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EqualHouse

# EqualHouse report
# D5.1 Affordable Housing Review

*Lead beneficiary: University of Glasgow*

*Contributary beneficiaries: University College Dublin and Just Cities*

*June 2026*



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# Executive Summary

This report, written as part of the Horizon Europe project 'From Housing Inequality to Sustainable, Inclusive and Affordable Housing Solutions' (EqualHouse), undertakes an extended literature review of academic and policy literature across four themes that each covers a core grouping of housing policy instruments. The four themes are: finance instruments for the promotion of social housing; land instruments to make land available for the development of affordable housing; personal allowances to support housing and home energy costs; and tax and regulatory instruments for housing affordability.

The housing crisis evident across much of Europe, while being the result of a complex web of interlocking causes, is most directly addressed through the use of policy instruments across the multiple policy domains relating to housing. As a field of public policy, housing is especially challenging because it is costly to develop, requires substantial upfront capital investment ahead of its provision, and is dependent upon the supply of land as an input. These barriers render the difficulty of addressing housing unaffordability apparent in scope as well as scale, pointing to the range of perspectives from which policy must address the issue.

## 1.1 Aims and coverage

This report explores how policy instruments are used by the 27 EU member states and the UK (referred to hereafter as 'Europe') to make housing more affordable. The report covers each policy theme in turn, setting out: the characteristics of the theme; how it is used across Europe; the effectiveness of policy instruments grouped within the theme; and giving brief examples of how particular policy instruments from within the theme have been used in European country cases.

## 1.2 Contribution

By reviewing international academic and policy literature, the report amalgamates a wide and varied range of sources to present a comprehensive series of extended literature reviews. Each chapter of the report, covering the



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themes set out above, offers the reader an in-depth review of policy tools and instruments with a view on their key characteristics and effectiveness. The report furthermore situates these facets within the contexts in which the instruments are used, noting that the use and effectiveness of a particular instrument is frequently interdependent with, and contingent upon, other instruments within the same and/or adjacent policy domains. Also relevant are particularities of legal system and governance organisation, in addition to demography, economic and social context, and dynamic of economic development.

The report shows that the policy instruments used across all four themes are not only varied in nature but sit within different areas of government. These range from housing-focused departments responsible for policies on financial supports for affordable housing, to urban planning, social security more broadly, and fiscal policy. Further, in some instances they exist as distinct fields of academic literature, with financial supports, personal allowances and rent regulations, for example, dealt with by housing-focused researchers but land policy being primarily a concern for urban planning researchers and taxation the domain of economists.

A consequence of this is that the policy instruments that together contribute to the regulation of the housing system are not usually considered collectively. This raises concerns that policy instruments that sit within different themes may act upon each other in ways that may be mutually antagonistic. While this is widely commented upon in certain instances, for example the case of demand-side subsidies for owner occupation conflicting with supply-side planning regulation, the possible existence of further examples of uncoordinated policy tools is here highlighted and bears further investigation.



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# 1. Introduction

While a concern for the affordability of housing has been evident across Europe since the beginning of the 20th century, the period since the 2007-09 Global Financial Crisis has brough affordability into a renewed and sharper focus than has been seen in living memory. EU Commissioner for Housing and Energy Dan Jørgensen's reference to the 25% average increase in rents and 50% average increase in prices between 2010 and 2025 in his Keynote speech at the European Investment Bank is a claim that has long lost its shock value (Jørgensen, 2025). The notion of a housing crisis has become increasingly ubiquitous over the course of the past two decades, as documented in the EqualHouse report, 'Housing Inequalities Dynamic Framework' (D3.2). While this crisis is multidimensional, with strands relating to supply (Baum-Snow and Duranton, 2025; Kholodilin and Kohl, 2023), access (Dewilde and Haffner, 2022), deprivation (Borg, 2015), and overcrowding (Norris and Domańksi, 2009), it is above all a crisis of affordability (Maclennan and Miao, 2017; Soaita, Maclennan and Gibb, 2020).

Housing is both product and service, good in demand and basic need to be fulfilled, and policy for housing is spread across multiple domains of public policy, spanning land-use planning, public investment in development, mortgage market regulation, private and social rented sector regulation, financial regulation of social housing providers, local and national taxation, and personal allowances, among others. This broad base of policy interventions means that housing as a policy problem is addressed from the diverse perspectives that its multifaceted nature demands but also raises questions of efficiency and accountability, as alternative approaches to housing regulation that may at times be complementary can at other times be contrasting or even contradictory.

This report undertakes an extensive literature review of academic and policy research on policy instruments used to address housing affordability, reviewing a wide range of evidence across the distinct policy fields that comprise the regulation of housing. Policy instruments are government interventions into markets that are designed to adjust the quantity, price, or other quality of goods



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and services (Capano and Howlett, 2020). The study of policy instruments entails a preoccupation with the nature of public interventions and a focus on how policy goals are achieved rather than on what those public policy goals are.

A key contribution of the report is the breadth of policy domains from which policy instruments are drawn and evaluated. While all of these domains address policy for housing, they span a range of disciplines, branches of government, policy actors, and areas of expertise. The report covers: financing instruments for social housing; land policy instruments; personal allowances; and instruments of regulation and taxation. Each chapter describes the nature and application of instruments within its policy domain before selecting particular policies for review and setting out 'policy snapshots' of instruments in use within particular European cases.

A common thread running through the report is a concern for the context within which policies are applied, with attention paid to the varied legal, governance, and other institutional arrangements prevalent across the Europe, as well as the overall mix of policy instruments that operate together towards the achievement of policy goals. The importance of context has been raised in the policy mobilities literature, which identifies dangers in the cross-border circulation of policies and policy instruments associated with a search for 'off the shelf' solutions that ignores the interrelationships and conditions that enable a policy to be successful (McCann and Ward, 2013). This is analogous to what Shahab et al. (2021, p.1134) describe, in the context of land policy, as 'instrumental activism' or a tendency to try to solve problems in land-use planning by the introduction of a new land policy instrument without due care for contextual factors.

The report proceeds as follows. **Chapter 2** sets out how financial instruments are used in the provision of socially rented housing across the Europe and UK. It notes the challenges of supporting the delivery of social housing as a good with high up-front costs compared to salaries, at levels of rent below those set by the market. Varied sources of finance in the form of loans, grants, interest rate



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subsidies and equity finance are described with reference to the sorts of actors involved, including commercial banks, state special purpose financial intermediaries, and municipalities. Following this the chapter analyses the use and effectiveness of financing arrangements, under the categories of: market finance; government finance; non-profit finance; and internal finance. Each of these is accompanied by policy snapshots showing examples of these tools used in particular contexts.

**Chapter 3** establishes the meaning and use of land policy, noting that housing development, and by extension house prices and their relative level of affordability, are contingent on land markets. The relations between land policy and both of land-use planning and property rights are highlighted, all within the context of its application to the supply of land for affordable housing delivery. A typology of land policy instruments groups these into categories based on their interface with markets for land and housing, these being: market replacement tools; market shaping tools; and market enabling tools. Finally, the chapter analyses five selected land policy instruments: public land banking; public land leasing; community land trusts; inclusionary zoning; and land readjustment. Policy snapshots describe examples of each tool in use.

**Chapter 4** addresses personal allowances to support costs of housing and household energy use. An association is drawn between unaffordability of housing and energy, with the use of grants and allowances to support households dealing with a widely advertised 'cost of living crisis' being means of addressing inequalities in provision of both. Benefits and drawbacks of demand-side subsidies of these sorts are outlined, with the increasing prevalence of allowances in certain parts of Europe traced to a decline in supply-side interventions. The chapter goes on to cover three instruments in detail: housing allowances; allowances assisting home ownership and rent guarantees; and allowances to tackle energy poverty. Policy snapshots set out how each policy instrument is used in practice examples.



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**Chapter 5** reports on how tax and regulatory policy instruments are used to tackle housing affordability. The chapter first points out that taxation and regulation are not usually grouped together by economists or political scientists analysing public policy but that there are nevertheless overlaps between the two, where taxation has the economic effects of regulation and vice versa. A brief exposition of the defining characteristics and uses of taxation and regulation as generic public interventions follows, before the purposes to which taxation and regulatory policy instruments are used with respect to housing are discussed. The chapter goes on to analyse the use of three policy instruments: rent regulations; tax breaks; and the regulation of social housing providers. Examples of each instrument as it is used in cases from within Europe are given in policy snapshots. Following these four analytical chapters, the report offers conclusions.



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# 2 Finance

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## 2.1 Introduction

Paying for new housing and in particular the provision of social rented housing is inherently challenging for two reasons. First, in economic terms, housing is a 'lumpy good' with high up-front costs. The costs of building or buying housing are large compared to household incomes and, although households consume housing over the long term, the costs of its provision must be paid in full in the short term and 'up front' in a lump sum prior to its consumption. For this reason, households, businesses and governments commonly use financing mechanisms, such as mortgages or bonds, to make the costs of providing housing more manageable, by spreading them out over several decades or more (Ryan-Collins et al., 2017). Second, means must be found to lower rents to below market levels to make the housing 'social': it needs to be both accessible and affordable to households who cannot afford market rate alternatives (Whitehead, 2014). Furthermore, demand for social housing is often greatest in high land price locations, such as large or capital cities, and during periods of high house prices and private rents, which drives up delivery costs (de Kam, 1998).

This chapter examines the arrangements used to overcome these challenges and finance provision of social rented housing in 27 European Union member states (EU27) and the four jurisdictions of the United Kingdom (England, Northern Ireland, Scotland and Wales). The analysis presented here focuses on arrangements used in these European countries for financing the capital costs of new housing supply, the sources and costs of this finance and the role which



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what economists call 'supply side' or 'bricks and mortar' subsidies from governments, as well as government regulation, play in ensuring this finance is available for housing providers and the costs affordable to the people it houses. As well as capital funding, providing housing also requires revenue finance to pay for the costs of its management, maintenance and upgrading, which in the social housing sector is usually covered by tenants' rents. In many cases these rents also contribute to the capital costs of housing provision by helping to fund the repayment of loans taken out for this purpose and enable social housing providers to buy land for new housing or accumulate reserves which enable the 'internal financing' of social housing from the providers' own resources. This internal financing is also examined in this chapter.

The capital financing instruments examined here do not cover all the costs of providing social housing in most European countries. The mechanisms for influencing the costs of land for housing, regulating housing provision and 'demand side' housing subsidies such as housing allowances examined in the companion chapters produced for this work package often make an important *albeit variable* (between countries) and sometimes *indirect* role in financially supporting the costs of supplying this form of housing. Therefore, the analysis presented in this chapter should be read in combination with these companion chapters. However, capital financing mechanisms play a critical *direct* role in supporting new social housing supply. Simply put, without these mechanisms there would be no new supply (Meen & Whitehead, 2020).

The analysis of capital financing mechanisms presented in this chapter is organised into four further sections. The next section describes the sources of finance used to meet the capital costs of social housing development in European countries, including loans, grants, interest rate subsidies and equity finance. This discussion is organised according to the sector that provides this finance, in terms of whether it is provided by the private, non-profit or government sectors or internally/self-financed by social housing landlords from



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contributions from tenants. This is followed by a description of the different types of organisations that provide capital finance for this form of housing, including: commercial banks, state special purpose financial intermediaries and municipalities. The second half of the chapter presents an analysis of these financing arrangements. This examines the strengths and weaknesses of the different sources of finance used and considers the relationships between these. Broader contextual factors which influence the viability and effectiveness of the arrangements used to finance social housing development are then examined. The analysis presented here draws on five sources of information:

- A review of the research literature on supply side supports for social housing provision.
- An analysis of published information on relevant policies and programmes in Europe.
- Analysis of relevant secondary data, including official statistics from the countries under examination and the OECD's affordable housing database.
- A survey of the members of the European Community for Housing Equality (ECHE) – the online community of housing policy makers, practitioners and end users established to inform the EqualHouse research on housing inequality and the policy options to deal with them, and,
- ECHE members' comments on a draft version of this chapter presented by the authors to an online meeting of this group in May 2025.

## 2.2 Sources of Finance for Social Housing Development in Europe

### 2.2.1 Introduction

Table 2.1. outlines sources of finance used to fund the capital costs of providing social rented housing in Europe and four UK jurisdictions under examination and explains the different instruments used to distribute this finance. As this table explains, the sources of finance are governments, markets, internal finance from within the social housing sector and the mechanisms used to distribute this finance include different types of loans, grants, tax subsidies and subsidies on the interest payable on social housing development loans. Table 2.2 details the



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extent to which these difference sources and instruments are used to finance social housing development in Europe and the UK. The sections that follow examine these instruments and their use in more depth and explain the reasons for variations in their use across Europe. These sections also include 'policy snapshots', which outline short examples of how these financing instruments are used in practice in different countries.

## 2.3 Market Finance

The extent of reliance on markets to finance social housing development in reflects three factors:

- fiscal constraints and policy priorities: in many European countries, particularly in recent decades, governments have promoted the use of private finance to reduce the need for public financing of social housing and thereby contain public spending deficits, meet fiscal rules or release of funding for other policy priorities,
- the general development, character and depth of financial markets and their willingness finance social housing, and
- the capacity of social housing providers to engage with financial markets. Support provided by government may be needed to enable this, although the need for this is greater where financial markets and social housing providers are themselves underdeveloped.



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## Table 2.1 : Glossary of Sources and Instruments Used to Finance the Capital Costs of Social Provision in European Countries

| Source | Instrument | Definition/ explanation |
|---|---|---|
| **Governments** | Public Grants | Lump sum payments for social housing development costs which, unlike loans, are not intended to be repaid. |
| | Government Loans | Loans provided by government and funded through tax revenue and/or public borrowing. These are often provided at lower interest rates and longer terms than commercial loans, so they subsidise social housing provision. |
| | Interest subsidies | Government subsidies to reduce and even out the costs of interest payments on social housing development loans. |
| | Land transfers | Transfers/sale of public land for social house building at below market value/ free of charge. |
| | Loan Guarantees | Written government guarantees underwrite lending to social housing providers to reduce the risk for lenders and increase the availability and reduce the cost of loans. |
| | Loan Guarantee Funds | Ring-fended funds that can be drawn to cover non-payment of social housing development loans and thereby provide a form of guarantee to lenders. |
| | Tax Subsidies | Lower taxes or tax exemptions for social housing providers. |
| **Internal finance** | Loan Guarantee Funds | Ring-fenced funds that can be drawn to cover non-payment of social housing development loans and thereby provide a form of guarantee to lenders. |
| | Mutual Loan Guarantees | Formal or informal understanding that social housing providers will act collectively to ensure loans are repaid if one provider is at risk of default. This is typically achieved by other provider(s) taking over the dwellings and loans of a provider that is at risk of default. |
| | Revolving Funds | Some revenue from rents on existing dwellings is ring fenced to contribute to the costs of new housing development by funding land purchase, equity contributions or loans. This usually occurs when the development loans taken out to fund these existing dwellings have been repaid. |
| | Tenants' down payments | Tenants' downpayments provide a significant equity contribution towards social housing provision costs. |
| **Markets** | Bonds | Debt securities which offer fixed payments to commercial investors in return for a loan, but without any ownership stake in the loan receiving organisation. |
| | Commercial Bank Loans | Loans from for-profit banks which are financed from a variety of sources including: customer deposits, inter-bank lending and from bond markets. |
| | Cross subsidy | Subsidising social housing development from the proceeds of selling or renting market rate housing or dwellings for sale or rent at marginally below market rates. |
| | Land or dwelling transfers | Transfers/sale of private land for social house building or of completed at below market value/ free of charge. |
| | Private Equity Investment | Commercial investors retaining part or full ownership stakes (equity) in dwellings funded by their investment |
| | Social Impact Bonds | These are bonds that incentivise beneficiaries to attain particular social goals. They focus on outcomes (such as sustainably housing homeless people) rather than outputs (building bought or services provided). |
| | Sustainable finance | Commercial investment which takes environmental, social and governance (ESG) considerations into account when making financial investment decisions |
| **Non-profit sector** | Savings schemes | Loans funded from nonprofit finance derived from household savings, |



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## Table 2.2: Sources of Capital Finance for Social Housing Development in European Countries.

| Country | Markets | | | | Government | | | | | Non-Profit sector | Internal-Finance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Bonds | Commercial Bank Loans | Private Equity | Sustainable /ESG Finance | Public Capital Grants | Government Loans | Interest subsidies | Loan Guarantees | Loan Guarantee Funds | Savings Schemes | Loan Guarantee Funds | Mutual Loan Guarantees | Revolving Funda | Tenants' Down Payments |
| Austria | X | X | X | X | X | X | X | X | | | | | X | X |
| Belgium1 | | | | X | X | X | X | | | | | | X | X |
| Bulgaria | | | | | X | X | | | | | | | | |
| Czechia | X | X | | | X | X | | | | | | | | |
| Denmark | X | | | | | X | X | X | | | | | X | X |
| Estonia | | | X | | X | | | X | | | | | | |
| Finland | | | | | X | X | X | | | | | | X | |
| France | | | | | X | | | X | | X | X | | X | |
| Germany | | | | | X | X | X | | | X | | | X | |
| Hungary2 | | | | | X | | | | | | | | | |
| Ireland | | X | X | | X | X | | | | | | | | |
| Italy1 | | | | | | | | | | | | | | |
| Latvia | | | X | X | X | X | | | | | | | | |
| Lithuania | | | | | | | | | | | | | | |
| Luxembourg | | X | | | X | | | | | | | | | |
| Malta | | | X | | X | X | | | | | | | | |
| Netherlands | | X | | | | X | | X | X | | X | X | X | |
| Poland | | | | | X | X | | | | | | | X | |
| Portugal | | | | | X | X | X | X | | | | | | |
| Romania | | | | | X | X | | | | | | | | |
| Slovakia | | | | | X | X | | | | | | | | |
| Slovenia | | | | | X | X | | | | | | | X | |
| Spain1 | | X | | | X | X | | | | | | | | |
| Sweden | | X | | | | | | X | | | | | X | |
| United Kingdom | | | | | | | | | | | | | | |
| England | X | X | X | X | X | X | | | | | | X | X | |
| Northern Ireland | | X | | | X | | | | | | | | X | |
| Scotland | X | X | | | X | | | | | | | | | |
| Wales | X | X | X | | X | X | | | | | | | | |

Source: desk research and survey of the European Community for Housing quality conducted by the authors Note: No social housing was provided in Cyprus and Greece at the time of writing, so these countries are not included in this table. No data are available for Croatia. [1]: sources of finance used vary between the different regions of these countries [2] at the time of writing there was no formal funding scheme for social housing provision ion Hungary, however municipalities do provide grant funding on an ad hoc basis.



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These contextual influences vary across Europe. The most commonly used form of private finance for social housing in these countries is currently commercial bank loans. They finance new social housing output in nine of the 32 European countries under examination in Table 2.2. Banks raise money for these loans from a variety of sources including deposits, inter-bank lending and from bond markets. Bonds are debt securities that offer fixed payments to investors in return for a loan, but without any ownership stake in the loan receiving organisation.

Less commonly social housing providers themselves issue bonds to finance the capital costs of providing housing. Large social housing landlords, for instance in the Netherlands and the UK often issue bonds themselves, whilst others may benefit from bond finance raised on their behalf by government banks or agencies (such as bond aggregators) or municipalities and shared out among social landlords that are too small to access bond markets directly (Aedes, 2013; The Housing Finance Corporation, 2022). Table 2.2 reveals that this funding source is used in five jurisdictions.

Both commercial bank loans and to a lesser extent bond issuances (particularly bonds issued by municipalities) were historically a significant source of finance for the social housing sector and played an important role in supporting the expansion in many Western European countries during the mid-twentieth century. However, in recent decades, the contribution of the private sector to financing social housing development has grown significantly in many European countries because government funding has contracted and new sources of private finance have emerged to support this expanded role (Pittini, 2019).

An example of this development is sustainable finance, which takes environmental, social and governance (ESG) considerations into account when making financial investment decisions. Expanding the availability of sustainable finance is a central plank of the EU's efforts to support a transition to a more sustainable economic model and to achieve this objective. Since 2018 the EU has put in place a comprehensive framework of policies, rules and other measures to



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assure investors that they are investing in projects that are really sustainable. This framework includes:

- The EU Taxonomy which is a common dictionary of economic activities that contribute to the EU's climate and environmental objectives.
- Rules on disclosures and reporting for both companies and investors, intended to sure transparency for all stakeholders.
- Standards and labels for the benchmarking of ESG financial products against climate goals and the EU Green Bond Standard (European Commission, 2023).

As explained in Figure 2.1, which summarises the EU Taxonomy, sustainable finance is directly relevant to buildings, including the climate friendly renovation and construction of housing. This it has been widely used to raise finance for social housing by both EU and national level funders of these sectors and by individual social landlords.

An example of the use of sustainable finance the Netherlands is outlined in Policy Snapshot 2.1 below. The is Nederlandse Waterschapsbank N.V (NWB) bank – the public development bank owned by Dutch municipalities – which created affordable housing bonds in 2017 to attract dedicated investors into social housing provision, renovation and energy efficiency retrofitting. These were renamed SDG Housing Bonds in 2019 – with reference to the United Nations' Sustainable Development Goals, and the reporting to investors on the use of the loans finance by these bonds, examines their impact on achieving the UN SDGs. NWB bank is one of the largest issuers of sustainable finance bonds in the world and by 2023 its SDG Housing Bonds had financed some €41 bn in loans (NWB Bank, 2023).

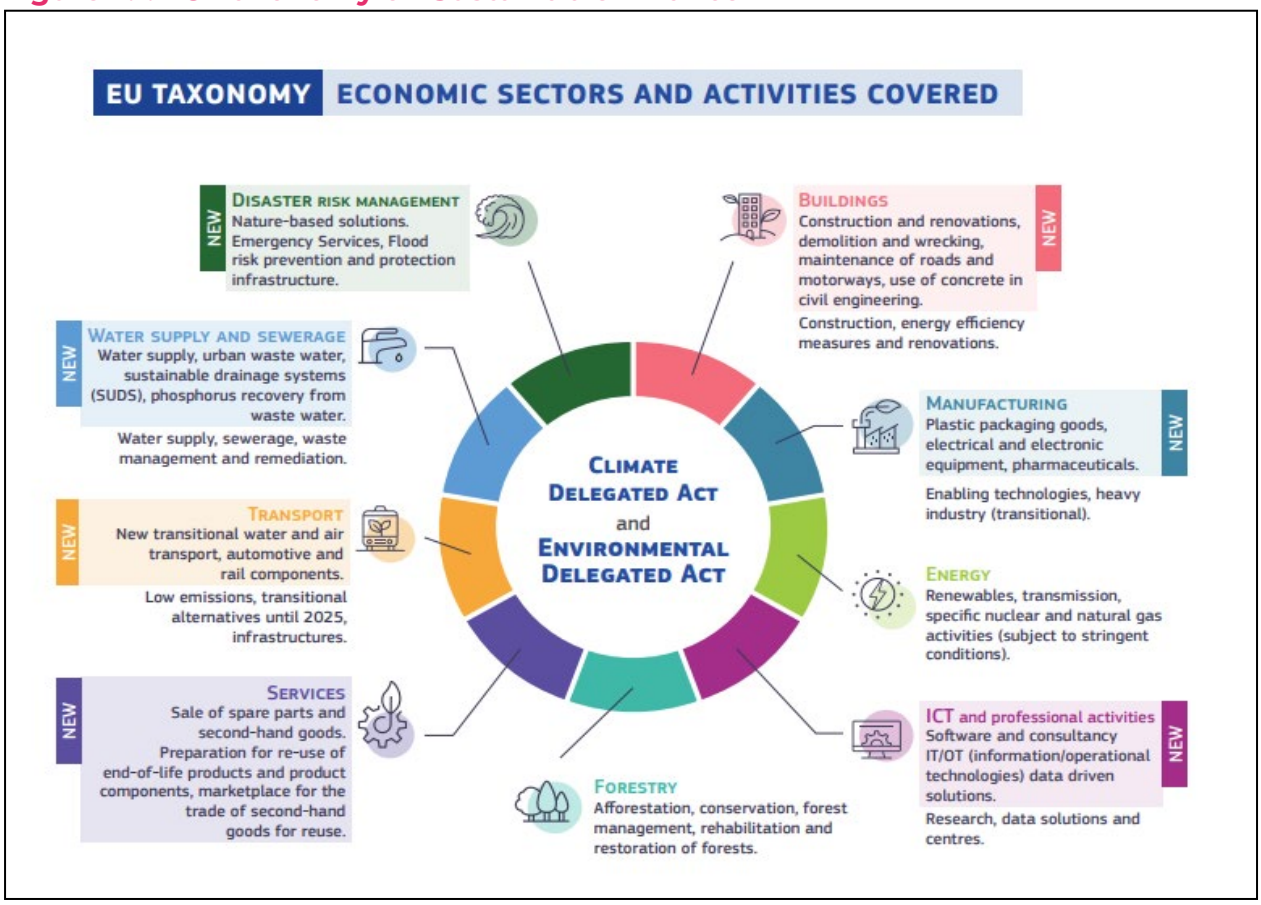
Social impact bonds (SIBs) were introduced as a means of incentivising beneficiaries to attain particular social goals. SIBs differ from traditional financing mechanisms such as loans insofar as they focus on outputs (such as sustainably housing homeless people), rather than inputs or activities (building bought, services or profits generated) and are a form of 'social outcome contracts' (SOCs). They have been used to provide housing and support services for homeless



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people, particularly in the USA and Australia, but also in the UK (Albertson et al., 2018; Liebman, 2011). They are used to raise private finance to cover the upfront capital required to enable the delivery of a service which is designed to achieve measurable outcomes. The investor is repaid only if these outcomes are achieved (see Figure 2.2).

**Figure 2.1: EU Taxonomy on Sustainable Finance**




Source: European Commission (2023).



