CMHC, 2001). About half of the PRS housing in Canada is in purpose-built rental stock, with apartment buildings accounting for almost all such units (96% in 2015), with row (terrace) housing making up the rest (CMHC, 2016, 8-9).

Alongside the surge in private rental property acquisitions by 'mum and dad investors' (as they are known in Australia) all three countries have latterly witnessed a strong influx of investment in purpose-built rental blocks in the form of student housing. 'The development of the [purpose-built student accommodation – PBSA] sector has gone hand in hand with the globalisation of higher education' Savills (2017 p3). This refers, especially, to the rising worldwide numbers of overseas students within growing overall student populations seen over the past 20 years. Equally important in recent PBSA expansion, however, has been the demand from global investment companies for residential property as an income-generating asset, as returns from other investment classes have continued to decline (Pawson *et al.* 2019). The Canadian Pension Plan Investment Board is one of the world's largest players in this market but insurance companies such as the UK-based L&G are also important.

Beyond the 'niche market' of student housing, recent UK experience suggests there is some prospect of a wider engagement with PRS investment by the global finance industry in high income countries where this has been previously insignificant. Ultimately, this might bring the Shaping Futures countries more into line with the USA where the 'multi-family housing' industry is long-established as a large-scale provider and developer of purpose-built rental housing. Over six million apartments in such buildings have been constructed since 1992 (National Multifamily Housing Council website).

Advocates of multi-family housing (or Build to Rent – BtR – as it is termed in the UK and Australia) plausibly contend that this residential form has the potential to deliver on a number of important public policy goals. These include widened housing diversity, higher construction and management standards and a more secure form of private rental housing. The diversification of residential construction industries away from the overwhelming dominance of a 'build to sell' product could also beneficially introduce a stabilising counter-cyclical economic component within this otherwise volatile sector.

In the UK, as recently reported by the British Property Federation, some 68,000 'build to rent' (BtR) units had been completed since 2012 or were under construction by Q4 2018. As well as large for-profit developers, proponents also include a small number of major not-for-profit housing associations and – latterly – local councils (in some cases via arms-length local housing companies) (Scanlon, *et al.*, 2018). However, while the UK's BtR sector has recently exhibited a strong growth trajectory, it is expected that 'by the 2030s it may – at best – come to comprise around 10% of the [private rental] market, or a maximum of 500,000 homes' (Ibid).

In Australia, the prospect of a 'mainstream market' BtR industry has recently excited extensive industry debate and policymaker attention, with a small number of specific projects being publicly announced during 2017 and 2018 (Pawson, *et al.*, 2019). However, it appears that there would need to be significant market and/or policy shifts (including with respect to property taxation settings) before a viable BtR industry emerges (ibid). However, even in that event, only if supported by substantial government assistance will such an industry have the capacity to contribute directly to 'affordable housing' (in the sense of housing within the reach of low-income earners).

In Canada, as the number of renter households continues to grow, almost all new rental housing in recent decades is being supplied by the secondary rental market (e.g. rented condominiums, apartments in houses). In the City of Toronto, for example, most of the approximately 48,000 additional rental households (2011 to 2016) were accommodated by additional supply in the secondary market. Purpose built rental apartments have accounted for very few (6%) of the additional rental units (City of Toronto, 2019:2).

Looking at the three Shaping Futures examples, what other specific points can be made about recent rental sector growth and change?

In Scotland, Livingston, *et al.* (2018) – to paraphrase – point to:

- ▶ Growth in the private renting from 5% of all households to 15% between 1999 and 2016. Again, there are wide variations across Scotland – from more than a quarter in Edinburgh to less than 10% in many other council areas.

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- ▶ Private renting is now the most common tenure for younger households. However, there has been a significant growth in families with children in the PRS.

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- ▶ More than 30% of households with children living in poverty are now in the PRS and PRS growth also appears to be associated with a suburbanisation of poverty.

For reasons discussed in the previous section, the sector is complex and not well suited to traditional forecasting or simulation modelling. Nonetheless, LSE London have undertaken interesting work on the future of private renting in London. Udagawa, *et al.* (2018) simulates different future growth/decline scenarios for the sector and its component parts for London and England. The LSE London team develop a regression model under different economic, housing and affordability scenarios and find that future PRS growth will be most pronounced where future economic growth and (owner-occupied) housing performance is weakest. If the economy grows more strongly, (post-Brexit) migration is curbed and if housing supply growth achieves government targets in a context where affordability outcomes are more favourable, then PRS shares fall back. This is a reminder of the dynamic and unpredictable complex futures of the PRS.

Turning to Canada, Martin, *et al.* (2018) note that:

- ▶ Canada has a distinctive apartment-led urban rental market property profile, stemming in part from large-scale purpose-built building of rental housing from the 1960s to the 1980s (but retreating thereafter). This continues to account for more than half of the rental stock in Canadian cities (Lewis, 2016) and is a more established and mature build-to-rent sector than in the UK. Half of these multi-unit properties are owned by individuals.

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- ▶ Alongside the historic purpose-built PRS portfolio there is a growing ‘secondary rental market’ (as termed by CMHC) that encompasses a diverse mix of other rental housing including rented condominiums and individually-owned tenant-occupied dwellings scattered throughout the housing stock

- ▶ Canada’s rental market is composed of relatively high proportions of single people and households without children (compared to other countries studied and its own owner-occupied sector). Canada also has relatively few higher income households renting privately. Purpose built dwellings tend to be one or two bed apartments and hence house smaller households than in the ‘secondary rental housing market’.

- ▶ Despite being generally older, the purpose-built units appear to be generally viewed to be in better condition across a range of metrics than the secondary rental market (Lewis, 2016).

Australian rental markets have their own specific trajectory and distinguishing characteristics. Martin, *et al.* (2018) point to the following important elements:

- ▶ Sector growth has seen an increase from 18% to 25% of the overall housing market since the mid-1990s. While slightly less rapid than in the UK this has occurred in a national context where there was no housing market downturn in this period.

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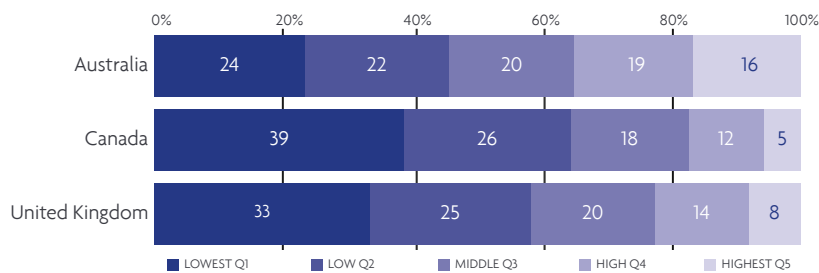
- ▶ Reflecting the country’s wider housing market, Australia’s PRS is has been largely composed of detached houses, setting it apart from the wider domination of apartments found elsewhere.

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- ▶ Compared with other countries, the demographic profile of Australia’s PRS was less differentiated compared to that of the housing system more broadly. For instance, the income profile of private tenant households is similar to that for the entire population.

In summary, while there are important similarities in the nature and role of the PRS in the housing system of each of the three countries, the evolution of land, planning, tax, subsidy, and other housing related policies and practices mean the sector houses a slightly different mix of households by income, household type, and by type of structures (built form).

Figure 2: Rental Households by Income Quintile  
Australia, Canada, United Kingdom, 2016



Each income quintile represents 20% of total household (owned and rented) ranked by income. Data refer to percentage of rental households situated within each income quintile. Source for Australia and U.K.: Martin et al. 2018 *The changing institutions of private rental housing: an international review*, Melbourne: Australian Housing and Urban Research Institute. Source for Canada: Statistics Canada, Canadian Income Survey 2015 microdata.

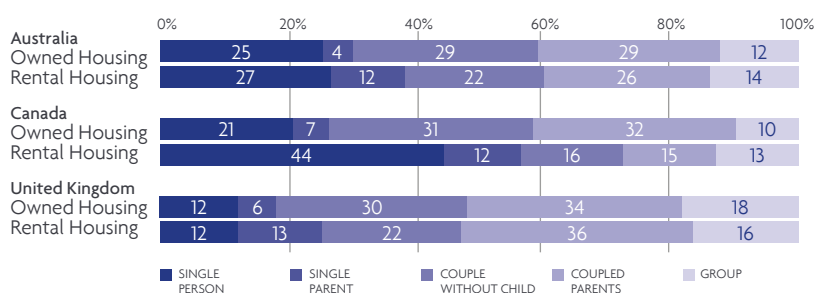
As Figure 1 above documents, the PRS in Australia houses 26%, in Canada 28%, and UK 20% of the nation’s households. In Figure 2 we see that 65% Canada’s renters are low income (drawn from the first two income quintiles), with a similar high percentage of renters who are low-income in the UK (58%). Very few high income (top 20%) of households are renters (i.e., they are homeowners). This presents a structure problem for good quality unsubsidized new private sector rental supply. New rental housing units are always more expensive than existing older units; yet a high percentage of the need is indeed “social need”, not effective market demand. Australia’s renter households, in contrast, are drawn almost equally from all income groups. There is only a 4% larger share in the lowest income quintile (24% rather than 20%), and a 4% smaller share in the highest income quintile (16% instead of 20%). It should be noted that Canada’s distribution of renter households by income quintile in the 1960s was similar to Australia’s in 2016 but changed dramatically starting in the 1970s (Hulchanski, 1988:158, Table 4). The PRS in these two countries subsequently followed different pathways.

As we see in Figure 3 the household composition (single person, singles/couples with/without children, etc.) of renters and owners are similar in Australia and the UK but not Canada. In Canada, 56% of renter households are either single person or single parent households in contrast to owners (28%). This in part accounts for the lower income profile of Canada’s renters (i.e., couples can be and increasingly are both employed).

When we next examine details about the type of housing structure (Figure 4) we see that the distribution of the type of housing structure occupied by homeowners in Australia and Canada is very similar, yet the rental stock distribution is very different. About two-thirds of Canada’s renters live in apartment buildings, compared to one-third of Australia’s renter households. The distribution of the UK’s housing stock for both owners and renters is very different from that of Australia and Canada.

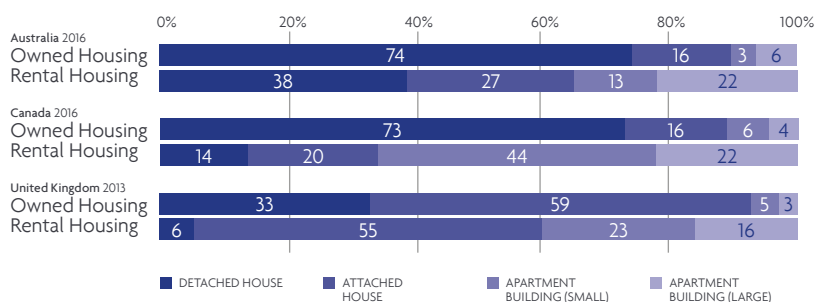
To understand these basic similarities and differences we need to understand the national, and in some cases regional, policy contexts in which rental markets operate in each of the Shaping Futures countries. As Martin, *et al.* (2018:1) note, “the fact that Australia’s PRS stands out for being less differentiated from the wider housing system in terms of its built form, household types and incomes...suggests a high degree of integration between the Australian PRS and owner-occupier sectors, which is significant for policy-making.” The policy context is discussed in the next section. Note the importance of spatial multi-level governance (the role of national, state, provincial or devolved governments as well as municipal levels), how credit or housing finance operates in national rental markets, the importance of tax policy, subsidy (landlord and tenant) and, of course, regulation (price and non-price).

Figure 3: Housing Tenure by Household Composition  
Australia, Canada, United Kingdom, 2015/2016



Housing Tenure. For Australia and U.K. owned housing includes both owner-occupied housing and social housing. For Canada, rental housing includes both private rental and social housing. Group Household Type includes multiple families in the same household and two-or-more non-family persons living together. Source for Australia and U.K.: Martin et al. 2018 *The changing institutions of private rental housing an international review*, Melbourne: Australian Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2016 Data Table 98-400-X2016226.

Figure 4: Housing Tenure by Type of Structure  
Australia, Canada, United Kingdom, 2013/2016



**Housing Tenure.** For Australia, owned housing includes both owner-occupied housing and social housing. For Canada and U.K, rental housing includes both private rental and social housing. **Type of Structure.** For Australia "Apartment building - small" refers to buildings of 1 to 3 storeys and "Apartment building - large" have 4 or more storeys. For Canada, "Attached house" combines semi-detached (double house), row house, apartment in duplex and other single - attached house dwelling types. "Apartment building - small" have fewer than five storeys and "Apartment building - large" have five or more storeys. For U.K. "Apartment building - small" have 2 to 9 units and "Apartment building - large" have 10 or more units. Source for Australia and U.K: Martin *et al.* 2018 *The changing institutions of private rental housing: an international review*, Melbourne: Australian Housing and Urban Research Institute. Source for Canada: Statistics Canada, Census 2016 Data Table 98-400-X2016221.

## The Rental Market Policy Landscape

In the following overview of the contemporary policy landscape for market renting in the Shaping Futures countries we discuss, in turn, four aspects:

- ▶ National governance structures
- ▶ Finance and taxation settings
- ▶ Government subsidy or other support
- ▶ Rental and non-price regulation

Firstly, when it comes to the different governance structures that condition the policy settings that are possible, it is useful to distinguish between national policy, intermediate geographies (state, province or devolved governments in Australia, Canada and the UK, respectively) and municipal government. Canada and Australia are federal systems, whereas the UK has delegated most though not all housing-relevant policies to the devolved nations, below which local government plays some role in the provision or regulation of rental housing. Private renting matters therefore sit across all three levels of governance in each country.

Thus, despite the fact that one is a federation and the other is not, there are some similarities between the UK and Australia in this respect. Most tax issues apply at the national level in all three countries since they concern the tax treatment of income which is largely the preserve of central government. Rules around tax allowances that affect the economics of landlordism therefore tend to be the preserve of national treasuries. Similarly, in both countries national level policy levers are crucially important in the realm of social security (Local Housing Allowance in the UK, Commonwealth Rental Assistance in Australia).

The regulation of tenure security, rental contracts and dispute resolution, however, is in all three countries the responsibility of the second tier of government – state/province/territory administrations in Australia and Canada and the devolved ministries in the UK. Local government in Australia, Canada, and the UK plays a key role in policing, administering and enforcing planning laws as well as operating local planning systems. Importantly, in this context, it is municipal government (local councils) that are responsible for the direct oversight (and enforcement of regulations) of the most high-risk component of the private rental market, namely multi-occupied buildings, known as houses in multiple occupation in the UK and boarding, or rooming houses in Australia and Canada (for Canada, see Campsie 2018).

A second key aspect of the policy landscape concerns finance and taxation. How are PRS investments funded in each of the three Shaping Futures countries, and how does that impact on the sector? How does housing taxation advantage or disadvantage the respective rental markets in each country? Martin, *et al.*, (2018), indicate that bank credit has been the main source of funds for recent PRS investment in all three countries. Smaller roles are played by REITs, private equity and non-bank lenders. Bank lending criteria, especially since 2007-08, has been more closely aligned to regulatory controls operating at the national level though this has been less material in its impact than would be the case for lending for home ownership. To the extent that build-to-rent is becoming established as a component of new supply (in the UK, at least), international capital is coming to play a significant role.

Tax policies importantly impinge on the rental market in each country. Key features of tax frameworks in Shaping Futures countries are as follows:

- ▶ For UK landlords, interest payment deductibility applies, although this has recently been reduced. Capital Gains Tax (CGT) applies (and disadvantages buy to let providers who also pay punitive rates of stamp duty land tax on transactions).
- ▶ For Canada, interest rate deductibility applies and can be applied to other sources of income. CGT applies with a 50% discount.
- ▶ For Australia, interest payment deductibility applies (including negative gearing on other sources of income). CGT applies with a 50% discount

All three countries have variations of property tax/land value tax, although they vary at state/province/devolved nation level. Canada and Australia have state/province varying rates of transfer tax that apply to property including residential investments. In Australia the structure of land taxes as applicable to private landlords has been a subject of recent contestation because of the way that standard state/territory models effectively privilege small-scale investors as opposed to corporate providers of build-to-rent blocks (Pawson et al 2019). The UK has a council tax on property with a national set of tax rates based around a reference tax multiple set locally – there are also differences across devolved countries within the UK). Canada and Australia have tax depreciation systems whereas the UK has a more limited capacity for landlords to claim back tax on works they have carried out. All three countries have legislation permitting residential Real Estate Investment Trusts (REITs), that is ‘tax transparent’ structures which enable residential property investors to avoid

‘double taxation’ (first, as company income; second, as individual-investor income) (Jones, 2007).

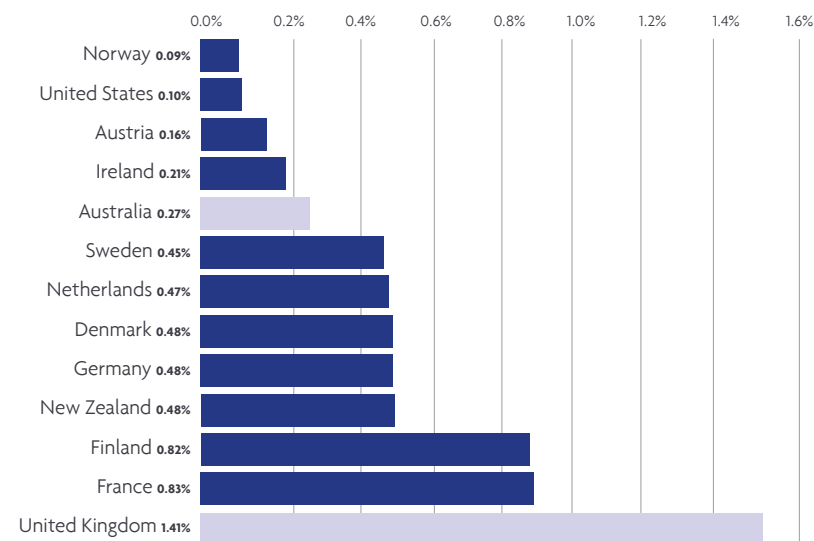
In Australia, residential REITs sit within the broader family of Managed Investment Trusts. MITs have been commonly used to facilitate purpose-built student housing development and are considered by the finance sector as a suitable vehicle for broader BtR investment.

However, this has recently proven controversial, especially in terms of the specific rules applicable to overseas investors for whom residential rental income via MIT is taxed at a higher rate than revenue from other forms of investment (CBRE 2018; Pawson, *et al.*, 2019).

A third important aspect of the policy landscape for private rental housing concerns government subsidy or other support on supply or demand-sides of the rental market. What forms of such assistance (broadly defined – including guarantees, interest subsidy and tax breaks) do we see in play for landlords and investors; as well as personal subsidies on the demand-side?

On the supply-side, Australia’s National Rental Affordability Scheme – NRAS (2009-2014) took the form of an annual tax break or subsidy payment made available to investors for a ten-year period, conditional on renting out newly-built dwellings at rates discounted to the market, with tenants selected according to administratively-defined criteria (Rowley, *et al.*, 2016). UK governments have recently sought to support the establishment of a Build to Rent sector through revolving funds and debt guarantees as well as – in Scotland – guaranteeing rental income for approved BtR projects (Scanlon, *et al.*, 2019; Scottish Government n.d.). In Canada, the National Housing Strategy has introduced support for the PRS via loans and some modest subsidies to help lower initial rent levels.

Figure 5: Housing Allowance as a Share of GDP Thirteen OECD Countries 2015 or latest year



Total government spending as a percent of Gross Domestic Product (GDP). There is some spending on rent supplements in Canada (no national housing allowance program) but data are not available. Source: OECD Affordable Housing Database, PH 3.1.1.

On the demand-side, subsidy is dominated by personal subsidy to lower income households based on means-tested arrangements. National programmes include Australia’s long-established Commonwealth Rental Assistance (CRA) and the UK’s Local Housing Allowance (formerly Housing Benefit) (see Figure 5). In Canada, where province-varying rent assistance has been historically available, a new national Canada housing allowance has been proposed by the federal government with federal/provincial discussion of joint funding of the option proposed for 2020. (Government of Canada 2017). In summary, demand-side assistance plays a modest role in Australia, a minor role at present in Canada, but a much larger role in the UK.

Fourth, let us consider the important issue of rental and non-price regulation of rental markets. Here we focus on rent controls in their various forms, geographic coverage and impacts. Rent regulation is nicely summarised by Martin, *et al.* (2017). None of the three countries regulates new tenancy rents (i.e. setting the rent at initiation of a contract between landlord and tenant). Rent increases within contract can be regulated either by enforcing limits to excessive rent increases through quasi-judicial means or, in Scotland under the 2016 Act, by giving councils the right to establish rent pressure zones locally and making a case that there is robust evidence that rent increases are excessive and can thereafter be curbed for a period of time (though the cap would still allow real terms rent increases).

Recent international evidence on rent controls (Whitehead and Williams, 2018; Wilson, 2017) suggests evidence of a wider European retreat from more liberal approaches to the rental market (even if the Shaping Futures nations – including Scotland – all remain wedded to initial free market rents), greater reliance on rent increase limitations and a recognition that rent control cannot be viewed in isolation from length of tenancy and tenancy security questions.