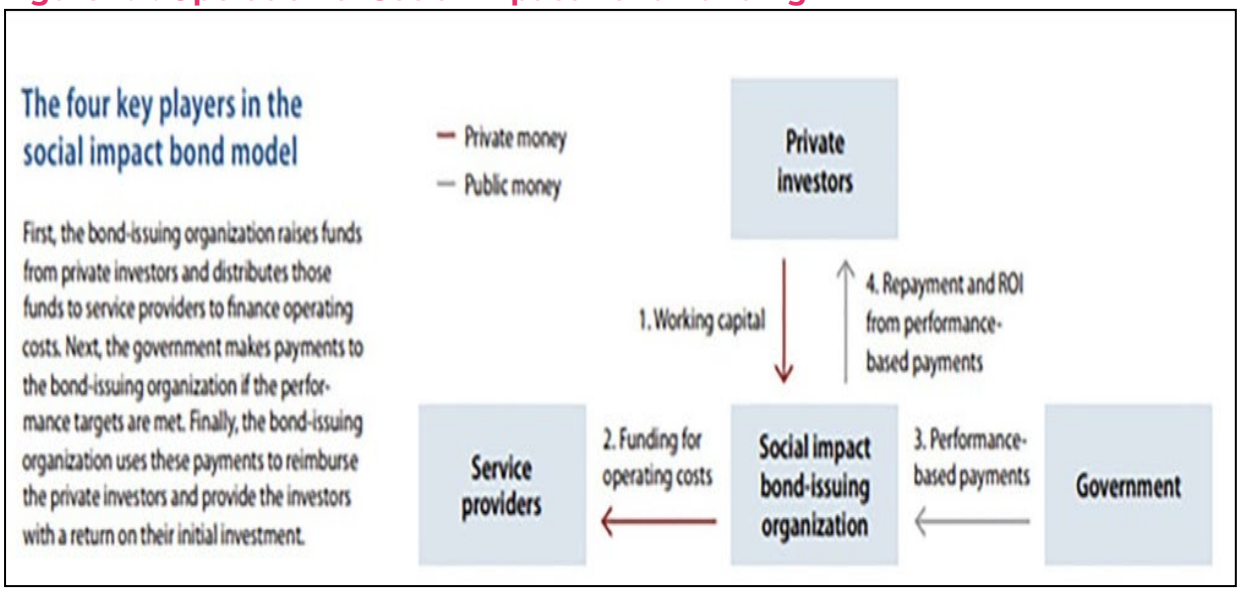
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## Policy Snapshot 2.1: NWB Bank SDG Housing Bonds Impact Measures, the Netherlands.




Source: NWB Bank (2023).

## Figure 2.2: Operation of Social Impact Bond Funding




Source: Liebman (2011).

Commercial equity finance is also used to support social housing development, particularly in the England and Ireland (Tang et al., 2017). This involves commercial investors retaining part or full ownership stakes (equity) in dwellings funded by their investment. These financing arrangements are sometimes



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initiated by government or social housing landlords and sometimes by the private sector (United Nations, 2021). Partridge (2023) reports commercial equity financing of social housing in England has been initiated by pension funds and other institutional investors. They are interested in investing in social housing because it is seen as a low risk but sustainable investment vehicle that satisfies their corporate ESG objectives but provides a more lucrative alternative to lending to social housing landlords in the context of falling interest rates. Most equity investment in UK social housing initially took the form of 'build and lease back' projects whereby private investors built new social housing and leased it to the not profit sector housing associations for letting to social housing tenants. Particularly since 2018 investors have established themselves as for-profit registered social landlords, which has been legally permitted in England since 2008 (but not elsewhere in the UK) (Partridge, 2023). They include international asset management groups (such as Blackstone and Blackrock), as well as domestic pension companies (analysis of Register). In 2024 there were 69 for-profit providers of social housing in England accounting for 1.3 per cent of the social stock, which includes both rental and low-cost home ownership (Regulator of Social Housing, 2024). They are likely to exhibit rapid growth, because non-profit social landlords are facing financial constraints and the need to direct investment into upgrading their existing stock, with partnerships between for-profit and non-profit providers expected to become more common. A parliamentary committee highlighted the need for the Regulator to maintain the skills to regulate this sector effectively (House of Commons Levelling Up, 2024). In both the UK and Ireland public private partnership (PPPs) structures have been used attract equity investment to fund social housing provision and upgrading (see. Policy Snapshot 2.2).

In some cases, social housing providers cross-subsidise the costs of providing social housing from revenues generated from for-profit or limited-profit housing developments. Among the countries under examination here this approach has been most widely used in England. After 2010, the government drastically cut the



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capital grant to housing associations that supports their development programmes. The capital grant that remained was targeted on a new form of social housing called 'affordable rent' where rents could be up to 80 per cent of market levels (compared to around 50% for traditional social rent). This meant that housing associations had to find other ways to provide new social rented housing, which include cross-subsidisation from for-profit or limited profit sales made by for-profit subsidiary companies. For profit-housing may be developed by for-profit subsidiaries of the housing association. This approach is, of course, dependent on the buoyancy of the housing market (Stephens, 2022). Housing associations also continued to make use of developer contributions through the planning system as an alternative to grant funding.

### Policy Snapshot 2.2: The Private Finance Initiative for Social Housing Upgrading in the United Kingdom

The Private Finance Initiative (PFI) was a particular form of Public Private Partnership used in the UK in the 1990s and 2000s to finance major capital projects, including schools and hospitals. From 1998 PFI was adopted in England as a means of financing and managing the upgrading of public housing estates, and to a lesser extent to provide new housing after 2003.

Typically, a housing PFI scheme involved the housing ministry issuing a call for tenders for to finance and manage the grading of a public housing estate. Consortia of private financiers, normally with a non-profit housing association as part of it, would bid for the project, with finance being obtained through borrowing and equity investors. The successful consortium would then subcontract the construction, ongoing maintenance and housing management aspects of the project (the latter being undertaken by the housing association).

Typically, a PFI agreement lasts for 30 years The first five rounds of the scheme were expected to finance the upgrade of 20,864 units and the build of 3,408 (bid).

Source National Audit Office (2010)

## 2.4 Government Finance

As revealed in Table 2.2, government finance in the form of grants or loans is also very commonly used to finance social housing development in Europe.



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Despite the very large size of the social housing sector in the Netherlands, this is one of the few European countries where no direct public funding is currently provided for social housing building or purchase – its social landlords draw entirely on non-government finance for this purpose. However, the circumstances of Netherlands housing associations are unique: the government in effect wrote off the sector's debt in 1995 essentially on the condition that they would receive no further subsidy. The sector therefore owns very substantial unencumbered assets. In the vast majority of other European countries, public capital funding of social housing plays a vital role in supporting the provision of this form of housing and in particular in enabling below market rents to be charged. Obviously, government finance plays a particularly important role in supporting social housing development where finance is not available from other sources but, in addition, in many countries, this finance is also designed to enable social housing providers' access additional finance from non-governmental sources.

However, the availability of government finance for social housing has generally declined in recent decades in the countries under examination. In the EU, public capital investment in social housing declined by 44 per cent in recent years, from €48.2 billion in 2009 to €27.5 billion in 2015 (Pittini, 2019). In England, supply-side subsidies for social house building (then predominantly subsidies to local authorities) declined from 82 per cent of all government housing subsidy in 1975/76, to 33.3 per cent in 1985/86 and 4.3 per cent by 2015/16 (Perry & Stephens, 2018). However, the share of supply-side subsidies has risen marginally again in recent years – to 12 per cent in 2021/22 (now predominantly grant funding to housing associations) (Stephens, 2024).

Table 2.2 details the main forms in which government finance for the capital costs of social housing provision is provided. As explained here, governments of the majority of European countries provide capital grants for this purpose – lump sum payments which, unlike loans, are not intended to be repaid (Lawson et al., 2018). They are therefore unambiguously a subsidy, reducing the rent that



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tenants will need to pay as well as providing up-front finance for construction. In Ireland capital grants from central government provide most of all the capital funding for social housing provided by municipalities (Norris & Hayden, 2020). However, in most other European countries, capital grants from government are combined with other sources of finance and indeed, in many cases, grants are designed to support access to other forms of finance by reducing social landlords' indebtedness and increasing their creditworthiness. In some countries government capital grants are designed to target specific categories of housing need. An example is France, where higher levels of government capital grants (and also lower interest rates on loans) are provided for social housing targeting particularly low-income households (this is sometimes called 'very social housing'). This enables social housing providers charge lower rents to this cohort of tenants, while higher income tenants pay higher rents (Schaefer, 2017). Similarly in Finland the capital grants are provided to meet specific categories of social housing need, including students, people with disabilities and those experiencing homelessness (Cahill, 2014).

Like government capital grants, government loans are often used to finance social housing, which has been the case for over a century in many European countries (United Nations, 2021). Loans are funded primarily through government tax revenues and/or public borrowing. Interest rates are likely to be lower than those that a social landlord could obtain from the market because government borrowing is effectively risk free (at least if fiscal rules are observed). The difference will depend on the credit worthiness of the social landlords. Interest rates on government (and indeed private) loans may be reduced further through subsidies financed by tax revenues. In the Flanders region of Belgium, for instance, government loans are provided to social landlords at negative interest rates (-1%) meaning that just over 80% of the loan is required to be actually repaid (Winters & den Broeck, 2020).



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In some countries, public loans are also designed specifically to enable social housing providers access private finance, usually in the form of debt. The public loan reduces the amount of private debt required to finance a development and makes it easier to access by reducing risk to the lender. This is the case in Austria for example, where social housing landlords access between 30 and 40% of project funding from a low interest, fixed rate public loan, which is subordinated debt (i.e. in the case of repayment difficulties other loans must be repaid first, therefore the government takes the 'first hit' on any losses). The availability of this loan enables social housing providers to leverage the majority of project funding through a commercial mortgage loan provided by a private bank.

For much of the twentieth and early twenty first centuries government subsidies for social housing provision were focused on reducing the cost of servicing housing debt particularly in its 'early years when its real burden is greatest' (Stephens, Burns and MacKay, 2012, p. 4). Historically this was often achieved using Interest rate subsidies from the government. These subsidies also played a particularly important role in supporting social housing provision when interest rates were high and also volatile. Thus, as interest rates declined and stabilised across most of Europe since the 1990s, this form of government subsidy is less widely used (Whitehead, 2014). It might be noted that period between the Global Financial Crisis and the inflationary resurgence from 2022 was a period of exceptionally low (close to zero, even negative) interest rates. In 2025 we appear to be returning to positive interest rates above the ultra-low levels of 2008-22 (in April 2025 the ECB standard interest rate was 2.4%), but substantially lower than in the 1970s and 1980s. However, interest subsidies remain the main supply side public subsidy instrument for social housing in Denmark and are also used in Austria, some regions of Belgium Finland, Germany and Portugal (United Nations, 2021).

Government guarantees underwrite lending to social housing providers to reduce the risk for lenders and thereby increase the availability of housing finance and decrease its cost (Oxley, 2009). These loan guarantees are intended to 'to



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influence the credit allocation decisions of financial institutions by reassuring bond investors with agreements outlining conditions where government will cover the coupon payment in the event of borrower default' (United Nations, 2021, p. 80). The loan guarantees employed by governments vary in design. They can be:

- Explicit or implicit: the former is a formal agreement that government will repay social housing providers' debt in the event of a default; the latter is an expectation they will do so, without a formal commitment.
- Partial or full: guarantees can either cover the full debt finance required to finance a housing project, or only part of this debt particular project.
- On paper or in cash: in most cases governments provide a written, 'on paper' commitment to repay social housing providers' debts in the event of default, however in some cases these guarantees are supported by a 'guarantee fund' from which any repayments of bad debts will be made (United Nations, 2021).

From the late 1980s onwards, the Dutch government facilitated the independence of its housing associations. A three-tier system of support was created as government withdrew from subsidising the sector (whilst also effectively writing off its debts) [see Policy Snapshot 2.3]. The Central Fund (CFV) was created as a quasi-government authority to provide financial oversight and emergency support and was funded by contributions from member associations. The Social Housing Guarantee Fund (WSW) was established with government and housing association seed corn funding and with housing associations making subsequent contributions. The WSW offers three tiers of support: the first tier is the housing associations' portfolios as collateral; the second is the WSW mutual fund which associations pay into; and the third is the national government itself. This is sufficient for WSW to gain a AAA rating (Van Deusen, 2023) The Dutch state and municipalities provide a last resort third tier. Favourable tax treatment of social landlords also plays an important, and often unacknowledged, role in subsidising social housing development in Europe because in the vast majority of countries this housing is provided by non-profit or public sector institutions which are exempt from business tax on any surpluses



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that they generate (United Nations, 2021). Germany and Sweden are among the small number of European countries in which this is not the case.

### Policy Snapshot 2.3: Paper Guarantees and Guarantee Funds for Social Housing development Loans in the Netherlands

| Level | Security Instrument | Characteristics |
|---|---|---|
| Primary | Central Fund for Social Housing (CFV) | This is a government agency which is funded by charges levied on housing associations. It supervises the financial stability of housing associations and can sanction organisations in financial difficulty, order remedial action to stabilise their finances and provide financial support to when they implement these actions. |
| Secondary | Guarantee for Social Housing (WSW) | The organisation was established by housing associations in the 1980s to guarantee capital market loans for social housing development and renovation. It is a guarantee fund which is funded by fees which housing associations pay when accessing a loan with a WSW guarantee, but its guarantees also enjoy a government backstop. The fund has the highest possible ratings by the main credit ratings agencies, and its guarantees enable housing association to borrow at very low interest rates. |
| Tertiary | Central and local government | The Dutch state and municipalities come as a last resort guarantor (50%-50%) with interest-free loans in case the sector can no-longer overcome its financial problems, and the WSW is nearly exhausted. This risk is theoretical and therefore public guarantees have more of a backup role. |

Source: Adapted from CECODHAS (2013).

In France tax subsidies play a particularly large role in financing social housing development, although the exact scale of their contribution is difficult to estimate. As explained in the section that follows, the savings accounts which fund lending to the sector are tax subsidised. In addition, French social landlords pay only quarter of the standard rate of Value Added Tax (VAT)/ purchase taxes on the cost of the materials and services required to construct, improve, and refurbish social housing and are exempt from the land tax (which one of several elements of property taxes in France) for 25 years. In addition, a 1 % 'employer tax'



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has been in place in France for decades which in part funds government grants and other subsidies for social housing development (Kalyva et al., 2016).

## 2.5 Non-Profit Finance

During the twentieth century household savings amassed by non-profit savings banks to finance mortgages played a central role in enabling households with average or below average incomes purchase a home in many European countries. Building societies in Ireland and the UK, Caja De Ahorros in Spain and Bausparkassen in Austria and Germany are all examples of this savings bank model. Prior to deregulation in the 1980s and 1990s these organisations often operated on the basis of a 'closed' circuit of finance, creating a privileged if rationed source of housing finance. In some cases, these organisations offered 'contract savings schemes.' These required aspiring homeowners to make regular savings for a period (which served to indicate an ability and aptitude to meet future mortgage repayments) in return for a mortgage based on a multiple of savings accrued at a concessionary interest rate. In recent decades the significance of these nonprofit sources of housing finance has declined significantly as many savings banks have been subject to deregulation and in some cases have closed. Almost all of the largest building societies in the UK and all the building societies in Ireland ended their mutual ownership in the 1980s and 1990s for instance, as they were taken over by or converted into commercial banks often citing the need to diversity and raise share capital. None of the UK's building societies that became banks survived the global financial crisis as independent entities. The vast majority of Caja De Ahorros in Spain also closed during the global financial crisis.

However, in some European countries nonprofit finance derived from household savings still plays a significant role in financing social rented housing and also affordable housing for sale (United Nations, 2021). For instance, France continues to use savings schemes as a key financing tool for social housing, with some 70% of capital funding for new social housing provision being provided by



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loans funded by household savings and managed by a public investment bank called Caisse des Dépôts et Consignations (CDC) (United Nations, 2021) (see Policy Snapshot 2.4). In Germany housing cooperatives are significant social housing providers and 48 of these co-operatives also operate savings banks (Bausparkassen in German). This provides the housing cooperative with working capital which can be used for the modernisation and maintenance of their social housing stock (see Policy Snapshot 2.5).

### Policy Snapshot 2.4: Use of 'Livret A' Savings Accounts to Finance Social housing Development Loans in France

70% of capital funding for new social housing provision in France is funded by household savings accumulated in 'Livret A' savings accounts held with French banks and the post office. The interest on these savings accounts is tax exempt and they are used by a large proportion of French households for small savings. A public development bank called the Caisse des Dépôts et Consignations (CDC) manages and centralises funds from these savings and uses them to fund loans for social housing development. These are known as 'prêt locatif à usage social' ('PLUS loans', which translates as loans specifically for building low-cost housing), they have lower interest rates and longer terms than loans provided by commercial banks which helps to reduce the costs of social housing development.

Source: Deutsch and Lawson, (2012).

### Policy Snapshot 2.5: Finance from Savings Banks (Bausparkassen) for Development of Cooperative Social Housing in Germany.

Housing cooperatives provide 16% of the social housing stock and 0.5% of all dwellings in Germany. They are also significant providers of dwellings which is not officially categorised as social housing but is let for below market rents. 48 housing cooperatives also operate non-profit, cooperatively owned savings banks. Members deposit their savings in these organisations for medium and long-term investment at slightly higher interest rates than they would receive from commercial banks. This provides the housing cooperative with working capital which can be used for the modernisation and maintenance of their housing stock.

Source: https://www.housinginternational.coop/co-ops/germany/



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## 2.6 Internal-Finance

In many European countries social housing provision is in partly 'self-financed' because tenants' rents generate surpluses, (i.e. additional income after the costs of housing delivery have been covered), which subsidises the costs of new social housing delivery. In some countries, tenants are also required to pay substantial downpayments (security deposits) which also contribute to housing development costs.

The extent to which social housing sectors are self-financing varies significantly across Europe however, depending on several factors. The two primary influences are the 'maturity' of the sector (rents generally only generate surpluses in the long term when social housing development loans have been largely or entirely repaid or their value has been eroded by inflation) and the method used to determine rents (and they extent to which these cover the most or all of the costs of housing provision). Whether housing allowances are provided by government to subsidise the costs of social housing tenants' rents also influences the potential for self-financing from rents. If housing allowances are not provided social landlords may be forced to keep rents well below costs to ensure they remain affordable for tenants. Social housing providers' policies regarding the management of their income for rents can also impact both the potential for self-financing and the rents charged to individual tenant households. Whether they require the rents from each social housing development to cover its costs or combine the rental income from all their dwellings together (commonly called 'rent pooling') is particularly significant in this regard. If the latter model is used it means that rents from older housing developments (where the outstanding housing development loan is likely to be low) can cross subsidise the costs of new (and more likely heavily indebted) housing developments.

Four main approaches to determining rents for social housing are currently used European countries. They are:

- Characteristic-based: rent levels reflect the dwelling's characteristics such as size, age amenities and location.
- Cost based: rent levels are determined by the costs of



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building/acquiring and managing and maintaining the dwelling (minus the value of public subsidies).

- Income-based: rent levels reflect tenants' individual or household income level.
- Market-based: rent levels reflect the variations associated with market-rents payable for similar dwellings, so take into account location.

These different rent determination arrangements are not always mutually exclusive, however, because a mix of different arrangements are sometimes used within individual countries, social housing sectors or landlords. However, the greatest tension is between rents that seek to cover costs and those that vary according to individual tenant household incomes. This is the case in Poland where rents are generally cost-based but some municipalities apply income-based adjustments to these to ensure they are affordable for low-income households. It is also important to acknowledge that the method used to calculate the rents for individual dwellings, not be the sole determinant of rent levels. Although rents for individual social rented dwellings in the Netherlands and England are determined primarily on the basis of their characteristics, social housing regulators in these countries require that the total rental income each social housing landlord receives for all its dwellings must cover the organisation's costs in full. Consequently, in these countries the costs of social housing provision is a critical underlying consideration when determining rents.

Table 2.3 details the use of these arrangements in the EU27 and the UK. It distinguishes the primary (i.e. most commonly used or overriding consideration) method used in countries where multiple methodologies are used to determine rents. Table 2.3 reveals that in five European countries (Belgium, Bulgaria, Ireland, Portugal and Romania) social housing rents determined solely on the basis of tenants' incomes. In a further four European countries (Austria, Denmark, Finland and Slovakia) social housing rents are linked solely to costs. While in Hungary, Lithuania, Poland and Sweden social housing rents are solely characteristic based. In ten European countries (Czechia, England, Estonia, France, Germany, Italy, Latvia, Malta, The Netherlands and Slovenia) a mix of rent determination systems are used.



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Internal financing of social housing development using income from rents is operationalised in practice by means of 'revolving funds' of various types. This means that, when housing development loans have repaid, or their value is eroded by rent inflation, the continuing income from rents on these dwellings can contribute to the costs of new housing development by funding equity contributions to these costs, land purchase or loans (Alves, 2017; Norris & Byrne, 2017; Pittini et al., 2021; Vidal, 2019). In most European countries social housing landlords combine income from rents from across their social housing stock, so revolving funds operate at the level of individual social landlords. The cost rents paid by social housing tenants in Austria contribute to revolving funds at the level of the individual limited profit housing associations that provide most social housing in this country. As their name suggests, these organisations are allowed to make a 'limited profit' on these rents, but by law this must be reinvested in housing provision and is generally used to purchase land for future housing development. This revolving fund arrangement reduces the costs of new housing delivery and therefore the cost rents charged to new tenants (Amann & Mundt, 2005; Mundt & Springler, 2016; Norris Michelle & Byrne Michael, 2018). This model inspired the establishment of a similar 'cost rental' housing programme in Ireland, but targeting households with incomes just above the limit required to access social housing (see Policy Snapshot 2.6).

Revolving funds are also an important source of finance for social housing development and renovation in Denmark, but here they operate at the national level, rather than at the level of individual social housing providers (see Policy Snapshot 2.7). Denmark established the National Building Fund (Landsbyggefonden, LBF) in 1967, initially to equalise rents between properties with differing loan profiles (in effect, a form of rent pooling). However, as the debt of the housing association sector began to be paid off in the in the 1990s some 50-60 per cent of surpluses have been directed to the LBF (with the balance going to local funds). Policy snapshot 2.7 illustrates how this system operates. Once housing development loans are repaid after 30 years, the additional



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revenue generated from tenants rents accrues to central government for the next 10 years (thereby effectively repaying government subsidies to the sector) but from then on, the revenue generated is divided between a local 'reserve fund' (which obtains one third of this revenue and is managed by social landlords) and the 'National Building Fund' (which obtains two thirds and uses this to finance renovation and maintenance works for social housing and subsidises for new house building (Larsen & Lund Hansen, 2015). The use of this national revolving fund model in Denmark reflects the fact that rents are required to costs for the individual housing developed where the dwelling is located. This the pooling of surpluses in a national fund enables the cross subsidization of high costs social housing developments (and renovation projects) by lower cost ones. The LBF is governed by a board which includes representatives of housing association, tenants and the two largest municipalities, however its budget has to be approved by the government.



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## Table 2.3: Social Housing Rent Determination Arrangements in European Countries.

| Country | Rent-determination system | | | |
|---|---|---|---|---|
| | Market-based | Cost-based | Income-based | Characteristic Based |
| Austria (2) | | X | | |
| Belgium | | | X | |
| Bulgaria (3) | | | X | |
| Czechia | X | X (primarily) | X (primarily) | X |
| Denmark | | X | | |
| Estonia (1) | | X (primarily) | | X |
| Finland | | X | | |
| France (1,3) | | X | X (primarily) | |
| Germany | X (primarily) | | X | |
| Hungary | | | | X |
| Ireland (4) | | | X | |
| Italy (3) | X | | X (primarily) | X (primarily) |
| Latvia (1) | X | X (primarily) | X | X |
| Lithuania | | | | X (varies across municipalities) |
| Luxembourg (6) | | | X (see note) | X |
| Malta | X | X | X (primarily) | X |
| The Netherlands (1,5) | X | X | X | X (primarily) |
| Poland (7) | | | | X |
| Portugal (7) | | | X | |
| Romania | | | X | |
| Slovakia | | X | | |
| Slovenia | | X | | X (primarily) |
| Spain | | | | |
| Sweden | | | | X |
| United Kingdom: England (3,8) | X | X | X | X |

Notes: No social housing is provided in Cyprus and Greece, so these countries are not included in this table.

1. Social rent as percentage based on responses in previous QuASH rounds.

2. Austria: Tenant's right to purchase a social dwelling is regulated by the Limited-Profit-Housing Act.

3. All information is based on 2021 QuASH responses.

4. Sitting tenant's right to buy based on responses in previous QuASH rounds.

5. Rent increase system based on responses in previous QuASH rounds.

6. Luxembourg: Rent levels depend upon the household income and composition, according to the (modified) Grand-ducal regulation of November 16, 1998 (Article 18).

7. Rent setting system based on responses in previous QuASH rounds.

8. United Kingdom: Information refers to England. Social rent is based on a formula considering condition and location of a property, local earnings, and property size

Source: OECD (2022). Questionnaire on Affordable and Social Housing (QuASH



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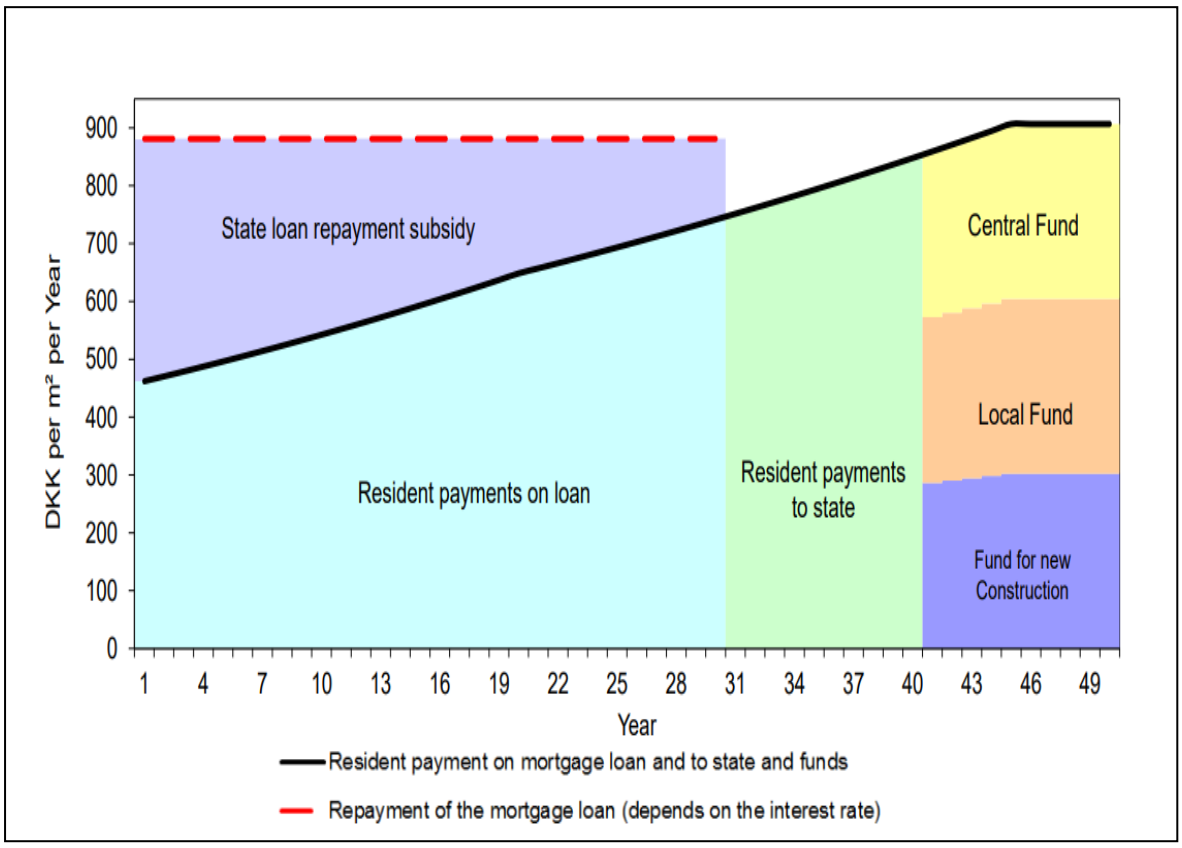
## Policy Snapshot 2.6: Cost Rental Housing in Ireland

Ireland established a new 'cost-rental' housing tenure in 2021. Although inspired by the cost rents charged for social housing in Austrian, the Irish scheme is not form of social housing – rather it is aimed at households whose incomes are too high to qualify for social housing but too low to be able to afford to rent or buy a house on the market. In this scheme rents cover the costs of repaying housing development loans, and housing management, maintenance, and repair only. However, the aim is that rents that are at least 25% below what they would be on the private market.