Country	Rent increases	New tenancy rent
Australia	Varies by state; mostly provision for disputing ‘excessive to market’ increases	No regulation
Canada	Varies by province; most restrict increases to annual ‘guideline’ rate	No regulation
UK	Provision for disputing excessive rent increases	No regulation
Scotland	Local rent pressure zones can be applied on evidence supplied by council to Scottish Government (2016 Act)	No regulation (2016 Act)

Source: Martin, *et al.* (2018) Table 8.

Turning to non-price regulation, key issues turn on the extent and objectives of landlord and letting agent registration, regulation of quality and conditions, policing of dispute resolution and other features of landlord-tenancy relations and dispute resolution, planning policies and consumer protection. Key to all of these dimensions is effective enforcement which in the UK’s case, is often patchy, resources are not ring-fenced and the activities are not always treated as statutory.

## Reform in Scotland

The UK private rented sector is undergoing a multiple set of natural experiments as Scottish policy diverges from the rest of the UK. The centrepiece is law enacted in 2016 that changes the basic private rental tenancy by restricting the legitimate grounds under which a landlord may end a tenancy (referenced colloquially as ‘outlawing no-cause eviction’). Other than where the tenant has breached the terms of their tenancy (e.g. through rent arrears), a landlord will be able to recover possession of their property only where they wish to use it for an authorised purpose other than rental housing – e.g. selling it, renovating it or living in it themselves. Potentially the most significant effect of this change is that it may enable tenants to more freely request necessary repairs without the threat of a retaliatory eviction.

The new framework also introduces potential local rent limitations (rent pressure zones), at the same time, the judicial first tier tribunal dispute resolution mechanism has been strengthened and widened in order to support the sector, including the new reforms.

The reforms raise three wider questions or issues. First, does PRS policy lead (i.e. anticipate) or follow (and seeks to moderate) market developments? The unexpected growth in buy-to-let (BTL) holdings and the incremental use of re-regulation suggests following rather than leading the market. Secondly, the combination of largely devolved but partly reserved-to-Westminster policies impact on the rental market in Scotland in an often complex way. This was recently apparent in the context of tax changes that increased the tax burden on buy-to-let (BTL) landlords. Third, recognising the importance of housing systems analysis, taking into account the submarkets and complexity of the sector, how do we prioritise data and evidence with which to monitor the market and evaluate policies?

Source: Gibb, et al. forthcoming



By comparison with some other northern European countries (e.g. Germany and Switzerland), the three Shaping Futures countries are all subject to fairly light regulation when it comes to landlords' ability to recover possession of rental properties (Scotland excepting). Once an initial tenancy term (usually 6-12 months) has expired, a landlord wishing to sell or move into the dwelling is usually free to do so, subject to only a limited notice period. Beyond this, however, there is a division between those jurisdictions of Australia, Canada and the UK where this ability is subject to some constraints and those where it is not.

As shown in the box, recent tenancy law reform in Scotland has outlawed 'no cause eviction' which remains legal elsewhere in the UK as well as in most Australian states and territories, but not in Canada. Australian exceptions include not only Tasmania, but also the populous state of Victoria where recent amendments to the Residential Tenancies Act 1997 have introduced a requirement that landlords may end tenancies only on specified grounds (Landy 2018).

In all three countries there is an official adherence to an ethic of 'risk-based regulation' in the sense that multi-occupied properties at the bottom of the rental market are subject to greater oversight. Such establishments are of particular concern for several reasons. First, they accommodate many vulnerable individuals, often on a legally insecure or 'non-tenured' basis. Second, occupancy conditions can heighten safety risks hazards especially regarding fire. And third, they are often high turnover establishments, sometimes a source of local disturbance and resulting neighbour complaints. In the UK and, to some extent, in Australia, the past 10-20 years has seen multi-occupied buildings subject to increasing levels of supervision – usually involving local authorities in the exercise of their environmental health (or 'public health') responsibilities (Dalton, *et al.*, 2015).

Beyond this, all three countries have seen recent experiments on property/landlord registration. Evidence from Scotland (where mandatory landlord registration was introduced in 2004, amended 2011) suggests that the potential for the use of this data to help monitor policy and practice is circumscribed by privacy issues concerning the data (Livingston, *et al.*, 2018). Across the different spheres of non-price regulation, however, the effective enforcement of standards and rules is the key challenge.

## Towards Better Policies for Market Renting

How can the PRS better complement other components of metropolitan and national housing systems? It should be clear that, with typically growing representation, together with its natural tendency to be the focal point of housing market change, the PRS needs to be much more central to housing policy and strategy, period.

Private renting plays a critical pressure valve role for both the other two major tenure groupings – shocks to home ownership (e.g. through lending practice changes) or social housing rule changes will have rapidly-transmitted knock-on consequences for the PRS. The more flexible, responsible and accessible quality rental market housing is at a range of price points and size/type/location configurations, the more effectively rental markets can support and lubricate the operation of the wider metropolitan housing system. Achieving these outcomes, however, calls for an active co-ordinating and strategic function for different tiers of government. That is challenging in all countries examined, not least because of normative disputes about the appropriate roles and funding for the sector, but also because of mixed attitudes to data, evidence and understanding of what is going across the different parts of the market.

As we indicated in the introduction, the current context in the Shaping Futures countries is one in which there are concerns about the relatively uncontrolled and/or unmanaged form of ongoing PRS growth. What, in these circumstances, might be done that makes sense systemically, in terms of economic and social justice goals and which might be more sustainable? Recognising the pivotal role the PRS plays in the housing system is essential and governments should develop an enabling framework that works with the grain of the market (and changing labour market and mortgage markets, and the emerging competition with social renting). In the context of arguments that landlord tax concessions should be calibrated to support legitimate public policy objectives, major questions are raised by provisions such as Australia's 'negative gearing' and capital gains tax discount which deprive are effectively major subsidies of an entirely untargeted kind (Blunden 2016). The opposition Labour Party's 2016 proposal to restrict such largesse to newly built rental dwellings only (while grandfathering all existing landlords) seems like a smart, if narrow, proposition.

A more effective regulatory framework/stance has to strike a balance. It should promote high standards, good practice, information, and an efficient national deposits scheme. At the same time, it should promote and support well-functioning markets by providing security, confidence and trust on the one hand, but the regulatory system must also adequately resourced and enforced across all parts of the nation. Some parts of the regulatory landscape can be self-financed from fees and charges on the system but at some level this needs to be a core statutory function with ring-fenced budgets.

There are a range of economic questions that start with a proper appreciation of the economic contribution of a well-functioning rental market to local and national economies. This is research work that needs to be added to the evidence base. Economic interventions – tax, finance and subsidy design – need to be carefully assessed in their national context. Key dimensions include proper comparisons against counterfactual benchmarks (e.g. of tax or tenure neutrality), the resulting incentives that influence landlord behaviour and composition (between small scale and corporate or build to rent investors), the acceptability of subsidy in all its forms to landlords (e.g. negative gearing) against the need for a level playing field for businesses given their social responsibilities to their tenants).

And then there is the eternal debate about rent controls, the different nuances and contexts associated with different generations of rent regulation. Perhaps, we are now in a more settled place where all three countries appear to have accepted the notion of market-based rents for initial contracted rents but with different degrees of modest real term restrictions over local/regional rent increases and quasi-judicial ability to appeal excessive rent increases? However, we still need robust contemporary and situationally-relevant evidence about the impacts of these forms of intervention.

From the social justice perspective, the growing momentum in favour of reforms to outlaw 'no cause evictions' would seem a positive development. As argued by its proponents, this reform 'would make all tenants feel more secure, without unduly restricting landlords in reasonable uses of their properties' (Martin 2018). Implicit here is that, provided the 'specified grounds' on which it remains acceptable to end a tenancy include property sale (as in recent legislative reform instances in Scotland and Victoria, for example), the additional security enjoyed by a tenant is limited. In its advocacy for 'an end to no cause evictions' the UK lobby group Generation Rent argues that property sale should be excluded from the acceptable reasons for ending a tenancy. This implies that a landlord's rights in this eventuality would be limited by the need to sell – with sitting tenant in situ – to another landlord. Many such sales may already occur.

Finally, policy does need to take a longer systemic view. Imagine that there is a consensus about the trajectory of rental market policy and it turns out to be relatively sound economically and in terms of landlord-tenant relations, etc. It has found a way to tolerably balance the interests of different parts of the market. In a wider housing system context what are the implications for lower income households – does this widen choice for them and does it impact on the not-for-profit housing offer? Can we attribute economic competitiveness impacts independently to better functioning rental markets (what data, evidence and theories would we need to assemble)? What would be the impacts on savings, wealth transfer, and intergenerational equity if we move more permanently to significant cohorts of never-owners? Finally, among these longer-term strategic questions, how might policymakers assess how to make the sector more resilient to external shocks given its inherent greater vulnerability as the most responsive part of the system, as previously noted?

## Conclusions

What is next for the PRS in terms of market demand, social need, supply, location, quality, choice, distribution, discrimination, affordability, investors, owners, management, regulations, and its institutional role within our housing systems and social system in general? The PRS is a sector that urgently needs to be better understood with continuing investment in its monitoring and regulation, not just to do the day job of improving standards and confidence in the sector, but to provide the source for evidence and data, including administrative datasets and big data from the private sector (e.g. letting agents).

Of the many different parts of urban systems, there are material gains to be made from a more coherent smart city joined-up approach to collecting research-usable data that can transform our understanding of the segments and their interaction with the wider housing system. Nowhere else in housing is our evidence base so anecdotal, patchy and partial. And this is precisely where we need a transformative change to how we collect the data to construct the indicators to inform policy and planning.

There is also considerable danger in continuing to treat the PRS as a low priority part of the housing system. The unexpected and uncontrolled growth of buy-to-let should be a lesson. So, equally, should top-down tax changes predicated on unevicenced assumptions about behavioural responses by landlords (i.e. that properties would leave the sector and filter back into first-time buyer markets). It is just as likely that, subject to market conditions, buy-to-let landlords might diversify instead to unregulated short term letting – which is hardly the desired strategic outcome.

A further long-term issue remains: how and to what extent do we sustainably promote corporate Build to Rent landlords? In the UK, the sector is emerging as a significant urban investor in London and Manchester and is emerging in Edinburgh and Glasgow but it remains tiny in comparison to the established atomistic buy-to-let sector. In the short term, considering the public policy case for encouraging this largely new form of provision, governments would be justified in equalising tax settings that – as currently in Australia – disadvantage BtR developers vis a vis individual ‘landlord investors’ and also build to sell developers. Beyond, this, we are looking here at what must be a long game but one that needs, as so often in housing policy terms, to be managed consistently over successive parliaments and governments. Although it is not the most obvious example, the private rented sector investment context needs to be agreed across political parties on a long-term basis. There is probably much that can be learned from Canada’s corporate experience in this respect.

What about the shape of the PRS in the medium and long-term future? As we note here, politicians, policy makers, civil society actors, real estate investors, engaged citizens, need to better understand: (1) how their rental markets work; (2) the motivations of its players; (3) the way the different segments operate; and (4) how it fits into the wider housing system. In short, what should the overall policy objectives for the PRS be? Major policy questions that need explicit broad-based deliberation include:

- ▶ How do we rethink the nature and role of the PRS within our national housing system? What needs to change?

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- ▶ Should we make our housing systems more neutral in terms of policies benefitting homeownership versus private renting?

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- ▶ Can ‘dual rental systems’ in countries like Australia, Canada, and the UK become a ‘unified rental system’? Is this desirable and worth attempting?

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- ▶ To address homelessness and meet serious housing needs, should we rely on, and provide subsidies to, a sector that does not allocate according to socially determined need?

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# Chapter Eight

## Finance and Shaping the Future of Affordable Housing

Kenneth Gibb

## Introduction

This chapter is concerned with the necessary contribution of finance, funding and subsidy to the delivery of more affordable or generally lower cost housing. It is informed by Derek Ballantyne's earlier paper (Ballantyne, 2016), by work with Duncan MacLennan for the Joseph Rowntree Foundation, a more recent comparative project for the European housing Partnership (Gibb and Hayton, 2017) as well as comments by various members of the working group at various points over the life of the project. After this brief introduction, there are four main sections: we set out a core group of principles for thinking about finance and subsidy (and this section draws extensively on Ballantyne's contribution); second, we consider a series of challenges and barriers found in the three countries studied; third, we look at a wider set of possibilities for innovation; fourth, there is a short conclusion.

**“Housing finance is a critical element in any housing system.”**

## A Challenging Backdrop

Housing finance is a critical element in any housing system. It can help improve outcomes but it can also be part of the problems faced, especially given that finance itself is a sector that is affected by other wider factors and drivers. The increasingly overused political language of housing *crisis* has a convenient media currency but the salient housing problems we observe in the UK, in Canada and Australia are really overlapping chronic problems that periodically combine with external shocks and specific government policy change e.g. on social security, to generate high salience dysfunction. High, and in some cities, gravity-defying, housing cost burdens are the product of many things: underlying strong demand, scarce land, mortgage lending policies, sustained historically very low interest rates, endogenous speculation arising from market conditions, tax and monetary policies that promote and sustain these inequalities forcing longer commutes and freezing regional migration as housing costs prohibit migration. We can readily see that finance plays an important part in underscoring many of these destabilising factors.

Developing coherent and progressive housing policies for the future requires we understand (and can marshal data in an organised way), the interconnections of how housing systems work and how they evolve. Housing is a system of connecting elements – land, finance, investment product choices, infrastructure, the existing built environment, social security and tax, interdependent housing tenures, private, not-for-profit and public sector stakeholders, trade bodies and politics. We have to locate the nature, challenges and reform scope for housing finance specifically in this problematic and systemic context. Making housing work better and deliver more affordable outcomes is also tied into other complex systems such as transport, labour market trajectories, urban-regional economies and forms of multi-level governance. The scope for unintended consequences and perverse outcomes increases with these multiple connections.

Path dependency is not just about the undoubted importance of the existing housing stock in current market and housing sector outcomes and opportunities, it also reflects the significance of the body of live existing housing policies that have accumulated over time and set the parameters of what can happen in a housing system. Both English and Australian housing<sup>1</sup> in recent years has been beset by what Christine Whitehead calls ‘initiative-itis’, with a plethora of policy announcements and then further decisions which dilute or reverse earlier announcements before they fully take effect (e.g. the English government proposals for planning obligations to fund discounted new build for first time buyers – starter homes). These political reversals of approach are not helpful, reduce coherence, consistency and makes investment less attractive. They are, perversely, also a barrier to more durable housing reform.

Despite the rhetoric of our governments facing the chronic problems discussed elsewhere in this volume, we know that markets are not going to ‘fix’ anytime soon. For that reason intervention to support and promote sub-market renting and home ownership will remain key ways to improve outcomes. We know that the radical decline of capital subsidy for social housing in the UK (Scotland and Wales, to different degrees, excepted) and its general minimal presence in Australia and Canada creates a different set of affordable housing offers: shallower subsidy for ‘affordable’ or mid market rent, more reliance on leverage and sweated equity (including re-financing), the search for public-private funding partnerships and for cross subsidy across a diversified range of activities. However, much of this is either pro-cyclical and therefore vulnerable to downturn, or in the case of affordable products like mid market rent in Scotland, new products that are just beginning to test the market that reflect as much the new realities of a large and growing rental market as they do a genuinely long term affordable alternative<sup>2</sup>.

<sup>1</sup> See: <http://www.tandfonline.com/doi/abs/10.1080/02673037.2015.1044948>

<sup>2</sup> Mid market rent is a Scottish affordable rent project based on an upfront capital grant, initial rents at or around the rental ceiling for personal housing allowances and targeted at key workers. Focused on new build homes, and operating the new indefinite Scottish private tenancies, the sector is already highly competitive with the traditional private rented sector and may be feeding back into social housing management thinking.

We cannot overstate the importance of austerity and ongoing budget deficit and debt questions. The UK recently moved quickly to deregulate<sup>3</sup> in order to shift housing association debt off the public balance sheet when it was reclassified by the UK's Office of National Statistics. It is highly unlikely that a UK government, also confronting Brexit uncertainties, will commit to large scale capital funding of low cost housing if that debt is in large part going to add to the debt on the UK balance sheet. In a nutshell, this is why partnership with the private sector and third sector foundations, as well as provider refinancing (e.g. by vehicles like affordable/social REITs) and new housing credit institutions located off the public sector balance sheet, remain so widely discussed.

The theme on metropolitan pressured markets has highlighted high demand, speculation and unaffordability. Salvi del Pero et al (2016) provide an overview of affordable housing among OECD member states. They focus on the concept of *overburden* i.e.. the share of the population in the bottom quintile of the income distribution spending more than 40% of disposable income on mortgage costs or rent – this is similar to the 30:40 Australian concept of housing stress. They found: (p.4):

- ▶ Just under 15% of tenants and 10% of mortgagors pay more than 40% of (disposable) income on housing

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- ▶ The housing cost *overburden* is much higher among low-income households: just below 40% for private tenants and mortgagors

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- ▶ Middle income households also face affordability pressures: just under 9% of such mortgagors are overburdened across the OECD

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- ▶ Homelessness statistics indicate that across the OECD between 1 and 8 people in every 1000 do not have 'regular access to housing'

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- ▶ 15% of low-income households are overcrowded.

The OECD affordable housing database<sup>4</sup> (OECD, 2017) is a useful new resource with which to assess comparative aspects of affordability and non-affordability (and policy objectives and instruments). OECD data indicates the differential performance for the UK, Canada and Australia. The UK has one of the highest private renting shares of overburdened households (in excess of 60%), but a more moderate relative level for social renting and mortgaged owners (both around 35%). Canada's rate of overburden is, unusually, higher for mortgaged owners than private tenants (broadly 50% and 45%) and in Australia, the same patterns prevail but at a lower rate (40% and 30%, approximately).

Clearly, these figures apply to the bottom fifth of the income distribution and, moreover, data for social renting is only available for the UK. Also, it is the case that the data obscures from the critical issue of access to home ownership and higher downpayment conditions now operating in the UK (in particular). But for all that, the widely-accepted overburden dimension is clearly a significant problem for private rental tenants and, though less so, for burdened mortgagors. Looking at this overburden concept by housing tenure across the OECD, it is clear that social housing makes a difference and reduces the proportion facing an excessive burden; mortgage burdens are more varied but can be high whereas unaffordability is highly prevalent in the rental market.

The combination of housing shortages and excessive housing cost burdens as evidenced in the earlier chapter on the housing stories in our three main countries studied sets the scene and leads us to ask whether housing finance and subsidy mechanisms can be better deployed to promote more affordable supply and ultimately more manageable cost burdens.

## Principles

It is in this context that the analysis found in Derek Ballantyne's 2016 paper for the Shaping Futures project is so useful. The paper distinguishes between financing new build and on-going operations. Our focus is mainly on the former though clearly operational finances may be organised in certain circumstances to provide collateral for investment through leveraging sweat equity. At the same time, initial commitments to fund development may also have operational consequences – so there is an inherent interdependence between new build and operational considerations.

Figure 1: Housing Finance: The Essential Elements (Ballantyne, 2016)

<p><b>Equity</b></p> <ul style="list-style-type: none"> <li>▶ Cash / operator surpluses</li> <li>▶ Capital grants</li> <li>▶ Investors / housing funds</li> <li>▶ Cash</li> </ul>	<p><b>Construction costs</b></p> <ul style="list-style-type: none"> <li>▶ Built form</li> <li>▶ Technologies</li> <li>▶ In-kind contributions</li> </ul>
<p><b>Land / density</b></p> <ul style="list-style-type: none"> <li>▶ Location</li> <li>▶ Public contribution</li> <li>▶ Planning benefit</li> <li>▶ Asset re-use</li> </ul>	<p><b>Financing</b></p> <ul style="list-style-type: none"> <li>▶ Low-cost funds</li> <li>▶ Extended amortization</li> <li>▶ Deferred capital / interest</li> <li>▶ Alternative capital sources</li> </ul>

<sup>3</sup> Sometimes described more neutrally as 'regulatory reform'

<sup>4</sup> <http://www.oecd.org/social/affordable-housing-database.htm>

There are essentially four elements that impact the cost of housing production, and therefore the affordability of this housing (see figure 1). Most affordable and social housing models seek to have an impact on one or more of these factors (equity, construction costs, land/density and financing itself). Under each of these headings or quadrants one finds a combination of private sector led or public led mechanisms that can assist delivery of affordable housing. But it is clear that however one approaches the question, somewhere there will be an opportunity cost and therefore a required subsidy of some form (grant, revenue, personal subsidy, land, guarantees, in-kind support, etc.) required to deliver below market cost provision either in terms of production delivery or at the point of consumption (or both). The market will not provide it without some element of financial support, be it subsidy or coercion (e.g. planning obligations) so that the minimum required rate of return on cash invested can be procured.

Ballantyne suggests that a variety of mechanisms can be used to reduce the cost of building housing. The effectiveness of these measures will vary over time and among the jurisdictions studied. Most financial models focus on equity, land and financing. Construction costs are more difficult to reduce. Materials and labour are not generally variable in a particular geography. New construction technologies have improved housing quality but have not reduced housing delivery costs significantly but nonetheless do have an impact on housing operations costs – particularly in energy consumption and production. Perhaps the most likely way to make gains with construction costs is through large scale consortia operating as monopolists (ie buyer power) to bargain down procurement costs. To be truly effective however this does require a significant element of standardisation in what is built and that is not always acceptable to members of such consortia, inhibiting their effectiveness.

The past and current financial models in the countries in focus examined by Ballantyne include one or more of the following elements:

- ▶ Low cost land / public provision of land<sup>5</sup>
- ▶ Capital grants for land acquisition and / or construction
- ▶ Planning and permit concessions<sup>6</sup>
- ▶ Equity (including grants, project delivery support, low cost equity investment)
- ▶ Low cost financing (construction financing and long-term debt)
- ▶ Tax concessions (construction, financing and investment)

Ballantyne's analysis raises a couple of further important points that need to be confronted. First, he argues that the search for financial innovation (e.g. Gibb, et al, 2013) is probably not going to uncover radical new untapped opportunities. We know what is possible and that fundamentally the different stakeholders have to co-operate around the irreducible fact that private sector participation, including construction interests, requires a given rate of return for the risk confronted. It is about putting the connections and the incentives to work in local contexts and institutional settings. Inevitably, politics and current priorities determine the resources available but thereafter those resources need to be used effectively in whatever way they are co-ordinated. In the UK case, we saw this with the distinction between the overall capital spend programme for social housing (the key political decision) as opposed to the more technocratic micro decision about how that funding would be allocated according to grant rates and allocations across different programmes. It is true that there are important idiosyncratic national examples of affordable housing funding that take us further, such as in France, Austria or in the USA, but barriers to their speedy translation to other settings are considerable and often insurmountable. (Gibb and Hayton, 2017)

The second point is related – the bullet list of elements above all have public financing implications directly or indirectly. Scarce public resources must be well used where their impact is greatest. While governments may not always recognise the very existence of tax concessions we can hardly support redistributive and progressive reforms to the housing sector that purport to increase efficiency if we do not at the same time recognise the continuing need to maximise public value for money.

## Recurring and Intensifying Problems

Figure 1 suggested focusing on equity, land, financing and construction costs. We can use these principal elements to group together the recurring and in some cases worsening problems that affordable housing finance faces. Box 1 summarises an evidence review (Gibb and Hayton, 2017) that outlines the main barriers to expanding affordable housing supply suggesting that the politics and political economy of housing supply are major considerations. Who gets what, how they protect their share in a context of growing wealth inequality and the increasing importance of housing assets within personal portfolios and the ability to earn rentier and rent-seeking profits – generate major political constraints on the shape of housing policies and also their redistributive content.

<sup>5</sup> This may involve public sector landowners, seeking to maximise value, acting as partners earning an income return from their involvement or perhaps simply a ground rent in return for a below market transaction price for the land

<sup>6</sup> A key battleground in current policy debates in the UK re. land value capture, the use of CPOs and compensation for landowners, land trusts and the case for an affordable housing land use class.



Going back to Ballantyne's quadrants diagram, equity includes organisational income surpluses and implicitly revenue subsidy and personal income-related subsidy. It also involves capital grants from government and equity investment from the provider or partners. Austerity and budget cuts have of course loomed large for nearly a decade and housing is particularly struck because of the political attractiveness of cutting capital budgets and the added impetus to shave back large social security budgets, even though the latter have increasingly come to underpin the operational delivery of affordable housing in countries like the UK. This has in turn led to a search for different if not new ways of supporting housing through large-scale state-backed guarantees and contingent liabilities for both housing association bond finance and owner occupation through loan guarantees and shared equity products.

The broader issue is the simultaneous decline of capital programmes and per unit grants in England (not so much for grant rates in Scotland and Wales). Inevitably this leads to spreading grant further with shallower subsidy. In the UK, it has also implied more diverse tenure offers from providers e.g. low cost and outright sale for home ownership. The second challenge in this area is the covenant and borrowing limits associated with provider capacity to borrow against its own unencumbered housing stock and assets, something made worse in England by rent controls cutting social rents for 4 years.

Land is an asset that can also be used and we hear repeated calls for greater use of unused or redundant public land for housing though this can come up against the test of best value for the taxpayer (and hence the argument for landowners to play different roles in housing projects such as equity investors or partners seeking long term income returns). At the same time, there is the challenge of making the best possible use consistently of affordable planning obligations. These differ across the UK and different sector actors view the problems in opposing ways – some would favour statutory certainty and clarity to help with land purchase decisions; others want to keep the system as local and context-specific as possible. It is hard not to see the recent changing environment for section 106 agreements (a planning instrument that provided a quota of affordable housing, locally determined, within larger private developments in areas of local need), not as part of the *initiative-itis* mentioned earlier. Certainly, the efficiency and quantitative significance of affordable housing supply through this route has been considerably curtailed in England.

#### Box 1:

### Barriers to Affordable Housing Supply in Western Europe

Non-affordability is symptomatic of wider problems in different parts of the housing system. Major barriers to increasing supply include:

- ▶ Land market failure.
- ▶ Inadequate public funding available to drive programmes to meet unmet housing need.
- ▶ Limits to or political constraints on planning-led solutions.
- ▶ Low supply responsiveness as a result of the above points and also general supply delivery problems (e.g. planning delays) and the industrial or business logic of private housing developers, which interacts with the wider planning system for new housing.
- ▶ Specific finance failures e.g. an unwillingness to invest in or lend to affordable housing provision perhaps due to a lack of credible provision alternatives (at least as perceived by finance) or risks associated with changing provision of personal subsidy.
- ▶ The unwillingness of many social and affordable providers to develop in the face of a perceived high risk environment.
- ▶ The capacity of special interests, who benefit from the status quo, to impede or resist change.
- ▶ Tighter mortgage regulation creating a more conservative environment for first time buyer loans.
- ▶ Wider market constraints caused by previous or current policies and practices promoting gentrification across wide swathes of city housing markets, which serves to build inflationary pressures and lock lower income households out of these housing markets.

Source: paraphrased from Gibb and Hayton (2017) *Overcoming Obstacles to the Funding and Delivery of Affordable Housing Supply in European States*. European Housing Partnership, pp.24-25.

Can more funds from the private sector be made available for affordable housing? Despite the importance in recent years of UK named bond issues, private placements and aggregator funds, there remains a sense that interest remains comparatively modest from private sector sources, certainly in terms of the (slowly changing) relative lack of appetite for investment in private renting (including new developments) despite a succession of attempts to coax them in by governments going back to the 1980s. Similar struggles have occurred in terms of banks and pension funds and initiatives like social REITs, which try to overcome the funders reluctance to get involved in social/affordable housing management.

It used to be said that much social and affordable housing investment was counter-cyclical but in the current environment, it has become necessarily pro-cyclical and reliant on cross subsidy and rising rents and prices. This creates vulnerability and actually limits scale over the economic cycle.

## Possible Ways Forward

One of the themes running through *Shaping Futures* has been the benefits of diversification – and this goes back to the previous project, *New Times, News Business*. However, while venturing into different cognate areas of work, diversified forms of housing or community economic business may work in specific cases, it may not always cohere provider strategies to stakeholder interests and indeed there may not be a compelling financial argument, if the specifics of the organisation make it less attractive. In other words, it is a context-specific principle and one that might be trumped by specific governance and other imperatives. In research conducted recently (Gibb, et al, 2016), we looked at the social housing landscape in Scotland and there was no clear evidence that diversification was necessarily a strategic imperative or indeed made sense operationally. Arguably, the pressures and conditions apparent in England, including the decision to cut social rents and operate in an environment rapidly retreating from funding social housing with capital grants (though this may now be changing), are significantly different from the more insulated picture in Scotland. Even so, all of the UK will have to deal with the perils of Universal Credit on tenant incomes – so the pressure to diversify may yet arise in Scotland. In any case, not all providers do wish to ‘stick to their knitting’ and just carry on to do housing management of social housing. New revenue streams, cross subsidy, market renting and for sale, business like care homes as well as different tenure mixes, economic development and partnership working – all may make perfect sense and contribute to future affordable housing development via provider equity.

Larger providers can and do effectively use reserves, re-finance, leverage and sweat equity to support their borrowing. This requires balancing how far one wishes to take on debt and capacity to repay, the timing of the debt’s repayment and covenant rules. Again, this is one avenue for providers who have assets and financial strength but it is not going to be as relevant to many providers who do not have such resource, track record and capacity. Rather it is likely to be a source of future concentration within the sector (as in the absence of other funding streams, it makes a case for mergers). Stock transfer from public housing to a non-profit is a form of sweated equity, taking the net existing use value of the transferred stock to unlock re-investment and also free up management (and tenants) to change direction.

Arguably, the pressures and conditions apparent in England, including the decision to cut social rents and operate in an environment rapidly retreating from funding social housing with capital grants are significantly different from the more insulated picture in Scotland.

In England, councils’ ability to borrow for housing investment (including in theory to support other landlords too) has only in 2018 been released from external controls imposed by central government for public spending reasons<sup>7</sup>. Alongside this it has long been argued that capital spend by councils on housing investment should not count as public spending but should be treated as a stand alone income-generating (i.e. housing rents repay capital costs) public corporation. In the UK councils have never won that argument<sup>8</sup> but Scottish councils do not face government-imposed external borrowing requirements<sup>9</sup>; nor are they deterred by council house sales (recently abolished). Their ongoing investment plans for new homes, in part funded by government grant, are constrained only by the prudential borrowing framework and the council’s own corporate capital spend and debt repayment priorities. Should councils have their housing capital budgets taken out of the public spending control system? There is no direct accounting issue equivalent to the UK’s in Australia. State governments have no evident interest in borrowing for affordable or sub market housing capital investment. Rather, accountancy arguments in Australia apply more to the appraisal of public housing assets and the treatment and balance sheet effects of public housing transfers<sup>10</sup>.

<sup>7</sup> And it is too early to tell the impact of this widely supported reform.

<sup>8</sup> Which is why some English councils are experimenting with local housing companies which is allowing more housing to be built though it is largely affordable and not social.

<sup>9</sup> The November 2017 Budget approved a degree of limited liberalisation of the cap for local authorities in high pressured areas in England. An announcement followed in 2018 finally abandoning the cap altogether

<sup>10</sup> See: [https://www.ahuri.edu.au/\\_data/assets/pdf\\_file/0010/10711/AHURI\\_Final\\_Report\\_No273\\_Recent-housing-transfer-experience-in-Australia-implications-for-affordable-housing-industry-development.pdf](https://www.ahuri.edu.au/_data/assets/pdf_file/0010/10711/AHURI_Final_Report_No273_Recent-housing-transfer-experience-in-Australia-implications-for-affordable-housing-industry-development.pdf)

Recent debates inside (and outside) the Scottish Government have considered new ways to incentivise the delivery of housing land for the affordable and social sectors. Proposals aired during the consultation for a national planning review (now in the legislative process) have included:

1. National or regional land delivery vehicles that buy land, service and then sell it on ready for development and then recycle the funds to do more, possibly also playing a critical role in regeneration. The micro version of this is a revolving land fund doing essentially the same thing but on a much smaller scale.
2. Fiscal incentives such as community infrastructure levies or vacant/derelict land taxes or council tax (domestic local taxation) applied to unused sites<sup>11</sup>.
3. Compulsory sales orders, wherein land owners are obliged to sell land parcels at market rates to facilitate development or land assembly<sup>12</sup>.

Actual proposals in the proposed legislation are in practice less radical and more modest. However, the reality of minority government means that amendments to the proposals may turn out to be more to the radical end of the spectrum<sup>13</sup>. Scotland has also taken a different road when it comes to contemplating support for institutional private rental investment. While Scottish locations could benefit from build to rent models, lending guarantees and repayable government stakes in such ventures, the Scottish Government is piloting long standing industry proposals to guarantee rental revenue from new developments for finite periods as a way of enticing institutions into this sector. Along with the new tenancy regulations that will move Scotland towards open-ended tenancies and rent restrictions in high pressure markets, Scotland will be an interesting test-bed of innovation and reform in the years to come within the private rented sector (and will sit alongside the new large scale investments underway in mid-market rents by non-profits and their subsidiaries).

In 2013 research for the Joseph Rowntree Foundation (Gibb et al, 2013) found examples of interesting innovations in affordable models in countries like Australia and the USA, as well as creative ways of using loan guarantees, social housing surpluses and designing benefit systems in different parts of Europe. Five wider themes were:

- ▶ An appetite for state-backed guarantees but these need to fit carefully and consistently with existing policies
- ▶ Encouragement for contestable supply & partnership between for profit and non-profit providers, often operating with blended subsidies from different tiers of government. Partnership might involve management and/or leasing roles for non-profit providers but sometimes they shared development risk. Questions remained about the governance of charitable entities in such models.
- ▶ Yet, European examples stressed ‘collaborative solidarity’ with non-profit providers operating as clubs to bail members out when required (the Dutch model (but also seeking to pool, manage and creatively use surpluses (e.g. in Denmark).
- ▶ The essential policy choice is the growth of affordable housing implied by shallow subsidy – for a given programme of funds to deliver more housing at lower subsidy or fewer units at a deeper subsidy.
- ▶ The key will remain in ‘sweating’ existing assets which will skew development to larger providers with the right balance sheet mix.

Derek Ballantyne’s paper also suggests that the scale of intervention, of public spending commitments, is *fundamentally political* and is about whether and for how long states are willing to prioritise housing programmes. As we note in the conclusion below, there is no escaping making the case for more public funds and acknowledging that such a case has to be made against other well marshalled arguments made by other priority areas of social spending (perhaps in terms of more rigorously argued essential economic infrastructure which in part makes a more assertive case for housing as compared to other assets – see chapter 11 in this report). But as was commented on during the consultation with Shaping Futures partners, it is important to recognise that while we should support many diverse smaller scale initiatives because they work, we should not forget the need to find scale and to spread policies or models that work and to do so on a big enough basis to make a real difference. And that will require an equivalent public finance commitment (especially if it involves upfront capital funds).

<sup>11</sup> For current debates in Australia regarding replacing sales taxation with land taxes, see: <http://blogs.unsw.edu.au/cityfutures/blog/2017/03/by-far-and-away-the-biggest-housing-tax-reform-prize-on-offer/>

<sup>12</sup> Now proposed by the Scottish Land Commission (SLC) and coming forward into law.

<sup>13</sup> The land market and its reform is the more challenging and controversial area and is the subject of the always interesting work of the SLC.

## Conclusions: Integrating with other Themes

We can briefly summarise the main points made so far:

- ▶ What we see is less a housing *crisis* and more overlapping chronic problems that periodically combine with external shocks and specific government policy change that makes housing both salient and near the top of political agendas and public concern.

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- ▶ We have argued throughout that the housing sector is best understood as a connected system. In turn, we should locate the nature, challenges and scope for reform of housing finance specifically in this systemic context.

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- ▶ Path dependency is also important – not just the dominance of the existing often mature stock and built environment but also the local context and the legacy of previous housing policies and programmes, often inconsistent and sometimes incoherent.

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- ▶ The contemporary housing affordability burden is real and widespread especially measured as the excessive burden placed on the bottom quintile of renters and also many owners. This and cut backs in welfare programmes is the context explaining the need for more, smart financial programmes to support affordable or low cost housing.

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- ▶ Derek Ballantyne’s paper reminds us about the universal irreducible components underscoring affordable new development or operational housing finance, that interesting innovations in other countries are often institutionally sticky and hard to transfer, and that innovation is increasingly scarce and not a silver bullet.

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- ▶ Subsidy mechanisms for housing are problematic in an era of austerity and competition for scarce public funds – hence the shift to guarantees, to more creative use of land and new forms of private sector participation – although the appetite for private-led investment stubbornly remains less than policymakers desire.

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- ▶ A range of options for models and instruments to support housing consistent with the general direction of travel are suggested but we note that in the end large problems need bigger scales of intervention and sustained commitment to public resources in a context of multiple and complex market failure.

The conclusion therefore is not about the need to build interesting new innovative financial mechanisms. Most of the things required are out there already. Perhaps what is still lacking is developing the private funding conduits discussed earlier but the key dimension is what we have elsewhere called the housing story. We need to make the case for a new smarter bigger scale of housing programme funded by a range of clever public interventions. What we can say here is that there are arguments we can articulate which have a resonance to the finance thread but make an essentially political point that a tipping point has arisen that requires a redistribution of scarce resources into the housing sector in the interests of the economy, society and the sustainability of our cities and metropolitan regions. We should marshal four specific arguments.

A first argument for more housing resources could be called the **prevention** argument. Can we marshal evidence that targeted housing investment across the housing system but particularly with respect to social/affordable housing interventions can reduce future social policy costs in terms of savings via reduced homelessness<sup>14</sup>, addiction treatment, criminal justice system spending, health and social care costs, education outcomes, welfare spending, monetizing the value of better working labour markets. Careful and considered use of predictive analytics might be a way to make a lifetime cost actuarial assessment of the long term value of housing investment (lessons could be learned from the experience of work in this area from different aspects of preventative social policy work in New Zealand – see What Works Scotland 2017). An insight from Wellington seems to be that a necessary condition for moving to a greater analytical preventative approach requires both open transparent modelling and reporting but also the encouraging of an on-going public debate and culture that promotes long term public spending thinking and seeking best value.

A second argument might be termed the **costs of inequality** argument and would build on the arguments of Picketty and Atkinson. Housing plays an increasingly important role as a store of wealth is a key driver of and outcome of greater wealth inequality. The long term corrosive effect of the creation of wide swathes of outsiders unable to generate housing capital, NIMBY anti-development attitudes and what might be termed conservative housing movements<sup>15</sup> - raises the wider concern of declining social capital, unfulfilled housing (and household) careers. Atkinson (2015) in particular proposed a range of radical reforms to taxation and policy spending to reduce inequality and many of these would involve significantly changed terms for taxing housing. Just because it is part of the inequality problem – finding ways to make housing the conduit for reform while logical is politically very challenging, as recent experience in the UK over council tax reform indicates. Smart policies wanted.

<sup>14</sup> Compelling evidence on the ‘cost to government’ case for rehousing rough sleepers comes from this recently Australian study: <https://theconversation.com/supportive-housing-is-cheaper-than-chronic-homelessness-67539>

<sup>15</sup> a point made recently by Glen Bramley about the importance of the older equity rich suburban home owners who may be the single largest anti-development force in much of the UK.

There are important microeconomic and urban economic arguments that can be made for more housing investment, for instance, constraining new regional investment because of a lack of suitable housing for its anticipated workers, and also the housing circumstances of low income central city workers<sup>16</sup>. However, a third argument that can be made is a **macroeconomic** one (but arguably more than that). Alongside insufficient new supply is the excessive investment in less productive second hand stock, in part because of the tax advantages owner-occupied housing enjoys. An argument that goes back at least as far as to the 1980s (see, also O’Sullivan, 1984), it has been suggested that the tax privileged status of home ownership may help to explain over investment and hence crowding-out of more productive and diversified forms of investment and savings. While individuals may make better returns or hedge risks through capital appreciation, there is large-scale potentially investible resource lost to the capital markets from the personal sector because it is tied up in second hand housing. Could financial policy be more creative in encouraging more diversified portfolios and different more creative ways of investing in private housing, perhaps offering greater returns to new home purchase? This issue is complex and there is not a consensus on the crowding-out question but it clearly relates to the Duncan MacLennan’s essential economic infrastructure argument.

A fourth argument is more about political economy and microeconomics. Within Governments, the case for additional housing resources is essentially a **cost-benefit analysis**. It is clear that certain sectors, for example, transport investment, have evolved over time a clear set of agreed parameters and variables with which to undertake such exercises and that, rightly or wrongly, there is widespread professional and governmental analytical support behind the variables and the magnitudes involved. Research in Australia<sup>17</sup> has made it all too clear that no one of these conditions - which parameters should be the focus, the CBA techniques used nor consensus around the size and scale of effects – apply to social housing. This is a considerable analytical shortcoming to the chances of the sector pulling its weight in public spending decision-making. Academics, analysts and the sector as a whole has to build such a consensus around established principles and empirical evidence as a matter of urgency. This line of argument is developed in detail in the penultimate chapter of this report.



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These are arguments and possible routes to make a case for more/different resources for affordable housing investment. More resources are required but that political project requires convincing models, transmission mechanism and evidence. The housing story has to be communicated as effectively as possible but it must also have the essential policy ammunition underscoring it too.

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<sup>16</sup> <http://blogs.unsw.edu.au/cityfutures/blog/2016/04/high-housing-costs-create-worries-for-city-tourism-and-hospitality>

<sup>17</sup> See AHURI Inquiry on social housing as infrastructure: <https://www.ahuri.edu.au/research/research-in-progress/ahuri-inquiries/evidence-based-policy-inquiry-53140>

▼ St George Community Housing, Sydney – affordable rental housing



# Chapter Nine

## Business Diversification for Not-for-profit Housing Providers

Hal Pawson

## Background

Across most high-income countries, retrenchment and retreat have been dominant social housing system trends over the past quarter century. At the same time, however, jurisdictions where public or state housing organisations were historically dominant social landlords (the UK, the USA and Australia among them) have seen a transition towards a not-for-profit (NFP) provider model. Many within the industry would contend that if social housing has a twenty-first century future it will be a scenario in which such 'third sector' housing associations (to use the UK terminology) will be the key players. These are entities which, although generally reliant on some form of government support, are formally autonomous, and positioned in the 'third sector' somewhere in the space between the three poles of state, market and community (Czischke, *et al.*, 2012).