Cost rental homes can be provided by social housing providers (non-profit sector housing associations, municipalities and the government agency called the Land Development Agency) and the private sector, however in order to qualify for cost rental scheme subsidies from the government (grants which cover some of the costs of housing provision) all providers must let the dwellings at cost rents for at least 70 years.

Source: Caturianas et al., (2020)

## Policy Snapshot 2.7: The Danish National Social Housing Revolving Fund




Source: OECD (2020).



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A different form of revolving fund has been established in Slovakia (see Policy Snapshot 2.8). Its State Housing Development Fund (SHDF) was established in 1996 was originally capitalised by government, but this capital funds low interest loans for social housing provision and the renovation of some categories of private housing and as these loans are repaid by rents and other contributions, this funds more lending for more housing development.

No pan European research has been conducted on the extent to which different rent determination systems generate surpluses for reinvestment (and rents are not the only influence on this issue, privatisation of dwellings particularly at low prices is also a significant factor). However, research from several European countries indicates that rents linked to tenants' incomes are unlikely to generate surpluses and, in many cases, to even generate sufficient revenue to maintain and manage dwellings or service housing development loans. Research on ten large social housing landlords in Italy (called public housing companies) found that although with significant variations, rental revenue covers roughly only 45% of operating costs, due to low rents (because tenants have low incomes) and high rent arrears (Saporito & Perobelli, 2021). Similarly, Norris and Hayden's (2020) research on social housing provided by municipalities in Ireland indicates that the income-based rents used in this sector does not generate sufficient rental income to cover debt servicing and even maintenance of dwellings in some cases (see also: Lewis, 2019).



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### Policy Snapshot 2.8: The Slovakian State Housing Development Fund

The State Housing Development Fund (SHDF) of Slovakia was established in 1996 as a revolving fund used to finance loans social housing development and renovation and land acquisition for social housing. It was originally financed solely by the national government but was designed to become self-financing over time. This is not yet the case - the fund still draws on small levels of government funding, together with some European structural funding, but is now primarily self-sustaining via the repayments on the loans which it has made. The SHDF provides long-term loans on favourable terms. These cover up to 100 per cent of housing acquisition costs and are available for terms of up to 40 years at interest rates of between zero and 2 per cent.

Source: United Nations, (2021) and www.sfrb.sk/

In some countries tenants' downpayments provide a significant equity contribution towards the costs of providing new social housing. An example is Austria where tenants pay downpayments of between 0% and 10% of the costs of providing their dwelling (Amann et al., 2009). This contribution reduces financing costs which, in turn, reduces rent levels, because rents pegged to the cost of housing provision (Amann et al., 2009; Pittini et al., 2021). Downpayments are not compulsory, however tenants who pay them also have the right to buy their dwelling in the future (Deutsch, 2009). In Denmark tenants' downpayments also contribute to the costs of social housing development, but these are lower – equivalent to 2% of housing development costs - and do not afford them any additional rights to buy the dwelling (Norris and Byrne, 2017).

## 2.7 Organisations that Finance Social Housing Development in Europe

The previous section explained that the sources of finance for social housing development vary between European countries. Table 2.4 below, also highlights some cross-country variation in the organisations that provide this finance.

As already mentioned, the vast majority of social housing development in Europe is funded using loans but the sources of these varies across Europe. In the majority of European countries commercial banks loans are used to finance social housing development, whereas loans from non-profit sector savings banks



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and other types of saving funds are used in only three countries (including France where revenue from savings is disbursed by a public development bank - Caisse des Dépôts et Consignations). National governments (via ministries or government agencies) are directly involved in distributing public capital finance for social housing in only 13 countries and is also common to have this function carried out by municipalities. In many European countries specialist financial intermediaries have also been established, mainly by governments, to channel lending and other forms of finance into social housing (including but not limited to government finance) and to conduct the necessary credit assessments of borrowers (United Nations, 2021). These arrangements are particularly common in smaller European countries and/or countries where the social housing sector is small and/or fragmented in terms of ownership among a large number of landlords. This is because, in this context, social housing landlords may not be able to raise private finance directly from commercial banks or bond markets or may not be able to borrow on attractive terms. Consequently, to access this finance they need the support of a special purpose financial intermediary that will borrow on their behalf, sometimes with the support of a government guarantee, sometimes without (United Nations, 2021).

Oxley (2009, pp. 31-32) highlights the vast variety and complexity in 'the type of special purpose institution' that finance social housing in Europe and 'the sources of their funding'. The latter includes one or more of all the sources of finance outlined in Chapter 2. However, generally these special purpose financial intermediaries take one of three organisational forms: public agencies, non-governmental non-profit organisations and for-profit organisations. Among these forms, the third is by far the least common and the first is the most widely used.



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## Table 2.4:Organisations that Finance the Capital Costs of Social Housing Provision in European Countries.

| | Bond markets | Central government – ministry or agency | Commercial Bank | European Union Funding | Municipalities | Public development banks | Public Private Partnerships | Savings banks or other similar institutions (non-profit sector) | Special Purpose Financial Intermediaries (other than public development Banks) |
|---|---|---|---|---|---|---|---|---|---|
| Austria | X | X | X | | X | | | X | |
| Belgium | | | | | X | X | | | |
| Bulgaria | | | | X | X | | | | |
| Croatia no info | | | | | | | | | |
| Czechia | | | | X | X | X | | | X |
| Denmark | X | X | | | X | | | | |
| Estonia | | | | | X | | X | | X |
| Finland | | | | | | | | | X |
| France | | | | | X | X | | | |
| Germany | | X | X | | X | X | | X | X |
| Hungary | | | | | X | | | | |
| Ireland | | X | | | X | | X | | X |
| Italy | | | | | X | | | | X |
| Latvia | | X | | X | X | | | | X |
| Lithuania | | | | X | X | | | | |
| Luxembourg | | X | X | | X | | | | |
| Malta | | | | | X | | | | X |
| Netherlands | | | | | X | X | | | |
| Poland | | X | | X | X | X | X | | X |
| Portugal | | X | | | X | | | | X |
| Romania | | X | | X | X | | | | |
| Slovakia | | X | | | | | | | X |
| Slovenia | | | | X | X | | | | X |
| Spain | | X | X | | X | X | | | |
| Sweden | | | X | | | | | | X |
| United Kingdom | | | | | | | | | |
| England | | | | | | | | | |
| Northern Ireland | | X | X | | | | | | |
| Scotland | | X | X | | | | | | |
| Wales | X | X | X | | | X | | | |

Source: survey of the European Community for Housing Equality conducted by the authors.

Note: there is currently no social housing provided in Cyprus and Greece, so these countries are not included in this table. No data are available for Croatia



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Governments across Europe countries and at pan-European level have established banks and other types of financial institutions 'to execute a public mandate on behalf of their governments' and their mandate often includes social housing (Xu et al., 2021). For instance, public development banks exist in the majority of European countries (and operate at both the national and regional levels) and also at EU level (the European Investment Bank is the European Union's development bank) and across Europe more broadly (e.g. the Council of Europe Development Bank (CEB), which is the development bank for the 43 countries that are members of the Council of Europe) (see Policy Snapshot 2.9). These banks commonly lend for social housing development or provide equity finance or loan guarantees for this purpose, in addition to lending or carrying out other financial activities to enable economic and social development and meet other policy objectives (see Policy Snapshot 2.10-the Polish Development Bank) (Colombo & Cuda, 2023).

In other countries, governments have established non-bank, financial institutions to channel finance into social housing. An example is the National Development and Social Fund in Malta (see Policy Snapshot 11). A similar special purpose financial organisation exists in the UK called the Housing Finance Corporation, but it is a non-government, non-profit group of specialist finance companies which was originally a joint initiative between a government agency (the Housing Corporation) and the representative body for non-profit sector social housing providers (the National Housing Federation) (see Policy Snapshot 2.12). Its activities focus on raising bonds on bond markets and dividing up this finance among social housing providers that need it. Organisations that fulfil this function are called bond aggregators (United Nations, 2021). Similarly, a network of housing cooperatives from Central and Eastern Europe have established a joint financial intermediary called MOBA Housing SCE (MOBA) to channel finance from donations, bonds and shares into cooperative rental and limited equity cooperative housing (see Policy Snapshot 2.13) (Pósfai et al., 2022). Notably, in addition to carrying out their core functions detailed above, the Caisse des Dépôts et Consignations in France and the Danish national revolving fund both



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acts as special purpose financial intermediaries by issuing bonds and borrowing long term to fund social housing (Oxley, 2009).

In some European countries, particularly the UK and Ireland, social housing development finance is sourced using Public Private Partnerships. A PPP is an "agreement between government/public and private partners where the objectives of service delivery for the public sector are aligned with the objectives of the private sector through various possible instruments" (Batra, 2023 p. 2904). The design of PPPs varies between countries and also depending on the infrastructure or service they are used to procure. PPPs include outsourcing/ service contracts, contracts to design and build dwellings and to design, build and operate dwellings and these forms of PPPs do not differ significantly from traditional infrastructure or service procurement contracts and the associated contracts do not cover project finance. However, "Design, Build, Operate and Finance" PPP contracts do require the private sector partner(s) to finance a social housing project. This finance generally takes the form of loans or equity contributed by one of more of the private sector participants in the PPP to cover the project design, build and operating costs. In return for making the dwellings available for social housing for the duration of the PPP contract, the private sector partners are paid an ongoing subsidy (in the form of an availability payment or similar) by government. Usually, ownership of the dwellings transfers to the state or the social landlord at the end of the PPP contract (see Policy Snapshot 2.2.)



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### Policy Snapshot 2.9: European Investment Bank

The European Investment Bank (EIB) was established in 1958 as the financial arm of the European Union (EU) to support EU policy objectives across Europe. The EIB is a financially autonomous organisation which raises the majority of its finance for projects through its own capital resources, which include, contributions from EU member states, and also through bond issuance, including green bonds (for green projects) and leveraging EIB credit rating. Additionally, the EIB manages funds from EU budget allocations including the Invest EU. Within the context of social housing, the EIB provides loans, equity investments, guarantees, and advisory services to for the development of affordable and social and sustainable housing projects across Europe. The primary aim of these loans is to foster social cohesion, and to improve the living standards across the EU, contributing to long-term sustainable growth. Since 1959, the EIB has invested over €3 billion in social housing, and close to €59 billion, in urban development initiatives.

Source: https://www.eib.org

### Policy Snapshot 2.10: Polish Development Bank Social Housing Finance

The Hospodarate Krajowego (BGK), a Polish development bank, was established in 1924, and is a public limited company wholly owned by the Polish government. Its mandate is to manage EU funding programmes and distribute these at the national and regional level across Poland. In 2020, the BGK sourced finance from the European Investment Bank to fund development of new social housing for rent, for low and moderate-income households across Poland. The EIB provided the GBK with up to PLN 3 million to finance the establishment of new housing associations across Poland, with a focus on needs that are not covered by previous national social housing programmes. In addition, the EIB financed 10 per cent of the costs for housing investments undertaken by housing associations to construct new affordable and social homes to rent.

Source: https://www.bgk.pl

### Policy Snapshot 2.11: National Development and Social Fund Malta

In 2015, the Maltese government created the National Development and Social Fund (NDSF). It is a sovereign wealth fund, funded in party the establishment of Malta's Individual Investor Programme, which offers foreign individuals and families the opportunity to acquire Maltese citizenship through investment. Funds generated from the IIP are used to capitalise the NDSF, but direct transfers from government make an even bigger contribution. In recent years NDSF funded grants have been one of the main sources of funding for capital investment in social housing in Malta.

Source: https:/ndsf.com.mt/



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### Policy Snapshot 2.12: The Housing Finance Corporation, United Kingdom

The Housing Finance Corporation (THFC) was established in 1987. It is a non-profit, non-governmental, organisation that supports the financing and development of affordable housing in the Uk. The THFC sources its finance by issuing bonds to private investors and borrowing from banks. THFC then issue long term, and low-cost favourable loans to housing associations to enable them finance social housing development. It acts as an aggregating financial intermediary (or middleman), ensuring housing associations which might not be able to raise debt finance directly from markets receive funding on the best possible terms. THFC reinvests any surplus income back into its work, further lowering costs for borrowers. The organisation manages a loan portfolio of over STG£8 billion. Each loan is backed by collateral and carefully monitored to ensure financial stability. THFC's funding model is designed to eliminate risks like currency fluctuations, making it a reliable and secure option for housing associations.

Source: thfcorp.com

### Policy Snapshot 2.13: MOBA Housing SCE Croatia, Czechia, Hungary, Serbia, and Slovenia

MOBA is a network of housing cooperative initiatives registered in Croatia but with full members from Croatia, Czechia, Hungary, Serbia and Slovenia. It aims to become a regional financial intermediary to finance new rental-based and limited equity housing cooperatives. To achieve this the MOBA Housing Finance Accelerator has been established. It works as a quasi-fund, collecting capital through donations, investment through shares, and potentially issuing bonds. The Finance Accelerator finances full MOBA members by providing short-term bridge loans (or medium-term subordinated loans). It aims to provide equity investment in the future once the fund it better capitalized.

Source: Pósfai et al, (2022)

## 2.8 Variations Within European Countries

In an effort to summarise the complex and varied arrangements for financing housing in Europe clearly, the preceding sections have largely ignored variations in these arrangements at sub-national level. However, it is important to acknowledge that these arrangements often vary between different regions of many European countries, particularly in those which have federal systems of government. In fact, the extent of decentralisation of housing policy making in so strong in some European countries, such as the UK, Spain, Italy, Belgium and Austria, and the consequent regional differences in housing policy and social



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housing financing arrangements are so significant, it is very difficult to identify a coherent national approach to social housing policy and provision in these countries.

It is also notable that decentralisation of housing policy and consequently variations in social housing financing arrangements have strengthened in several countries in recent years. Housing policy making in Belgium was entirely devolved to its regions (Brussels-Capital Region, Wallonia and Flanders) as part of the full federalisation of this country in 1989 for instance. This also occurred as part of the devolution of UK government functions to the devolved governments of Scotland, Wales and Northern Ireland in 1999, and has further strengthened since then as additional housing policy responsibilities have been devolved. However, responsibility for housing allowances which underpin the financing of social housing has been retained by UK central government in London, and this incomplete decentralisation can create significant policy tensions and challenges for implementation.

In other cases, decentralisation of responsibility for housing was associated with the reduction or withdrawal of central government subsidies for social housing provision and the transfer of responsibility for financing the sector onto regional and/or local government. Thus, decentralisation has resulted in a reduction in public subsidies for social housing provision. This was the case in Italy for instance where responsibility for housing policy was transferred from central government to the regional and local authorities in 1998. At this time the main central fund used to guarantee a constant flow of resources for public housing (Gescal Fund) was abolished and has not been replaced by a stable funding mechanism since then. The national and regional funding for social housing that has been provided since then has been *ad hoc* and uneven over time.


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## 2.9 Analysis

### 2.9.1 Comparing the Effectiveness of Social Housing Development Finance to Other Policy Responses to Housing Unaffordability

There is a significant volume of research on the effectiveness of the supply side supports for social housing provision examined in the preceding sections. However, research suggests that reaching definitive conclusions in this regard is challenging because housing is a long-lived asset, so its costs and benefits are difficult to compare to short term interventions. In addition, because a substantial proportion of finance for social housing is not provided by governments and not sometimes monetised (e.g. in the case of loan guarantees) and therefore not captured in the national accounts of different nation states and is difficult to measure (Fahey & Norris, 2016). Furthermore, the benefits of financing social housing depend inherently on the effectiveness of this sector's management, maintenance and targeting, which varies between different countries (Yates & Whitehead, 1998).

Bearing in mind these caveats, the available evidence suggests that financing social housing development has several important advantages over other responses to housing unaffordability:

- By enabling the development of new social housing, supply-side supports directly address the failure of the market to provide sufficient affordable housing.
- In the context of market undersupply, social house building may be the quickest way and easiest way to increase housing supply.
- Social housing can be allocated in line with policy makers' priorities and identified needs, rather than market priorities.
- Supply side supports do not generally have the market distorting effects associated with some other responses to housing unaffordability such as controls of market rents or personal subsidies for private renters which can respectively diminish supply and inflate prices and therefore create problems for households living in non-rent controlled or non-subsidised dwellings.
- Supply side supports for social housing development can have wider economic benefits in terms easing volatility in housing markets and the


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construction industry, and

- They may be more politically acceptable than subsidizing private suppliers to deliver additional housing.
- Government supply side subsidies can be a more cost effective response to housing unaffordability, particularly when assessed in long-term perspective and when accompanied by a significant of private, non-profit and self-financing of social housing provision and social housing landlords' debt is not included on the government balance sheet (i.e., is not considered part of the national debt because the sector is not categorised as part of government in the national accounts) (Norris and Coates, 2010; Ryan-Collins, Loyd and Macfarlane, 2017; Meen and Whitehead, 2020; Winters and den Broeck, 2020). A survey of ECHE members indicates that this sector is not included in the government balance sheet, or only partially included, in a majority of Western European countries (see Table 2.5).

These significant benefits are subject to some qualifications, however, and counterbalanced by several important disbenefits. For instance, building additional social housing is a much slower response to housing need than subsidising low-income households to rent private housing. Social housing provision can be difficult to target over the long term because in many (but not all) European countries once households secure a social housing tenancy, they keep it for life. Thus, while they may clearly need social housing when they secure the tenancy, this may not be the case decades later. While financing social housing provision may address the impact of market failures, it can be inefficient to use state support to compensate for poorly functioning markets and it may be more efficient to resolve the factors which stop markets functioning are also categorised as government debt. In recent years Eurostat (the European Union's statistics agency, which oversees public accounting rules among EU member states) changed the national accounting categorisation of non-profit sector social housing providers in Ireland to include them within the 'government' category and therefore as part of the Irish national debt and the same measure was applied to municipal housing companies in Finland in 2021 (Eurostat, 2018, 2021). The expansion in public borrowing is significant in view of the EU fiscal rules which limit both the total scale and annual growth in borrowing among member states, particularly Eurozone members. The Finnish social housing providers'



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debts that were included on the public balance sheet were equivalent to 2.1% of this country's national debt (Eurostat, 2021).

**Table 2.5: Status of Social Housing Sector in the National Accounts of European Countries.**

| Country | Status on the Government Balance Sheet | | |
|---|---|---|---|
| | Fully on | Partially on | Fully off |
| Austria | | | X |
| Belgium* | | X | |
| Finland | X | | |
| Germany | | X | |
| Ireland | X | | |
| Latvia | | | X |
| Luxembourg | | X | |
| Netherlands | | | X |
| Slovakia | | X | |
| Sweden | | | X |
| United Kingdom | | | |
| England | | X | |
| Northern Ireland | | X | |
| Scotland | | X | |
| Wales | | X | |

Source: survey of the European Community for Housing equality conducted by the authors.

### 2.9.2 Comparing the Effectiveness of Different Sources of Social Housing Development Finance

In contrast, there is far less research that compares the effectiveness of the individual sources of finance used for social housing development. Often the research that has been conducted, for instance as part of the EIB or CEB's extensive project evaluation programmes, focuses on the uses to which the finance was put (in terms of the housing delivered) rather than on the strengths or weaknesses of the specific source of finance employed. Furthermore, the research that does examine specific sources of finance is often focused on new and innovative sources such as social investment bonds and sustainable finance (Albertson et al., 2018; Dobrovic et al., 2022; Liebman, 2011). This may be because commercial and government loans and bonds that have provided the primary source of social housing capital finance in European countries for over a century



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and are used to finance the provision of all types of physical infrastructure, (e.g. railways. power generation and water treatment) so their benefits may be regarded as self-evident by policy makers. The lack of any obvious alternative methods of raising large scale finance for infrastructure may also have discouraged evaluation of the methods used. Furthermore, it is often difficult to distinguish the costs and benefits of a single source of capital finance for social housing because they are usually used in combination with other sources of finance rather than singly.

Robustly assessing the different sources of capital finance for social housing is further complicated by challenges and shortcomings in the research that has been conducted. It is difficult to measure the impact which government guarantees have on reducing interest rates on debt for social housing development, for instance (Lawson, 2013) In addition, variations in the technical assumptions that underpin assessments of different sources of social housing development finance and lack of transparency regarding the details of some assessments (particularly of project finance channelled through PPPs which is often kept confidential due to concerns about commercial sensitivity) create challenges for robust comparison of their results (O'Shea et al., 2020).

The evidence that is available on the strengths and weaknesses of the difference sources of capital finance for social housing is summarised in Tables 2.5, 2.6, 2.7 and 2.8. The analysis presented in these tables address the following assessment criteria:

- the availability of each source of finance, in different European countries and to different types of social housing landlords and,
- the consistency of its availability over time and during different phases of economic and housing market cycles,
- its affordability for social housing landlords, tenants and government (specifically whether it requires deep or shallow public subsidies),
- its suitability meaning the extent to which it complements or conflicts with the policy makers' and social landlords' strategic objectives and generates any unintended or perverse outcomes.



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Table 2.6 sets out the strengths and weaknesses of the different instruments used to provide government finance for social housing development. It is important to acknowledge that these depend on which the government finance is just a method of providing capital to the sector or of subsiding its costs. Government loans provided at market rates of interest achieve the former objective, for instance while, if these loans are provided sub-market interest rates, they achieve the latter. Providing capital to the social housing sector has the benefit of enabling supply of housing where none might be provided otherwise, subsiding the sector has the additional benefit of enabling dwellings to be let at below market rate (although this could also be achieved by revenue subsidies such as housing allowances).

Table 2.6 reveals that government finance is a critical mechanism for subsidising the social housing sector because this is generally the cheapest form of finance and therefore most affordable for social housing providers and tenants. Lawson et al's. (2018) modelling of five options for financing social housing development in Austria found that maximising the contribution of government grants to total financing costs to reduce levels of loan finance resulted in the lowest financing costs over a 30-year period for social housing providers. Governments can also generally raise debt at significantly lower costs than commercial or non-profit borrowers (although government guarantees can also reduce the costs of commercial debt finance) (Lawson, 2013). Using government finance brings strategic benefits for policy makers because the requirements for recipients can be 'mission focused' to complement public policy objectives and this source of finance is also likely to be available in most countries and to most categories of social landlords, at least outside periods of fiscal crisis (Lawson et al., 2024). However, this assumes policy makers are willing to prioritise spending on social housing, because this obviously creates opportunity costs by limiting the potential for spending on other public policy priorities.


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## Table 2.6: Strengths and Weaknesses of Different Instruments for Government Financing of the Capital Costs of Social Housing Provision

| Strengths | Weaknesses |
|---|---|
| **Public Capital Grants** | |
| • Can provide finance when no alternative sources are available.<br>• Reduces the cost of social housing provision and thereby enables below market rents to be charged.<br>• Reduces the debt finance required to finance social housing and the associated risks and costs.<br>• Reduces the need for ongoing for demand-side subsidies from government.<br>• Can lever additional private or nonprofit finance.<br>• Once off expenditure may be cheaper and more attractive for governments than long-term subsidies.<br>• Can help to counterbalance housing market cycles | • On the government balance sheet.<br>• Depending on the size of the grants provided this may be a deep subsidy which government may be unwilling or unable to fund.<br>• Does not impose financial discipline on social housing landlords or enable government control of these organisations.<br>• Can be more difficult to target at lowest income households than alternative forms of public subsidy such as housing allowances |
| **Government Loans** | |
| • Provide finance when no alternatives are available.<br>• Usually cheaper than market loans and available for longer terms<br>• May reduce the cost of social housing provision but is unlikely to provide enough support to enable the charging of below market rents without additional public subsidy.<br>• Can lever additional private or non-profit finance.<br>• Imposes financial discipline on social housing landlords because they must ensure dwellings generate an income to service debt | • On the government balance sheet<br>• If government borrowing capacity is constrained, governments may not be able to finance loans.<br>• Can be more difficult to target at lowest income households than alternative forms of public subsidy such as means-tested housing allowances |
| **Interest Subsidies** | |
| • Provides a cost subsidy which enables charging of submarket rents.<br>• Can increase the availability of commercial finance for social housing.xx<br>• Reduces and flattens the cost of loans which enables higher and more consistent social housing output across interest rate cycles.<br>• Reduces the cost of social housing provision, thereby enabling the charging of below market rents.<br>• Depending on their design and prevailing interest rates, this can be a shallow subsidy which is more affordable for governments.<br>• Addresses the 'front-end loaded' nature of interest repayments which are higher in loan's early years. | • On the government balance sheet<br>• May not be required in the context of low and predictable interest rates.<br>• Depending on the design of interest subsidies and the prevailing interest rate this can be an expensive subsidy for government |
| **Loan Guarantees and Loan Guarantee Funds** | |
| • Widens social landlords' access to market finance.<br>• Can reduce the cost of interest on private finance for social housing and thereby enable dwellings to be rented for below market rents.<br>• Well-managed guarantees have little or no impact on the government balance sheet, so they can be cost effective for governments.<br>• Particularly useful when public investment is limited.<br>• Can bolster the credibility of new initiatives, help establish new pathways of investment and ensure market stability during economic crises. | • Moral hazard of supporting risky but desired investments.<br>• Measuring the effect of a guarantee on loan interest is challenging.<br>• May oversupply market finance to a particular market and create unfair competition with other investments.<br>• May lead to inefficient practices because credit costs don't reflect credit risk.<br>• Complex to manage, may need a special purpose financial intermediary to do so. |
| **Tax subsidies** | |



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| | |
|---|---|
| • Appropriate tax treatment in view of the non-profit status of the vast majority of social housing providers<br>• Can reduce the cost of providing social housing and thereby enable charging of below market rents.<br>• Can incentivise new housing delivery. | • An untransparent form of subsidy, the full costs of which are difficult to measure.<br>• Consequently, tax subsidies may not be well managed and allowed to persist or expand without scrutiny. |

Note: *: this depends on the government balance sheet status of social housing landlords and whether they are categorised as part of the government sector or nonprofit sector.

Source: Amann & Mundt, (2005; Gibb, (2020); Lawson, (2013); Lawson et al., (2024); Norris & Hayden, (2020); Pittini et al., (2021; Stephens et al., (2012; Tang et al., (2017)

The lumpiness of the finance required to develop social housing, the tendency for retrenchment during fiscal crises to focus on capital spending because this is often politically more palatable than cutting current spending on services and benefits and the EU and Eurozone rules which limit public spending and borrowing group in most of the countries under examination here, all impede the potential for government capital spending on the scale required to meet social housing need in many countries (Norris & Hayden, 2020). A Housing Commission (2024) established by Irish government to identify solutions to housing unaffordability challenges concluded that social housing provision needs to be doubled to meet housing need, but an expansion of this scale cannot be financed solely by government and therefore requires diversification of financing sources to include private, non-profit and internal finance.

Table 2.7 reveals that the costs and benefits of private finance vary according to the specific source in question, whether they are categorised part of the government debt on the national accounts and also the characteristics of the social housing providers they lend to – particularly in terms of their size, maturity and regulation. As mentioned above, commercial loans and to a lesser extent bonds have been widely used to successfully to fund social housing in many European countries for a century or more. Although generally more expensive than government finance, in countries where guarantees are used and the social housing sector is strongly regulated, such as the Netherlands, the differences are minimal (Stephens, Burns and MacKay, 20012). Commercial bank loans are generally widely available (although banks have limited experience of lending for social housing in some countries), but bond finance is not available in some



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countries and not available directly to small and start up social landlords (which require a rating from a credit rating agency to access this finance) in all countries (Tang et al., 2017). Using debt finance (including government loans) incentivises better social housing management standard because landlords have to ensure dwellings are let to tenants and generating rental income to service loans (Norris & Hayden, 2020).

**Table 2.7: Strengths and Weaknesses of Different Instruments for Private Financing of the Capital Costs of Social Housing Provision.**

| Strengths | Weaknesses |
|---|---|
| **Bonds** | |
| • May not be on the government balance sheet*<br>• May provide finance when government finance is not available.<br>• May better than bank loans – more suitable for raising large sums for which interest rate may be lower than bank loan.<br>• Imposes financial discipline on social housing landlords – they must ensure the dwellings generate an adequate income to service debt | • May not be available in all countries and to small or start up social landlords (though they may access through bond aggregator)<br>• Likely to charge higher interest rates than public loans.<br>• May generate interest rate risk, although bonds are commonly fixed interest rate for their lifetime.<br>• Loan must be repaid, |
| **Commercial Bank Loans** | |
| • May not be on the government balance sheet*<br>• Widely available<br>• May not be on the government balance sheet*<br>• May provide finance when government finance is not available.<br>• Imposes financial discipline on social housing landlords – they must ensure the dwellings generate an adequate income to service debt. | • May not be available to small or start up social housing landlords.<br>• Likely to charge higher interest rates than public loans.<br>• May generate interest rate risk.<br>• Loan must be repaid |
| **Private Equity Finance** | |
| • May not be on the government balance sheet*<br>• May reduce the upfront costs of social housing development.<br>• May provide finance when governance finance is not available.<br>• Transfers development risk to private sector | • Likely to be more costly over the long term than commercial and particularly government debt finance.<br>• Full or part ownership of social housing may conflict with social housing landlords' ethical/ strategic objects.<br>• Extraction of surpluses via profits reduces the potential for internal financing of social housing over the long term. |
| **Social impact bonds** | |
| • May not be on the government balance sheet*<br>• Low financial risk for governments because risk is transferred to bond holders.<br>• Promotes innovation in service design and evidence-based design and the robust measurement and evaluation of results. May therefore enable greater effectiveness and impact.<br>• May require just shallow subsidies from government. | • Availability of finance is dependent on private sector funding and government's willingness to act a commissioner of the finance.<br>• Payment by results model may not be attractive to private investors.<br>• Measuring impact is challenging and requires strong outcomes data.<br>• SIBs can treat vulnerable populations as commodities for private investors.<br>• Risk prioritising services that achieve 'quick results 'and deprioritising service users with greater needs |



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| | |
|---|---|
| | • Risk crowding out already successful and less costly alternatives funding models. |

## Sustainable /ESG Finance

| | |
|---|---|
| • May not be on the government balance sheet*<br>• May provide finance when government finance is not available. | • May not be available in all countries and to small or start up social landlords.<br>• Interest rates are probably higher than public loans.<br>• Brings repayment risk and interest rate risk |

Note: *: this depends on the government balance sheet status of social housing landlords and whether they are categorised as part of the government sector or nonprofit sector.

Source: Amann & Mundt, (2005); Gibb, (2020); Lawson, (2013); Lawson et al., (2024); Norris & Hayden, (2020); Pittini et al., (202); Stephens et., (2012); Tang et al., (2017).



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Commercial banks are generally 'passive' investors who received a fixed or floating return on their investment that reflects prevailing interbank interest rates, rather than organisational performance and they don't own shares in social housing providers, so they have limited potential to shape organisational behaviour and performance. Therefore, there is little evidence that this source of finance contradicts public policy or social landlords' strategic objectives. This is also generally the case for bond market finance, including sustainable finance which is usually raised from bond markets.

However, commercial equity finance and social investment bonds are associated with a more varied suite of strengths and weaknesses as sources of social housing development finance (see Table 2.7). In the context of SIBs pass on most risk to bond holders and encourage innovation and promote evidence-based programme design and strong impact measurement, so they have the potential to enable more effective service provision, particularly in the case of tenants with high and/or complex support needs such as homeless people (Albertson et al., 2018; Liebman, 2011; Muir et al., 2018). Depending on their design, they may require only a shallow subsidy from government. However, this 'payment by results' model is unlikely to be cheaper than direct government funding and may not be attractive to private investors due to the higher risks and the fact that robust measurement of programme impact, particularly over the long term is challenging. In addition, there is the ethical concern that SIBs can 'monetise' vulnerable populations and treat them as commodities for private investors. Private equity can provide additional finance to support additional social housing development, but the availability payments governments or social landlords pay in return be more expensive than servicing commercial loans (Lawson et al., 2018). Furthermore, some social landlords in the UK found that the contractual terms of the former were significantly more onerous than the latter, which has inspired concerns that this form of finance may undermine social landlords' social mission (Tang et al., 2017).

The widespread use of public private partnerships in the UK and Ireland as the mechanism through which equity finance for social housing is sourced raises



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reflects the imperative of raising finance that is off the government balance sheet in the context of constraints on government borrowing and spending. A report by the National Audit Office (2010) found that this was the primary reason for its use in the UK, rather than any inherent value for money benefits. It also reported that most PPP projects had experienced cost over-runs (in twelve cases costs more than doubled) and implementation delays. Later research on social housing PPPs in the UK found more cost overruns and concluded that the returns to investors (of 8%) were substantially higher than the cost of using government borrowing to finance these projects (National Audit Office, 2018). For these reasons, in 2018 the UK government announced that this financing mechanism will not be used in future, although constraints on public borrowing means that reforms to PPP contracts are being explored to increase their value for money and enable their future use (National Audit Office, 2025)(NAO 2018b, NAO, 2025). Other research on the use of PPPs in Ireland and internationally indicates that this form of contract is generally expensive to set up and only suitable for procuring large infrastructure projects which are rare in the social housing sector and also in medium and low-income countries (Leigland, 2018; O'Shea, Palcic and. Reeves, 2020).

In contrast, nonprofit finance has several clear strengths but one key shortcoming from the perspective of the discussion at hand (see Table 2.8). While household savings were widely used by non-profit savings banks to fund house building in the past, this is no longer the case in most European countries. Where this form of finance is available it generally provides a cheap and reliable supply of debt finance, which requires only shallow government subsidies and is particularly useful in countries where commercial debt markets are underdeveloped and during periods when commercial or government finance is not available. These strengths are evident in the French social housing sector, whose social housing development programmes are financed primarily by household savings assembled by the Caisse des Dépôts et Consignations. This model has been very successful in funding significant growth in the proportion of French households accommodated in social housing in recent decades and



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supported counter cyclical financing of this sector during the period after the global financial crisis in 2007/08 when the availability of government and commercial bank finance declined. (Lévy-Vroelant et al., 2014; United Nations, 2021).

Pittini, Turnbull and Yordanova's, (2021) analysis of the internal funding arrangements enabled by the use of cost recovery rents, which support revolving fund arrangements and, in some cases, also guarantee funds in the Austrian, Danish and Finnish social housing sectors concludes that this system brings significant benefits in terms of long-term financial sustainability (see Table 2.9). This is confirmed by other research on Denmark and Austrian social housing which links its ability to finance stable levels of social housing output over the long term, including during economic and fiscal crises when government and commercial finance may be constrained, to the use of cost rents (Amann & Mundt, 2005; Mundt & Springler, 2016; Norris & Byrne, 2017). The use of cost rents (or of other rent setting mechanisms if regulators require that the total revenue rents generate must cover costs) also increases the availability of private debt finance and helps to reduce its cost by assuring lenders of the social housing sector's debt servicing capacity and low risk of default which helps to reduce interest rates (Oxley, 2009). Linking rents or the total revenue from rents to costs also ensures that there is adequate funding available for the management, maintenance and upgrading of social housing. These costs which are commonly inadequately funded where rents are geared to income and not required to cover costs, as is the case in Ireland for instance (Norris & Hayden, 2020). Internal financing of social housing via tenants' rents also reduces the need for deep government subsidies and this need is reduced further when tenants' pay downpayments that are large enough to contribute to development costs.

However, internal financing systems have come under strain in recent decades due to rising land prices and increased more demand for social housing in cities where this housing is more expensive to deliver (Pittini et al., 2021). Furthermore, concerns have been raised that cost recovery rents impede access for the lowest


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income households to social housing and as does the requirement to save a downpayment (Aigner, 2018).

### Table 2.8: Strengths and Weaknesses of Different Instruments for Non-Profit Financing of the Capital Costs of Social Housing Provision.

| Strengths | Weaknesses |
|---|---|
| **Savings Schemes** | |
| • May provide finance when finance from other sources is not available or supplement other sources of finance.<br>• Cheap source of loans, because it does not need to pay a return to shareholders and may require only shallow subsidies from government.<br>• Encourages household savings and self-reliance.<br>• Very useful where commercial finance markets are underdeveloped.<br>• May not be on the government balance sheet* | • No longer was widely available as was the case during the twentieth century as a result of the development of commercial financial market alternatives.<br>• Lack of transparency of subsidy<br>• High admin costs? (dealing with loads of small accounts)?<br>• May not provide lower interest rate debt finance than government loans |

Note: *: this depends on the government balance sheet status of social housing landlords and whether they are categorised as part of the government sector or nonprofit sector.

Source: Amann & Mundt, (2005); Gibb, (2020); Lawson, (2013); Lawson et al., (2024); Norris & Hayden, (2020); Pittini et al., (202)1; Stephens et al., (2012); Tang et al., (2017).


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**Table 2.9: Strengths and Weaknesses of Different Instruments for Internal Financing of the Capital Costs of Social Housing Provision.**

| Strengths | Weaknesses |
|---|---|
| **Guarantee Funds** | |
| • Widens social landlords' access to market finance.<br>• Can reduce the cost of interest on private finance for social housing and thereby enable dwellings to be rented for below market rents.<br>• Well-managed guarantees have little or no impact on the government balance sheet, so they can be cost effective for governments.<br>• Particularly useful when public investment is limited.<br>• Can bolster the credibility of new initiatives, help establish new pathways of investment and ensure market stability during economic crises. | • Social landlords need to set aside revenue to capitalise the fund which they may not have the capacity to do,<br>• Moral hazard of supporting risky but desired investments.<br>• Measuring the effect of a guarantee on loan interest is challenging.<br>• May oversupply market finance to a particular market and create unfair competition with other investments.<br>• May lead to inefficient practices because credit costs don't reflect credit risk.<br>• Complex to manage, may need a special purpose financial intermediary to do so. |
| **Revolving Funds** | |
| • May provide a reliable source of internal finance that can enable social housing landlords to raise and service debt finance.<br>• Not on the government balance sheet*<br>• Reduces the need for government subsidies.<br>• May be more politically acceptable than relying on primarily on government subsidies | • Requires rents that are high enough to generate a surplus for reinvestment and/or that rents continued to be levied in full after social housing development loans have been repaid.<br>• Will be undermined by privatisation, particularly if dwellings are sold for below replacement value.<br>• Requires landlords' debt profile to be relatively mature. |
| **Tenants' Equity Contributions** | |
| • Reduces the up-front costs of providing social housing, thereby allowing dwellings to be rented below market rents.<br>• Reduces the debt finance required and the associated risks and costs.<br>• Can provide finance when no alternative sources are available.<br>• Can be used to lever additional private or nonprofit finance.<br>• Helps to ensure tenants are commitment to a long-term social housing tenancy and to maintaining their home. | • May impede access to social housing among very low-income households and those who have not had sufficient time to save a downpayment. |

Note: *: this depends on the government balance sheet status of social housing landlords and whether they are categorised as part of the government sector or nonprofit sector.

Source: Amann & Mundt, 2005; Gibb, 2020; Lawson, 2013; Lawson et al., 2024; Norris & Hayden, 2020; Pittini et al., 2021; Stephens et al., 2012; Tang et al., 2017).

### 2.9.3 Strategic Approaches to Financing Social Housing Development and the Relationships Between These

Table 2.9 compares the results of the analysis of sources used to finance social housing development in Europe (presented in Chapter 2) which also included a



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discussion of the different strategic policy options for addressing housing unaffordability.

Therefore, this Table categories these sources of finance on the basis of the extent to which they address housing unaffordability by:

- Market Utilising: in other words, drawing on existing market resources
- Market Making: supporting the development of new markets or the expansion of existing markets
- Market Shaping: shaping market supply to encourage the market to support more affordable housing provision or to resolve market inefficiencies.
- Market Subsidising: subsidising market supply to reduce rents
- Market Replacing: which address unaffordability by enabling the emergence of alternative, non-market sources.

Some of these sources of finance are relevant to more than one of these categories and, if this is the case, they are categorised as A (primary categorisation), B (secondary categorisation) etc in Table 2.10.

This table reveals that a substantial number of sources of finance for social housing development are market replacing, this includes government grants and loans, non-profit sector finance and self-financing arrangements. However, many of these have an important secondary market enabling function – they enable social housing providers to access additional finance, usually from commercial providers. For instance, as mentioned in Chapter 2, in Austria public loans to social housing providers are a form of 'subordinated debt', meaning that in the case of default other loans must be repaid first and the government will take the 'first hit' on any losses. Thus, these public loans are used to leverage the majority of project funding through a commercial loan from a private bank (Norris & Byrne, 2017). Similarly, public capital grants reduce social landlords' indebtedness and therefore increase their creditworthiness and ability to access commercial loans.



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**Table 2.10: Strategic Approaches to Capital Financing of Social Housing Development in European Countries.**

| | | Market Utilising | Market Making | Market Shaping | Market Subsidising | Market Replacing |
|---|---|---|---|---|---|---|
| Markets | Bonds | A | | | | |
| | Commercial Bank Loans | A | | | | |
| | Private Equity Finance | A | | | | |
| | Sustainable /ESG Finance | C | B | A | | |
| Governments | Public Capital Grants | | B | | | A |
| | Government Loans | | B | | | A |
| | Interest subsidies | B | C | | A | |
| | Loan Guarantees and Guarantee Funds | A | C | | B | |
| Non-Profit Sector | Savings Schemes | | | | | A |
| | Loan Guarantees | A | C | | B | |
| Self-Financing | Guarantee Funds | | B | A | | |
| | Revolving Funds | | | | | A |
| | Tenants' Downpayments | | | | | A |

Other commonly used social housing capital financing mechanisms such as interest subsidies and loan guarantees that are categorised as primarily market subsidising measures in Table 2.9, have important secondary functions as market utilising and enabling mechanisms. An example is the interest subsidies paid to Danish social landlords, which fall and rise in line with the interest rates charged on the commercial bank loans which are the primary source of housing development loans for this sector. These subsidies are designed to ensure that the effective interest social landlords pay on these loans remains fixed over the long term thereby enabling them to use commercial debt at minimal risk (Norris & Byrne, 2017). Stephens, Burns and MacKay (20012) also argue that interest rate subsidies can help to assure commercial debt providers of social housing providers' repayment capacity thereby reducing potentially reducing the interest rates charged. Similarly, the Central Fund for Social Housing, which is one element of the multi-tiered system of social housing development loan



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guarantees used in the Netherlands, provides interest free loans to social housing landlords that are in financial difficulty (Group of Specialists on Housing Policies for Social Cohesion (CS-HO, 2008; see Policy Snapshot 2.3). It was established in 1987 to support housing associations undergoing financial restructuring and to ensure that commercial lenders have the confidence to continue to lend to these organisations during this period.

Thus, while the preceding section examined the strengths and weaknesses of individual source of social housing development finance, because the vast majority of European countries draw on multiple sources finance for this purpose, the *relationship between these sources* and therefore their *collective effectiveness* also needs to be considered. Using multiple sources to finance social housing development has obvious potential benefits in terms of ensuring the availability of adequate finance to the sector by minimising the impact of a reduction in any single funding source. However, achieving these benefits in practice depends on several factors.

The first is the extent to which different sources of finance 'crowd in' or 'crowd out' other sources of funding. The government loans, guarantees and interest subsidies used in the Netherlands, Denmark and Austria, mentioned above, are an example of the former, they support the provision of private finance for social housing development. Whereas the Irish government's Housing Commission (2024) argued that the availability of government grants and very low-cost public loans which cover 100% of social housing development costs has had the opposite effect. It has impeded the emergence of commercial finance for social housing in this country.

A related consideration is the extent to which the different sources of finance supplement or substitute for one another or, in other words, whether declining availability of finance from one source is counterbalanced by increased finance from other sources. Notably, social housing financing arrangements in Denmark are designed explicitly to facilitate this outcome. When public funding for social housing was constrained after the global financial crisis, government reduced the proportion of development costs funded from this source. This encouraged



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municipalities to initiate more housing developments (by reducing the costs) and additional finance from commercial investors, keen to invest in the 'safe haven' of the bonds that finance loans to the strongly regulated Danish social housing sector, made up for the decline in public funding (Norris & Byrne, 2017).

A final important consideration is whether the combination of financing sources used precipitates the categorisation of social housing landlords in the 'government sector' in the national accounts and thereby the inclusion of all their debts, irrespective of source, in the national debt which may limit the potential of the sector to expand. Although finance is only one factor in these decisions (the extent of government control is also relevant) it is the most clearcut factor and social landlords that derive more than 50% of their finance from government are categorised as part of the government sector in the national accounts. In practice, it is very difficult for social housing providers to be 'off balance sheet' unless they charge rents that are sufficient to support the raising and servicing of debt from non-governmental sources. This means that most social housing sectors in Europe that link rents to tenants' incomes are categorised as part of government, while almost all sectors that charge cost rents and most sectors link rents to the dwelling's characteristics are not.

### 2.9.4 Contextual Influences on the Viability and Effectiveness of Social Housing Development Finance

Several aspects of the context in which social housing finance arrangements operate also have a significant impact on their viability and effectiveness and therefore should be considered when selecting sources of finance and combinations of these to be used in particular countries and when designing institutional supports for social housing provision such as special purpose financial intermediaries. The key contextual factors highlighted in the research on social housing finance are summarised in Table 2.11.

As this table explains, where non-government sources provide the most of finance for social housing development, the regulation of these sources is a key consideration. Although most finance for social housing development in Austria and Denmark is sourced from commercial banks, the interest rates they can



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charge in the former and yields they can obtain in the latter from lending for this purpose are strictly regulated by government (Norris & Byrne, 2017; Norris & Byrne, 2018). Similarly in France the interest rates charged by the Caisse des Dépôts et Consignations on social housing development loans are also regulated by government (Pittini et al., 2021). In contrast more weakly regulated commercial finance markets will require mechanisms such as government guarantee or guarantee funds to reduce borrowing costs. In this context more robust regulation of social housing landlords is also likely to be required to ensure they do not take on too much financing risk (Tang et al., 2017).

The size of the social housing sector and of social landlords and the robustness of the sector's regulation also have significant implications for the viability and effectiveness of different sources of finance. For instance, smaller social housing landlords are likely to have difficulties in raising some types of commercial finance (particularly bonds, access to which usually requires a rating from rating from a credit rating agency) or may not be able to access this finance on favourable terms (Tang et al., 2017). In this context, additional public funding may be required to enable social housing landlords develop housing, or the support of a state special purpose financial intermediary that will raise bond finance their behalf. Recent problems in the Dutch social housing sector highlight the importance of ensuring that mechanisms such as guarantee funds are supported by robust regulation of social housing providers. Since 2011 several social housing providers, including very large organisations such as Woningstiching Geertruidenberg and Vestia, but also several smaller social housing landlords, experienced financial difficulties and were forced to close by the regulator and their dwellings were transferred to other social housing landlords. Resolving these problems required very significant financial contributions from the Dutch social housing guarantee fund (Van Deusen, 2023). (Aalbers et al., 2017) argue that this case shows 'what can happen when public goals are left to be realized by inadequately supervised and poorly managed private organizations'. It also illustrates that guarantee funds need to be part of an effective system of governance and regulation and in response to these problems regulation of



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social housing in the Netherlands has been strengthened again in recent years (Van Deusen, 2023).

Similarly in countries where levels of income inequality are very high and/or social security benefits are low and housing allowances are not provided and social housing is strongly targeted at low-income households, it may not be possible to charge rents pegged to the cost of social housing provision because these are not affordable for tenants (Stephens, Burns and MacKay, 20012). In these circumstances rents that are linked to tenants' incomes may be the only viable option.

**Table 2.11: Socio-Economic, Regulatory, Organisational and Policy Context Factors that Influence Capital Finance for Social Housing**

| Category | Influence on Capital Finance for Social Housing Development |
|---|---|
| Maturity and Regulation of Commercial Finance Markets | Some sources of market finance may not be available in all countries depending on the size and maturity of the commercial finance sector. Social housing landlords may be exposed to more or less risk and higher and lower costs depending on the stringency of regulation of commercial finance providers. |
| Privatisation | Privatisation of social housing, particularly if dwellings are sold at below replacement value, undermines the potential for internal financing of the social housing sector. |
| Regulation of Social Housing Landlords | Strongly regulated social housing sectors are likely to have less difficulty in raising market finance because regulations assure lenders of repayment, |
| Size, composition, and maturity of social housing sector | Sources of market finance may not emerge in countries where social housing sectors are very small. Small social housing landlords may experience difficulties in raising market finance or doing so on favourable terms. Where social housing provision is dominated by landlords of this type, extensive use of market finance may not be viable or may require a public development bank or other special purpose financial intermediary to act as a financial intermediary and facilitate access. |
| Social and Income inequality | In countries where social and income inequality is very high, internal financing of social housing may not be viable because tenants may not be able to afford to pay rents pegged to costs. |
| Social Security Benefit System | The generosity of social security benefits also has a significant impact on the level of social housing rents that are viable. In some countries benefit levels are designed to take account of housing costs. Where this is not the case, if rents are pegged to costs the government will need to fund housing allowances for tenants unable to afford them. |

Source: Norris & Byrne, (2018); Oxley, (2009); Stephens et al. (2012)

## 2.10 Conclusions

Finance is just one of the four mechanisms used for the development of social housing and affordable housing systems examined in this report, but this chapter



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has revealed that finance mechanisms exert a strong influence on the development of social housing across Europe and the UK.

As argued in this chapter, using multiple financing sources, and ensuring the diversification of these (including private, non-profit and internal finance), is required to ensure the availability of adequate finance to the sector, and to minimise the impact of a reduction in any single funding source. However, achieving the availability of financing mechanisms in practice depends on several factors. This chapter has assessed the benefits in practice under four key criteria. These are the availability of each source of finance, the consistency of its availability over time, the affordability for government, landlords and tenants, and finally the suitability of the mechanism with strategic objectives and generates any unintended or perverse outcomes. In doing so, it revealed that there are substantial challenges for some countries. These include less mature financial markets, and less willingness from private investors to finance social house building in certain countries. In addition, this chapter reveals that the capacity of social housing providers to engage with financial markets and the support provided by the government also enable (or disable) financing investment opportunities. Thereby various sources of market finance may not emerge in countries where social housing sectors are very small, which could lead to difficulties in raising market finance or doing so on favourable terms. In these cases, more often than not, housing providers require special purpose financial intermediaries to facilitate access to private market finance.

There are also contextual factors examined in this chapter, which reveal that the size and composition of the social housing sector, income inequality, and the robustness of social security systems influence the viability and effectiveness of the arrangements used to finance social housing development. A final important consideration this chapter is the divergences that became evident during the end of the twentieth century, as a substantial proportion of finance for social housing was no longer provided by governments, and therefore not captured in national accounts, and therefore could serve to limit the expansion of the sector. This is due to the combination of financing sources used by a country, and if this



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precipitates the categorisation of social housing landlords in the 'government sector' and as such, influences if their debts, irrespective of financial source are included in the national debt.



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# 3 Land

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## 3.1 Introduction

Land is the most expensive single cost in the production of housing and the key determinant of house price and rent inflation in many high demand locations (Ball et al., 2022), with land price rises found to explain 80% of the post-war housing boom in a range of advanced economies (Knoll et al., 2017). The use of policy to support the supply of land for affordable housing is therefore an important part of many European housing systems, working alongside financial subsidies, regulatory and tax instruments, and personal supports, as covered elsewhere in this work package, to provide affordable housing.