Exactly where NFP housing providers sit within this 'tension field' (*ibid*) amidst the three poles will vary from organisation to organisation, from country to country, and this positioning is liable to change over time. Thus, as reported in *New Times, New Businesses*, recent years have seen a general tendency for 'move[s]' towards a more business-like or commercial model' across not-for-profit (NFP) housing sectors in Australia and Canada as well as the UK (MacLennan, *et al.*, 2013, p70).

Nonetheless, like all 'third sector' organisations, NFP housing providers are conceived as 'hybrid' bodies which apply distinctive governing and operating principles – combining the characteristics of the private, public and third sectors – to their decision-making (Billis, 2010). Fundamentally, this involves organisations needing to balance competing pressures arising from state (funding and regulation), market (commercial) and civil society (community and resident) influences (Evers, 2005; Blessing 2012). Managing the stresses generated by such forces is an ever-present reality for hybrid organisations (Bransden, *et al.*, 2005).

In housing or similar fields, the accommodation of these tensions may involve undertaking profit-making activities to boost organisational financial capacity and generate cross-subsidy, or giving priority to neighbourhood services and community development activities that grow community capacities rather than confining business scope (and thus organisational capacity and complexity) exclusively to activities closely aligned with government requirements and objectives.

In the case of the UK housing association (HA) sector, divergence from an exclusive focus on social housing business has been evident at least since the late 1990s. In terms of their positioning in relation to the three poles cited above, this has involved a transition away from organisations' prime role as 'agents of the state' (Mullins & Pawson, 2010). The pressures underlying this trajectory have greatly intensified under the much less benign public policy climate experienced in the UK under the post-2010 'austerity' regime. In part, accelerated in this operating environment, 'diverse activities' by 2017/18 accounted for more than fifth of gross turnover among England's HAs (Regulator of Social Housing 2018). In 2018 these 'non-social housing' functions contributed £4.3 billion towards associations' annual gross turnover (*ibid*).

In Australia and Canada, partly reflecting the smaller and less well-endowed provider organisations that typify NFP housing sectors in those countries, the scale and sophistication of business diversification is, as yet, far more limited than in the UK. Nevertheless, there is evidence that such activity has recently been expanding (Milligan *et al.*, 2015; Pawson *et al.*, 2015; Pomeroy, *et al.*, 2015).

Considering the relevance of this topic to the Shaping Futures (SF) project, this chapter briefly discusses 'business diversification' developments among NFP housing provider organisations in Australia, Canada and the UK. Drawing on contacts with NFP housing executives participating in the SF collaboration, it then explores practitioner perspectives on broadening business activity away from an exclusive focus on developing and/or managing social housing.

## Chapter structure and research approach

Following this introduction, in the second Section we discuss what can be characterised as two distinct forms of NFP housing provider business diversification; 'community services', on the one hand, and commercial activities on the other. Referring back to the language of 'hybridity' (see above), this involves organisations variously moving towards the 'community' and 'market' poles in their divergence from the 'state' pole. Also included in this Section is a brief reflection on the organisational structure innovations that have been related to the 'diversification project' as pursued in the NFP housing context.

This leads on to the third Section, which discusses business diversification from the perspective of leading NFP housing provider entities in Australia, Canada and the UK. This is based on a semi-structured online survey covering organisations based in the three participating countries and undertaken as part of the Shaping Futures project. Contributing organisations were NFP housing providers directly involved in the Shaping Futures consortium, or otherwise party to the project. Carried out in late 2016, the survey posed ten questions aiming to draw on providers' experiences, informed opinions and future plans regarding business diversification. Ten NFP housing providers participated in the survey – four Shaping Futures members (Aldwyck, Brisbane Housing Company, Community Housing Ltd and Places for People) and six non-members. Responses were reasonably well-distributed across the participating countries – Australia (3), Canada (2), UK (5). Finally, in the last Section, we draw some brief conclusions.

## Forms of business diversification and their organisational implications

### Community services

Early UK moves towards HA 'business diversification' were influenced by the impetus towards developing 'community services' or 'wider role' activities originating in the 1990s and embodied in the slogan 'In business for neighbourhoods' – adopted by the National Housing Federation (NHF) in 2003. Part of this was about responding to the New Labour social inclusion imperative, reflected in development funding criteria as transmitted through the Housing Corporation's encouragement for 'housing plus' activities (URBED, 1998).

In an argument especially resonant for organisations with geographically concentrated holdings, the development of community services was also rationalised in terms of enlightened self-interest: '...just housing the poor without focusing on the wider viability of neighbourhoods is likely to leave associations with increasing residualisation of stock, deteriorating income streams and asset values' (Lupton & Leach, 2011, p18).

Diverse activities characteristic of this UK phase included:

- ▶ Financial inclusion projects – e.g. supporting credit unions or other initiatives aimed at connecting impoverished tenants with affordable credit
- ▶ Youth activities including sports programs
- ▶ Community development initiatives
- ▶ Tenant employability projects such as ICT training.

'The promotion... of these activities by the NHF can be seen as part of the construction of a hybrid identity for the sector based on social investment performance' (Mullins & Pawson, 2010, p206).

In Australia some larger NFP community housing providers (CHPs) have, over the past few years, begun to develop similar services. Research focused on six larger CHPs in two states, reported that some of the subject organisations had set up specialist community development staff and had budgets dedicated to social investment activities such as tenant employability and community development initiatives. Others, however, saw their proper role as being limited to traditional landlord services (Pawson *et al.*, 2015).

At least for a few of the largest Australian providers involvement in recent and emerging public housing transfer programs (Pawson *et al.*, 2013; 2016) has brought with it 'placemaking' obligations, which may include masterplanning and associated resident consultation as well as community development functions. Involvement in public housing estate renewal programs (e.g. the NSW Government's Communities Plus initiative) is likely to entail similar commitments.

### Commercial activities

While often led by providers themselves, 'community services' initiatives developed by UK HAs under the 'in business for neighbourhoods' banner have frequently leveraged finance from other sources, especially from central and local government funding streams. With the onset of public finance austerity from 2010 the viability of such strategies has been badly damaged, if not destroyed. With diminishing scope for co-funding, questions about the appropriateness of supporting such services from a provider's rental revenue will have become more pointed.

More generally, as in Australia and Canada, the business diversification dynamic among UK housing associations has been latterly much more strongly driven by the perceived need to reduce organisational dependence on public funding and/or compensate for cuts in such funding. As noted by a recent UK study focused on the post-2010 period, '...associations [have been] under considerable pressure to diversify their activities to include more profitable but more risky private sector initiatives which might produce profits and thus a stream of income which could be used to cross-subsidise their social rented development' (Williams & Whitehead, 2015, p 18).



Putting this another way, specifically in relation to the English scenario, Mullins & Jones (2015, p279) argued that growing involvement in market activities is primarily a 'state-led policy'. At least in this national context, NFP providers are being pushed by government '... to adopt commercial approaches to asset management and sales and rent setting and to generate surpluses from commercial activities to cross-subsidise housing for low income groups' (ibid). Such practices are understood as mandatory for HAs seeking to secure access to what limited amounts of new public funding that remain on offer for affordable housing development.

In the UK this phase of business diversification has been mainly characterised by growing HA involvement in market housing activities. In terms of associated income, more than half of all 'non-social housing activity' in 2017/18 (generating some £1.4 billion) involved housing development for open market sale (Regulator of Social Housing, 2018, p7). Market rental housing development has also come to form an appreciable component of non-social housing business for at least a few of the larger English providers (Crook & Kemp, 2018). Here there may be a convergence with the UK's burgeoning 'built to rent' impetus involving financial institutions and private developers (Pawson & Milligan, 2013; Savills, 2017). However, while expanding in scale, such activity amounted to only 4% of 2017/18 HA housing starts across England, compared with 15% for market sale projects (National Housing Federation, 2018).

Other market housing activities now undertaken at appreciable scale by English HAs include:

- ▶ Nursing home development and management
- ▶ Student housing development and/or management.

Expert commentators stress that margins for commercial activities by UK housing associations are liable to be very thin: 'The surplus coming from diversified activities is virtually zero' (Pete Redman, *Traderisks* – cited by Jules Birch, *Inside Housing*, 14 June 2016). Importantly, however, this comment referred to 'diversified activities' not directly connected with housing (Redman, personal communication).

Unlike counterpart sectors in Australia and Canada, the English and Scottish HA cohorts include organisations with the size and financial weight to assume the 'lead developer' role in large mixed-tenure construction projects. Indeed, it has recently been argued that associations with the requisite financial stature would be well-advised to adopt a more assertive stance in the land market to enable this – rather than relying on S106 provisions for site acquisition via private developers (Savills, 2018). Such a strategy could improve associations' resilience in the event of a property market recession and resulting market development slowdown.

The business risk resulting associated with market housing development at scale is perhaps evidenced by the 2015 rollout of a new regulatory framework for English HAs interpreted by one seasoned observer as 'a response to landlords branching out into a greater range of activities which carry their own risks' (Cowley, 2015, p19).

Australia's NFP housing sector has only begun to transition from its 'cottage industry' formative stage over the last decade or so. At least among larger providers, however, interest in business diversification ramped up as the public finance climate became more adverse from 2011 and especially from 2013. In this environment, such players have been striving to expand their activities beyond their social housing 'core business' – e.g. into areas such as aged and disability services, mixed tenure housing development, home ownership products, strata management and real estate services and other commercial ventures (Milligan et al, 2015). A recent case in point is BHC's foray into market sales and market rental housing development<sup>1</sup>. Perhaps tellingly, however, recent research focused on larger Australian providers found that '...many CEO aspirations for new business developments expressed in [2011/12] had not materialised by [2013/14], suggesting that business diversification was more difficult to achieve than anticipated' (Milligan & Hulse, 2015, p204).

In Canada, meanwhile, a recent study of NFP housing organisations reported that the subject entities were 'exploring and implementing ways to commodify their expertise – selling services in marketable expertise, which their roles as social housing developers and property managers have allowed them to develop' (Pomeroy, *et al.*, 2015, pvi). In some instances such ventures were 'lucrative social enterprises' (ibid). However, such developments were about social housing entities 'not so much transforming as evolving and adapting to the new operating environment in which they will have to survive (minimal new funding and expiring federal subsidies and agreements)' (ibid pvii).

### **Innovations in NFP housing organisational structures**

In the UK HA sector, business diversification has in many instances stimulated innovation in organisational structures such as the establishment of specialist subsidiaries or joint venture companies. One factor here has been the imperative to quarantine the hazards inherent in market activities so that these pose minimum risk to the viability of the organisation's core functions. Another more instrumental consideration has been the priority attached by some organisations to the retention of core business charitable status (HCA, 2016, p26). Consequently, English HAs manage the bulk of their non-social housing business via subsidiaries.

<sup>1</sup> Although BHC's initial expansion of its development remit from social housing projects to mixed tenure schemes resulted from Government funding via the 2008 Nation Building Economic Stimulus program and National Rental Affordability Scheme (NRAS) funding.

More significant as a driver of corporate structure innovations among UK HAs over the past 10-20 years has been sector reconfiguration – the consolidation process of organisational mergers which has resulted in a progressive concentration of social housing ownership in the hands of a diminishing number of landlords (Pawson & Sosenko, 2012). In many instances, group structures have been established as a transitional phase in an amalgamation process where previously freestanding entities are initially converted into semi-autonomous subsidiaries within wider corporate frameworks, before being subsequently rolled into ‘streamlined’ or unitary structures.

Among Australia’s larger NFP housing providers there have been a small number of cases similar to those described above. Instances have included the Housing Choices Australia group structure originally established to facilitate an inter-organisational merger, but whose later evolution has been partly shaped by the need to accommodate a large ‘interstate’ public housing transfer. Another recent case in point was the Compass Housing creation of a special purpose vehicle for a major public housing transfer project (albeit that the project concerned was later cancelled by Government). Meanwhile, in the context of negotiating a large loan facility, and as required by the lender, one of Australia’s largest NFP housing organisations, St George Community Housing, set up an SPV as the company’s development arm.

### **Business diversification in the NFP housing sector: provider perspectives**

This section of the chapter draws on discussions with leading NFP housing providers in Australia, Canada and the UK undertaken as part of the Shaping Futures venture itself. This was progressed in late 2016 through the medium of a semi-structured online survey – for full details see Section 7.1. The aim of this exercise was to inform a ‘bottom up perspective’ on the issue; an ‘industry view’ from each of the three Shaping Futures countries. We review provider experiences and perspectives in more detail, under the following sub-headings:

- ▶ Range, scale and viability of non-social housing activities
- ▶ Motivations, obstacles and outcomes
- ▶ The proper roles of governments and regulators

### **The range, scale and viability of non-social housing activities**

All ten providers contributing to this part of the Shaping Futures project undertook some activities above and beyond their ‘core business’ of constructing and managing social housing.

As reflected by the experience of the provider organisations involved in our research, specified ‘non-social housing’ business areas were, in the main, property-related activities taking place in the provider’s home jurisdiction such as:

- ▶ housing development for sale or market rent
- ▶ fee-for-service residential property management and/or maintenance
- ▶ development consultancy
- ▶ commercial property development and/or rental
- ▶ residential nursing home and/or retirement home development/management

Reported diverse activities entirely outwith the property domain included the well-established leisure centre business run by Places for People (UK). From the perspective of Australian-based provider Community Housing Ltd, expansion of the company’s affordable housing business to a range of developing countries (including Timor L’Este, Chile and Rwanda) was similarly considered a form of business diversification.

The kinds of ‘diverse activities’ reported here are consistent with a scenario where these are initiated as ventures closely related to the social housing business (e.g. utilising social landlord competencies and/or benefiting tenant communities), and subsequently expanded in a mainly incremental way. Contrasting with this norm was the experience of the UK’s Places for People Group which had recently been expanding the range of its diverse activities largely by ‘acquiring housebuilding and construction capability and a strong position in the retirement [housing] market’.

Most – albeit not all – of the participating providers were confident that there was significant scope for generating surpluses through ‘diverse activities’. Five reported that their organisations already recorded significant returns from non-social housing business.

‘...as stated above, [name of provider] DOES make a surplus from diversification’ (UK provider)

For a few providers, revenue generated from their ‘diverse activities’, was a ‘significant’ share of overall corporate turnover – three larger UK-based entities (Aldwyck, Link and Places for People) along with Australia-based Community Housing Ltd. In the case of Aldwyck, for example, it was expected that 40-45% of gross income in the coming year would be generated from housing development for sale. Places for People (UK) highlighted that diverse activities now account for over half the group’s revenue – far above the sector norm in England (see the earlier Section on forms and implications of business diversification). However, some providers were involved in diverse activities – e.g. domiciliary care – where margins were reportedly thin, at best.

At least implicitly diverse activities are often pursued with the aim of generating a surplus to cross-subsidise the core social housing business. Link Housing (UK) for example noted that its development for sale ventures had generated £1.5 million ‘re-invested in Link’s social housing programmes’. However, this was not always even a possibility. One Australian participant, for example, reported that while the organisation’s commissioned homelessness service program generated \$680,000 annually,

**‘...[this business is] a zero sum activity, as any surpluses have to be returned to government’.**

(Australian provider)

Perhaps with residential sales activity in mind, some respondents emphasized that the scope for achieving cross-subsidies was substantially dependent on an organisation’s local housing market circumstances – e.g. more realistic for those operating in south east England with its than for those working in Scotland.

Providers less bullish about the scope for diverse activity profitability included two smaller entities, one of which noted concerns about a currently ongoing Canada Revenue Agency review of permissible activities by non-profit organisations.

International operations engaged in by Australia’s Community Housing Limited had enabled development of cost-efficient construction technologies that CHL had subsequently deployed across other jurisdictions. All other Australian organisations however concurred that business diversification was difficult to realise for a variety of reasons including significant housing policy swings of changing governments, and missed opportunities to position not-for-profits at the centre of large scale public housing stock transfers.

## **Business diversification motivations, obstacles and outcomes**

While cross-subsidising the core business may be a common motivation for ‘service diversification’ other factors are sometimes part of the equation. For some of the providers taking part in our research, the promotion of social and economic inclusion across the tenant population was of at least equal importance. One respondent, for example, reported that dedicated funding was directed to:

**‘...ensur[ing] that tenants are supported to reach their potential across all parts of life, including health, education and employment and community connectivity’.**

(Australian provider)

Some cited a ‘commercial logic’ justification for the integral role of ‘community services’ within the social housing business:

**‘We have a very large and growing community development, training and employment creation program which is becoming core to the ability of the organisation to manage housing. In short if a community is buoyant ... then people have more capability to lead their lives generally including paying rent, and saving for housing ownership’.**

(Australian provider)

For a second cohort, these two types of diverse activity had an equal priority, and should not be seen as mutually exclusive. ‘Community service’ activities were not necessarily funded wholly from rental income. In the case of Glasgow’s Wheatley Group, for example, such services were partly underpinned by grants from charitable foundations, from the UK national lottery and from government organisations including the European Commission. Similarly, Scotland’s Link Group highlighted services such as individualised housing support where (in the UK) funding for such activity can be sourced via local authority block purchase or through personal care budgets under service user control.

For a third group, the financially precarious condition of the core social housing business was seen as dictating a priority towards surplus-generating diverse activities, regardless of their social value. Referencing stresses resulting from the prevailing ‘rent geared to income’ social housing model, one Australian participant noted that revenues generated by diverse activities were essential in enabling the organisation to remain compliant with a key regulatory threshold on organisational viability. Similarly, for another Australian participant ongoing reduction of social housing business margins meant that cross-subsidisation from revenue-generating activities was becoming increasingly vital in ensuring continued provision of established social/economic inclusion programs.

Testimony from our respondents suggested that the most commonly experienced obstacles to business diversification were:

- ▶ Regulatory systems and restrictive rules around permissible business activities whilst retaining charitable status
- ▶ Skills required for successful business ventures differing from the core skills of not-for-profit housing provision
- ▶ Insufficient resourcing and capacity to be able to divert capital or staffing resources towards non-core activities.

For some, another barrier was unduly cautious governing bodies:

‘Many NFP Boards of Directors ... are inherently risk averse and often [lack] the types of education, experience or knowledge in the types of activities which support diversification. The current system is built on a foundation of dependence and diversification is the opposite’.

(Canadian provider)

### **The proper roles of governments and regulators**

Judging from our survey responses, whether governments should actively encourage business diversification is considered by providers as something of a moot point. Awareness of the potential risks involved leads some to argue strongly for an official stance of ‘allow’ rather than ‘encourage’. One respondent cited Gentoo and Cosmopolitan as salutary instances of large English providers which had in recent years over-reached themselves in non-core business areas (construction and student housing).

Others, however, argued that larger NFPs with appropriate capacity should be actively encouraged to expand diverse activities. One respondent, for example, contended that:

‘All levels of government should be encouraging and supporting the further diversification by NFP housing providers ...[they] should adopt policies and positions which ... provide mechanisms which reward the successful achievements ... Governments should also celebrate the successes of these organisations by showcasing them – holding them up as ...examples of how NFPs can work differently to achieve a new set of goals which support the [provider’s] original objectives’.

(Canadian provider)

Similarly, as seen by one Australian respondent ‘governments should encourage appropriately risk-managed diversification of growth providers’ so that such providers can realise their potential across the broader housing continuum – beyond the social rental business. In the Australian context, this could be achieved through strengthening the national regulatory system ‘to ensure a commercially credible framework of risk management and response’:

‘The lack of a sophisticated government (including registrar) understanding of housing provider business models is also limiting in that it results in a tendency to be too risk averse in decision making and/or application of regulatory/contractual frameworks’.

(Australian provider)

As seen by one UK respondent, a barrier to business diversification is that some counterpart housing associations are reluctant to broaden their revenue base, partly because they don’t self-identify as commercial entities, and partly in case it results in reduced government housing expenditure:

‘Unfortunately, many [providers] don’t see themselves as businesses and (despite making profits) don’t want to make too much of this in case it leads to [government] stopping subsidising social housing provision.

(UK provider)

UK-based respondents particularly highlighted the conflict between the need to diversify income bases to counter the effects of austerity measures (including restrictions on tenant welfare entitlements and enforced rent reductions) and the tendency for regulators to take a harder line on diversified businesses (where government-funded housing assets may be perceived to be at risk, should an ancillary business fail). One provider also noted that NFPs are looking to step into the void left by austerity measures in terms of provision of some essential services to vulnerable tenants – but, in competing to provide out-sourced services, struggle to out-bid multinational service organisations given that government tendering processes tend to favour price over other aspects of a tender.

UK-based respondents also highlighted the tensions that can exist between governments and regulators. The former often push organisations to meet increased supply targets, whilst the latter adopt a very risk-averse approach to providers engaging in development and diversification activities. The issue of regulators (particularly in the UK) being able to downgrade diversified businesses was once again highlighted as factor potentially undermining scope for diversification.

More generally, regulatory and charitable frameworks can certainly be a limiting factor in business diversification. For most organisations across the three jurisdictions, a common response has been to establish group structures encompassing non-charitable subsidiaries able to operate commercial or profit-making businesses. Funds generated by these businesses are then invested into the charitable operations of the parent entity.