The purpose of this chapter is to identify and critically discuss land policies used to support the supply of affordable housing. The chapter is produced to inform stakeholders of the range of land policies for affordable housing, as well as to identify specific policies and cases where these policies are applied, for further investigation. The basis for the chapter is the policy and academic literature on land policies used within Europe and the UK, as the countries covered in the EqualHouse project, though where commonalities are salient, we draw on sources from outside of those countries. Land policy is not a neutral or secondary component of housing systems; it is a foundational determinant of affordability, inclusion, and equity. Strategic interventions—whether through planning, taxation, or land acquisition—can decisively shift housing outcomes in favour of



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public interest goals. However, their success hinges on legal frameworks, institutional capacity, and political commitment to distributive justice.

Land policy determines not just the *quantity* but also the *location, typology*, and *tenure* of housing. When public authorities actively intervene in land markets—through mechanisms such as land banking, inclusionary zoning, or value capture—they can ensure a pipeline of land is available for affordable and social housing. Alternatively, where land is taken out of the land market, as in the case of indigenous land and housing, affordability can be addressed alongside exclusionary and discriminatory barriers. Where indigenous groups use land in ways that do not align with dominant interests, issues of subordination arise, with land tenure one possible means of redress (Johnson, Porter and Jackson, 2017).

According to the OECD (2021), housing affordability is more sustainable in countries where public authorities retain a strong role in land allocation, as in Austria or the Netherlands, compared to those where land supply is driven solely by private market actors. In contrast, when land is commodified and speculative pressures dominate, affordability and inclusivity deteriorate. Urban land prices in many European cities have outpaced wage growth: for instance, between 2010 and 2020, urban land values rose by over 60% in Germany and more than 80% in the Netherlands, undermining affordability even amid increased housing output (ECB, 2022).

High and rising land costs are among the most significant drivers of unaffordable housing. A study by Whitehead & Monk (2019) for the OECD shows that in cities like London and Paris, land constitutes over 70% of total residential development costs. These costs are passed on to households through higher rents and purchase prices unless explicitly mitigated through policy.

Land value capture (LVC) mechanisms—such as development levies, planning gain contributions (e.g., the UK's Section 106), and betterment taxes—can redirect windfall gains from landowners to fund affordable housing and infrastructure. In France's ZAC system, public authorities capture land value uplift to fund up to 50% social housing within new developments (OECD, 2020).


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Urban planning frameworks have a significant bearing on spatial equity and social inclusion. When zoning and land-use regulations are structured to favour high-income, low-density development or exclude multi-unit and rental housing, they reinforce socio-spatial segregation.

Inclusionary zoning, where a proportion of new private development is set aside for affordable housing, is a direct land-use strategy for inclusion. For example:

- In Vienna, two-thirds of residential floor space on rezoned land must be delivered as subsidised housing when public land or finance is involved (Förster & Amann, 2022).
- In Barcelona, since 2018, 30% of floor area in new developments over 600 $m^2$ must be allocated to protected housing (Ajuntament de Barcelona, 2018).

Yet, inclusionary mechanisms are only effective when matched with municipal land ownership, institutional capacity, and political will (Lawson & Ruonavaara, 2020).

Land governance has profound implications for equity. Since land ownership is unequally distributed—often more so than income—policies that shift value from private windfalls to collective benefit contribute to redistribution. John Muellbauer (2024) argues for a green land-value tax (LVT) to address both wealth inequality and housing unaffordability. He notes that land-based taxation is not only progressive (given skewed landownership) but also efficiency-enhancing, as it discourages under-utilisation and speculation.

## 3.2 Land Policy

Land policy is a field of public policy concerned with the use, management and development of land, encompassing 'strategic and operational public interventions in both how land may be used (allocation) and by whom (distribution)' (Hartmann et al., 2025a, p.243). Land policy addresses manifold problems associated with the allocation and distribution of land (Needham et al., 2018; Hartmann and Spit, 2018). There is a substantial degree of crossover


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between land policy and land-use planning, with land-use plans sometimes regarded as one sort of land policy instrument (Meijer and Jonkman, 2020), though the two can be regarded as distinct policy fields. Where land-use planning is the public task of determining to what ends a given plot of land may be put and is achieved through the regulatory regime of the planning system, land policy is concerned with land matters beyond the use of land to encompass land development and land management by means of a variety of instruments, both regulatory and actively interventionist (Gerber et al., 2018; Hartmann et al., 2025b).

Land policy and land-use planning are both outcome-oriented and therefore entail the choice of a strategy and the use of policy instruments to achieve it. In heavily urbanised countries such as those within the European context, land policy influences the provision of housing, employment and infrastructure on the scarce resource of land (Gerber et al., 2018; Shahab et al., 2021), increasingly against a backdrop of concerns around limiting land take (Lacoere and Leinfelder, 2023) and housing unaffordability (Debrunner and Hartmann, 2020). The strategic purpose of land policy may therefore express distributional concerns over land, as in the case of land policy for affordable housing provision. The realisation of that strategic purpose through its focus on the operational is a core facet of land policy and a point of distinction between land policy and land-use planning, the latter of which is concerned with strategic spatial planning and plan-making in addition to the implementation of plans (Van der Krabben and Halleux, 2011).

This operational orientation, in service of a strategic purpose that aims to raise the provision of affordable housing, points to the use of policy tools and instruments, as ‘techniques of governance’ (Howlett, 2005, p.31), that intervene at the intersection of public policy and private property rights (Gerber et al., 2011). The relationship between land and affordable housing is based not only on the role of land, as a scarce resource that is an input in the production of affordable housing, but also on the notion of land as common resource rather than private asset. To that end, policy to support affordable housing provision is justified in impinging upon private property rights. This is not an uncontroversial principle



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however, meaning that there is often a reluctance on the part of public authorities to intervene in property rights by use of land policy (Spit, 2025).

This chapter introduces and analyses five such land policy instruments, considering their role in promoting more equal access to adequate housing. The chapter is structured as follows. First, Land Value Capture (LVC) is introduced as an overarching policy outcome that all land policy instruments for affordable housing are aiming to achieve in one way or another. Subsequently, the following market replacement strategies are introduced: public land banking, public land leasing and community land trusts (CLTs). Then follows an analysis of Inclusionary zoning as a market shaping strategy, followed by land pooing and readjustment as a market enabling strategy. Penultimately, there follows an analysis of operational context, linkages and transferability, followed by the conclusion. For each of the land policy instruments, the first section provides a definition of the policy instrument, followed by a description of the use and implementation of the instrument, an analysis of its strengths and weaknesses regarding the provision of social and affordable housing, and finally, by policy snapshots of examples that may form the basis for the case study research later in this study.

## 3.3 Land Policy and Land Value Capture

In this section we establish the meaning of the term ‘land value capture’, set out the arguments for channelling land value towards the supply of affordable housing, and select and describe five land policy instruments used to support the provision of housing that is affordable and inclusive. The distinctive use of land policy, as opposed to the alternative means covered in chapters 2, 4 and 5 (covering finance, tax and regulatory tools, and personal supports) to address the issue of housing unaffordability, is to make use of land as a resource. Land policies therefore use public land resources and regulate for the use of private resources in the supply of land for affordable housing, with the aim in both cases usually being to capture increases in land value for reallocation towards affordable housing. Land value capture is an overarching logic that underpins the use of land policy to address housing unaffordability concerns.


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Land value capture (heretofore LVC) is a generic term that describes the public taking of a share of value increase accruing to land. It is a concept rather than a policy (Scottish Land Commission, 2018, p. 2) and is used as an overarching term to describe the operation of a range of policies and legal tools that recover value uplift accruing to land following public and social actions, from broad economic change to specific infrastructure investments and land-use designations. A broad definition offered by the OECD and Lincoln Institute of Land Policy (2022, p. 14) states that LVC refers to 'policies that allow public authorities to recover increases in land values which result from government actions, including the development of land, infrastructure and service deployment, and the alteration of land use regulations'. This 'recovered land value' can then be used 'to fund urban infrastructure and public services' (*ibid.*).

Arguments supporting the use of regulation to make use of land or land value in the provision of affordable housing follow from an efficiency rationale and a moral case. For the efficiency rationale, land markets are subject to market failure because land generates value over and above what would be required to ensure its supply due to the scarce or irreplicable nature of the resource (Neutze, 1987). Taxation of surplus land value is held to be optimal because land would continue to be supplied below the level at which economic rent is paid, rendering land tax non-distortionary (Evans, 2004; Obeng-Odoom, 2016). For the moral case, increases in land value are windfall gains following from general economic growth, public investment in infrastructure and the award of development rights (Catney and Henneberry, 2019). Land value capture therefore enables public spending on affordable housing to be self-funding, requiring no additional subsidy providing that sufficient land value is available to support it (Alterman, 2009).

Itself a somewhat contested and even contradictory phrase (Crook et al., 2016), explanations of LVC frequently make use of multiple related terms and concepts. A comprehensive set of definitions of the key terminology for LVC is given by Alterman (2012, p.763) and is summarised below.

- **Betterment:** the increase in land value caused by a land-use plan



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designation or award of development rights, for example where agricultural land is rezoned for residential development. The opposite outcome, in which planning reduces land value, is sometimes called 'worsement' or 'worsenment'.

- **Unearned increment**: an increase in land value that can be attributed to any public or social action, including planning decisions, public investments, or general economic growth and associated urbanisation.
- **Plus value**: synonymous with the unearned increment and widely used in Spanish-speaking countries as *plusvalía*.
- **Windfall gain**: an unanticipated and 'unearned' increase in the value of an asset, used more widely than in the LVC context. Its opposite, an unexpected and undeserved drop in value, is the less frequently used 'wipeout'.
- **Givings**: synonymous with windfall gains and the opposite of 'takings'.
- **Value capture**: where the increase in value, which may be described using the terms above, is 'captured' by the state, usually by means of taxes, levies, or transactions.

LVC is implemented by governments through 'development-based methods which obtain contributions from the owners of property who would benefit from infrastructure provision' (Lawson et al., 2021, p.114). Typically, LVC involves a mix of development and taxation strategies (Lawson et al., 2021 p.114). The OECD (2022) identify the sequential stages of LVC:

- Value creation: this involves the government or local authorities taking some action on (or close to) land – which results in an increased value to that land (i.e. an investment in the area, transport or otherwise, or the award of development rights, which impact on land value).
- Value recovery: the value is 'recovered by the public'.
- Value distribution: This is when the recovered land is reinvested in public betterment.

Public means of capturing land value can be usefully divided into macro, direct, and indirect instruments (Alterman, 2012, p. 762-766). Macro instruments are those pertaining at the level of the total land market as policy and legal tools that apply across all land administered by a particular jurisdiction. These are generally not instruments whose primary or founding goal was to capture land value increase, but which nevertheless do this through their operation. The most





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extreme macro LVC instrument is the nationalisation of all land, as was the case in postwar European communist systems of government and in communist China until 1988 (Chen and Wu, 2022), where single ownership means that all land value uplift is automatically the property of the state. A more measured form of this can be found where all, or almost all, land is owned publicly and traded on long leases, as in Singapore, Hong Kong (Chi-Man Hui et al., 2004) and mainland China (Chen and Wu, 2022). Land banking is aimed at controlling the rate and location of housing supply, meeting housing and planning goals by direct public investment while capturing land value along the way by raising the value of land between acquisition and sale (Van der Krabben and Jacobs, 2013). Land readjustment can also be regarded as a macro LVC instrument, being primarily intended to facilitate development through the amalgamation and rearrangement of property rights but also functioning in some instances to capture land value (Hong and Needham, 2007).

Direct LVC instruments are taxes or fees paid by landowners and developers based on increases in land value, sometimes associated with government intervention and at other times with general economic growth. These may be in the form of recurrent land taxes (Wyatt, 2019), which are not considered a part of land policy in this chapter, or infrastructure levies charged on value increase attributable to public investments (OECD, 2022). Direct LVC instruments for affordable housing are rarely applied, with the Spanish case exceptional in the European context (though infrastructure levies related to transport are more common) and are not selected for further investigation in this chapter.

Indirect LVC instruments are those that capture land value through their operation but whose stated or overt purpose is to achieve some other goal. Usually, this goal is associated with minimising external costs resulting from development by asking developers to pay towards infrastructure provision or landscaping. Less often, and arguably at odds with this rationale, indirect instruments may capture value towards affordable housing provision. Inclusionary zoning does this through instruments such as impact fees in the USA, special purpose zoning in France and developer contributions in the UK



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(OECD, 2022). Community Land Trusts are here selected for further investigation as a form of indirect LVC instrument whose primary purpose is to provide land for affordable housing and which may capture value in instances where commercial facilities are leased out as part of their operation.

## 3.4 Strategies and mechanisms using land for housing that is affordable and inclusive in Europe

In this section we present our five selected land policies for affordable housing and classify these according to the nature of their engagement with the housing market into three categories: market replacement policies; market shaping policies; and market enabling policies. Following this we discuss each land policy in turn, establishing their nature, rationale, application and using case examples to detail how they have been used in practice.

Land policy strategies are understood as ways of using selected land policies to achieve a policy goal (Shahab et al., 2021, p. 1113). The most basic, and frequently cited, land policy strategies are those of active and passive land policies, which denote the degree of engagement taken by the local planning authority in the supply of land for development (Hartmann and Spit, 2015). In practice, land policy strategies are both more wide-ranging and more nuanced than this, with different degrees of cooperation and proscriptive power used by local authorities (Shahab et al., 2021), as well as alternative weightings of public and private interests (Gerber et al., 2018).

We will here go on to describe the characteristics, operation and application of five land policies for affordable housing provision: public land development; public land leasing; community land trusts; inclusionary zoning and regulatory planning; and land readjustment. These are in turn grouped within three categories of engagement with land and housing markets, set out as follows.

- **Market Replacement:** enabling the emergence of alternative, non-market sources of affordable housing.
- **Market Shaping:** engaging in the social construction of land and property markets to set the context for market actions and transactions (Adams and Tiesdell, 2012).


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- **Market Enabling:** supporting the market to overcome barriers to its own operation by resolving market failures and regulating the supply of necessary resources.

Table 3.1 places the land policies we examine into the above categories of engagement with land and housing markets.

**Table 3.1: Land policies for affordable housing mapped against categories of market engagement. (Source: Authors' own)**

| | Categories of Market Engagement | | |
|---|---|---|---|
| | **Market Replacement** | **Market Shaping** | **Market Enabling** |
| Land Policies for Affordable Housing | Public land development | Inclusionary zoning | Land readjustment |
| | Public land leasing | | |
| | Community land trusts | | |

## 3.5 Market replacement strategies

These are policy approaches that offer an alternative to the market as the provider of housing. They seek not to replace the housing market in the aggregate but at a particular site or, as has historically been the case with certain New Towns where all housing is supplied publicly, scale. While market replacement strategies circumvent the market in some respects, they may engage with it in others, as for example where municipalities buy and sell land on the market but, by dint of their public nature, do so to pursue the non-market goal of raising the supply of affordable housing.

### 3.5.1 Public land banking

Land banking is a tool whereby governments purchase and secure land 'in advance of need in order to pursue strategic development goals, such as to provide infrastructure or lower cost land for affordable housing' (Lawson & Ruonavaara, 2020, p. 9). The primary benefit of land banking is that it enables governments to recover costs of land development and servicing, while also



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supporting the capture of land value increases following a change of use. This was the standard mechanism by which land was supplied to housing associations in the Netherlands prior to the changes in the 2008 *Spatial Planning Act* that allowed land to be zoned for that purpose (Van der Krabben et al., 2011).

Land banking involves public acquisition, servicing and rezoning for land use before plots are sold for housing development by the private sector (Van der Krabben and Jacobs, 2013). This typically ensures that land can be bought for public ownership on the open market so that 'the land [can be used] for specific projects or to build up reserves' (Hengstermann and Hartmann, 2018, p. 31), though in some instances land may be expropriated, as in the case of the UK's postwar New Towns. Terms related to, though not necessarily precisely synonymous with, land banking is in wide use. 'Public land development' indicates that a public sector body is not only acquiring but developing land (as opposed to property), conveying that the purpose of this exercise is to raise the value of the land between acquisition and sale (Van der Krabben and Jacobs, 2013). 'Active land policy' signifies a strategy of land banking, development and sale used as more than a one-off exercise and is contrasted with passive land development, where the role of the planning authority is to regulate development by the award of planning permission/ building rights but not to engage in development itself (Hartmann and Spit, 201, p. 729).

Value capture through land banking follows where land values increase more than development costs between the point of public land acquisition and sale of land. Following the moral and efficiency arguments of land value capture, the increase in the value of the land prior to disposal to developers is caused by the award of planning permission / building rights and the implementation of public works. Land value may also increase, however, due to rise in land values either general or specific to the local area, following broader population and economic change. Land banking can therefore be an effective tool for providing affordable housing where a portion of plots are sold at a discount to affordable housing providers alongside the sale of plots to developers on the open market, with the


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latter effectively being used to subsidise the former (Van der Krabben and Jacobs, 2013; see also Spit, 2018).

### The use and implementation of public land banking

The way that land banking is implemented varies from place to place. It is typically implemented by local governments, as in the Finnish and Dutch cases, but it can be the responsibility of land agencies appointed by the government, as with the UK New Towns Corporations (Lawson et al., 2021). For governments to purchase land at below market value, laws enabling this need to be in place (Lawson et al., 2021, p. 104). In some countries, policies exist which allow 'public land banking organisations' to be 'legally empowered to expropriate land (i.e. require its sale) or to negotiate its purchase at prices based on the current use value, in order to enable delivery of affordable housing,' through expropriation or compulsory purchase (Lawson et al., 2021, p. 104). Elsewhere, pre-emption allows municipalities or public agencies to guarantee themselves right of refusal should a piece of land come on sale (Melot, 2018; Schuite and Sluysmans, 2024)

### Strengths and weaknesses of public land banking

There are a number of strengths for public land banking. Lawson and Ruonavaara (2020) cite that public land banking can be 'used as a means to promote interests of the wider community and prevent undesirable uses, kick start development and reduce land hoarding and speculation by private owners' (p.23; see also Spit, 2018, p. 272). Moreover, they argue that public land banking can increase cost efficiency by making land less expensive and thereby facilitate the production of 'better quality or more affordable housing'; it can increase social equity by achieving strategic planning aims, such as the provision of affordable housing close to employment opportunities; and it can promote fiscal equity by ensuring the wider community benefits from increased land values (*ibid*., p. 24). Furthermore, they argue that public land banking can allow derelict land to be redeveloped; that it can ensure that 'rapid development can be planned for and adequately serviced'; that it can reduce the vulnerability of land and housing markets to 'crises and vulnerability,' thereby stabilising these markets; that it can improve 'development outcomes through competitive tendering'; that it can



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'promote non-profit forms of development, which would not otherwise occur'; that it can 'reactivate development of repossessed or tax delinquent property;' and that it can 'fulfil planning objectives via active land acquisition policy' (*ibid*.). Furthermore, the National Housing Conference (no date: no page) adds that land banks can 'eliminate outstanding taxes and other public liens'; that they can 'hold properties until such time as they can be used strategically'; that they can work across traditional boundaries; and that they can 'simplify and expedite the disposition of foreclosed properties to new ownership.'

On the other hand, there are several weaknesses to public land banking. Lawson and Ruonavaara (2020, p. 24) note that land may not be released by land bankers according to the public interest; that 'poorly designed or executed policies for compulsory sale can unfairly override established private property rights'; that public land banking can be 'inefficient,' 'top down' and bureaucratic; that public sector planners may not have the 'expertise to predict land requirements adequately'; that local authorities may lack the resources to lead their own developments; that private developers often out bid public land bankers, with a lack of influence over the market from the public sector; and that public land bankers may not always act in the public interest, and instead act 'monopolistically.' In addition, the National Housing Conference (no date: no page) argue that the establishment of land banks may be limited by political considerations; and that public land banks require state-enabling legislation as state-chartered bodies.


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## Policy snapshot 3.1: The Wohnfonds Wien land bank, Vienna, Austria

The Vienna Land Procurement and Urban Renewal Fund (Wiener Bodenbereitstellungs- und Stadterneuerungsfonds in German, known as Wohnfonds Wien) was established in 1984 by the city government as a 'not-for-profit, financially independent corporation, governed by a trust chaired by the city council and regulated under the Fund Act' (Lawson et al., 2021, p. 105). Wohnfonds Wien is 'a long-term land bank for new construction,' as well as a 'coordinator of urban renewal (preservation) projects' (Global Policy Leadership Academy, no date) and facilitates urban expansion and renewal (Wohnfonds Wien, no date). In partnership with 'the Vienna planning department and competitively selected master developers, Wohnfond Wien oversees the master planning of dense large-scale developments integrated with transit and ameneties' (Global Policy Leadership Academy, no date).

Wohnfonds Wien has been cited as a 'powerful public-interest player in the land market of Vienna,' enabling 'the ongoing production and management of affordable housing for many of the city's residents' (Lawson et al., 2021, p. 105). It coordinates key actors that include property developers and homeowners alongside municipal bodies and funding agencies while its board brings together a range of interest groups alongside the City of Vienna (Global Policy Leadership Academy, no date).

The agency, acting as a land bank, assembles sites for provision of social housing, implementation of infrastructure, and to prevent speculative investment in land. A cooperative relationship with Vienna's urban planning department ensures that the Wohnfonds acquires and develops land in coordination with the strategic metropolitan plan of Vienna, which itself has a strong focus on housing (Lawson et al., 2021). While it lacks special powers to buy land at prices below the level of the market, the Wohnfonds is a significant presence in the city's land market and operates with relatively few competitors. Moreover, its acquisitions of unzoned land frequently benefit from the strategic approach to housing delivery that it shares with city of Vienna (Peverini, 2023).

Sources: Lawson et al. (2021); Wohnfonds Wien (no date); Global Policy Leadership Academy (no date); Peverini (2023).



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## Policy snapshot 3.2. Île-de-France Public Property Establishment (French: Établissement Public Foncier – EPF)

The Île-de-France Public Property Establishment is the public land banker for Île-de-France. This land bank 'contributes to the housing supply and supports economic development by actively buying undeveloped greenfield land or brownfield sites, preparing these for further development and reselling them for housing development purposes' (Lawson et al., 2021, p. 107). The focus is very much on 'meeting housing needs' and 'improving neglected housing acquired from slum landlords' (ibid.). Preparatory work can involve 'demolition of existing buildings, asbestos removal, and decontamination of land,' with the costs 'recovered in the resale process and according to the regional and sectoral needs' (ibid.). They currently have 18,000 sites, with 50% of these being for social housing (ibid.). A detailed and up-to-date map of EPF's activities is available on its website (Établissement Public Foncier Île-de-France, 2026).

The EPF Île-de-France is distinguished by the extent of its locational focus on brownfield and infill development and its functional emphasis on the supply of social housing. This is a more targeted use of the policy instrument within a wider context in which public land development has been typically used to develop large greenfield sites for private and social housebuilding.

Source: Lawson et al. (2021)



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### Policy Snapshot 3.3. Dutch Active Land Policy

Land banking has been used in the Netherlands since WWII as a comprehensive, top-down approach to the provision of land for housing (Van der Krabben and Jacobs, 2013). Municipalities provide serviced land for housing in the same way that public infrastructure for transport or utilities might be provided, assembling sites through purchase on the market before implementation of roads and utilities, division into plots, then selling these to private residential developers.

The advantages of the approach are the control given to municipalities over the location and characteristics of new development, the financial gain from selling serviced sites zoned for development, and the win-win outcome wherein developers were satisfied with undertaking low risk development at good locations without the need to have land rezoned (Van der Krabben et al., 2011). The approach remains common but is no longer the default means of residential development (Van Oosten et al., 2018), following, especially, an increase in land and house prices through the 1990s that drove developers to seek profit from land value uplift (Spit, 2018), and heavy losses on land banks among municipalities following the GFC (Van der Krabben and Needham, 2008).

The Dutch approach to public land development is more comprehensive than most, having shaped housing supply the half century following WWII, with the dominance of the instrument embodied in its use within the so-called active land policy. Public land development continues to be an important part of planning and land development across much of the Netherlands.

Sources: Spit (2018); Van der Krabben et al., (2011); Van der Krabben and Jacobs, (2013); Van Oosten et al., (2018).

## Public land leasing

Public land leasing separates out property rights over land into ownership and use, leasing out publicly owned land to private firms and households for their use and development (Hengstermann and Hartmann, 2018, p. 31). The public owner retains the right to long-term benefits from the land, including the right to control its use via ownership in addition to land-use planning, the right to receive a payment or income from the land, and the right to gain from land value uplift. The private lessee has the right to use and develop the land according to the terms of the lease agreement. The idea was inspired by Henry George (1920, 1st ed. 1879) with 'the idea [being] that leasing would allow for a fair harvesting of land values to the benefit of all' (Korthals Altes, 2018, p. 97). Land leasing can be used for a variety of development types and can be a key policy instrument for the funding and delivery of social and affordable housing, effectively offering subsidies in the form of revenue foregone.



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## The use and implementation of public land leasing

Governments (as lessor) and developers/third parties (as lessees) have different rationales for using public land leasing. Public land leasing allows governments to make use of publicly owned sites where developable land is scarce by issuing land to developers on leasehold agreements (Guelton and Le Rouzic, 2018, p.248); to influence/steer the use of public land (Lawson & Ruonavaara, 2020, p. 32); to provide long-term financial benefits to the government as the value of the land increases over time (*ibid.*); and to increase the availability of affordable housing provision (Tasan-Kok et al., 2013).

A plot of land is provided to the lessee at the start of the lease, with the rent typically based on the current market value of the land; 'the lessee is responsible for developing the building and all other improvements' (Korthals Altes, 2018, p. 99). The lessor will 'retain ownership of the freehold of the land while making the land available to be used by others subject to conditions, including payment for the land' (NESC, 2018, p. 26). The lessee will build and manage the development of an entire site/project, and this can be for affordable housing provision. When the lease period expires, the land and buildings are returned to government ownership and developed into a new site, allowing for land value capture.

## Strengths and weaknesses of public land leasing

Lawson et al. (2021, p. 109) identify a number of strengths and weaknesses of public land leasing. On the plus side, they argue that public land leasing allows the government to retain ownership of the land, thus providing 'a long-term source of revenue from lease payments'; that 'open market land prices and rents are often priced to reflect the advantages gained by existing or anticipated public investment, such as road and public transport infrastructure'; that the benefits of investment can reach the community, rather than landowners, thus helping 'to repay public investment and fund further investment in public services'; that governments can use land assets as a hedge against inflation as they tend to increase in value; 'changes in permitted use can generate substantial uplift in value which can then be captured for public investment'; governments can 'use conditions attached to land leases' to achieve public policy objectives through



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influencing 'the use and development of land'; developments can be made more feasible by paying leasing fees, rather than the cost of the site, allowing for 'lower rents or sale prices' for affordable housing; and that land leasing can be helpful in contexts of high inflation by reducing land price inflation. Public land leasing can thus be used 'to capture increases in land value, enable affordable housing provision and ensure the optimum use and allocation of land' (Lawson et al., 2021). Project costs can also be reduced, improving the feasibility of developments and also reducing rents for tenants (Lawson & Ruonavaara, 2020, p. 32; see also Guelton & Le Rouzic, 2018; NESC, 2018).

For developers/ third parties, the benefits are: public land leasing reduces the upfront costs of projects for developers where lease payments are periodic and no one-off fee is paid, which can then reduce costs for housing provision; it provides developers with access to land in desirable areas at a reduced cost; it reduces financial risk for developers in the long run (i.e. if the project is not financially successful, they do not have the added burden of owning the land); and developers/ third parties may benefit from the increase in land value over time (Lawson & Ruonavaara, 2020, p. 32).

In terms of the disadvantages, Lawson et al. (2021, p. 109) identify a number of challenges. Lease fees may be inaccurate or outdated; lessees may oppose changes to fees, meaning that insufficient revenues are generated; investment in new developments and upgrading may be limited if banks do not accept land leases as collateral; and finally, the continuity of land-leasing arrangements in some countries may not be guaranteed as the residential property owners 'have a legal right to buy the site on which the dwelling is built.' Thus, NESC (2018, p.12) highlight that for the leaseholder, when the lease expires and is re-valued at current market values, this may result in a large increase in the rent payable.


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## Policy snapshot 3.4. Helsinki, Finland

In Helsinki, the government owns 70% of land in the city and therefore plays a key role in the promotion and provision of affordable housing (Affordable Housing Activation, no date). In 2016, the City of Helsinki implemented a long-term policy called Home Town Helsinki, with the aim being to achieve 'a well-balanced mix of housing to meet the different needs and life situations' (ibid.).

The policy aimed to add 6,000 housing units per annum, both through new-build and changing the use of existing buildings, with the aim being to increase this to 7,000 units per annum by 2019 (Hel.fi, 2016). Within this policy, another central objective is that government subsidised rental housing will represent 25% of all housing produced, with the aim, annually, for 1,100 new ordinary rental units, 300 additional student housing units and a further 100 units specifically for young people (ibid.). Annually, 1,800 housing units (just under a third) will be designated as 'Hitas housing (price and quality regulated owner-occupied housing units), partial ownership housing and right-of-occupancy housing' (ibid.). A further 2,700 housing units (45% of the total) are allocated as 'unregulated rental and owner-occupied housing production' (ibid.). Finally, approximately 1,500 housing units are created annually as part of the City's own housing production, with half of these being government-subsidised rental housing units (ARA) (ibid.).

These plans are backed by a General Plan to ensure the housing is produced, with the aim being to create 'a compact city with several centres that are interlinked through rail traffic' (ibid.). The high level of public land ownership, combined with conditional land leases means that these aims for social and affordable housing are achievable (Affordable Housing Activation, no date).

Source: Lawson et al. (2021); Hel.fi (2016); Affordable Housing Activation (no date)

## Policy snapshot 3.5. Foncière Chênelet (Housing Solutions for the Most Vulnerable People), France

In France, the nonprofit organisation Foncière Chênelet has provided housing solutions for those who are most vulnerable in society since 2009. They have a partnership with local authorities in different regions across France. This partnership involves long leases of public land (99 years for a long lease, and 40 years for public housing operators). The contract stipulates that social housing must be developed on this land as part of the lease. The funding comes from the Casisse des depots (French savings bank), as well as public and private finances. This partnership/ leasehold system has resulted in up to 162 houses being built since its establishment in 2009, with 450 people being housed. The focus is on 'vulnerable people such as families or elderly people with very low income, disabled people in six French regions.' Foncière Chênelet has also expanded its work recently to work with Belgian stakeholders on a Housing First project 'to provide homeless people with quality and ecological housing and psycho-social support.'

Source: Jones & Fritz (2023)



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**Policy snapshot 3.6. The Netherlands**

In the Netherlands, public land leasing is applied by the government who 'acquires the land to be developed, makes the plan for the area and buildable plots are delivered to housing associations, developing companies or private individuals' (Ploeger & Bounjouh, 2017, p. 78). In Amsterdam specifically, the government has used land leasing to retain ownership of public land since 1896, while also making land available for development for social/affordable housing. The government owns up to 80 percent of the land, and leases land to housing associations at lower rates to develop housing (ibid.). Since 2016, however, the Dutch cities have moved away from using land leases due to the increasing costs/ rents on renewing these leases (NESC, 2018). According to the OECD (2017), if the Dutch government had more regular revaluations of the leases, then the increases in rent would not be as much of a concern.

Sources: Ploeger & Bounjouh (2017); OECD (2017); NESC (2018)

### 3.5.2 Community Land Trusts

Community Land Trusts (CLTs) are 'non-profit, community-based organisations whose mission is to provide long-term affordable housing by owning land and leasing it to those who live in the houses built on that land' (Lawson & Ruonavaara, 2018, p. 8; see also Lawson et al., 2021). In their model of operation, CLTs bear strong similarities with public sector land leasing, with the crucial difference being that they are owned and managed by non-state community bodies. Indeed, Bourassa (2006, p. 335) describes CLTs as a third sector means to delivering affordability that shares some attributes with public leasehold systems. Sustainable Housing for Inclusive and Cohesive Cities (SHICC) (2020) notes that CLTs 'develop and manage affordable homes for low- and medium-income households, as well as other assets that help foster thriving local communities.' The functional characteristic of CLTs is that they hold land title within a trust to preserve their purpose of housing provision for specified groups in perpetuity. CLTs are typically seen to 'complement existing affordable social and cooperative housing providers' rather than being a solution on their own (SHICC, no date). UN-HABITAT (2012, p.14-15) identify ten key characteristics of CLTs:

- They are formed as nonprofit, tax-exempt corporations.
- CLTs normally own land while leasing plots to households and housing



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associations or other non-profit bodies.

- Land is leased on long-term contracts, granting security of tenure to residents while maintaining the purpose and integrity of the CLT.
- As non-profit organisations, CLTs can offer housing that is affordable in perpetuity.
- While residents may vary over a long time, the CLT remains in place as the responsible body able to maintain responsible stewardship of the land.
- CLTs exist for their community and residents of CLT housing built have the right to become voting members of the CLT.
- Governance and decision-making are the domain of residents and local community rather than outside actors.
- A tripartite governance model, wherein control over the CLT is divided three ways between residents, local community, and local funders or other public bodies, is common.
- An expansionist strategy is common to many CLTs, with an aim of acquiring additional sites to support further housing provision.
- Some CLTs operate under a strict separation of land and building ownership while others engage in more flexible arrangements including development partnerships and non-housing use provision.

### The use and implementation of Community Land Trusts

CLTs have the potential to be a useful mechanism to 'provide low cost or free land for social housing developments' (Lawson et al., 2021, p.58). For example, CLTs can be used as 'capital for housing provision,' helping with supply (Lawson et al., 2018, cited in Lawson et al., 2021, p. 58). They can also help to 'provide long-term affordable housing by owning land and leasing it to those who live in houses built on that land' (Lawson et al., 2021, p. 111). The aim is 'to provide perpetually affordable home ownership to low- and moderate-income households by giving home purchasers only a limited equity interest in their homes' (Bourassa, 2006, p. 333), thereby reaching their overarching goal of maintaining affordability for future, as well as current, residents (Ingram and Hong, 2007).



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## Strengths and weaknesses of Community Land Trusts

The benefits of CLTs include that the structure should involve 'a shared democratic governance' structure (Lawson et al., 2021, p.112). To achieve this, Bourassa (2006, p.355) argues that a typical CLT board should include: one-third leaseholders or occupants, one-third community members who are not leaseholders, and one-third public representatives such as government officials or non-profit employees (Grounded Solutions, 2018). Bourassa (2006, p. 338) argues that this structure means that only a third of the board has financial incentives to dissolve the CLT and sell property at market rates, while the remainder are focused on preserving affordability for the long-term. Moreover, CLTs can provide a pathway to limited-equity homeownership, enabling households who might otherwise struggle to buy a home (*ibid*.). Further, they are underpinned by the commitment to being 'an anti-speculative model of land management' (Lawson et al., 2021, p. 112). Other benefits include that CLTs can empower communities, including the marginalised, and that the planning process and lease model promote inclusion and stability (Lawson et al., 2021:, p.12).

In terms of challenges, the SHICC (2020, p. 11) report highlights that CLTs are generally formed on relatively small scales, with their wider institutional impact being limited. They cite additional challenges such as funding challenges for CLTs, regulatory barriers, limited public awareness, lack of policy integration and resource constraints (*ibid*.). A key issue for CLTs is in the acquisition of land. As with any other housing provider, CLTs must acquire sites to be developed within a model that matches their purpose and may in principle need to compete with other uses and buyers for those sites. As is the case with housing associations, CLTs may struggle to compete with providers of market housing, with this challenge often being greater in urban areas where competition for land is more intense (Moore, 2014). Unlike most housing associations, however, CLTs are often bound to places or even particular sites whose ownership is transferred at discounted or nil values (Moore et al., n.d.).


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## Policy snapshot 3.7: Community Land Trust, Brussels, Belgium

The Community Land Trust Brussels (CLTB) was established in December 2012. The organisation was developed in the context of a severe housing affordability crisis in Brussels. There was a lack of social housing, representing only 7% of total stock and 'existing schemes for home ownership no longer cover[ed] low-income groups.'

CLTB fosters the development of affordable housing which is built or renovated on land owned by the CLT. It is funded largely by Brussels Capital Region, with a total annual budget of €2,500,000. The prices paid for a CLT home are reflective of the prospective owner's income rather than the market rate for the home, thus improving housing affordability. The homes are sold at 20-50% below the market equivalent, with the home being 'subsidised according to the household's ability to pay.'

The home purchase involves a ground lease where the CLTB lease the land to the buyer for 50 years, with the option to renew after this. If the owner wants to sell the property before this, they can do so and receive 25% of the increase in value on what they paid for it, while CLTB receives 6% of 3,000 Euros (whichever is highest). Subsequently, 'the next household purchases the home at this sale price,' which keeps the 'property affordable by neutralising the remaining 69% of the increase in value for the dwelling' (Lawson et al., 2021, p. 220).

Source: World Habitat (2021); CLTB (no date); de Santos (no date); Housing 2030 (no date)


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### Policy snapshot 3.8: Brasted Close, Sydenham, Lewisham, London CLT, United Kingdom (2013-2021)

A community campaign, led by Lewisham Citizens (the local group of the charity Citizens UK), was established in 2014 in response to a lack of affordable housing in Lewisham, south-east London. The campaign decided to focus on the development of community-led, affordable homes delivered through a CLT to ensure that homes remained affordable for key groups within the community. The group worked with London CLT to find an appropriate site. This was London's first CLT.

The process involved extensive community consultation, with the aim of creating community-led affordable housing. The process was led by local people, who made 'all key decisions on land, money, design, planning and management. Inclusion, responding to local needs, building capacity, listening and community ownership were all central to the community-led design process.'

The plans were led by Lewisham Citizens who started the design process with a community picnic in July 2016, 'followed by open meetings over the following months to engage more and more residents through leafleting and inviting neighbours.' The project was led by Archio Architects and Rooff (the construction company) who were chosen by the community in September 2016.

London Community Land Trust and Lewisham Council worked in partnership to develop the Brasted Close development. Lewisham Council transferred a site to the London CLT (for a fee) in 2016, and after submitting a proposal for the building of affordable homes in June 2018, the construction began in 2021. This was supported by a funding agreement between the Greater London Authority and London CLT established in October 2020. Funding was also provided by the Community Led Housing Hub, Big Issue Invest, investors in London CLT's community share offer, and mortgage providers Nationwide Building Society and Ecology Building Society. By 2023, the first residents had moved in.

Source: London Borough of Lewisham (2023); London CLT (2022); Community-led Housing (no date); Wainwright (2023)

## 3.6 Market shaping strategies

Adopting the conception within institutional economics of markets as socially constructed rule sets that frame transactions, market shaping strategies aim to set the context for land and property exchange in such a way that favours the achievement of public goals such as housing affordability. Market shaping strategies look to incentivise and constrain market actors' decision-making in such a way that aligns market and social outcomes.



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### 3.6.1 Inclusionary zoning

Inclusionary zoning is a land-use planning policy that requires a proportion of housing within a given site to be supplied outside of the market. It is a means of providing affordable housing without direct state subsidy, being a regulatory instrument that constrains the actions and transactions of developers and landowners. In addition to supporting the supply of affordable housing, inclusionary zoning can achieve the secondary public goal of promoting socioeconomic diversity within neighbourhoods by mixing market and non-market housing (Schwartz et al., 2012; Granath Hansson et al., 2024).

Lawson et al., 2021, p. 102) describe 'inclusionary zones' as 'land-use instruments that tap the economic gains from rising real estate values to create affordable housing for lower-income families' (see also, Mallach, 1984, in Buitelaar & De Gam, 2011). By requiring that developers deliver affordable housing as a condition of their building rights, land value is channelled directly into the provision of affordable housing, with no subsidy necessary. The effectiveness of the tool is therefore contingent upon the availability of land value to be tapped and limits its operation to those sites and areas in which land values are sufficiently high as to continue to attract investment while imposing additional costs on developers. This has led to the criticism that inclusionary zoning has shifted the responsibility for the provision of affordable housing from the public to the private sector, as public authorities have made up for a reduction in resources by exercising their regulatory powers (Calavita & Mallach, 2010).

#### The use and implementation of inclusionary zoning

While the instrument is fundamentally a constraining one, in that it permits development only on the condition that affordable homes are supplied as part of it, this must be considered in the broader context of land-use planning as enabling. Where a planning decision permits development, landowners and developers are able to realise returns otherwise unavailable, while the same result follows where public investments are made. This is, of course, the moral case for land value capture instruments, with inclusionary zoning being a prime example of these.


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The operation of inclusionary zoning is by a stipulation that a stated proportion of housing in a given development must be affordable. Variations between planning systems may allow this in exchange for increased density on the site as a whole, in the form of a 'density bonus' (Ryan and Enderle, 2012), or may accept cash payment in lieu of land or housing (Calavita and Mallach, 2010). While the term inclusionary zoning implies that the tool can operate only within a zonal land-use plan, the UK practice of developer contributions makes use of no zonal instrument, instead using plan-wide rules or case-by-case negotiations (Crook et al., 2016), while negotiated private contracts are typically used in preference to zoning in the Netherlands (Tennekes, 2018).

The prominence of negotiation in determining quotas for affordable housing provision is instructive, being indicative of two aspects key to the operation of the tool. First, site value varies markedly according not only to broader area-based land values but also to the particularities of orientation, aspect, and access. Moreover, the value of a site may not be clear at the point at which the land-use plan, which itself may be several years old, is written. Second, each party may believe that it stands to gain more from a negotiated process than a rule-based process. Municipalities may, in balancing demands made on developers for infrastructure, open space and affordable housing, wish to reserve the right to defer finality until the point at which a site is to be developed. Developers, on the other hand, might make their own arguments as to the proportion of affordable housing that could reasonably be required. Indeed, the ability of residential developers in the UK to successfully argue down such requirements has been well-documented (Lord et al., 2022).

### Strengths and weaknesses of inclusionary zoning

Lawson et al. (2021, p.122) identify several strengths of inclusionary zoning: this policy instrument can identify and secure 'well-located sites' for social housing; it can make development cheaper for the government and therefore more viable; it can reduce the 'risks of socio-spatial segregation' by enabling tenure and income mix; and it can increase the supply of affordable housing by being 'widely applied to all (or most) new residential developments.'



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Weaknesses associated with this approach most prominently relate to its reliance on land value and private action (McAllister, 2019). This renders it useable only where land value can be extracted for affordable housing as to leave sufficient profit for landowners and developers to remain incentivised to develop, and makes it difficult to use in weaker land markets. Further, its reliance on private development means that inclusionary zoning is inevitably pro-cyclical, delivering affordable housing only when the market for private housing is growing. Where the determination of the quantity of affordable housing to be delivered is negotiated, there is inevitably a reliance upon the negotiating powers of local authorities and a potential for developer contributions to be argued down where the negotiating skills of developers outmatch those of local authorities (Wyatt, 2017).


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## Policy snapshot 3.9: Inclusionary Zoning, France

The Solidarity and Urban Renewal Act (SRU) law was established in 2000 in France, introducing 'a national mandate for affordable housing availability.' The law aimed 'to reduce the segregation of low-income people in outlying suburban housing developments or banlieues.' The Law as introduced 'required that most urban municipalities ensure at least 20% of their overall housing stock was social housing by 2020.' This was increased to 25% by 2025 in 2013 for the 'communities in which more than half of the French population lives.'

This policy has been instrumental in distributing affordable housing across cities and reducing socio-economic segregation, leading to a 'rebalanc[ing of] the location of affordable housing to provide low- and moderate-income renters more living options.' Research suggests that the '[c]ommunities with the lowest social housing levels in 1999 increased their affordable housing stock the most by 2017... On the other hand, the cities with the most social housing in 1999 actually reduced their social housing share.' From 1999-2017, 'the number of exclusionary municipalities in the Paris region – those with relatively low levels of social housing – declined, from 86 cities with less than 7% social housing to just 45, while cities with high levels of social housing also became less common.'

The SRU law is exceptional in applying not only to new development but to all housing within each municipality. This forces municipalities to use land-use plans to zone land specifically for affordable housing as part of a wider approach to meeting the requirements of the SRU law., in which zoning is combined with complementary measures such as subsidies and public land development.

Sources: Freemark (2021a); Freemark (2021b)



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## Policy snapshot 3.10: Inclusionary Zoning, Barcelona, Spain

Barcelona has introduced an 'inclusionary housing approach' in response to its housing crisis. Since 2000, in Catalonia, the region in which Barcelona is situated, rents have increased at a rate three times more quickly than household incomes. To address this crisis, it has been calculated that Barcelona has a 90,000-unit deficit in the number/ percentage of affordable housing units in the rental sector, when compared to the rest of the European housing stock (15% affordable). In 2018, rental public housing in Barcelona was only approximately 1.5% of the overall housing stock. In contrast, 7% of the city's tenants use a combination of '[n]on-market housing (public coop, non-profit and limited profit)' and rent subsidies, a reduction from 12% in 2015. Policy has supported home ownership, and this has made it difficult for many people to access housing.

In response to these challenges, the government has used land and development policy to provide affordable housing. In 2018, Barcelona introduced a mandatory zoning requirement where 30% of new developments or major renovations must include affordable housing. Although there are some exceptions, this is typically applied to all multifamily projects with a buildable surface of greater than 600sqm. Preliminary results for the period 2018-2021 suggest that although 'the number of building licenses is similar to that of previous years,' there has been a notable increase in the percentage of affordable housing units built.

The approach taken in Barcelona is interesting in a broader Spanish context, where the traditional approach to zoning has not taken affordable housing into account and provision of affordable housing has been in the form of subsidised units for sale. Barcelona has, in response to major challenges of affordability, adopted a drastically different strategy combining inclusionary zoning with affordable housing for rent.

Source: Institut Municipal de l'Habitatge i Rehabilitació de Barcelona (2023)



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**Policy snapshot 3.11: Inclusionary Zoning, Vienna, Austria**

The 'Subsidised Housing' zoning category was introduced in November 2018 by the City of Vienna through an amendment to the City of Vienna's Building Code. This allows the City Council to rezone greenfield or brownfield land to 'subsidised housing.' Under this policy, two thirds of the usable floorspace of the land that is classified as 'Subsidised Housing' must be taken up by subsidised dwellings. This limits rents and ensures that affordable homes are continually constructed across the city, also helping to achieve aims for social mix. This zoning category is most often used when reclassifying industrial or commercial areas as building land, and occasionally when 'aiming to increase density in residential or mixed-purpose development zones as well as in connection with high-rise projects.' It is applied to sites that will accommodate over 5000 square meetings of space for housing. The policy also includes a 'sales ban', meaning that the City of Vienna has to approve any sale of subsidised flats, and this lasts for the whole period of the subsidy granted.

The addition of the 'Subsidised Housing' category to Vienna's Building Code adds a regulatory tool to the city's existing approaches to providing affordable housing. The use of this zoning category is notable for its association with densification, demonstrating that Vienna is combining its desire to densify with its longstanding responsibilities in affordable housing provision.

Sources: City of Vienna (no date); Kössl, and Jobst (2015); Kössl, and Jobst (2025)

## 3.7 Market enabling strategies

Instruments that are market supportive, facilitating the working of the market by reducing hindrances to its operation, can be regarded as market enabling. Where the market is regarded as the appropriate and best means to deliver public goals, policy instruments may address barriers such as market failures to ensure that private and social benefit are produced.

### 3.7.1 Land readjustment

Land readjustment involves the consolidation of multiple parcels of land into an alternative configuration that is more advantageous to development. This may involve the combination of separate plots into a larger overall site, as in generic site assembly, or the reconfiguration of the overall sum of plots into a new layout. Gozalvo Zamorano and Muñoz Gielen (2017, p.275) suggest that, in the land policy and planning literature, land readjustment is 'often presented as a


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third way among the active and passive approaches to cope with the problem of scattered property ownership and land speculation.'

The overall aim of the exercise is to overcome two hurdles to the development or redevelopment of land. First, land readjustment supports land development and land use change that is stymied by the existing spatial distribution of plots across a defined area, as for example where demand for a large single development exists at a location occupied by multiple smaller plots. Second, the spatial distribution of plots is the physical manifestation of the spatial distribution of property rights, the fractured nature of which can inhibit development due to often substantial barriers to land assembly.

The mechanism by which land readjustment typically takes place involves property rights of individual plot owners being temporarily transferred to a public body that reassembles the plot distribution on the site according to a pre-determined plan (UN-Habitat, 2012). Following the implementation of the plan, property rights are returned to the original landowners. Through the implementation process the areal size of plots is adjusted, with land often subtracted from some plots to allocate land for infrastructure / or open space. The value of plots, however, is increased by the development, and the post-land readjustment landholding returned to each original landowner is quantified according to the proportional value of the original overall site accruing to each plot.

Land readjustment is thereby able to overcome problems of coordination wherein multiple parties are unable to act in unison even where all stand to benefit, due to their being unable to align their common interests (Hong and Needham, 2007). Such interests may present most obviously in the form of so-called ransom strips, in which landowners are able to increase their selling price based on the value of their land being determined by its necessity for a desired site configuration rather than more generic interpretations of location and scarcity.  A further example involves development in which new public space is created on a site assembled from smaller plots.  In the absence of a coordinatory mechanism this would entail the subtraction of value from those plots on which


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the public space is created while those on which new development is sited gain in value, thereby disincentivizing some landowners from participating. By returning plots in a different configuration and according to value rather than area, land readjustment is more persuasive of landowners. In this sense the instrument can be characterised as a means to lower risk by raising the level of mutual trust between landowners, with the public sector acting as trusted arbiter (Lord and O'Brien, 2017).

### The use and implementation of land readjustment

Land readjustment is implemented through the rezoning of multiple pieces of land to prepare them for future development (Lawson et al., 2021, p. 112). The process involves an agreement between various collaborators to balance issues of suitable land, as land may be close to adjoining roads or infrastructure and will be developed first, while the remaining land is further away and may be the last to be developed, yet the development relies on all parcels of land (Lawson and Ruonavaara, 2020). Lawson and Ruonavaara (2020, p. 37) suggest that land pooling and readjustment 'is useful when public finances and land ownership are constrained,' as it uses public powers to direct the use of private assets.

The practical applications of land pooling and readjustment are set out in the key examples of Germany and Spain detailed below.

### Strengths and weaknesses of land readjustment

Scholars (for example, Lawson et al., 2021; Lozano-Gracia et al., 2013; Turk, 2008; Housing Europe, no date) have identified the benefits of land pooling and readjustment for different groups. For landowners, it can create an increase in land value by involving the development of a land use plan which improves the public infrastructure in the area, which can in turn, lead to increases in land prices (value) and access to better infrastructure. Furthermore, there is no displacement of landowners as they do not need to leave the land. Moreover, it can be 'more equitable than other land assembly methods, because the benefits and costs of land are borne by the affected property owners' (Lozano-Grazia et al., 2013, p.9). Finally, landowners can experience 'the considerable increase in value after the LR process despite a reduction in size, the conversion of lands into serviced urban



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plots in regular forms and size, the ease of marketability and the continuation of ownership after LR' (Turk, 2008, p. 234).

For the government, the same authors have noted a number of additional benefits. These include the fact that there are no upfront/compensation costs; that there can be less conflict; that the increase in land value can increase the tax base; that there is less time and overall cost involved than in land acquisition; that it can improve the quality and quantity of affordable housing, as well as increasing the development of infrastructure; and that a large amount of capital outlay is not required to secure the land. Further, Turk (2008, p.229) argues that the benefits for public agencies include:

'planned urban development, the production of serviced urban plots, the meeting of requirements for service areas and infrastructure to be used by the public, the efficient supply of land service and subdivisions, ease in the solution of ownership problems, the ability to provide low-cost land for sheltering, and the readjustment of landownership and plot borders.'

For developers, they note that redevelopment costs can be decreased due to the fact that it 'does not require substantial upfront capital for buying out existing landowners' (Lozano-Grazia et al., 2013, p.9).

These authors also note a number of general benefits of land pooling and readjustment. There is less displacement of existing populations; it can 'act as an institutional arrangement through which wider community participation in land development and public-private-community partnerships can be fostered' (Lozano-Grazia et al., 2013, p.9); it can increase the transparency of the process by enabling active participation and partnership development to achieve a common aim; and finally that it is a collaborative tool, meaning that the increase in value is shared amongst key stakeholders.

For the community, Turk (2008, p.232-234) argue the following benefits can be realised:

'good standard subdivision layout, the production of plots with service in regular forms and sizes, the supply of service areas such as roads, parks and so on



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that are required for public use, and the achievement of price stability as a result of meeting the demand.'