## Reflections and conclusions

### Mission creep risk

The development of market products and services not directly related to traditional ‘core functions’ may reflect a housing provider’s wish to cross-subsidise its social housing activities. However, as in the related ‘sector consolidation’ trend, this may raise ‘mission drift’ questions as an organisation grows geographically and/or in business diversity. One respondent in our own survey (as reported in the Section on provider perspectives above) however reflected that:

**‘...the main issue is focus and attention. Organisations are rightly focussed on meeting the housing needs of their beneficiaries. Business diversification requires attention and can divert an organisation from its principal mission. [However]...as long as [it] is closely linked and creates opportunities for the principal mission then it is worthwhile’**  
(Australian provider)

Commenting on America’s community development corporations, for example, Bratt (2012) argued that growing financial dependence on the private sector had resulted in CDCs becoming detached from their constituents and in the loss of their advocacy roles.

As posed by the New Times, New Businesses report, ‘the key question is whether [divergence from a prime focus on social housing] damages the non-profit performance and ethos of the overall non-profit’ (Maclennan, *et al.*, 2013, p81).

Related UK controversy flared in 2015 when Genesis HA, one of England’s largest providers, announced that in response to diminishing grant rates and the associated need for compliance with prescriptive regulation, it planned to exit entirely from social and affordable rent development (Apps, 2015).

Commenting on this issue in the Canadian context, Pomeroy *et al* reported that – at least at the current stage – providers engaging in business diversification are nevertheless ‘remaining firmly committed to their core values and mission (providing housing opportunities to low- and moderate-income households in need)’. As noted, in the course of such change, it is important to ‘articulate and recommit to organizational values ... as a way to keep organizations grounded’ (Pomeroy, *et al.*, 2015, pvii).

On a similar topic, recent research involving interviews with CEOs of Australia’s leading NFP housing providers reported contrasting emphases between those emphasising that ‘...social purpose should never be compromised by business drivers’ and those arguing that ‘...having a business ethos [is] critical to optimising social outcomes’ (Milligan, *et al.*, 2015, p7). Nevertheless, while development of ‘affordable housing’ and other business diversification had somewhat broadened client mix for some of the subject organisations most CEOs ‘continued to assert the primacy of a mission to expand assistance to those on the lowest incomes and the homeless’ (*ibid* p67).

### Possible impacts on organisational culture

Related to the above issue, there are questions about the ‘organisational culture’ impacts of shifting a social landlord’s corporate focus towards market products and services. For example, if such a provider finds it necessary to recruit specialist personnel with relevant commercial experience, what is the best way to manage the consequential impacts on the organisation’s shared objectives and values? How can providers best accommodate associated salary differentials?

## Scope for international knowledge exchange

With UK housing associations much further down the track towards business diversification and hybridisation than their Australian and Canadian counterparts, there is an obvious question as to the extent to which the latter may be able to learn from the former. This could include, for example:

- ▶ The most promising 'new business' prospects in terms of leveraging typical social landlord core capabilities
- ▶ Priorities for organisational capacity-building such that new forms of business may be confidently embraced
- ▶ The approach to business diversification most appropriate for organisations lacking substantial capital assets – the typical situation for Australia's CHPs
- ▶ Recommended approaches to structuring entities, risk mitigation and change management
- ▶ How best to navigate the regulatory and charitable status rules that limit or shape permissible 'diverse activities'?

In considering such issues (especially the last named), it will of course be necessary to recognise material differences in the legal, regulatory and administrative contexts which, if overlooked, could render any policy transfer inappropriate.

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# Chapter Ten

## Modern Institutions and Governance

Kenneth Gibb<sup>1</sup>

<sup>1</sup> Roger Wilshaw, Places for People, made an important contribution to the development of this theme

**‘We define ‘institutions’... as ‘systems of established and prevalent social rules’ – a wide definition that encompasses laws, policies, cultural norms, corporate and organisational forms and patterns of practice by individual persons’.**

(Martin, et al, 2018, p.9, following Hodgson, 2006, p.2)

## Introduction

The delivery of effective housing policies requires an institutional infrastructure that is consistent with the contemporary national and local housing systems found in any given nation state. Path dependency matters to how institutions impact on housing systems. There is no point considering the rapid introduction of a sophisticated and mature model of regulation into an environment where the regulated activities concerned are quite differently organised, resourced and of a much more fragmentary and smaller scale. This is a rephrasing of a standard argument made in comparative policy analysis that we must beware of institutional differences before leaping to proposing unfiltered international policy transfers. However, that does not mean there would not be something to learn.

The institutional and governance structure for housing is a necessary though not sufficient condition for effective housing policies of the sort that are of interest to the Shaping Futures project. If we just think of regulation of non-market housing, badly designed policies can still occur in a well-regulated system but it is the case that an overly burdensome and bureaucratic approach to regulation or indeed far too weak a system can have all manner of damaging and limiting impacts on the scope for better housing policies. Institutions more generally play an important role in making housing systems function but they can also promote innovation and experimentation as well as providing a necessary predictability and stability required in a context of typically long lasting relationships, be they between landlord and tenant, providers and tiers of government and bankers and clients.

Institutions of course cover many things. We might be talking about the governance and legal basis or powers of an individual housing provider or larger scale city organisations, or dedicated finance institutions or indeed regulators or other enabling government agencies that work in finance, housing, land or other relevant parts of the housing system. We need to think about institutions at different scales, either as individual providers or organisations, whether we have the right form of institution and the best governance in order to make the kinds of change to housing outcomes we seek – and this might be on a specific site, at a metropolitan scale or nationally. In this chapter we focus on a small sub-set of governance and institutional forms but reiterate that there is a much wider set of bodies, mechanisms and habitual forms of relationship that we

think of as housing institutions. The academic literature also has several different strands of institutional analysis that can be deployed to assist our thinking about the housing system (Gibb, 2012).

The structure of this chapter is as follows. We start by asking how institutional form can support more effective housing policies and practice. We also ask why and how they can go wrong in terms of housing outcomes. The section also thirdly considers the range of institutions that would be of interest to the Shaping Futures agenda. The second section briefly considers well-rehearsed but important principles that might underpin good institutional design and practice in a housing context. This discussion also allows us to highlight a number of important trade-offs that need to be recognised. The third main section looks at contemporary challenges facing each of the three countries’ main housing institutions before the penultimate section draws out a number of possible innovations and good governance ideas again from the UK, Canada and Australia. The final section summarises and draws general lessons. Throughout the chapter we make use of boxed examples, illustrations and diagrams. Most of the focus though not all is on the delivery of low cost and much though certainly not all of our attention is with regulation.

## What are they good for?

Modern housing institutions play a myriad range of roles to standardise, stabilise, regulate and facilitate routine critical housing actions. They make investment, reform and change possible. Of course, there are a vast number of possible forms and combinations of institutions delivering different versions of similar activities – think of the varieties of regulation and finance used in England and Scotland to support social housing since the establishing of the mixed finance system in 1988. Or, to what extent should consumer protection and regulation in the interest of residents be tenure -neutral or generic to all housing forms and tenures? Well run institutions have a clear mission, transparent and lean accountability and governance and will enjoy greater longevity if they can operate at a distance from political interference. While this is obviously true of not for profit regulators it also applies to delivery and innovation-based mechanisms such as land development agencies, state-backed housing finance institutions and experimental delivery vehicles such as those produced by the Scottish Futures Trust. An effective nexus of institutions provides comfort to risk-taking parties like developers and funders but also to tax payers in terms of value for money for important place-based, long lasting investments. They may also act as enforcement agencies policing the system to protect the above interests but also consumers, landlords, providers and others directly affected.

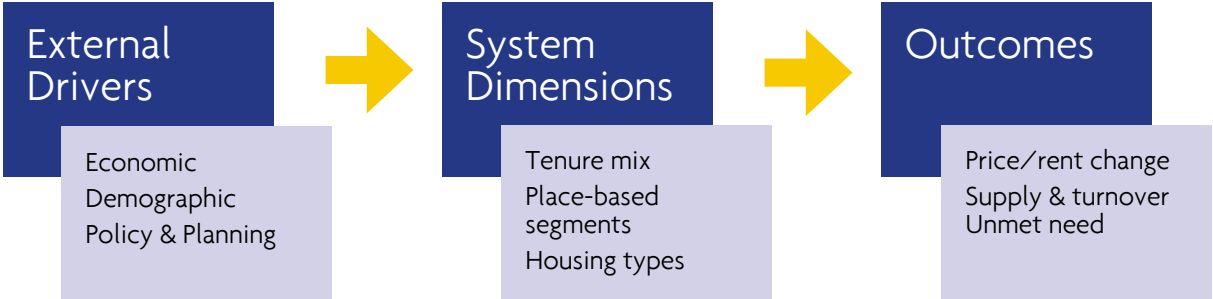


Institutions can enable housing policy reform in a number of ways. First, they can be the literal source of the reform proposal or more likely they are the critical vehicle charged with piloting, rolling out and evaluating reform proposals from government. At the same time, institutions are critical friends but also helpful in the sense of lending credibility to a programme through financial or other forms of support. The withdrawal of that credibility may fatally undermine reform. A further dimension is that poorly designed or functioning institutions may inadvertently impair the chances of policies working and in a similar vein the absence of a necessary institution may significantly reduce the chances of a successful outcome.

The other side of the balance sheet is that institutions can impair the housing system and calls for reform may be to restructure or reshape the institutions themselves in order to improve the wider housing system’s capacity to work in general and embrace reform specifically. Key recurring challenges concern mission creep, excessive design tinkering (often by government to its arms-length agencies in terms of competencies and duties), poorly structured incentives, or excessive (or conversely, weak) regulatory burdens.

Institutions therefore can be thought of in two ways: first, the range of specific entities that support and promote critical aspects of the functioning of the housing system – key examples are outlined in box 1 below. Second, institutions collectively perform a systems level role in that the housing system as understood in Shaping Futures requires the general confidence created by and the aggregation of the roles provided by a minimum set of institutions so that the system can fundamentally function. This is described schematically in figure 1, which is a simple representation of a housing system determined by external drivers, for example, economic, demography and planning/policy drivers (see also O’Sullivan, et al, 2004). These drivers impact on the housing system characterised by, for example, tenure structure, place-based market segments and house type propensities. In the diagram, this middle system component is shaped and stratified by housing institutions. The system then generates housing system outcomes such as housing cost changes, new investment and tackling housing need. The thinner arrows represent the recursive nature and feedbacks within the system.

Figure 1: Housing System Schema (including Institutions)



**Box 1:****Examples of Housing Institutions**

*Tenure and Property Rights:* at the heart of housing is the classification, contracting and enforcement of property rights. Leasehold, ownership and letting rights, as well as land transactions, owner obligations compulsory purchase (eminent domain) and a sufficiently comprehensive codified set of property legal arrangements are fundamental. Of course, these vary nationally but now it is also the case that with the UK, for instance, housing law is increasingly fragmented and that include sits institutions (e.g. how housing disputes are settled).

*Trade Bodies and Professional Groups:* both as representative organisations, policy negotiators and often in setting (jointly or alone) the rules or standards (e.g. housing association rules, codes of good practice, etc.) applied in the relevant sector.

*Financial Institutions:* have a huge influence on both the conduct of providers and households but also on other institutions if we think of the relationship between lenders and not for profit regulators (and, ultimately, systems of subsidy both capital and social security). These institutions increasingly include pension funds, insurance companies and superannuation investors as well as the capital markets.

*Providers and Delivery Agencies:* some providers because of their size e.g. the London G15 housing associations are influential for the wider sector (though others, like the community-based housing associations are small but influential too). Many countries have bespoke delivery agencies at different spatial scales and these can set standards and form partnerships which shape how the housing system functions (though they may also de facto narrow what is possible).

*Planning Bodies:* perform a central function supporting, stabilising and delimiting the housing system, particularly in terms of land use, development and conservation. The planning function is also an important form of dispute resolution.

*Land Value Uplift Vehicles:* also critical to development, land servicing and infrastructure funding, these vary in form from development agency models to planning obligation systems and all points in between (including community land trusts and analogous innovations).

*Regulatory Bodies including consumer protection:* the heart of the matter including the regulation of not for profit providers, the policing and licensing of private landlords, consumer protection in the private housing market, dispute resolution between tenants and landlords and between neighbours, ombudsman services, as well as fire, health and safety matters.

*Innovation Facilitators:* here we are thinking of bodies that manage, facilitate, pilot and assess innovative schemes to deliver or fund affordable or other housing initiatives. We later in the chapter consider the role of the Scottish Futures Trust in this context.

*Public and NGO Housing Agencies:* these take many forms but may be a conduit to finance, investment and public funds into low cost housing e.g. a national investment bank or the Canadian Mortgage and Housing Corporation, land-based agencies like English Partnerships or the New Town Development Corporations, or, indeed bodies like the NRAS in Australia.

## Principles

If we take a housing-systems approach seriously we might well ask what such an approach suggests we would require from key institutions and governance? A first key point is to ensure that the system's institutions provide stability, predictability but also space for experimentation. In this sense, well-functioning institutions and good governance are the regulatory infrastructure underpinning the housing system. A stable and predictable set of arrangements, relationships and incentives allow stakeholders to make the necessary long-term commitments required to support long term decisions around asset management, housing development, tenancies, community development and related actions.

A second issue concerns the inevitability of recognising and making the best of trade-offs between competing and conflicting elements. Housing systems have multiple institutions and governance arrangements which emerge incrementally and from different starting points. Where we are now has path dependency characteristics and if instead we were able to start with a blank page we no doubt would propose a simpler and smaller set of institutions. But we do not have that luxury and it is likely rather they may have their own independent objectives, ways of working and these need not cohere or complement other institutions completely. In the UK, for instance, a housing association may be a regulated subsidiary in one jurisdiction but its parent operates and is regulated in a different country. This can effectively mean aspects of both regulatory frameworks can apply and of course these can have different priorities (e.g. England and value for money; Scotland's focus on risk management and the tenant's interest). At the same time, lender requirements need to be set off against their clients (providers and end users – the tenants). The regulator often has to navigate between these and other housing interests, making trading off inevitable and from an economics point of view requiring that we often approach the equilibrium between the interested parties as a 2<sup>nd</sup> best solution.

A third systems-thinking point is to help policymakers decide when considering housing reform whether institutions themselves need to be reformed or in a more nuanced way, whether the status quo would suffice, or a degree of modification is required or more thorough-going reform or replacement, given housing system objectives. The policy maker as system architect needs detailed evidence and analysis on both the direct impact and role of the reformed delivery agency or regulator but also credible logical and evidentiary analysis of the wider repercussions of reform on the affordable housing sector and beyond. This takes us into the realms of the quality, extent, accessibility and timeliness of routine housing planning evidence around housing needs and demand in well-defined functional housing market areas but also the richness of the interdependence of the different components in the housing system and how well they are represented, modelled and understood.

A critical fourth issue concerns the balance of regulation (deregulation versus re-regulation; light touch compared to stronger degrees of intervention) but also the necessity and level of burden imposed on principals. There are several efficiency dimensions to this question, including designing out the risk of regulatory capture of the regulators by the regulated. To an extent these tendencies will be a function of wider socio-political trends in regulation and the role of the state, as well as longer term traditions that 'stick' and are difficult to alter. The stance will also be affected by housing-specific dimensions of what the sector deems to be effective regulation. While politics and policy analysis can help us understand these processes, they remain long-standing disciplinary debates for instance mainstream economics debating the relative costs and benefits of different regulatory systems, measuring counterfactuals and capturing the full dimensions of the elements of the benefit-cost calculations. At the same time, institutional economists assess these questions taking more explicit account of power relationships, the way institutional arrangements such as regulation evolve and also for new institutional economists, the role of transactions costs and property rights analysis in shaping economic governance structures.

It is also the case, finally, that different models of wider governance can act as constraints on behaviour and equally promote desired outcomes. However, and in the context of non-profit housing in Australia, Pawson (2017) notes the necessary condition of the need to possess sufficient capacity within the system to actually achieve the fundamental objectives of regulation of not for profit housing.

## Challenges

What are the main challenges confronting governance and institutions of contemporary low-cost housing in the three countries studied? A particularly (though not exclusively) British problem is institutional instability as a result of excess government re-organisation of relevant housing institutions. This might be a bonfire of quangos but as often it could be argued to reflect restless intervention for personal and party-political reasons by ministers. Rather than seek improvements within existing structures, there are new models or variants of old ones to replace what is deemed no longer to work. Eye-catching announcements trump quiet perseverance.

AHURI (2017) and Pawson (2017) identify the absence of sufficient capacity to enable a strong regulatory function for non-profit housing to take root in Australia and that this is an important brake on the scope for the sector to thrive and to benefit from deeper funding and corporate partnership

and to demonstrate the performance levels that provide sufficient comfort to private and public sector partners. The existing framework is unevenly developed across Australian states. Publishing provider performance data, an important accountability mechanism elsewhere, is hardly evident in Australian regulation. Without movement from the parties (particularly Federal and state governments) it is difficult to see how the low scale equilibrium size of the community housing sector can be changed – and the institutions are at the heart of this problem. Figure 2, adapted from AHURI (2017), sets regulation in a wider Australian affordable housing context. In the end there is a paradox here that may prevent progress – the high set up costs of a sufficiently robust regulatory system means that it is difficult for the community sector to grow, but in order to have critical mass or reach take-off velocity that would warrant the institutional investment, there needs to be capacity and comfort in the regulatory system.

Figure 2: Affordable Housing Resourcing & Policy Framework



Source: Adapted from *Ready for Growth? Inquiry into Australia's Affordable housing industry capacity* (AHURI 2017)

The English newly titled Ministry of Housing, Communities and Local Government published a social housing green paper in 2018. This initiative arose for several reasons, however, the overriding motivation was in response to the terrible Grenfell Tower fire. Government is concerned to establish the necessary fire, health and safety framework to address such risks in future. It also is seeking to transform the voice and position of social tenants (this latter theme was the focus of the former housing minister now reshuffled to social security after less than 9 months in the job). While this is important work, it is perhaps less focused on, than might have been anticipated, the future, investment or how the sector is to be positioned. However, it is evidently centrally about the balance and purpose of regulation of social housing providers. Consequently, all of the traditional in-principle issues arise about regulatory change in terms of balance, incentives, efficiency and the consequences of changing the existing system<sup>1</sup>.

Initially England, but then the rest of the UK, has also recently gone through a classification crisis in the housing association sector. Associations are traditionally voluntary sector bodies, often also charities, that are deemed for accounting purposes to be private bodies. However, the Office of National Statistics who determine classification have in recent years moved bodies from private to public, usually because of the sense that the state exercised some form of significant direction over such bodies that effectively transferred control (and conceivably risk) to the public sector. Legislation on housing association governance in the previous decade was deemed to have given the housing regulator (the Homes and Communities Agency) considerable power over disposals, officer and board appointments. ONS deemed this went too far and reclassified associations as public bodies. This also transferred more than £60 billion of English housing association debt to the public sector balance sheet and potentially gave the Treasury legitimate powers over future borrowing decisions by providers. Similar decisions followed a year later as a result of regulatory influence in Scotland, Wales and Northern Ireland. Substantive deregulation<sup>2</sup> was then required and of course this needed to balance the comfort required of other stakeholders such as private finance. However, further challenges may occur because of subsequent legislative efforts in England by Government (the 2016 Housing and Planning act) to shape and direct the sector as a de facto instrument of housing policy.

In Canada, the Government announced the nation's first housing strategy in November 2017. The strategy includes a \$40 billion plan over ten years involving new programmes (the National Housing Co-Investment Fund (providing financial contributions and low interest loans), the Canadian Community Housing Initiative (to protect and maintain existing assets), new federal

homelessness programmes and a new Housing Benefit scheme. While responses to the strategy have been both welcome in parts and mixed in places, perhaps reflecting the lengthy build up and high hopes pinned on the strategy – nonetheless, a series of programmes have to be implemented and successfully delivered. This requires partnership across the three tiers of Canadian government and it also implies credibility and appropriate incentives, as well as strong institutional support for bodies like the Canada Mortgage and Housing Corporation. There will be a new National Housing Council that will promote participatory and evidence-based analysis (see box), as well as a new Federal Housing Advocate.

## Box 2

### Research, Data and Evidence in the Canadian Housing Strategy

Within the \$40 billion ten-year strategy is a commitment to evidence-based housing, to research, better use of data and learning from demonstration projects. The Government is committing \$241 million over ten years in order to:

- ▶ Develop tools within government (including two new surveys) to address data gaps and measure strategy outcomes
- ▶ Build capacity for greater partnership and housing research
- ▶ Support researchers and research communities outside of government
- ▶ Develop a network of housing experts to analyse housing challenges
- ▶ Introduce solution labs to solve housing problems by incubating and scaling potential solutions to things like affordability pressures (organised through a competitive process)
- ▶ Support demonstrations put forward by researchers and housing partners outside of government.

Also, during the development of the Strategy, the author discussed the development of the ESRC UK Collaborative Centre for Housing Evidence, in terms of pointers for Canadian housing research, evidencing and policy solutions.

Source: Canada Government (2017) *Canada's National Housing Strategy: A Place to Call Home* (<http://placetocalhome.ca>) Chapter 8

<sup>1</sup> The Green Paper, published in August 2018, included a controversial focus on increasing the tenant's capacity to scrutinise and benchmark their landlords through the use of new performance indicators.