The challenges, as described by Lozano-Gracia et al. (2013, cited in Lawson et al., 2021,p.114) are as follows: that there can be 'conflict with existing residential property owners,' lessening consensus; there is a need for 'a strong legislative framework' which can require 'a lengthy political process'; the process can 'take time to implement' and then further time to 'recover [the] investment made'; the 'valuation and reallocation of land parcels is complex' as they vary in quality and size, which can lead to 'major social upheaval, including compulsory acquisition, leading to the loss of traditional tenure arrangements, demolition of residential forms and income sources' (Lawson and Ruonavaara, 2020, p.37); and there can be controversy over 'the process of determining land values and land contributions.'



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## Policy snapshot 3.12: Land readjustment, Germany

The system of land readjustment in Germany is very well established (since 1902) and is applied under federal law statute on land use planning. Under this law, municipal governments can use land readjustment to implement a binding land use plan (Bebauungsplan) (Lawson and Ruonavaara, 2020, p. 38). Through the process, 'municipalities can also capture part of the land for public purposes such as parks, footpaths and childcare centres – and in this way they can also promote more affordable and inclusive housing' (Lawson et al., 2021, p.112).

While land readjustment can be made mandatory through the German system, the emphasis is on consensus building where possible: 'Persuasion and negotiation should first be used to resolve the disagreement, with coercion employed only as the last resort when the involved parties have failed to compromise after exhausting all conflict-resolution mechanisms' (ibid., p. 113; see also Davy, 2007).
Land readjustment is typically supported by 'public subsidy and access to additional sources of funding from the private sector,' as the process does not often cover the total cost of the necessary public works 'to make land suitable for development on its own' (Hong and Needham, 2007, cited ibid, p.113).

Davy (2007, p.42) argues that the policy is generally seen as successful in Germany, with the view that 'mandatory land consolidation has been refined to an art form. Most landowners whose properties have been included in land readjustment are happy with the process (the fact that all costs are paid by the local government adds to the joy).' Seele (1982, p. 194-295, cited Davy, 2007, p.42) thus argues that 'by combining mandatory and voluntary elements, land readjustment has become an effective, efficient, and fair way to prepare land for development.'

Germany's passive land policy, in which municipalities do not actively supply land for housebuilding, is supported by the widespread use of mandatory land readjustment, which provides a basis for land assembly. In the absence of more interventionist tools, land readjustment is an effective regulatory approach.

Sources: Davy (2007); Satsangi et al. (2020); Davy & Lawson (2022)


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### Policy snapshot 3.13: Land readjustment, Spain

Land Readjustment (LR) is used in Spain as a form of land value capture, part of which is used for the provision of social and affordable housing. LR was first introduced in 1956, but did not become commonplace and effective until the 1980s. Since the 1980s, land readjustment has been in widespread use across Spain, with each region adopting its own variant during the 1990s (Muñoz Gielen, 2010, p. 111–118 cited Muñoz Gielen & Mualam, 2019, p.2).

In Spain, the land use and LR plan are prepared by a public body (either the municipality directly, through a municipal land development company, or a regional or national public body). However, in some regions, landowners can be publicly appointed as the implementing agency. In the Valencian model (adopted by some other regions too), 'municipalities can appoint in a public tender procedure not only the landowners, but also any other party (not necessarily owning land, although most of the times it is a property developer who owns part of the land in the development area), as the implementing agency' (ibid.). The plans are approved by the municipality, while the preparatory tasks for the supply of infrastructure and infrastructure construction are conducted by the same agencies listed above for the preparation of the land-use plan and LR strategy.

An innovative aspect of land readjustment as it has long been used in Valencia and is now used in other regions, is that a non-public actor can propose a land readjustment plan. This gives scope for third parties to bring their ideas for redevelopment of sites to the table and in practice allows developers to use land readjustment as a tool of persuasion in surmounting the often substantial hurdle of land assembly.

Sources: Muñoz-Gielen (2014); Muñoz-Gielen and Mualam (2019); Zamorano and Muñoz-Gielen (2017)

The next section analyses the operational context, linkages and transferability of these land and planning policy instruments.

## 3.8 Operational Context, Linkages and Transferability

A substantial body of work comparing planning systems across Europe has applied classifications to distinguish between legal systems (Davies et al., 1989; Newman and Thornley, 1996), planning cultures (Sanyal, 2005) and institutional technologies (Berisha et al., 2021). These classes of planning system can be used to map the use of planning tools across Europe with, for example, the 'discretionary' plans of the UK and Irish systems distinguished from the 'zonal' plans used elsewhere. In searching for patterns in the incidence of land policy



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instruments for affordable housing provision, typologies of planning system are – perhaps surprisingly – not useful, however. Europe-wide comparative surveys of land policy are by contrast of more recent origin (Gerber et al., 2018; Hartmann et al., 2025b) and reveal a similar lack of pattern.

While planning systems are shaped by legal systems and cultures of governance and practice, land policy instruments appear to be devised and applied in a more pragmatic way. Indeed, the plurality of land policy strategies used not only across countries but across municipalities within countries, and the independence of these from their institutional context, is an important recent finding (Shahab et al., 2021). In some instances, they may be developed through practice before being formalised, as in the case of inclusionary zoning in England (Cullingworth et al., 2015). In others, a common practice that was a response to a particular set of conditions is never formalised but simply grows in use, as with public land development in the Netherlands (Needham, 2014).

A third mode by which land policy tools have been brought into use is by policy transfer, where a policy is brought into play within a given country context based on a reading of its performance elsewhere and its perceived fit in achieving a land policy strategy. This is dubbed 'instrumental activism' by Shahab et al. (2021), who depict it as an overly determinative and perhaps simplistic attempt to address issues around land and housing. The introduction of land readjustment to the Netherlands is one such example in which a policy that has worked successfully elsewhere has failed to achieve desired results when transferred to a different context (Van der Krabben and Leferink, 2018).

## 3.9 Conclusions

Land policies are one of several means of promoting affordable housing supply, alongside the financial supports, tax and regulatory instruments, and personal allowances also covered here. The association between land and affordable housing is based on the necessity of land as an input to the production of affordable housing and is funded by a mix of public land effectively used as subsidy and private land allocated for affordable housing. The use of public policy



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instruments to channel private land for use in affordable housing provision is morally justified by a logic of land value uplift being the result of public investment, award of development rights, and broader economic growth raising the value of privately owned land (Alterman, 2012).

A diversity of approaches are taken within land policy to address affordable housing supply, with the level of public intervention across these ranging from what have, in a broader residential development context, been classified as active and passive land policy (Hartmann and Spit, 2015). Active land policy entails the public sector actively intervening in the market rather than acting only in a regulatory capacity, by assembling sites and determining what uses and infrastructure are developed on them (Van der Krabben and Jacobs, 2013). This is typically done to address housing supply, with provision of affordable housing a core component, and is covered in this chapter by the descriptor of public land banking and public land leasing. Where the public sector directly supplies land to Community Land Trusts it could be argued that this practice is also representative of an active land policy. Passive land policy, by contrast, involves the public sector supplying landowners and developers with the right to develop housing but leaving the actual development to the market (Hartmann and Spit, 2015). Passive land policy is here represented by the policy instruments land readjustment, as well as and inclusionary zoning. Usually, some combination of active and passive land policy is used to provide affordable housing, requiring a mix of policy instruments. This is necessary to address provision in different markets, as some locations offer sufficiently high land values for affordable housing to be funded from land value capture while others require subsidy (Lord et al., 2019). But it is also a function of the heterogenous nature of land and the particularities of local housing need and demand, perhaps most visible where Community Land Trusts make available affordable housing to a defined community only (Bourassa, 2006).

An important concluding point is that it is often not the lack of available policy tools that inhibit the provision of affordable housing but a reluctance to put them to use on the part of policymakers. As Dembski (2025, p. 236) notes in a more


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general sense on the application of land policies, there are instances in which 'the explanatory power of an instrumental rationality is limited.' This is evidenced where public authorities grapple with conflicting aims such as where public land banking and development must both capture land value and deliver affordable housing. Where the former is prioritised, the latter may be squeezed out by a preference for market housing (Granath Hansson et al., 2025).


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# 4 Housing and personal allowances

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## 4.1 Introduction: allowances at the interface of housing affordability and energy poverty

This chapter builds on the findings of the EqualHouse Energy Efficient Renovation Measures Review (D8.1), which details the close relationship between housing conditions, energy efficiency and affordability. The review shows that the costs and unintended consequences of renovation measures affect housing affordability, particularly for low-income and vulnerable groups. By examining housing affordability allowances alongside energy poverty allowances, this chapter extends that analysis and explores how these interconnected challenges might be addressed through more integrated and equitable housing and energy policies.

Housing affordability and energy poverty are strongly interconnected. High housing costs and low-quality, energy-inefficient buildings (which result in high energy costs) are prevalent problems across Europe, and combine to disproportionately impact low-income households. These households can spend a very large share of their income on housing and high energy bills. While housing market prices (ownership and rental) have been rising steeply and steadily, energy markets can experience quite sudden price shocks and volatility (e.g. in the wake of the Ukraine War), which can rapidly increase vulnerability and energy poverty. Such differences in market conditions, in combination with the general increase in housing and energy costs, present policymakers with considerable and growing challenges. As recently reported by Özdemir and Koukoufikis (2025), around 18.5% of EU households lack adequate insulation or heating systems to keep their homes comfortably warm, while rising construction costs, limited new housing supply, land price increases, and high



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interest rates reduce the availability of affordable housing. Between 2015 and 2024, EU house prices increased on average by 51.3%, with many low-income households, particularly in urban areas, spending over 40% of their income on housing.

Against this background, this chapter examines the arrangements used to overcome these challenges by promoting affordable housing and addressing energy poverty in the 27 European Union member states and the United Kingdom. Its particular focus is on housing and personal allowances. In general terms, housing and personal allowances are means-tested financial transfers paid to eligible households to reduce their net housing and energy costs. While often part of a country's social security system, increasingly specific allowances for housing and energy have emerged. Housing and personal allowances can help with affordability and alleviate energy poverty, but as demand-side measures they do not address structural issues in the housing and energy sectors related to rising prices nor do they address issues of supply. In the absence of more structural interventions to address long-standing issues of affordability and poverty, allowances remain a crucial policy tool. Ultimately, housing and energy allowances lie at the complex interface between housing policy, energy policy and social security. Shaping the entire context is advancing inequality in European societies, with intersecting crises of "cost of living" and local government budgets impacting specific parts of European populations, notably low-income households and those living in economically peripheral regions.

Housing affordability and energy poverty are growing issues in the EU, and both are linked to inequality in European societies. Definitions and methods for calculating housing affordability differ across countries. In Europe, affordability is commonly measured using the housing cost overburden rate: the share of people living in households where total housing expenses exceed 40% of disposable income, according to the Eurostat definition (EC 2019, 12). Affordable housing is commonly understood to include social housing, affordable rental options, and affordable homeownership opportunities. It is intended for eligible households whose needs are not met by the private market - typically those


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within the lowest three income quintiles (EC 2019, p. 12). Energy poverty is generally defined as the inability to secure adequate energy services at an affordable cost. In general terms, allowances are policies of social protection aimed at ensuring basic housing and energy needs are met (for more on housing, see Stephens, et al, 2002, p.24). Allowances are targeted financial transfers, subsidies, or entitlements provided to households to increase home ownership and rental affordability, or to ensure they can afford an essential minimum level of energy services -such as heating, cooling, lighting and power for basic appliances.

As a policy tool allowances have long been debated (e.g. Kemp, 2007) in terms of the relative merits of demand and supply-side subsidies. Proponents of demand-side subsidies, such as housing allowances, argue suggest that they have three in principle advantages over supply-side subsidies. First, that they provide more choice for consumers than social housing, which is often provided on a 'take-it-or-leave it' basis. In other words, housing allowances enable households to 'shop' for their preferred housing, and to make trade-offs between size of housing and its location, and between housing and non-housing consumption. Second, they allow government subsidies to be targeted to households that are in most need. This is because housing allowances are typically means-tested on the basis of household income and often on household assets (such as savings), too. In contrast, social housing provides a flat rate subsidy to all tenants, regardless of income. Whilst entry into social housing may be restricted by income, once a household is in, they can typically remain (at least in Europe - in the US and Australia tenants may lose their housing) even if their incomes subsequently rise. Third, because housing allowances are not tied to a particular property, they are portable, which enhances tenant mobility. In contrast, supply-side subsidies are attached to a particular property, and tenants often face bureaucratic procedures and rationing devises should they wish to move within the social housing stock.

The principal counter-arguments against housing allowances (and hence in favour of supply-side subsidies) are as follows. First, housing allowances may lead


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to higher rents, rather than additional supply (OECD, 2021, p. 33). In this eventuality, the landlord is the effective beneficiary of the subsidy rather than the tenant. Of course, the extent to which this occurs depends on the context, in particular supply responsiveness, and measures can be introduced to limit the capitalisation effect. Second, because housing allowances are means-tested, they are withdrawn should household income rise, often at high rates. These high rates of withdrawal may amount to a high marginal tax rate and act as a disincentive to take employment (an 'unemployment trap') or increasing hours worked (a 'poverty trap'). However, Kemp (2007) notes that there is little evidence to suggest that household behaviour is affected in this way. Third, housing allowances may lead to 'upmarketing'-an unnecessary over-consumption of housing, which may be a source of waste. Kemp (2007) suggests that minimum contributions from the tenant can help to counter this effect - but logically the contribution would need to be a proportion of the total rent, or a proportion over a certain amount to create an incentive. Fourth, not all eligible households actually receive housing allowances. However, in Europe, housing allowance programmes are typically 'entitlement' programmes, so not restricted in this way.

In reality the arguments are closer than is often presented: Galster calls for pragmatism; Yates and Whitehead for 'greater agnosticism' (1998, p. 422). Galster (1997, p.575) argued that: 'no single policy, demand-side or supply-side, represents the pre-eminent means for attaining all possible programmatic goals.' Yates and Whitehead (1998) also recognised that context is vital in determining optimal design, suggesting that if a wider range of goals, but that supply-side subsidies might be superior in tacking both externalities associated with derelict sites requiring regeneration and merit good objectives (such as minimum housing standards) (see also Stephens and Gibb, 2024). Indeed, in reality, demand- and supply-side subsidies are often blended. For example, housing allowances have often been used to widen access to social rented housing. In origin social rented housing was aimed at organised labour, rather than the poorest, which could not afford even subsidised rents (Kemp, 2007). Hence housing allowances were needed to extend access to poorer households.


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The purpose of the chapter is to provide an overview of the current policy situation in relation to housing and energy poverty allowances in the 28 countries studied. The chapter is not exhaustive in its detail and scope, given limits on time and means to conduct original research. Reliant on existing academic and policy information available in English, the section on energy poverty is in particular limited by the complexity of the policy field and the significant changes, which have occurred in response to the price shocks resulting from the Ukraine War in 2022 and after.

The findings presented here are the outcome of an analysis of the following sources: academic literature on housing and personal allowances addressing affordability and energy poverty, published policy information in the 28 countries and secondary data, such as official statistics (e.g. OECD, EU), and engagement with members of the European Community for Housing Equality (ECHE), an online network of housing policymakers, practitioners, and end users created to support the EqualHouse research on housing inequality and potential policy responses.

The chapter has the following structure. Section 2 examines housing allowances, section 3 looks at allowances to assist with affordability of homeownership and rent, section 4 addresses allowances to tackle energy poverty and section 5 provides some preliminary insights based on the research.

## 4.2 Housing Allowances

This chapter explores the role of housing allowances. It addresses, in order, the aims of housing allowance schemes, the prevalence of housing allowances in Europe, their design and patterns of impact.

### 4.2.1 Aims

Housing allowances have been defined as "... income-related subsidies tide to housing that are paid to consumers (or directly to landlords on their behalf)" (Kemp, 2007, p.1) and as "a means-tested income transfer designed to lower housing costs..." (Stephens, et al, 2010, p.56). National housing allowance schemes

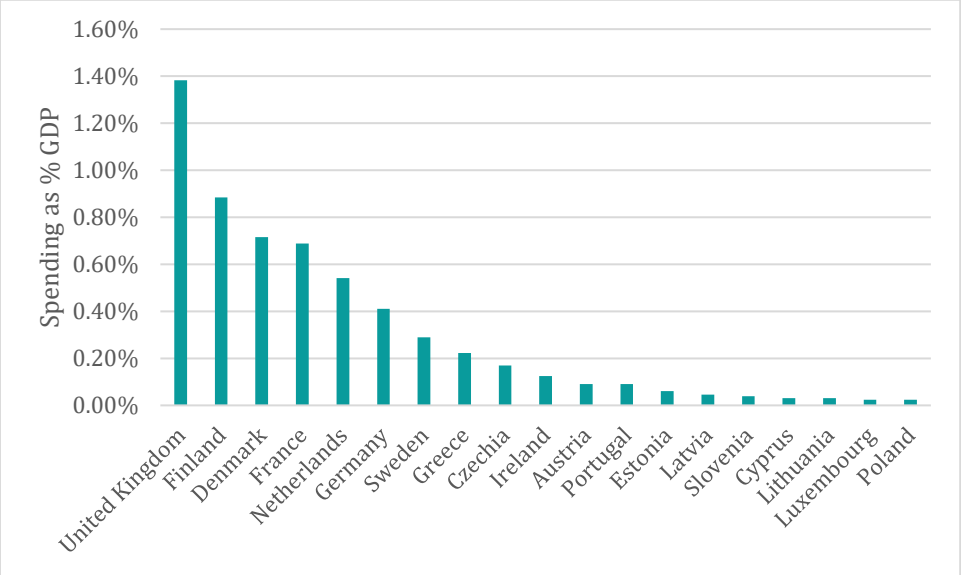


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"are a relatively recent feature of housing and social security systems" (Stephens, et al, 2010, p. 56) and have been associated with the shift from supply-side to demand-side subsidies. Although this trend can be traced back to the 1970s and 1980s in countries such as the Netherlands and UK, the OECD notes that this trend has accelerated since the Global Financial Crisis, with direct public investment in buildings having "plummeted" (to less than 0.01% of GDP in 2018) whilst overall public investment in housing has fallen to less than 0.1 per cent of GDP (OECD, 2021, p. 58).

Writing in 2007, Kemp (2007p.1) suggested that housing allowances had become "perhaps the most common form of demand-side assistance [for housing]" (Kemp, 2007, p. 1). The OECD found that demand-side assistance had grown from 0.26 per cent of GDP in 2001 to 0.31 per cent in 2017 (OECD, 2021, p. 58).

**Figure 4.1: Public spending on housing allowances (2022, or most recent, % GDP)**




Source: OECD Questionnaire on Affordable and Social Housing (2019, 2021, 2023)

However, the prevalence of housing allowances varies considerably between countries. Based on government expenditure, they are most extensive in some north-west European countries, accounting for between 0.5 per cent and 1 percent of GDP in Finland, Denmark, France and the Netherlands, and as high as



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1.4 per cent in the UK (OECD, 2024, Figure PH3.1.1). However, in many southern and central/ eastern European countries, such as Portugal, the Baltic states and Slovenia expenditure is less than 0.1 per cent of GDP, and as low as 0.02 per cent in Poland (ibid). The marginal role of housing allowances in many southern and central/ eastern European countries frequently coincides with high levels of homeownership, often arising from traditions of self-build and "giveaway" privatisation (or both) (Kemp, 2007; Lux, 2007).

- Housing allowances lie at the interface between housing policy and social security policy, and schemes are structured to address-to a greater or lesser extent-two objectives that reflect this hybridity
- "To improve the affordability of housing, [and]
- "To provide a safety net that prevents post-housing cost incomes falling below a certain level." (Stephens, et al, 2002, p. 24).

Kemp (2007, p. 5) characterises the first of these as being a "housing policy function" and the second as a "Social Security function." Both objectives also allow housing consumption to be raised to allow for a minimum size and quality of housing to be consumed by households unable to afford these unaided. Sometimes, these functions are reflected in the housing allowance itself; other systems "the housing allowance system is used to secure the first objective, whilst the social assistance system is relief on to meet the second objective" (Stephens, et al 2002, p. 24).

Beyond these narrow aims, the introduction and growth of housing allowances reflects more fundamental housing strategies. Historically, supply-side subsidies (such as capital grants, sub-market loans or, less commonly, revenue subsidies to providers) have been used to increase the supply of social housing, priced at below market levels and rationed (allocated) by administrative devises such as waiting lists, often with reference to housing need and income. Supply-side subsidies are also known as "bricks and mortar" subsidies and are considered in detail in chapter two (Finance). The growth of housing allowances in some west European countries, particularly since the 1970s and 1980s, has allowed the scale



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of state supply-side subsidy to be reduced. Kemp (2000) identified four housing strategies that such shifts from supply to demand-side subsidies reflect:

- A change in attitudes towards the best ways to provide housing assistance, with greater emphasis now being placed on market-like mechanisms rather than direct provision;
- To provide greater choice for recipients, to allow them to choose housing, rather than take what is offered to them;
- A shift away from treating housing affordability as a housing problem and towards treating it as being an income problem; and
- To better target subsidy on people in the greatest need, rather than rely on "indiscriminate" subsidies that do not adjust to changes in income, as is implied by social housing.

The deployment of housing allowances to facilitate these shifts can be seen as an attempt to commodify or recommodify housing, or as an example of "neoliberalism" (Kemp, 2007), and part of a wider change in housing systems reflected in the deregulation of mortgage markets. Housing allowances have been used to facilitate rent deregulation in the privately rented sector, the social rented sector, or both. The Finnish government abolished rent controls in 1991 "to bring more rental apartments into the market in reaction to the economic and housing market crisis" (OECD, 2021, p. 87). However, housing allowances provided "very strong housing support to vulnerable households" (ibid.) resulting in high expenditure in this area. A similar strategy was deployed in the UK to facilitate first the rise in social rents (to allow tighter targeting of subsidies) in the 1980s and then the deregulation of private rents after 1989 which facilitated the growth in the sector, again resulting in a high housing allowance bill (Stephens, 2024). Haffner (2019) also identifies the removal or reduction in rent controls as being a motivation for the introduction of housing allowances in both Germany and the Netherlands, and to which we may add Portugal (Stephens, et al, 2010). In Sweden, housing allowances were used "to keep housing affordable in any situation of housing scarcity" (Haffner, 2019, p. 104). However, Hegedüs and Teller (2005, p. 203) argued that their introduction in formerly socialist countries were "a response to the affordability hardships caused by transition and had nothing to


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do with the trends in developed countries" (quoted by Kemp, 2007, p. 5) However, if we go back further, forms of housing allowance were used to widen access to social and affordable housing, which, although priced below market levels, was nonetheless still unaffordable to the lowest income households (Stephens, 2024).

### 4.2.2 Prevalence across European Countries

The OECD provides an inventory of information on housing allowances across advanced economies, including Europe and the UK. These are the countries covered in this sub-section.

The data is collected in the Questionnaire on Affordable and Social Housing (QuASH), most recently for 2023. Whilst the inventory seeks to standardise information, it should nonetheless be treated with some caution. Housing allowances are complex and their interface with the wider social assistance system can be complex. It appears that housing cost assistance provided through mainstream social assistance income support mechanisms rather than a bespoke housing allowance mechanism may not always be recorded by QuASH. Nonetheless, with the caveat in mind, it provides the most complete information available. In analysing QuASH returns we have *excluded* schemes that are directed solely at providing assistance with energy costs. It should also be noted that many countries operate more than one housing allowance scheme.

#### Administration of housing allowances

Europe and the UK operate housing allowance systems (Table 4.1). Fifteen countries operate schemes at the national/ federal level, including France, Italy and the UK's main housing allowance scheme. Eight countries, including Denmark, Hungary and Poland operate schemes at the municipal level. Austria, Belgium and Italy operate regional/ state-level schemes, whilst Germany, Ireland and Spain operate schemes that straddle administrative levels. Whilst identified as being local/ municipal schemes, the Hungarian housing allowance schemes


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are regulated at the national level, as does the Italian regional scheme (OECD, Table PH.3.2.2).

**Table 4.1: Provision of housing allowances by administrative level**

| Administration level | Countries | No. countries |
|---|---|---|
| National/ Federal | BG, CY, CZ, FI, FR, EL, IE, IT, LU, NL, PT, RO, SK, SE, UK | 15 |
| Regional/ State | AT, BE, IT | 3 |
| Municipal/ Local | HR, DK, EE, HU, LV, LT, PL, UK | 8 |
| Shared | DE, IE, ES | 3 |
| | Total | 29 |

Notes: (a) total > 28 due to UK operating a national and a local scheme, and Italy operating a national and regional scheme; (b) excludes heating/ utilities only schemes.

Source: Analysis of OECD Questionnaire on Affordable and Social Housing (QuASH 2023, 2021, 2019 and 2016)

There does appear to be some relationship between the administration of housing allowances (Table 4.1) and the level of expenditure on them (Figure 4.1). Four of the five biggest spenders on housing allowances operate national/ federal schemes (and it is questionable whether the fifth, Denmark's, should be classified as municipal.) Four of the five next largest spending countries also operate national schemes and in the fifth (Germany) the responsibility is shared between different tiers of government.

## Coverage of housing allowances

This sub-section covers 26 of the 27 Europe (data for Croatia is missing) plus the UK, a total of 27. Every country in this sample, apart from Bulgaria, has a housing allowance scheme that is available to private renters (Table 4.2a). Around seven in ten of these countries provide housing allowances for social renters, whilst just under half of them has a scheme for homeowners.



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### Table 4.2: Coverage of housing allowances

#### a) By tenure

| Tenure | Countries | No. countries |
|---|---|---|
| Home Ownership | AT, CY, CZ, DK, EE, FR, DE, HU, IT, LV, RO, SK, SE | 13 |
| Social Rent | AT, BE, BG, CY, CZ, DK, EE, FI, FR, DE, HU, LV, NL, PL, RO, SK, SI, SE(b), UK | 19 |
| Private Rent | AT, BE, CY, CZ, DK, EE, FI, FR, DE, EL, HU, IE, IT, LV, LT, LU, MT, NL, PL, PT, RO, SK, SI, ES, SE, UK | 26 |

Notes: (a) HR/ Croatia: no information; (b) Municipal housing (Sweden does not have a social rented sector); (c) excludes schemes directed solely at energy

#### b) By tenure combination

| Coverage | Countries | No. countries |
|---|---|---|
| All tenures | AT, CY, CZ, DK, EE, FI, FR, DE, HU, LV, RO, SK, SE | 13 |
| Rental only (i.e. both Social and Private Rent) | BE, NL, PL, SI, UK | 5 |
| Private Rent only | EL, IE, IT, LT, LU, MT, PT, ES | 8 |
| Social Rent only | BG | 1 |
| | Total | 27 |

Note: (a) HR/ Croatia: no information, (b) excludes schemes directed solely at energy

Source: Analysis of OECD Questionnaire on Affordable and Social Housing

Around half (13) countries in his sample operate housing allowance systems that cover all three main tenures (home ownership, social rent and private rent) (Table 4.2b). This observation does not in itself mean that they operate tenure neutral systems of support. Support for homeowners may be delivered in a different housing allowance scheme or the rules may differ within the same scheme. There is no obvious link with tenure patterns in this group. It includes Austria and Germany with the lowest rates of homeownership in the EU, and Latvia and Estonia with some of the highest. The third Baltic state, Lithuania, which also has a very high homeownership rate does not have a housing allowance scheme for homeowners.