<sup>2</sup> Often described as regulatory reform.

## Ideas

What lessons or ideas have been proposed or suggested that might allow reformed or new institutions to support constructive reform of low cost, affordable housing? Below, we highlight a half dozen or so innovations of different types and scales.

In the UK, there is undoubtedly growing appetite to contemplate new mechanisms by which land value uplift on the granting of residential planning permission can be captured to help fund infrastructure and promote a mix of housing including affordable and low-cost housing. This approach harks back to at least two earlier successful models – new town development corporations and the high-water mark of section 106 planning agreements for affordable housing. It also reflects a sense of what is possible by looking at continental experience of large site developments in countries like Germany and the Netherlands. The Centre for Progressive Capitalism wish to change the law on compensation (going back to the early 1960s) to facilitate this sort of reform. RICS Scotland (and separately, the housebuilders trade body, Homes for Scotland) has recently made a case for a national land delivery agency that would circumvent the current planning permission system by operating in the market buying sites at low cost, servicing them and then selling them on to promote a range of new housing through a self-funding model of operations (after initial pump-priming) – this is close to the underlying model of much of what English Partnerships did in an English context. Other policy entrepreneurs promote ideas that are in effect clever governance-oriented variations on the theme of community land trusts – in order to use the land value capture to mix tenure, significantly reduce the cost of land and the public cost of new infrastructure. Others continue to make the case for land value taxation. These sorts of ideas are now widely discussed in the new Scottish Land Commission as it assembles evidence on the type and nature of land reform it would favour. Box 3 is a further example of these sorts of proposals, in this case provided by Roger Wilshaw of Places for People.

### Box 3

#### **New local housing deals**

Government could consider piloting a new approach, akin to city deals to enable local authorities to propose policy changes or investment strategies that would make the whole housing system more effective and efficient in their area.

The approach would build on the concept of Local Place Partnerships, advanced by ResPublica (Fagleman, 2015). ResPublica believes that Local Place Partnerships in England could accelerate home building by bringing together all the interested parties: private developers, housing associations, residents, civil society and local business in one decision-making unit. Quality Assured by Department for Communities and Local Government, these new bodies would offer the long-term vision and determination needed to tackle the housing crisis.

ResPublica suggested that these Local Place Partnerships would be cross-boundary and have legislative powers to accelerate delivery. LPPs would build on and improve on the Urban Development Corporation and Housing Zone model, with local authorities taking the lead role as coordinators on new development. If such an approach were adopted the partnerships could provide a strong framework within which local authorities could propose policy changes or investment strategies that would make the whole housing system more effective and efficient in their area.

Source: Roger Wilshaw, Places for People, March 2017

The Australian government is exploring the development of a bond aggregator as a way of circumventing private finance shortages for would-be developing community housing providers. An aggregator allows several individual providers to club together to support a larger aggregate financial investment. This idea, drawing on the THFC model in the UK, appears to be one that is fit for the Australian market context and could if successful draw in finance and investors as the market for social housing finance evolves.

In Scotland, for ten years, the national infrastructure body, the Scottish Futures Trust, has taken on an interesting innovative role promoting, developing and managing several innovative projects related to the housing sector. First of all, they established the National Housing Trust, a delivery model that formed partnerships between councils and private developers with unviable sites or unsold units in the last recession. The partnership would develop and market short life mid-market rent properties to key workers at rents set to come within housing benefit support levels. After 5 years, the properties could be disposed by the partnership body as they thought best. The financial novelty was that this was one of the first use of a contingent liability guarantee. The SFT/Government guaranteed void loss to the council partner on rental income and capital loss on the ultimate disposal. Assuming rightly that the risk would not normally materialise this became a very inexpensive public sector way to promote affordable rent housing and support the private development sector. Currently, the SFT is managing the UK's first rental income guarantee scheme (RIGS) for corporate or institutional investors involved in new build to rent private rental projects in Scotland. The RIGS scheme offers time-limited guarantees on a proportion of potential rental income loss. Perhaps the Scottish Futures Trust should be looking at a creative role in the land value capture space?

A final example is a natural experiment underway in the UK. In December 2017, Scotland commenced a form of re-regulation. Since 1988, private rental tenancies have been free market rents negotiated between landlord and tenant on usually six months' tenancies. The Scottish legislation significantly reduces the grounds for landlords to terminate tenancies and ends the fixed duration of new tenancies. It is hoped that this will encourage families to rent and that longer de facto tenancies will be welcomed by the institutional investors that are being sought for build to rent investments.

**The Scottish legislation significantly reduces the grounds for landlords to terminate tenancies and ends the fixed duration of new tenancies.**

At the same time, borrowing from Ireland, Scotland is also introducing local rent pressure zones (RPZ), which if proposed by a local council and if the evidence is accepted by the Scottish Government, will mean that high and rising rents can be capped by rent limitations on rent increases in the RPZ areas. This is a relatively modest 3<sup>rd</sup> generation rent control (and may be of the form RPI & 1%) and has high data or evidencing requirements before it can be implemented. How will it play out in practice and will it deter investment? This re-regulation (if that is what it is) happens at a time when the rental market supply side has endured several significant tax policy reverses (to mortgage tax relief, on the cost of stamp duty and on their capital gains tax treatment) – might these and the new regulation disincentivise investment and some parts of the more than 90% of private landlords who might be called buy to let small scale providers. And might this have knock-on housing system effects by encouraging some investors into the unregulated short-term lettings market segment? However, and despite these concerns, the other nations of the UK look on with great interest to this experiment in rebalancing the rental market sector.

## Lessons

What are the conclusions or lessons from this wide-ranging set of reflections:

- ▶ There is no pat answer to the question ‘*what kind of governance or housing institution is required to achieve our housing policy reforms?*’ and indeed reasonable cost benefit or policy appraisal analysis may conclude leave things alone or indeed make only modest changes (but depending on the context, perhaps go further).

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- ▶ Governance and within it housing regulation should be balanced (i.e. trade off leanness, flexibility and responsiveness with appropriate analysis of performance and new risks) but also incentive-compatible (to build capacity, improve performance, educate about risk, finance, other parties, etc.,)

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- ▶ Complementing housing system characteristics (institutions and regulation should go with the grain of the housing system (e.g. if it is a market dominated system) and where they are required to intervene to improve system outcomes, this should also be planned, organised and implemented given existing system constraints (i.e. what is feasible and possible not what is desired in a context-free vacuum)

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- ▶ Institutions and governance of the housing system should be consistent with long term policy objectives and that suggests also that institutions should be designed and strategies constructed assuming a duration co-terminus with the broader policy objectives. This is an argument for long term institution building and incremental reform rather than wholesale institution building (other things equal).

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- ▶ Good governance, agencies and institutions need to be both robust and resilient to shocks. Funding for these institutions (particularly in the public sector) needs also to be incentive-compatible with rewards for good performance but also predictability over the economic cycle.

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- ▶ Despite the emphasis on long term stable institutions and its relationship to longer term policy objectives, there needs to be sufficient flexibility in arrangements to allow space for initiated innovation and experimentation in delivery models, finance, land interventions, etc. This may be led by those institutions, as with the Scottish Futures Trust, but could just as easily be sponsored by them to support private sector and third sector policy entrepreneurs to come forward, as is proposed in the new Canadian housing strategy.

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- ▶ Also, it is clear that doing the work of well-functioning institutions particularly regulators and those involved in commercial decisions do need to invest and promote well evidenced research and analysis, premised on the best and most up to date data, and this is especially important for thinking through the system wide consequences of possible actions and non-actions. particularly with respect to system-wide concerns.

In their recent comparative review of the changing institutions of private renting, Martin et al (2018, pp. 70-72) demonstrate that alternate national housing systems can lead to quite different, apparently paradoxical sets of outcomes, in this case with respect to private renting outcomes. They find, for instance, that Germany and Australia have similar stances on capital gains tax and negative gearing but this supports, respectively, more stable house prices and greater volatility nationally. At the same time, it does not follow that unincorporated landlords only thrive where the sector is deregulated – it is quite possible for stable and even growing rental markets to evolve alongside a more comprehensive set of regulatory features. Thus, as we argued above, the interplay of modern institutions with different path dependencies, economic, fiscal and housing policy settings, creates different possibilities for housing outcomes and system evolution.

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# Chapter Eleven

## Telling Stories: Shaping Future Economic Narratives for Housing Policies

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## Reshaping Narratives for Housing Policies

### More than Needs and Stabilisation

This paper is concerned with the meaning and roles of economic ideas, evidence, narrative and rhetoric in making public policies. The specific area addressed is how housing providers and the ‘peak’ sector bodies that represent them might more effectively use the emerging evidence of systemic housing market pressures and their damaging consequences, not only for income and wealth inequalities but also for economic growth and productivity, to make more effective cases for housing policy support. The key concern is to consider how housing organisations and advocacy bodies can fashion policy narratives that reflect the key features of housing market experiences and then shape more informed effective national and sub-national policy-making that will reduce systemic shortages of housing and their damaging consequences. Empirical examples are drawn from housing policy developments in Australia, Britain and Canada (referred to herein as the ABC countries).<sup>1</sup>

In two recent Australian research studies (Maclennan et al 2015, Maclennan et al 2018) and in a broader international knowledge exchange involving Australian, British and Canadian (Maclennan et al, 2019) housing practitioners, the ‘peak’ bodies that represented them and policymakers all expressed concerns that the traditional arguments that they deployed to argue for increased investment in non-profit and low-income housing, including the longstanding ‘merit good’ case for housing based on contrasting socially and physically defined ‘needs’ for housing with actual provision, seemed to no longer have its past political weight in government resourcing debates. That view is well founded in the experience of housing sectors in the UK between 2010-17, in Australia in this millennium (except for the term of the Rudd government) and in Canada until post-2016 policy changes. The stock of eligible households on official waiting lists for non-market housing has grown steadily in all three countries.

In periods of recession the housing sector has typically extended the breadth of its policy advocacy to argue the counter-cyclical/stabilisation policy benefits of housing investment arising from direct effects on employment and consequent multiplier effects. In the fears of recession in the immediate wake of the GFC there was some ‘stabilisation’ expansion of national housing programmes in the ABC countries but it also became apparent that governments increasingly looked more favourably on other infrastructure sectors to provide immediate stabilisation and multiplier effects and additional (reputed) productivity effects for the long term (Maclennan et al, 2015; Maclennan et al. 2018).

These housing sector policy framings of the key arguments for investment, ‘merit-needs and employment stabilisation’, in 2018 were still much the same as in 1948 (Needleman, 1963; Donnison and Ungerson, 1968) and reflected their origins in welfare state-oriented redistribution policies and Keynesian aggregate demand management. This emphasis has led to a disjuncture of housing lobbyist cases and contemporary policy-maker perspectives. Old-style arguments<sup>2</sup> were often being made to bureaucracies and governments that now commonly regarded meeting merit good requirements as involving much displacement of other economic activity (in transferring tax-based resources) and saw multiplier arguments as often having little validity (again for displacement reasons). After the 1980s growth and productivity had, arguably, become greater priorities than resource redistribution as macro-policy settings changed. In consequence, housing lobbies often see finance/treasury departments as the burial ground of their best ideas and most compelling cases for housing policy support whilst, at the same time, treasury policymakers regard the housing sector as representing a bottomless begging-bowl. These positions need to change if the pervasive problem of housing un-affordability is to be addressed.

The first response of Shaping Futures participants to the proposition that their policy cases were somewhat limited was to push for better estimates of housing needs, more refined multiplier estimates, more evidence on social returns on investment in housing and detailed estimates of the saved costs on other public spending programmes of reducing homelessness and, more rarely, meeting housing needs. In some ways these improvements to policy cases are the minimum necessary changes to improve the housing policy narrative, but in many regards, they are equivalent to improving the performance of a diesel truck in an era of driverless, electric cars.

In the studies cited above, and in a growing number of other papers, there is an emerging recognition that major housing policy challenges now have to be addressed, in the ABC countries, in the market sector as well as the non-market (social) affordable housing sectors and for middle as well as lower income households. The emerging language of housing policy debate is how overall housing system outcomes impact not just redistribution, and stabilisation, but have significant and direct effects on all the major goals of modern governments, including growth and competitiveness. A broad theme that had resonance across providers from all three countries was how to describe more effectively housing outcomes and their consequences in ways that could lead to more, or changed forms of, support for housing from all orders of government.

<sup>1</sup> In 2015, as reported in Maclennan, Ong and Wood (2015), interviews were conducted with around 90 practitioners in housing, planning and local economic development at municipal and state levels in Victoria and western Australia; the Maclennan et al (2018) research was based on 42 interviews predominantly in New South Wales with planners, housing policymakers and infrastructure and finance officials; the Shaping Futures Collaboration involved 21 housing practitioners and policymakers drawn from the ABC countries who participated in 3 seminars of 2 days duration, as reported in Maclennan, Pawson and Gibb (2019). More detailed expositions of individual views can be found in the papers cited. In this paper general impressions rather than individual quotations are reported.

<sup>2</sup> No judgement is implied here about the efficacy or desirability of such policies

The Australian and Shaping Futures studies cited above touched upon how housing system outcomes impacted social cohesion and inclusion and environmental stability but chose to focus on considering how to make better economic cases for modern housing policies. This chapter reflects that emphasis.

### **Rethinking Economics Perspectives in Housing Policy-Making**

There is a prevalent presumption in housing policy debate that it is the housing sector that must make better arguments and a further assumption that, if it did so, better policy choices would follow. That perspective quickly changed during the interviews of the empirical studies. It was recognised that in the realpolitik of policymaking better evidence is neither a necessary nor sufficient condition for housing policy change and that attention needed to be paid not just to a more sophisticated view of how housing outcomes impact policy interests but to how public policy frames, evidences and evaluates housing policy cases. Reflecting on these policy processes then also raised the possibility that if the housing sector needed to rethink its view of its economic impacts then there may be just as strong a case for governments, and government economists in particular, to rethink what they know about the housing sector. Do they use evidence effectively in decision-taking? Do, more fundamentally, the conventional economic policy wisdoms about housing market functioning and outcomes have any real correspondence to the stylised facts of how housing markets operate? Time and again, in the last decade, across all three countries, commentators have discussed housing markets in the stripped-down and simplistic terms of basic, mainstream micro-economic models. Arguably the housing sector needs not just new facts/empirical evidence to present to economic policymakers but to synthesise a wide range of market experiences to present new frameworks of ideas regarding how real housing systems operate. This is a more difficult task for policy advocates as it may challenge both 'conventional wisdoms' within governments as well as their key policy settings.

This chapter responds to these questions arising from housing practitioners and their peak bodies. It is about both the use of economic ideas in the housing sector and the understanding and application of housing sector evidence in the use of economics within government departments and public agencies concerned with housing, finance, planning and economic development. The next section discusses whether or how better economic cases for housing policy can be evidenced and highlights some of the difficulties in that process.

The third section discusses general barriers to, and facilitators for, the use of knowledge in policy processes. The next section considers the roles of economists within government housing policy-making and how they might constitute barriers to better applied economics thinking for housing decisions. The penultimate section considers whether and when the views of economists matter in political choice processes. The concluding section sets out some key questions to improve the housing policy conversation between housing advocates and economic policymakers at both metropolitan and national scales of government.

### **Finding Economic Evidence**

It is argued elsewhere (Maclennan and Miao, 2019) that the cumulative effects of metropolitan-led economic and population growth in the context of post 1970s housing policy 'modernisation' (identified in Maclennan (2008)), reinforced by impacts of the GFC in the British context, have shaped system-wide housing difficulties. These include impacts of rising housing prices and increased roles of housing wealth in national asset portfolios on national economic performance and recognition of how housing outcomes may impact growth and productivity. The major elements in a new narrative for housing policies goes beyond 'needs' approaches and highlights the productivity and equity effects of housing outcomes that can be convincingly included within an 'evidence-informed' approach to policy advocacy and design.

### **Missing, Elusive Evidence**

Making cases for housing policies cannot be limited to questions of redistribution to the poorest households (the merit good case) nor interest in using housing investment as a blunt tool of anti-cyclical economic policy (the stabilisation case). It must also include reference to the role of housing as a complex form of economic infrastructure that has the capacity to impact the productivity of human and (other) physical capital. The housing sectors in all three of the ABC countries now understand that the economic effects of housing outcomes on growth and productivity need to be in the forefront of housing policy thinking and they presently are not. At the very least an understanding of the effects of housing on the economy, as a critical form of infrastructure for both the market and social sectors, needs to be put on an equivalent standing as for other forms of infrastructure, most notably transport investment.

The missing understanding of housing effects reflects in part the difficulties in producing definitive effects of housing outcomes on the economy. However, in classic 'research chicken and policy egg' style, this research lacunae stems from the absence of data to identify and calibrate effects. The strong interaction between educational and health outcomes and the economic wellbeing of individuals is well researched with a strong evidence base. Economic outcomes of housing markets and policies are rarely widely researched and this, it is argued below, has led to both major evidence gaps in policymaking and to a, sometimes, questionable reliance on simple economic models and theories to anticipate the effects drivers of change. Maclennan, *et al.*, (2015) drew attention to the notion of housing as economic infrastructure but noted that in sharp contrast to transport infrastructure investment there was no consensus around techniques, variables and parameters for assessing public investment in housing. Instead a raft of indicators and no agreement on parameters for social housing investment meant that housing advocates have no critical mass of longstanding, converging studies, and hence no in government credibility, to support housing cases<sup>3</sup>. A recent study (Lawson, *et al.*, 2018) makes this weak evidencing of housing infrastructure, vis-à-vis other major infrastructures, clear for social housing in the Australian context. We address these issues further below.

It is pertinent to ask, given the long history of government involvement in housing markets, why adequate housing economic evidence is missing. Housing policy cases can be difficult to evidence. Housing and housing systems have some characteristics that make compelling cases for stepped-up government commitment inherently difficult to make. The systems are diverse: they involve supply and demand issues, multiple policy instruments of taxes, subsidies and regulations, provision systems that are public, private and non-profit, and drivers and consequences that are not just local but regional, national and global. Housing policy often requires substantial, long-term commitments of scarce public capital: governments fear discovering 'housing problems', especially those that call for high cost programmes. Increasingly, national/Federal governments have come to focus not on system effects but on small minorities of poor households and marginal first home buyers (both of which can also be stigmatised as slackers/subsidy junkies). Housing often has multiple modest scale impacts on different sectoral issues (such as schooling, health, transport, economic development); so different interests may pull policy advocates in different directions, making constructing policy cases demanding.

A further difficulty, well established in Maclennan, Wood and Ong (2015) is that at sub-national scales, where much housing policy is made real, the economic effects of housing outcomes disappear down the cracks between major silos of government. Those who lead local economic development strategies will, on being first asked to identify the key elements of policy measures to support local economic development, rarely mention issues about housing costs and availabilities and resolutely stick to agendas about skills, innovation and local business formation and growth. Metropolitan colleagues in housing departments will stress that they are working hard to reduce growing totals of housing needs as their budgets flatline and fall and they will have no coherent economic story of what their outputs achieve for the economy. Planning Departments rarely include estimates of the effects of economic drivers on housing demands and needs and generally do not evaluate the economic consequences of the strategic plans they produce. In short, there are rarely even in-principle, let alone, well-evidenced narratives of how housing outcomes impact the local/regional economy.

At both Federal/national and metropolitan/local scales if housing Ministries, or the Ministries now responsible for housing, will not construct economic cases for housing then the key central agencies within government are not usually well-disposed to constructing syntheses of effects for them<sup>4</sup>. Indeed, within Finance Ministries/Treasuries there is often an instinctively hostile view on housing policy proposals. The housing sectors need to make their own economic stories and to be ready for when governments recognise that their understanding of, as well as political commitment to, housing must change.

It is not the purpose of this paper to review the evidence that housing has complex impacts on an economy, that will differ from place to place and time to time. Potential effects on employment are well established, instability effects have been more widely explored in the last two decades (Smith and Searle, 2010) and Maclennan, *et al.*, (2015) and Maclennan, *et al.*, (2018) have established prima facie cases that housing may have growth and productivity effects. The core purpose of what follows is to consider how, having established evidence of a wide range of effects on growth and productivity, the housing sector might seek to reshape governments' understandings of housing impacts on the economy.

<sup>3</sup> See the ongoing AHURI inquiry on social housing as infrastructure.

<sup>4</sup> In the Shelter Scotland Lecture of 2015 the then Chief Secretary of the UK Treasury (the UK government Minister responsible for public expenditure, Sir Danny Alexander responded to a direct question by Duncan Maclennan that he did believe housing outcomes had positive effects on productivity but that the housing lobbies never argued that case and his officials did not see it as their job to provide the evidence for them.

## From Evidence to Policy: Fast Routes and Dead Ends

The use of evidence in policy making processes can be both complex, with different producers and users of evidence involved, and variable, with differences across space and time, in how otherwise similar governments behave (Nutley, *et al.*, 2007). Indeed, there may be significant variations in how evidence is used between different departments in the same administration. The policy impact of evidence and ideas is not a linear process, progressing from bright new data or ideas to a rapid policymaker calculation of required policy changes that are then promptly and effectively delivered.

Strong evidence is neither necessary nor sufficient for governments to pursue housing policy innovation (Maclennan and More, 1999; Doherty, 2000). In some instances, inventive ideas and firm evidence are regarded by governments as not essential to policy development: some recent changes in housing benefit arrangements in the UK illustrate that point rather well (Stephens, 2016; Gibb, 2015).

## The Evidence Challenge in Complex Housing Systems

When policy change involves a major system change with complex, large scale, spatially diverse and long-term effects, such as the recent major constitutional change debates in the UK about Scottish Independence and Brexit, it is difficult to conceptualise, forecast and estimate effects (see Dow, *et al.*, 2017). The pervasive and deepening nature of housing system stresses in Australia, Britain and Canada cautions us to consider the required housing policy changes not as a limited, partial system revision of a few predictable mechanisms with contained effects, but as a major policy shift more akin to complex system change. Path-dependency nonetheless presents huge challenges in contemplating such reform, and housing systems may, because of decades of neglect of understanding and support, now require quite substantial re-setting. These changes will be technically difficult to analyse and design and politically difficult to deliver. Small, contained policy changes may not match the extent of change required.

Economists, with a few notable exceptions, working in finance and government sectors have been widely criticised for not anticipating the Global Financial Crisis of 2008-9 and there have been some subsequent changes in modelling and policy thinking. In the ABC countries there is growing awareness of major difficulties in providing affordable homes for most of the population and of adverse macroeconomic and distributional consequences from these processes. These difficulties prevail in many other OECD countries and the question arises as to whether government economists and other policymakers have failed to anticipate, identify, model and understand the real difficulties apparent in OECD housing markets. Has their policy narrative been part of the problem? Do we have a global housing crisis, across the advanced economies, fashioned by weak economic governance of housing sectors? Can we really lay the blame for poor housing outcomes at the doors of housing lobbies, for weak policy case making, and metropolitan planning departments, for over-strong planning regulations? Or do economic policy narratives that mis-describe market functioning play a role too?

Advancing reform cases built upon evidence for these ‘complex systems changes’ can be difficult in some countries. Policy change is political economy. Weakly-evidenced policy may arise in the domain of politics. As richly demonstrated by Australian experience, short electoral terms and an adversarial political culture (even within parties) are also inimical to reform thinking. For academics and housing sector advocates with a long view the challenge is to hold to the pursuit of knowledge with the optimism that, with persistence, it will, one day, foster progress.<sup>5</sup> Housing providers may seek to ‘make housing policy great again’ as a policy interest but evidence and insight rather than spin and sophistry must be the hallmarks of academic work with practitioners. For academics there needs to be as clear a divide as possible between academics working as ‘teachers’ and those performing as ‘preachers’.

Even where governments are open-minded about potential policy innovations strong evidence of system failure, widely accepted by the housing sector and produced and peer-reviewed by independent researchers, may be insufficient to induce policy change. Canada has, since the mid-1990s lacked any substantial housing policy debate/research presence outside of government. It has, however, had a well-informed and professionally competent agency (CMHC) that from the mid-1990s until 2016 had rarely been used to drive housing policy change whilst, at the same time, provinces and territories dismantled their analytical and modelling capabilities as their assigned housing policy roles have grown.

<sup>5</sup> Ken Gibb rightly observes that some countries adopt longer term policy perspective, such as the Nordic countries where cross-party commissions often build multi-term policy agendas around shared platforms.

In Australia, AHURI has produced an ever-growing stream of well-researched policy ideas whilst state and federal governments have also allowed their housing analytical capacities to atrophy (Milligan & Tiernan 2012; Milligan, *et al.* 2017). In the UK, the Joseph Rowntree Foundation and now the Resolution Foundation, have produced and organised evidence for housing and inequality policy change. Their work had demonstrably impacted UK housing policies until well into this millennium. However, a fair proportion of their excellent reports have made little impact. At the start of this millennium the (then) Director of the Rowntree Foundation, Lord Best, famously opined that many of their reports progressed to 'findings' with impact but others remained unused in 'sidings'. A future in 'findings' or 'sidings' was not always a reflection of the quality of the research involved<sup>6</sup>.

The salami-slicing of analytical capacities and services within governments pares away the organisational memory capable of supporting current policymakers and this is worrying because the persistence of the policy research community is hampered if there is nobody with whom to persist.<sup>7</sup> Persistence is, arguably, as important as intelligence to policy interested researchers. Arguably, think-tanks, refreshing old ideas when they become relevant to active policy debates, often do this better than academics who face incentives to always move onto new issues and perspectives.

Persistence in knowledge mobilisation can pay. Evidence and ideas can sometimes form the basis for a policy narrative or story that can be convincing (in the sense that it leads to policy change). Policy narratives that are evidentially weak run the risk that they will be quickly undermined by those fair-minded bureaucrats and policy advisers who are required to scrutinise them, by opposition analysts or hostile bureaucrats who seek to undermine them, and by quality journalists who seek to inform wider publics.

The next Section now considers how narratives developed within the housing sector need to be heard, adopted, held and defended within governments and their agencies by bureaucrats with power and influence.

## Truth, Rhetoric and Economists Perspectives on Housing Policy Narratives

This section explores and challenges the ways in which government economists in the ABC countries appear to understand, discuss, model, evaluate, reject or accept and influence the design policies for the housing sector. This places the notion of policy-rhetoric and narrative, rather than evidence alone, at the centre of understanding how policies emerge.

### **Economists Need to Know the Economic Consequences of Housing**

The key question now for housing sectors, and for government, is what rebalancing of state, market and non-profit roles will achieve better housing outcomes for democratic nations? In many countries housing policies now appear to exacerbate rather than diminish inequalities of incomes (after housing costs) and wealth. The marked growth of housing wealth in household portfolios (mostly accumulated through untaxed price uplifts rather than household mortgage payments) and the shift of household savings to paying for residential property rather than other assets both reflect the growth of a rentier economy. This has driven the accrual of fortunes from shortages of land and housing rather than from effort and innovation.

The major economic policy-settings in some major OECD economies have driven rentier economies rather than creative, entrepreneurial economies (Maclennan and Miao, 2017). And therein lies the great weakness and contradiction of economic ministers and advisers within governments across the OECD. The key role for housing economic researchers in the OECD economies is not to make vague calls to end the neoliberal order (that is for others to argue) but to explore how housing markets and systems be made to work more effectively to achieve government goals. The housing sector needs to push economic ministries to set out their understanding, with evidence, of how housing outcomes impact the regional and national economies they are part of.

<sup>6</sup> Duncan Maclennan Chaired the Rowntree Foundation's Area Regeneration Research Programme and Affordable Housing Supply Group between 1996-2003.

<sup>7</sup> It is fair to note that, in the UK, there is a What Works network across Whitehall that had fostered evidence-based innovation in health, education and social care, for example and, more universally (Susstein, 2018) cost-benefit analysis has wide roles in policymaking. But neither 'what works' nor cost-benefit analysis typify housing policy making at national or local levels in the ABC economies

In all three ABC countries there is no macro-metropolitan modelling of economic change. Within provinces, states and devolved administrations there is no systematic modelling of housing markets in economic policy formulation. In both Melbourne and Sydney there has been no policy modelling of the processes and consequences of sustained house price appreciations, nor do the Provinces of British Columbia or Ontario, nor indeed CMHC, have metropolitan housing market models to explore policy options for core housing systems in, respectively, Vancouver and Toronto. What new narratives are they developing and evidencing to get to grips with the adverse outcomes of this millennium?

The housing sector, as a matter of routine, should press the economic advisers to governments to articulate how housing outcomes in their jurisdiction:

- ▶ shift the distribution of wealth and income
- ▶ impact social mobility
- ▶ impact productivity
- ▶ raise or lower the environmental footprint of the economy

Remaking an evidence-informed economic story for housing may then not only move towards ending the growth of the 'rentier' economy and mentality in the ABC nations but also avoid the need to regrind the 1970s and 80s debates about crudely applied public housing and rental sector policies. Housing sectors have been slow to find their voice, or at least a voice and a story that policymakers will listen to and a set of questions that they need to, routinely, answer.

### **Conventional Economic Wisdom in Governing Housing Policies: 'Science' or Rhetoric?**

How can we ensure that better narratives from the housing sector will be accepted as a credible basis for a new conversation about policy change by officials and Ministers? What is the key and distinctive role of economic arguments, and economists and economic policymakers in this process? What, and how, do economists working in governments think about housing systems? Economists within government often appear to dampen expectations about roles for housing policies by espousing the notion, apparently on a priori rather than evidential grounds, that 'housing markets are well functioning systems'. This is the conventional wisdom held by Treasury/Finance ministries in all three countries, and in major provincial/state governments in Australia and Canada. They are also often seen to reject policy and spending arguments made by housing advocates claiming cases are simply 'policy rhetoric' and are self-interested, based upon inadequate evidence, and purely redistributive in nature.

In contrast, Finance Ministries/Treasuries often regard their own arguments as 'scientific', or at least conceptually/empirically justified, and focussed on productivity/growth and wider concerns rather than just redistributive policies. It is important, therefore, to remind government economists that economics is 'not yet a science' (Eichner, 1983) and that economic assessment within government may also be best seen as form of rhetoric rather than a 'hard' 'scientific' commentary.

Mainstream economics, from Adam Smith onwards to Friedman's 'Positive Economics' has held to a strong binary separation of argument as 'rhetoric' or 'science' (didactic). The Classical approach to political economy was somewhat more nuanced than later expositions and saw the economy functioning with both an exchange of goods but also with an exchange of rhetoric or opinions and moral sentiments that involved processes of persuasion. The severe dichotomy of the two types of argument, didactic (truth seeking) and rhetoric (unscientific from the get go) emerged with Smith and the idea that exchange in rhetoric involved 'higgling and bargaining' and the rhetorician 'moves away from truth, to hoodwinking and deceiving his audience' (Walraevens, 2016). In contrast, a 'modern science' view, according to Booth (2013) is that 'we only know what we cannot doubt, and we do not really know what we simply assent to'. This echoes Kelvin's dictat that unless you can express it in numbers then knowledge 'is of a meagre and unsatisfactory kind'.

These arguments are now typically used to divide what we know into scientific versus non-scientific and positive versus normative approaches in social sciences. In housing policy debates there can be a presumption that the 'rhetoric' of the housing lobby runs into the hard economic 'science' of the 'treasury'. But this misunderstands the real nature of economics and more realistically policy debate may be better seen as the clash of two different policy rhetorics. McCloskey (1983) notes that most economists (at least those not otherwise labelled as heterodox) have an official rhetoric that sees economics as a 'modern science'. That is, the formal rhetoric of economics is concerned with system control and prediction and theories are only regarded as acceptable if their predictions are consistent with empirical observations. Since the 1950s (Friedman, 1955) economists have adopted a methodological approach which eschews worry about the realism of assumptions by stressing that what matters is that observations are consistent with theoretical predictions. This involves strict applications of Hume's 'fork' (1779): if an argument is not derived from a coherent framework or does not have empirical support then it is simply sophistry and should 'be consigned to the flames'. This attitude appears to be deployed in assessing housing cases.

McCloskey argues (1983) that the Chicago School (Friedman) methodological dominance and adherence to its 'modern science view' has prevented economics from modernising its methodology and recognising new philosophical positions (post-modern). Falsification is often very difficult in economics as focussing on a single causal mechanism within a complex system means researchers must control for so much. Complexity often means that different hypotheses can often explain the same outcomes, for instance sluggish housing supply reactions to house price increases may reflect supply restrictions, absence of infrastructure regulation failures or even market failures.

The notion of a 'well-functioning housing market' is widely used in treasury/finance discussions at federal and sub-national levels in both Australia and Canada and has prevailed, again, in the UK post-2010. Economists using the notion assume that the market has relatively few inherent failures or imperfections and that the equilibration of the housing market balances supply and demand. This raises a very important question, potentially 'falsifying' the neoclassical argument on its own terms. Markets work in that excess demand drives up prices. But does sustained real price rises over 5 to 10-year periods (the common experience of the major metropolitan areas in Australia and Canada since 2000) suggest that the market is equilibrating by adjusting supply? The evidence of sticky housing supply systems suggests otherwise, and this may mean that housing markets may be out of equilibrium for decades. Within that set of disequilibrium processes, especially when we admit the possibility of complex system evolution, then it appears that an equilibrium-oriented framework is not going to help explain market processes, and outcomes, over quite long periods of time. Maclennan (2012) and Maclennan et al (2018) draw out stylised facts from housing economics research that challenges the empirical relevance, for policy-making purposes, of the well-functioning housing market. That is, for strategic planning and political strategy purposes the assumption of an equilibrating system, anytime soon, is misleading.

### **What can Economics Do?**

Applied housing economics needs to start from a set of assumptions based on the stylised facts of how housing markets operate and cannot assume 'a priori' that decisions are being taken about a well-functioning housing system that will successfully balance consumer and producer interests in policy planning periods. This also raises the possibility that the presumption of a well-functioning system when the real system is slow and sticky in adjustment may have 'performative' features, that is the theoretical/ideological assumption about processes may alter real system outcomes.

There are several respects in which the 'modern science' approach may not fit well with some post-1980s developments in economics. If economies are seen not as general equilibrium systems but complex, evolutionary systems then prediction is not a test of the adequacy of an evolutionary system. Clearly specific prediction is limited, though general observation and learning about change processes from experience matters. In addition, OECD (Love and Stockdale-Otarola, 2017) argues that economics must develop narratives about understanding complex systems (as opposed to physics-like general equilibrium models). They note 'Where you start a complex narrative determines what you describe and, to some extent, how you describe it'. 'All the stories may be true (or have elements of truth) but they will be different'. In housing policy research if you start at abstract, friction-free equilibrium models of housing markets then there is danger of throwing policy babies out with the bathwater of simplifying assumptions.

It is now decades since McCloskey (1983) delivered a methodological coup-de-grace to economics as 'science' practice. He noted, 'Modernism promises knowledge free from doubt, metaphysics, morals and personal convictions; what it delivers merely renames as scientific method the scientists', and especially the economic scientists', metaphysics, morals and personal convictions'. That is, government economists, if they resort to in principle arguments, may be offering decision advice not based in science but on morals and metaphysics.

Economics commentary on policy is sometimes not well-written, and frequently technically unclear. Much of the wisdom required to give good policy advice and make policy decisions is tacit rather than formalised in models. Economics education pays little attention to the structure and functioning of economies and their key sectors and most undergraduates can leave with a degree in economics and know substantively nothing about an economy. It is relatively rare to find a finance ministry official who has specialised for most of their career in the housing sector and understanding how it might really work. Officials move quickly to other sectors of work. The economics discipline is, in return, widely misunderstood and often disliked by others (Forbade, 2018). Precisely where we need a conversation to explore differences and evolve a better narrative we get abrupt dismissal and interests defended rather than improved.



One constructive route out of this dilemma is to see economics develop tailored, specialised understandings for key system sectors, such as housing economics that can embed more realistic assumptions and reduce conceptual reductionism (see Maclennan, 1982, Maclennan, 2012). Another is to move away from the stark binary of 'rhetoric' versus 'science'. Wayne Booth (2012) has recently observed that 'Rhetoric is the art of probing what men believe they ought to believe rather than proving what is true according to abstract methods' and continues that 'Rhetoric is the art of discovering more-or-less good reasons to arrive at more-or-less probable or plausible conclusions... and is the art of discovering warrantable beliefs and improving these beliefs in shared discourse'.

Booth's observation concurs with the observation in the Shaping Futures project that policy cases are made and rejected, by lobbies and policy bureaucrats respectively, with arguments that are usually theoretically incomplete, or differently specified, and empirically limited. There is much to share rather than mutually dismiss and resort to explore via mutual persuasion and exchange of knowledge between sectors rather than unilateral resolution via power politics. Housing advocates and economic policymakers, perhaps more than ever before, do need a protracted conversation to improve understanding of how housing systems now function and shape problems. McCloskey (1983) also observes that 'Everywhere in the literature of economics one is met with premises that are unargued, tricks of style masquerading as reason...forms of evidence that ignore the concerns of the audience and other symptoms of a lack of 'self-consciousness in rhetoric'. If the housing sector drops its long hostility to economic questions, then the economic policy sector needs to raise the housing economics substance of the answers it provides.

A recurrent conversation between housing and economic policy sectors may also induce truth-telling in policy narratives as recurrent discussion gives opportunities to penalise those who mislead (and this applies to all involved). How do people trust what they hear in policy processes and update their choices (in a Bayesian fashion) if they cannot trust messengers? This will not make argument impartial, for modern economics in the hands of Treasuries, nor indeed policy lobbies, is not impartial, but it will make policy debate more informed and less misleading. Adam Smith, in his letters on Rhetoric, recognised the need for individuals to be trusted, and recognised as honest (and in the policy process this could involve trusting their economic wisdom and their political judgement as well as the facts).

Shaping better housing futures requires the development of national and local policy conversations that continues between housing interests, housing experts, bureaucrats and Ministers that engenders trust to shape a conversation. That is, there need to be limits to dishonest exchange (as there are in exchanges in markets for goods). If these issues are disregarded, Smith says 'the rhetorician pleads a cause. Ready to persuade, he doesn't look for truth and fairness anymore' (Smith. A, quoted in Jermolowicz, 2004). Furman notes that in evidence-oriented (informed) rhetoric for public policy there are usually lots of missing data (Furman, 2007). Different data, like different theoretical starting points, tell different stories and housing, planning and economic policy sectors now need a more collective conversation on housing outcomes and their impacts on local economies.

The notion that a new narrative and conversation might shift policy rhetoric is encouraged by the actual behaviours of applied economists. McCloskey notes that 'their genuine, workaday rhetoric, the way they argue inside their heads or their seminar rooms, diverges from the 'official rhetoric'. What is more, their scientific work is touched by claims of morality, the aptness of metaphors, relevance of historical precedents and by a selective approach to what is subjected to evidence collection and modelling'.

Economic competences in housing arguments and a continuing conversation betwixt housing and economic policy sectors may improve the 'workaday rhetoric' of housing economics. But the process also needs champions. Ronald Coase (1952) argued that, in practice, an economic idea only gains sway in policy if it already has academic champions to develop theories and empirical models. Does housing have any champions within governments? The answer would be relatively few compared to economists interested in, say, health and education issues. Arguably, the general tendency towards the hollowing out of government seen since the 1980s (Jessop 2004) has seen housing policy and economics capacity degraded at least as much as in any other realm (Pawson et al 2018). Academia may contribute to this absence of champions for housing within the economics research and policy communities. The economics profession has devoted little resource and prestige to understanding the economics of housing systems and their consequences for the economy. The Annual Survey of the US Labour Market for New Ph.Ds (Walton, 2018) indicates that of 122 new economics Ph. D hires in 2016-17 the total in urban and regional economics was 1 out of 122 (none in the top 30 institutions, where labour economics had 11).

This observation is highly relevant to the policy process behaviour of the housing sector. Rather than avoiding economic arguments and issues they should, to induce a new constructive conversation, demand to see the ‘emperor’s clothes’: they need to interrogate officials and Ministers to reveal the positions taken within governments, press officials and Ministers for an articulation of the logic chains being deployed and use their own applied economics insights to question government views.

This reliance on rhetoric is most obvious for the many bureaucracies that know very little about the housing systems for which they proffer policy advice. Such economic rhetoric is often very reductionist and ignores key facets of housing systems and their outcomes. Better housing policies requires not only a new housing economics story within the housing sector but new capacities of government economists to understand and model housing systems. The limitations of the present policy narratives of economists in government comes not from lack of system concern but the nature of economic rhetoric in policy and practice. But if economic understanding of housing issues improve within governments will it lead to better housing policies? Do government economists matter in modern policy processes?

## Does it Matter What Economists Think in Government?

### Politics Matters More

Even if a mutually agreed narrative evolves between economists within government and housing providers it may have little impact if economists have no influence in positive policy development by politicians (as opposed to negative vetting of projects in budgetary allocation processes). The housing lobby has to consider which economists matter in policy making processes and when.

The discussion above assumes that professional bureaucrats, economists and others alike, speak ‘truth’ (or at least the best-informed narrative) to power and that the advice they supply relates to the identification of emerging policy challenges, the feasibility of delivering political commitments and the most efficient ways to attain the key outcomes sought by a government. The assessment of public attitudes and the provision and presentation of government news, or policy announcements, and views is also critical. Designing strategy/vision shaping, policy delivery and communication are all major bureaucratic tasks that may involve economists. The weight of these different tasks may differ from administration to administration (and may have a pattern within a government as it senses the relentless progress of the electoral cycle).

Following the work of Black (1977) it is widely recognised that policy choices are not just driven by ‘class conflict mediators’ drawn from elected representatives and bureaucrats. Other kinds of state-related elites have key roles in policy formation. Within the ABC countries it is widely recognised that over the last two decades the number and status of ‘special’ or ‘political advisers’, usually with governing party allegiances, has greatly increased (e.g. on Australia see Tingle 2017). This has, in many instances, reduced the role of bureaucrats in shaping policy visions, designing specific instruments and shaping the communication processes involved in programme delivery. It may also encourage career-oriented bureaucrats to abandon ‘frank and fearless advice’ and ‘get with the programme’ to favour decisions and messages that Ministers find more palatable. Failure to do so may leave senior officials just simply ‘gift-wrapping’ the spending choices otherwise made.

These observations are not made to deter the housing sector from engaging with how bureaucracies understand, model and respond to housing issues. They are merely a reminder that policy narratives also have to be aimed at a range of different ‘state-related elites’. They also highlight that there are certain times and contexts when economic advice both from within and outside the bureaucracy may be more likely to have impact.

### Where and When Economists Matter More

Where policymakers are confronted with the symptoms of, often poorly recognised, complex and wicked issues then bureaucrats, and external commentators, may be more likely to be consulted and listened to than in other settings. Bureaucrats may have relevant experience and knowledge and peripatetic Ministers and Special Advisers may realise that departments have, sometimes, sophisticated organisational memories. In all the ABC countries, and at all levels, these analytical and memory capacities have been much reduced in this millennium. But when complex, multi-sector, multi-level problems are in play bureaucrats, including economists, will play more pronounced roles in policy. The housing system problems we are discussing are precisely of this partly understood, system wide nature.

Economists within government (and possibly outside) are viewed by other social scientists as influential. However, and recognising McCloskey's views on how economics embodies professional value judgements and metaphysics, others argue that economic arguments are too important to be simply left to economists! Eyal and Bucholz (2016) make a good case in calling for a 'sociology of interventions'. However, Hirschman and Berman (2014) note that economists views do matter in some contexts and that their influence is mediated by local circumstances and meso structures. Local traditions in economics modify professional globalisation of a single idea of what constitutes economics, and this view is shared by Campbell and Peterson (2017) but disputed by Fourcade (2006). Housing advocates would do well to note that emphasis in 'economics' differs across and within administrations.

Fourcade (2006) also usefully asks what is meant by 'economist'. Is the term being used to describe individuals, ideologically unified networks, epistemic communities or whole professions? In this discussion, about changing housing market understandings within governments, the central concern is with the epistemic communities centred on government finance departments. Fourcade, further, stresses the need to consider three main sources of power (or 'sites' of influence) of economists. The first of these is professional authority and that burgeoned after 1945 with the growth in Keynesian economic management and welfare states/ public spending. That power has demonstrably waned since the 1980s and the GFC and it is arguable that with a focus on needs/ merit goods understanding economics was never important within housing spending departments. This chapter is emphasising the importance of the housing sector challenging the much-reduced epistemic community of economists in government engaged with financial stability decisions (with no sense of multiple national housing markets) and sectoral/public spending microeconomists imbued with housing as a well-functioning system.

The second source of power rests on the location of economists within institutions and governments, such as in research sections, providing wider economic services, and in running non-finance departments as well as finance and treasury departments. In the role of economists outside of Treasury/Finance, Fourcade (2006) suggest that the 'distinction between economists and policymakers collapses and economist may be making policy decisions directly as well as giving advice to others'. Their third key role is then in what Fourcade calls the cognitive infrastructure of a government system. This involves the diffusion, and integration, of economic reasoning styles within and across government departments, the development of technical devices for decision taking such as Cost-Benefit Analysis and wider advice on how to do conduct project evaluations.

In the sociology literature these methods are seen as socio-technological tools, as social assemblages, and the adoption of techniques is not a neutral process. For instance, within governments in ABC transport departments commonly use cost-benefit analysis of projects and programmes whereas the approach is rarely applied to housing. And this may be because transport investment gains from applying the technique whereas, in present approaches, housing does not.

In these contexts, the housing sector must aim at both economists as individuals within government, challenging the match of their professional understandings with what is experienced in housing markets but focus most of the sector energy on engaging, and changing the epistemological community. In doing so, there always must be the recognition that often the insights of economists and bureaucrats will still be secondary to politics.

Franken et al. (2016) note that knowledge and results from detailed health spending evaluations, with variations in policy institutions and decision processes across 4 European countries, have little impact on restricting access to high cost drugs. He concludes 'health economics evaluations should be viewed largely as rhetoric'. Economics can expand the policy discourse, but it does not often drive decisions. As Hirschman notes 'the social consequences of economics are not the same as the social consequences of economists' (Hirschman, 2014, p288).

### **Brief Conclusions on New Economic Narratives for Housing**

This chapter addresses how to shape new policy narratives for the housing sector in the context of economic policy thinking. The housing sector must refresh and expand its understanding of the economic consequences of housing outcomes to develop a policy narrative with greater potency when productivity has become a key policy concern. Economic experts and epistemic communities within federal and sub-national governments must, simultaneously, develop an understanding of, and potentially a capacity to model, real metropolitan housing markets to replace an undue reliance on the assumption of well-functioning housing markets. The evidence from growing metropolitan areas in the last two decades is that assumption is both likely to be false and to prevent the development of housing market policies and strategies that might alleviate housing affordability difficulties.

Present approaches to understanding policy requirements need to change. A better evidenced housing sector need to be in conversation with policy economists at local and federal levels. Policy economists need to replace rhetoric with more thorough analysis and modelling of policy alternatives. The present standards of policy evidence and debate that operate in housing discussions would, frankly, not be tolerated in health or transport policy, for instance.

Clearly framed narratives and well informed and well understood policy proposals aimed at major government outcomes must be at the core of economic stories for housing in the decades ahead.

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▼ St George Community Housing, Sydney – affordable rental housing



# Chapter Twelve

## Conclusions: Shaping Futures: Towards Real Housing Policies

Duncan Maclennan

In both Britain and Australia there is now a frank acceptance by Governments that major housing outcomes are problematic with the Prime Minister of Australia asserting that ‘business as usual’ approaches will not address the twin challenges of affordable housing and housing affordability and his British counterpart referring to a ‘broken housing market’. A recognition of ill-conceived and under-resourced housing policies might have been more apt. In Canada the sense of widespread housing difficulties is less extensive and less widespread but the newly emerging federal housing strategy and a growing recognition that more needs to be done reaffirms the wide sense of unease with contemporary housing outcomes.

A closer look at housing outcomes in each country reveals that the emerging concerns of governments are well founded. Housing systems seem to be reinforcing wealth and income inequalities, they are contributing to greater instabilities and the impairment of growth and they reinforce environmental damage. The pursuit of equality, competitiveness and sustainability, the shared trinity of core goals of modern governments, have all been impaired by housing policies that have diminished, narrowed and fragmented since the 1990s. Far from fashioning and supporting a ‘well-functioning housing market, or system’ modern policies have fashioned a dysfunctional mess. Governments now seem to have recognised that there is a problem, or more likely a ‘wicked’ tangle of issues, to cut through and reshape for better future outcomes. This, now explicit, recognition is a cause for praise for governments and for optimism that housing policies may shape better futures. However, having recognised the difficulty, governments have not yet set out new resources, aims and commitments to housing policies that will lead to real change.

The ten broad conclusions of this report are an aide mémoire to federal and sub-national governments, and the range of agencies and lobbies, that will shape the better future. They are presented as, in the constructive sense, a provocation about possibilities for change. They are definitive and assertive that major policy settings for housing policies must change but deliberately avoid being specific and certain about what will work in particular national and local settings. They are general directions, or principles, for, rather than specific routes to, change. They are the outline of a new narrative to shape the discussion of the re-purposing of housing policies. They aim to end decades of darkness in housing policy making into a more enlightened approach to understanding what housing outcomes achieve and what policy possibilities need to be considered.

## Principle One: Intelligent Housing Policies

In recent decades governments have been slow to recognise obviously emerging difficulties, including declining ownership rates for the young, and slow to act on others with long term implications, such as global warming, ageing populations with rising longevity and the accumulation of unearned property income. Understandings of how housing outcomes contribute to social and economic change are essential but often still unknown. For instance, at present some researchers claim that ‘millennials’ have developed more pro-renting preferences than predecessor generations but there is no real evidence whether the identified choices reflect shifts in attitudes to asset ownership or growing constraints on accumulating assets in early adulthood. When policymakers have reacted to shortages they have often acted with a presumption about or preference for particular modes of intervention. For instance, for decades governments have preferred to invest in not-for-profits rather than public housing and home-ownership solutions have been preferred over market rental solutions. Now, as price and rental burdens rise ‘rent controls’ have been re-advocated as a substantial policy solution. Looking to the future governments must become more alert to evolving housing patterns and their causes so that they act with knowledge and they need to pay more attention to an understanding of ‘what works’, that is use the knowledge developed from experience rather than ideologies embraced (whether public housing or home-ownership). We recognise that policy choices will always involve politics but the first principle of shaping future housing policies is that they need to be intelligent in that they apply appropriately chosen instruments to real housing systems that are empirically understood by policymakers ( for instance, knowing the price elasticity of housing supply in metropolitan areas) and that have well developed logic chains that connect policy actions/levers to chosen goals.

Housing policymakers must have recursive learning systems in place so that policies can be adapted as change unfolds. The housing story, the key policy narrative, has to be factually informed, have a clear storyline and open to revision. It must convey what housing does in an economy and society, what housing policy is for, how it works and how it will change things for the better.

## Principle Two: Housing Is A Complex System Story

Throughout this report we have noted how housing policies have narrowed their attention over the last 30 years to deal with 'housing affordability' issues for the poorest households and respond to homelessness. It is vital that these concerns continue and efforts to deal with the issues intensified. However, these issues arise, and are exacerbated within, wider sets of housing shortages, needs and demands. The spread of housing affordability issues across a wide range of income groups and its growing incidence in the 25-40 age groups highlights that pressures across connected submarkets and segments of the housing system are problematic. There are market and non-market parts of the housing system, and they do interact, and the mechanisms involved include market supply and demand and needs and non-market investment. Policy framings must embrace the system as a whole and recognise that as a system crude control mechanisms of policy interventions are not likely to be of long-term value. With housing system difficulties apparently spreading the political economy of housing policy is also shifting. Housing policymakers have to be attuned to the roles that poor housing and residential segregation of low-income groups have played in fostering 'the revenge of the left-behind places', namely the rural areas and towns as well as cities that have seen voters switch away from established political parties and allegiances. At the same time the high costs and halting progress of the home-ownership engine for the future middle class in the ABC countries is shaping a very different political economy from that which fashioned housing policy narrowing after the 1980s. Housing is a system story and one that now impacts a majority of households in the ABC countries. The left-behind places, the stalled family asset building, and older households isolated amidst their empty bedrooms that store their mostly unearned, wealth, are all vignettes of the modern 'housing story'. **The second principle for policy is that the housing sector has to be seen as a connected system and that challenges, scope, and resources for housing policies need to be set in that systemic context.**

## Principle Three: Understanding and Improving Housing Markets

In the ABC countries some 75 to 90 percent of households find their homes in a variety of market contexts. Markets for renting and owning exist and they may be more or less subsidised. Some policymakers see markets as inherently virtuous and others see them as naturally problematic and these views are often driven not by understanding how real markets function but the roles played by stylised markets in political ideologies. Both approaches are potential dangers to good housing policy making. Shaping Futures concluded that markets will remain the dominant arena for housing provision in the ABC for the foreseeable future and that, in contrast to present circumstances, there needs to be coherent housing market strategies in national housing policies. This is not the same thing as expanding home-ownership or indeed the market sector. It is rather about shaping markets so that market failures, non-responsiveness and instabilities are addressed and that the 'well-functioning housing market' becomes an aim rather than a presumption of policy. Policy must look to the fairness and economic effectiveness of housing markets, a missing policy emphasis in all three ABC nations, and not just macro-stability questions. In particular, all three countries need to have an explicit understanding of what balance of market renting and home-owning will best serve policy interests. A critical concern is also to reset policy thinking to address what key strategic actions by governments, both nationally and locally, will facilitate the operation of housing markets that produce more output and lower price increases. **Our third policy principle is that, in contrast to current experience, governments at national and sub-national levels should move beyond the important, but over-narrow focus on financial stability, and have an explicit 'housing market' strategy to support productivity growth and fairness.**

## Principle Four: Housing Policies need More than Markets

The Shaping Futures group, unsurprisingly given their interests, took the view that non-market provision of housing had important roles to play where income supports to poor households would not be likely to resolve their housing difficulties. This may arise from the nature of the individuals involved, the quality and variety of housing offered in markets and the design features of social security systems. Existing patterns of provision and the nexus of instruments to support poorer households differ across the countries and it was recognised that different non-market shares, provided by a different array of provider types will arise across and within the three countries.

However, countries did have to think of non-market provision as a 'system' of provision with coherence between different parts of the sector and potential contestability at the margins with the market sector (to allow for a check on cross-sectoral efficiency). At local and metropolitan scales there needed to be a much clearer understanding of the functioning of non-profit sectors and the overall effectiveness of the sector. Coherent national and local regulatory frameworks need to be put in place in Canada and Australia and UK tinkering with the system halted. The development of appropriate regulatory and bond-aggregation facilities has been painfully slow in Canada and Australia and in the latter context some state-level attitudes to the transfer of public housing to non-profits has hindered the growth of a more dynamic non-market sector. There has been a marked growth in the diversification of housing and non-housing roles by not-for-profits and more attention needs to be given to their potential roles as local housing and place renewal agents. All governments require purposive approaches to the roles for non-market housing and they should encourage diverse providers to cross-policy silos to deliver progress in sectors of concern that require multiple sectoral policy inputs, including the rebuilding of poor communities, capturing and diversifying the gains from inclusionary zoning, environmental change and reshaping the mixes of housing, care and health provision that rising numbers of seniors in all three countries require. Our fourth principle is that governments should drop the anti- non-market stance adopted after the 1980s and rethink the positive roles of non-market housing. Governments need to see the sectors as more than providing shelter for the poor and recognise that their reputations as providers of quality customer care and 'patient capital' may shape effective and innovative solutions to market failures as well as market poverties.

## Principle Five: Placing Housing in Context

**The fifth Shaping Futures principle for housing policies is that housing policy decisions require spatial awareness and must have regard to the places that housing investment shapes and recognise that geography of connections that shapes supply and demand in the local housing system.**

Housing is not just a system, it is a spatial system, and this has three important implications for policy-making. The first consideration is that housing has clearly critical local dimensions: building homes creates key infrastructure and attributes of neighbourhoods and cities; choosing a home also means choosing a neighbourhood, so that housing and place planning and management are always linked.

The second consideration is that housing systems, if predominantly local, are also open to economic, social, demographic and technological changes (and policy ideas) that flow into local areas from related regions, the nation and the wider world. At present immigration and economic shocks are the non-local or exogenous effects that most concern cities. The Shaping Futures group worked towards an understanding that the major metropolitan housing markets we discussed now had significant inflows of labour, capital and other resources from 'global' sources. Two important points emerged from this discussion. Major cities within national economies have global connections that smaller cities and rural regions may not share, and this has contributed to an 'unlinking' or divergence of growing metropolitan market trajectories from the rest of the nations within which they are set. Housing policies had not adapted to deal with these new circumstances. Metropolitan areas are being given new housing strategy and management challenges but without new tools or resources to deal with them: globally driven but localised change does not always command appropriate policy responses from national and federal governments controlling elastic tax bases. Federal/national attempts to limit growing metropolitan house price increases through monetary policy measures, to limit potential financial sector instabilities, have failed to recognise the growing metropolitan/ rest of economy divergence and usually penalised more slowly growing housing markets.



The third consideration is that geography means variety so that housing problems, priorities, and even processes, may vary across the connected regions within a nation. This means that it is not appropriate for housing policy to narrowly focus on one type of area, such as metropolitan cores, for they are part of a wider, national system of connected places. In discussing the 'revenge of the left behind places', noted above, that have changed so much of electoral politics, Rodrigues-Pose (2018) notes how the towns that have not replaced economic bases lost since the early 1980s have been particularly prone to voting down 'established parties and candidates and similar patterns appeared in the Brexit vote in the UK and appeared to also have prevailed in the recent Ontario provincial elections. Housing policy must think about Newcastle (NSW) as well as Sydney (NSW), about Sydney (Nova Scotia) as well as Toronto, and about Newcastle (England) as well as London.

## Principle Six: Remaking Collaborative Governance for Housing

Shaping Futures highlighted two key facets of housing that must be emphasised in designing and delivering housing policies. The first is that successful housing provision requires linked provision for a whole range of public and private services, including transport, schools, health facilities, and at the same time housing quality and affordability plays into the success of other areas of policy activity, for instance attempts to reduce carbon production in cities and suburbs. No housing policy should simply be driven by the price and size/type of homes and decisions about what housing to produce, where and for whom need to be closely linked to other public investment and service decisions. Collaboration must start within governments. And, locally, open associational styles of governance are required to involve non-profits, the private sector and community groups in the design and delivery of housing. Participants from Shaping Futures drew attention to numerous multi-sector, community engaged (and led) projects in all the ABC countries. They also reported instances of the absence of such approaches too so that consistent good practice requires attention from governments.

The devolution/downloading of housing policy responsibilities to sub-national governments, that had occurred in all three countries, still leaves different roles in housing policy best placed at different orders of government. National/federal governments in all three countries had no difficulty accepting that they had significant roles to play. However, in Canada and Australia, there was a continuing lack of clarity about roles and responsibilities and in none of the countries was there an effective continuing multi-order collaborative approach to governing housing. Such provisions were by far the weakest in the UK.

These collaboration failures in housing policy-making and delivery hamper effective housing policies. **The sixth principle that the Shaping Futures group embraced was that the strategic and economic roles of housing required a metropolitan or rural region level focus in governing housing systems so that governance was aligned to the key scales at which housing systems operated and that the approach had to be collaborative.** Many local authorities are too small to effectively deliver and plan housing: States and Provinces are often too large and diverse to effectively govern growing metropolitan areas and that the metropolitan dimension of decision taking and delivery needs to be emphasised. This shift in housing governance, noted above, needs to be properly financed by reassigning resources to metropolitan areas, and it could, in the short term, be encouraged by wider application of the UK city deals approach to housing funding both in the UK and in Canada and Australia.

This conclusion requires wide-ranging actions in response. Metropolitan areas should audit their current housing governance arrangements and, with other orders of government, look at the organisation of housing within governments and ministries, explore how to reduce vertical fiscal imbalance, assess metropolitan partnerships across the whole range of housing functions from finance to knowledge exchange and, not least, assess capacities to deliver a systems-oriented housing policy.

## Principle Seven: Focussing on Outcomes

The previous conclusions have drawn attention to the range of housing impacts across different policy sectors, jurisdictions and orders of government. It is important to move beyond the traditional social 'needs' cases and measures for housing policies. **The Seventh Principle for policy is that housing policies, investment and other actions should be designed and delivered to contribute effectively to the major outcome goals of governments.** This report has stressed the importance of linking housing outcomes to core economic policy goals including stability, productivity and growth but continued attention to social and environmental outcomes is required too. Some sub-national governments in the ABC countries can undertake this task readily and link housing to emerging agendas on inclusive growth and others demonstrably do not.

## Principle Eight: Housing as Economic Infrastructure

An Eighth Principle for housing policy-making is that, given the renewed emphasis on the economic consequences of housing outcomes, housing is regarded as an essential economic, as well as social, infrastructure. This emphasis is consistent with the need to improve supply side responsiveness in housing markets and to more effectively link housing and transport investment decisions. It will also require governments at all levels to have appropriate conversations across housing, economic development and planning portfolios to explore the effects of housing on the local economy. Shaping Futures discussions reaffirmed research findings that such conversations are infrequent in sub-national governments.

## Principle Nine: Housing and the Major Policy Settings

Relative to the growing scales of needs and affordability problems across the ABC countries in this millennium pre-2016 policy responses appear to be palliative, small-scale and failing. Shaping Futures participants argued strongly that improving resources for housing policies would help. As Ken Gibb noted, 'What we see is less a housing crisis and more overlapping chronic problems that periodically combine with external shocks and specific government policy change' and that 'a tipping point has arisen that requires a redistribution of scarce resources into the housing sector in the interests of the economy, society and...sustainability'. but that much more attention needed to be given to thinking about housing systems and their outcomes in the major Policy Frameworks and settings of governments. This is not a time for fragmented thinking with relatively crude national policy settings overwhelming small local policies and financial stabilisation policy and social security reform in the UK are recent, and important examples of major (non-housing) policy measures that frustrate housing achievements in some settings.

The Shaping Futures group concluded that a Ninth Principle for housing policy action was for governments to reassess their core policy thinking frameworks to reconsider, after almost thirty years, what works and what does not in shaping effective policy decisions. The group, for instance, thought that a different approach to potential strategic roles for governments in metropolitan land markets and planning was required that recognised the importance of reducing uncertainty for market providers. They also challenged the absence of capabilities in sub-national governments to design and run effective public investment strategies and housing policies. In effect, has the 'state' been rendered impotent where it needs to act to manage growth. A rethink on roles of planning and inclusionary zoning in capturing land value uplifts was regarded as imperative so that markets were better positioned to serve the wider public interest. Prevailing attitudes to tax arrangements, public debt all need to be rethought. The major policy framings prevailing in the ABC countries have played important roles in fashioning the problematic housing sectors they now have and the importance of rentier rather than entrepreneurial incomes.

## Principle Ten: Building, not Spinning

The Shaping Futures group were encouraged that the Governments of Australia, Canada and the UK had all recognised the need to address fundamental housing issues that been too long ignored or de-emphasized. Governments, like housing providers, should be judged not by what they promise but by what they deliver. Where governments fail to reduce housing needs and excessive rent burdens over prolonged periods then housing rights arguments may be required to bring systematically neglectful governments to account. The final policy principle of the group was that the governments, like housing providers, should be judged not by what they promise but by what they deliver.

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