Five countries operate housing allowance schemes for both private and social tenants, but not for homeowners. These include the Netherlands and the UK with two of the largest social rental sectors, but also countries such as Slovenia with small ones. Housing allowances in eight countries are available only to private tenants. These include Greece, Spain Italy and Ireland. There is some prevalence



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of southern European countries in this group, but again this does not seem to be linked to tenure structure. Bulgaria alone offers a housing allowance only to social renters.

### Age and housing allowances

The QuASH survey identifies Denmark, Finland and Sweden as each operate specific housing allowance schemes for pensioners, although pensioners often make up a large proportion of the recipients of notionally age-neutral systems (e.g. Germany).

The availability of housing allowances to young people also reflects the design of the wider social security system as well as policy and cultural attitudes to the transition of young people to full independence. A report by Stephens and Blenkinsopp (2015) examined the social security arrangements for young people in six countries (Denmark, Sweden, Germany, the UK, Australia and the US) and (in relation to the European countries), that:

- Sweden supports the transition of young people to independent living through its housing allowance. Since 1996 it has been available to childless young people up to the age of 29, whilst being withdrawn from older childless households. This is identified as being an “independence-supporting approach”. Denmark has also made it easier for younger people by extending support to people aged under 30 in high-cost areas.
- Germany adopts a pragmatic approach, expecting young people normally to live with their parents until they are 25. If someone under 25 leaves their parental home without good reason, they receive social security at stay-at-home rates and are not eligible for housing assistance. If they leave home with good reason, then they are eligible for social security at the full rate and for housing assistance.
- The UK incentivises young people to stay at their parental home. Rates of social security are lower for under-25s and this feeds through into lower entitlement for housing allowances. Moreover, young people aged under 35 are eligible for housing allowance based on rents of shared accommodation. No account is taken of the reasons why a younger person does not live with their parents. (Stephens and Blenkinsopp, 2025, p. 40)


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### 4.2.3 Design

Housing allowances are “relatively complicated policy instruments” (Kemp 2007, p. 6) and decisions relating to their design,

“[a]re not merely technical matters, but may crucially affect who is eligible to apply for [them], how much money they are entitled to and on what terms or conditions they may receive it” (Kemp, 2007, p. 6).

In contrast to the US voucher programme, European housing allowance schemes are almost always “entitlement” based-i.e. if a household qualifies then they are entitled to payment, whereas in the US the programme is cash-limited and therefore subject to rationing. According to the OECD, only Belgium, Lithuania and Spain have no housing allowance scheme that is entitlement based (QuASH/ Table 3.2.2).

Payments are almost always made to the household, with only a few instances (France, Ireland, Slovenia, UK) where payments either are or sometimes may be made to the landlord (ibid.). Housing allowance schemes are almost always means-tested, i.e. adjusted according to the resources available to a household. These include income, but also sometimes assets such as savings or property. Resources are balanced against housing costs, which may be ‘actual’ (up to a limit) or notional (a standard allowance). As noted above, some schemes include homeowners’ costs.

The housing allowance is usually calculated using the ‘housing gap’ approach, where entitlement where entitlement is a percentage of the difference between eligible housing expenditure and a minimum contribution to housing costs paid by the household:


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$$HA = a(H - bY)$$

Where:

HA = housing allowance entitlement
*a* = a fraction that is usually <1
H = eligible housing costs
*b* = household contribution rate
Y = assessed income

(Kemp, 2007)

We provide three **policy snapshots** from Czechia, the UK and the Netherlands. All three systems have faced affordability constraints. Each system is reflective of wider social security system design and the housing system, including tenure patterns. Poverty levels are also relevant, and partly account for the high cost of the British system.

### Policy snapshot 4.1: Housing Allowances in Czechia

Czechia operates a dual system of housing allowances, with housing benefit providing a "wider affordability" function by limiting the housing cost burden to 30 per cent of income, whilst a housing supplement acts as a "safety net" to protect incomes after housing costs falling below a minimum level. These benefits are being merged into a "superbenefit" with the objective of targeting assistance on lower income households (to limit costs) and to increase take-up (to improve effectiveness).

### Policy snapshot 4.2: The British Housing Benefit scheme

The British Housing Benefit scheme, now largely absorbed into Universal Credit, is probably the most extensive because there is no allowance for housing costs in baseline social security benefits, so the whole of the rent may be met by it. It has been used to revive private renting and to leverage more private finance into social rented capital spending. However, its growing costs have led to cuts that undermine its "safety net" function, mainly through caps and decoupling the benefit from contractual rents.



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**Policy Snapshot 4.3: Dutch housing policy analysis**

The Dutch system of housing allowances is predicated on a fixed amount being paid by all households (and is included in baseline social security benefits). As rents rise above this level, the whole of the next tranche of rent is eligible for assistance. Thereafter the proportion of rent eligible for assistance diminishes and eventually becomes zero. Over a higher threshold, eligibility ends altogether. The system was subject to some cuts after the financial crisis.

### 4.2.4 Impact

In this section we examine the impact of housing allowances.

#### Receipt by income group

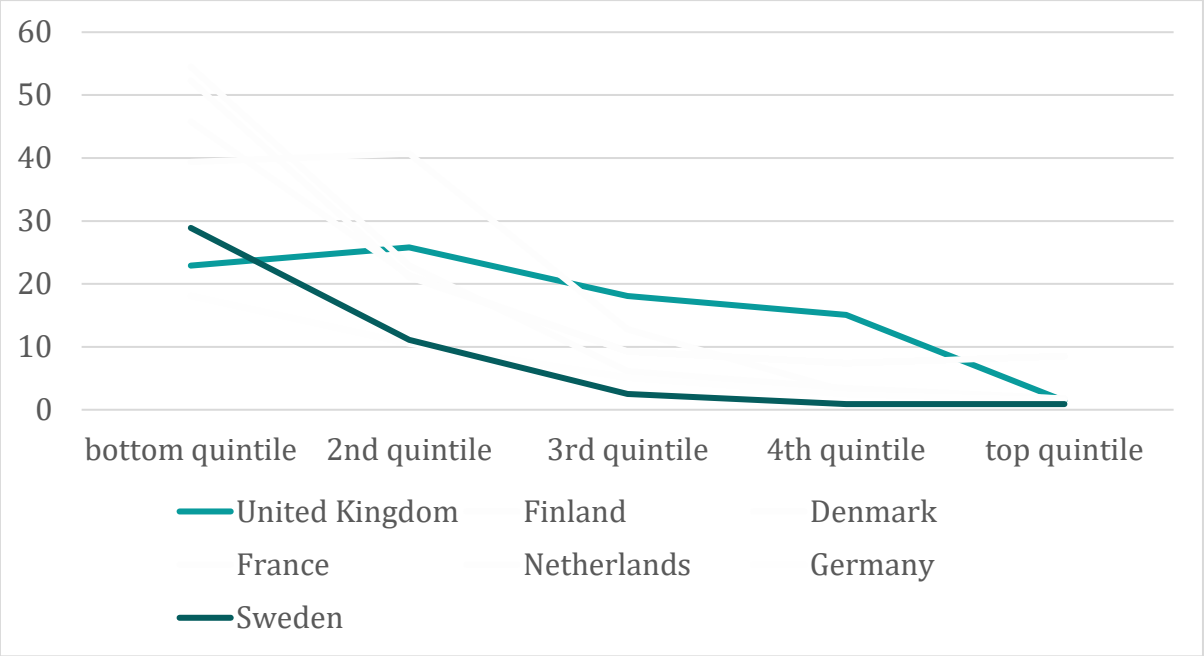
Housing allowances are typically means-tested, so we would expect their prevalence to be greatest among lower income households. However, the extent to which they are targeted on the lowest income households varies according to several criteria including (eligible) housing costs and the design of the schemes themselves such as the “taper” (rate at which support is reduced as incomes rise).

Figure 4.2 shows the proportion of households in receipt of housing allowances in the seven countries with the largest proportionate expenditures (varying from 1.4% of GDP in the UK to 0.29% in Sweden-see Figure 4.1).

The figures are based on OECD analysis of EU-SILC and the UK Understanding Society survey. Survey results can be inaccurate when sub-samples are small. Moreover, it is not clear whether housing assistance delivered through social assistance, rather than housing allowance, is treated consistently so the figures should be treated with some caution.


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## Figure 4.2: Percentage of households in receipt of housing allowances by income quintile




Note: 2022, except UK = 2021

Source: OECD analysis of EU-SILC and Understanding Society/ OECD (2024) Affordable Housing Database - indicator PH3.3.

In Finland and the France more than half of households in the bottom income quintile received housing allowances in 2022, while 46 per cent did in the Netherlands. The lowest proportion is recorded in Germany (18%), but this may undercount by excluding households receiving housing assistance through social assistance rather than housing allowance. (In Germany working-age households are excluded from the housing allowance and most housing assistance is delivered through social assistance.)

Denmark exhibits the largest share of households in receipt of housing allowances in the second lowest income quintile-41 per cent. More than one-quarter of this quintile are in receipt of housing allowances in the UK and more than one-fifth in Finland, France and the Netherlands.

Fewer than one-in-ten households receive housing allowances in the third quintile, apart from in Denmark (13%) and the UK (18%). In the fourth quintile, the proportions of households in receipt of housing allowances falls below 10 per cent



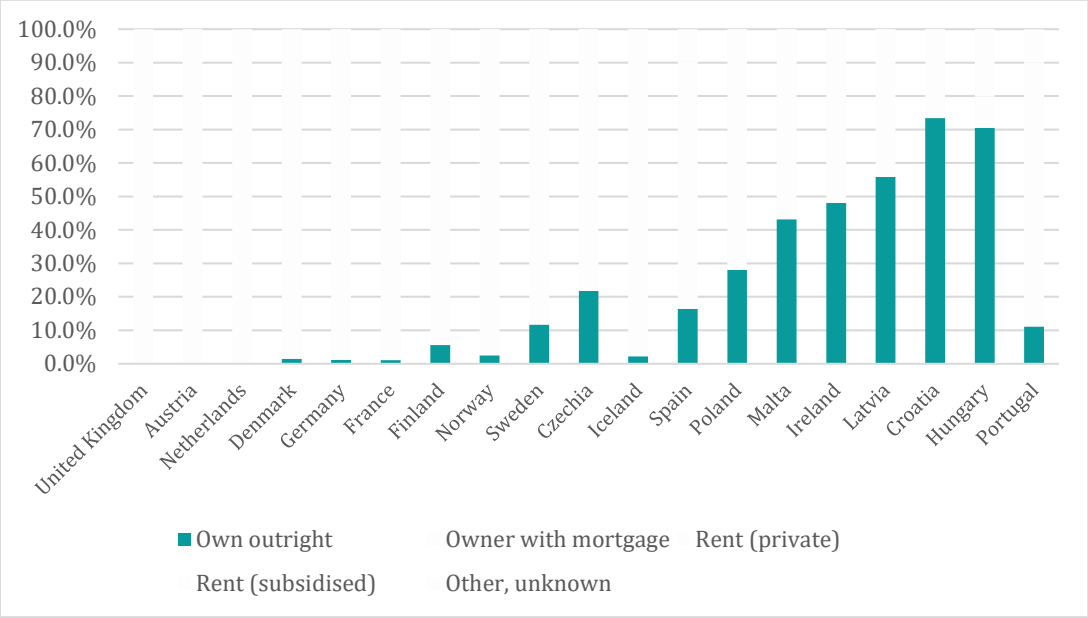
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apart from in the UK (15%), and below 5 per cent, except in France and the Netherlands (both 7%) (and the UK). Receipt is below two per cent in the top income quintile, apart from in France and the Netherlands where it is 8.5 per cent (in both countries).

### Tenure distribution of housing allowances

Housing allowance distribution varies greatly by tenure (Figure 4.3). In the countries with the largest expenditures on housing allowances (see Figure 4.1) support is almost exclusively focussed on tenant households. In the UK, the Netherlands, France and Finland this support is mostly (and the in the Netherlands almost wholly) targeted on subsidised (i.e. social) tenant households. Private tenant households are the sole recipients in Denmark, and the dominant ones in Germany, Austria, Sweden and Czechia. However, this reflects the classification of social housing as "market" rental in EU-SILC in Denmark and Sweden's treatment of municipal rental housing as "market".

**Figure 4.3: Tenure structure of low-income households receiving housing allowances (2022 or most recent)**




Note: (a) Low-income = bottom quintile (household disposable income, equivalised), (b) the chart shows the % of recipients of housing allowances who are in each tenure (*not* the % of households in each tenure who receive housing allowances)

Source: OECD (2024), OECD Affordable Housing Database - indicator PH3.3. Recipients and payment rates of housing allowance



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Countries with lower expenditures on housing allowances in central/ eastern Europe display quite different tenure patterns of housing allowance receipt. Particularly in Hungary, Croatia and Latvia outright homeowner households are the most common or even dominant tenure in receipt of support. Ireland is unusual for a western European country to record majority support for homeowners (predominantly outright, but also mortgaged). These tenure patterns reflect the larger size of homeownership in southern and eastern Europe and the priority accorded to this tenure. Portugal is the only country where mortgaged homeowner households are the dominant type of recipient.

## Impact on income

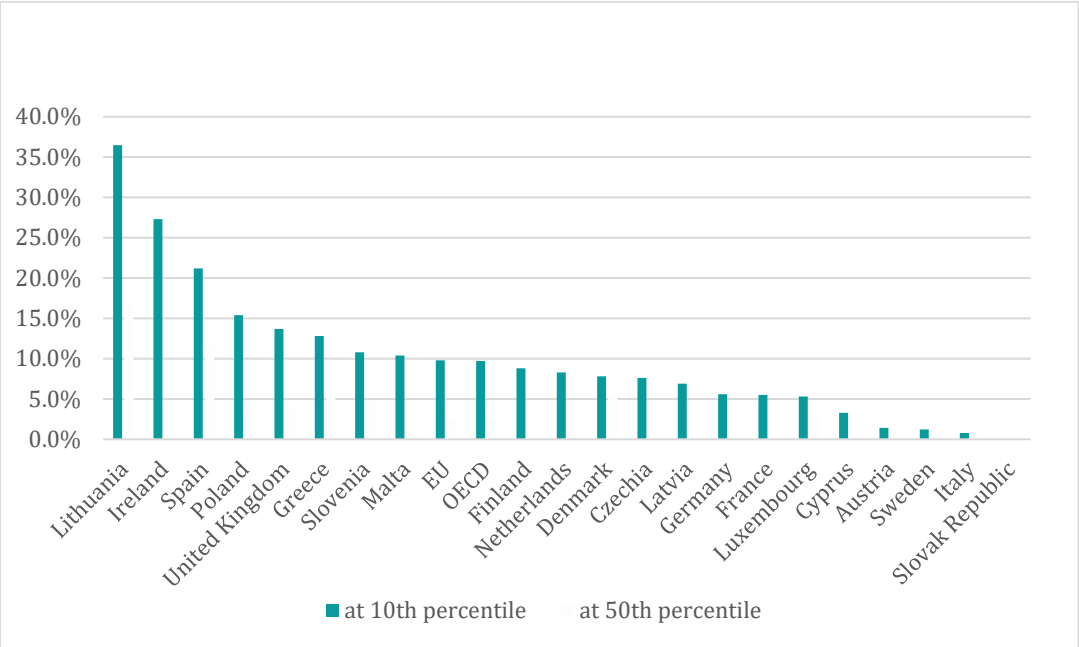
Figure 4 estimates the average value of housing allowances for households at the 10$^{th}$ and 50$^{th}$ percentile of wage distribution, expressed as share of the gross wage at the 10$^{th}$ and 50$^{th}$ percentile of the gross wage distribution. The value of housing allowance is based on an assumed rent of 20 per cent of the average wage. The calculation is based on simulations by the OECD using its tax-benefit model. This has the obvious limitation that it is hypothetical.

Noting this limitation, it suggests that the largest impact of housing allowances on household income for households in at the 10th percentile is in Lithuania (36.5%) followed by Ireland (27%) and Spain (21%), with an EU average of 10 per cent. It suggests smaller impacts in some of the countries with the largest expenditures on housing allowances (UK at 14 per cent, Finland at 9% and Denmark at 8%).



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**Figure 4.4: Housing allowance as percentage of household earnings (2022)**




Source: OECD tax-benefit models http://www.oecd.org/social/benefits-and-wages.htm/ OECD (2024), OECD Affordable Housing Database - indicator PH3.3

As one would expect impacts at the 50th percentile are smaller-other things being equal, entitlement will fall as incomes rise. In calculating a percentage, the numerator (gross value of housing allowance received) has fallen while the denominator (the wage) has risen. In the vast majority of countries the impact at this income level is very small or zero, but it is as high as 17 per cent in Lithuania and 12 per cent in Spain.

## Affordability

It would be straightforward to calculate the impact of identified housing allowances on affordability ratios or poverty after housing costs using household surveys such as EU-SILC. These would replicate limitations concerning the identification of housing assistance through social assistance rather than housing allowances discussed above, along with possible lack of representativeness of some sub-samples. Therefore, it is surprising that there are not more readily available statistics published demonstrating these effects.



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*The EU Study on Housing Exclusion* (Stephens, et al, 2010) did provide some analysis for six countries[1], which are not replicated here as they are now dated. However, the *EU Study* makes some important points.

One is that housing allowances have a clear measurable impact on affordability, at least on a static calculation. In affordability ratios this impact is clearly greatest when the value of housing allowances is deducted from housing costs rather than added to income, as this hypothetical example shows:

Income: €100
Rent: €50
Affordability ratio: 50%
Housing allowance: €20
Affordability ratio: 42% (50/ 120 * 100)
(adding HA to income)
Affordability ratio: 30% ((50-20)/ 100* 100)
(deducting HA from rent)
Net income before HA: €50
Net income after HA: €70

In principle, the deduction from rent is preferable as it is comparable to the effect of below market rents in social housing. (We do not add the value of the bricks and mortar subsidy to income.) However, inconsistency is unavoidable in systems where housing assistance is delivered through social assistance and not identifiable separately.

This dilemma is reduced when calculating poverty rates after housing costs. This calculation is unaffected by the choice of adding housing allowance to income deducting it from rent. The EU Study concluded that:

"As expected housing allowances have a clear and direct impact on housing affordability. They reduce poverty rates (after gross housing costs) in all countries other than Portugal by between 1 and 1.5 percentage points. The impact is greatest in the social rented housing in the Netherlands (4.8 pp) and the UK (7.7

[1] Germany, Hungary, Portugal, the Netherlands, Sweden and the UK



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pp). This suggests that housing allowances are most effective when combined with social rented housing.

"Housing allowances reduced the proportions with housing expenditure exceeding the 40 per cent affordability threshold by between 3-5.5 pp in Sweden, the Netherlands and the UK. Again these reductions were larger in the (social) rental tenures with reductions of between nine percentage points in Sweden and 27 pp in the UK.

"Housing allowances are also clearly targeted on the poor in the Netherlands, Sweden and the UK. In the Netherlands the proportion of the poor exceeding the 40 per cent threshold fell by 14 pp and in the UK and Sweden by more than 20 pp. Among poor social renters in the UK it falls by 45 pp. These are clear and demonstrable impacts (Stephens, et al, 2010, p. 118).

Whilst these findings are based on outdated statistics, they do demonstrate the potential for housing allowances to make an impact on affordability, notably when combined with social rented housing. Again, this suggests that the demand-side versus supply-side subsidy debate requires refinement.

### 4.2.5 Conclusion

This section has demonstrated that whilst all countries operate some form of housing allowance, the expenditure on them varies greatly.

Their design varies, with the emphasis on performing a "safety net" or "wider affordability" role varying in extent. Sometimes these roles are played by separate housing allowance schemes, or by the housing allowance scheme being supplemented by support through social assistance.

Housing allowances can have a large measurable impact on affordability and on poverty rates after housing costs. However, they also bring the potential to inflate uncontrolled rents, to encourage "upmarketing" and to create work disincentives. However, there is generally a lack of clear evidence on these problems which can also be mitigated.

Housing allowances have become more significant as supply-side subsidies have been reduced in many countries. There is a strong debate about the relative


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merits of these subsidy types, but this review also suggests that the divide is not so clear cut: housing allowances have been used to widen access to social housing and to help to lever private finance into social housing investment. There is also evidence that suggests that housing allowance impact on affordability and poverty is greatest when combined with social housing.

### Policy Box 4.1: The Czech system of housing allowances

Czechia operates two housing allowance schemes: Housing benefit and Housing supplement. It is proposed to merge housing allowances into a single "superbenefit".

**Housing benefit**

Housing benefit is a social assistance benefit which is "calculated in such a way that the household is left with a certain amount of money for living expenses" (Preuss, 2025). Both renters (including sub-tenants) and owners are eligible. It is calculated using actual housing costs (including services and utilities), up to a ceiling based on average housing costs (adjusted for region and household type), and household income.
Housing benefit is calculated on the basis that households are expected to devote 30 per cent of their income to their housing costs, but housing benefit will then cover housing costs up to the ceiling: HB = EHC - (HY * 0.3)
Where:
HB = housing benefit
EHC = eligible housing costs
HY = household income

The benefit is normally paid monthly in arrears (quarterly if less than CZK 100/ ~€4). Although 215,000 households received housing benefit in 2023, this represented a take-up rate of only 25 per cent (Iniciativa Nájemníku a nájemnic [Tenant Initiative], 2025). The formula prevents more than a certain proportion (30%) of net household income from being spent on housing (subject to the upper limit on eligible housing costs). However, this does not guarantee that the remaining (residual) income is sufficient to meet all essential non-housing needs.

**Housing Supplement**

The housing supplement seeks to fill this gap. The housing supplement is "a basic benefit which, together with the person's own income and the housing allowance provided by the State social assistance system, contributes to covering eligible housing costs" (Czech Government, 2025).The housing supplement is calculated to ensure that household income after housing and related costs is sufficient to meet subsistence needs-so it is a residual income system.Income is calculated at the household level, and eligible housing costs


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are actual housing costs up to a limit determined regionally. They include rent, services directly linked to the dwelling and necessary energy consumption.
The formula is:

HS = EHC - (HY + SA) - HB

Where:

HS = housing supplement
EHC = eligible housing costs
HY = household income
SA = social assistance
HB = housing benefit

The formula prevents income after housing costs falling below the social assistance rate, subject to the proviso that eligible housing costs are subject to a ceiling.

**Reform**

The numbers of households receiving housing benefit and housing supplement and their cost rose rapidly 2009-2016 (Král and Matejíček, 2021), before falling back slightly. Energy costs have subsequently increased costs. In 2025 legislation was passed to merge four social security benefits into a single "superbenefit" (ČTK, 2025). The benefits are for subsistence, the child allowance, a bonus for working or seeking work, and housing. As with housing benefit, the new benefit will provide support for households whose housing costs exceed 30 per cent of their income. The new system is intended to simplify the system, to target it on those in most need, and incentivise work. It is intended to reduce eligibility from 29 per cent of the population to just over one-fifth (22%). However, it is also intended to increase take-up: only 8 per cent of the population actually received benefits, implying a take-up rate of 27.5 per cent. The new scheme is due to be started in October 2025 and reviewed after about six months.

**Statistics**

Czech households by housing benefit (Příspěvek na bydleni) entitlement (thousands)

| Receives housing allowance | Entitled to housing >CZK 1,000 | Entitled to housing>CZK 1,000 | but doesn't receive it |
|---|---|---|---|
| All households | 160 | 430 | 360 |
| Senior households | 40 | 240 | 140 |
| Families with children | 70 | 50 | 100 |
| Other households | 50 | 140 | 130 |

Source: Platforma pro sociální bydlení [Platform for Social Housing]

Klusáček (2021) Kdo (ne)čerpá příspěvky na bydlení [Who (doesn't) receive housing benefits], Statistika & My [Statistcis and Us], 21 June https://statistikaamy.csu.gov.cz/kdo-necerpa-prispevky-na-bydleni

Share of households entitled to housing allowance higher than CZK 1,000/month that receive the allowance: Senior households: 14%, Families with children: 58%, Other households:26%:Source: Klusáček (2021).



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## Policy Box 4.2: The British system of housing allowances

Dating back to the 1930s, the British social assistance system has provided a safety net to protect incomes after rent from falling below social assistance minima. This system was continued after the 1945 when the "modern" welfare state was created. There is no allowance for housing costs in mainstream social assistance benefits, so claimants may have 100 per cent of their rent met. Otherwise, housing policy-the expansion of social rented housing and private sector rent controls-was intended to promote affordability. A Housing Benefit system was introduced in 1972/73, in addition to the protection provided by social assistance. It was intended to promote affordability as social rents were reformed.

In 1988, a single Housing Benefit system replaced these schemes. Although available to households in work as well as out of work, it was targeted lower down the income spectrum. It was intended to protect lower income households as private sector rents were deregulated, council rents were increased and housing associations (dependent on high levels of private finance) expanded.

The 1988 system worked on the basis of protecting post-rent incomes from falling below personal allowance rates in social assistance: HB = 100% EHC-(0.65(NHY-SA))

Where:

HB = Housing Benefit
EHC = Eligible housing costs
NHY = net household income
SA = social assistance allowance

**The formula has three important properties:**

The most notable feature of the system is that when net income (income after tax and social insurance payments) is no higher than the allowance in social assistance, then Housing Benefit meets the whole of the eligible rent. When introduced the eligible rent was normally the actual/ contractual rent.

For every £1 that net income rises, HB is reduced by £0.65-a steep "taper" of 65%.

For every £1 that rent rises, HB rises by £1. In other words HB meets 100% of housing costs at the margin.



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The priority is therefore to protect incomes, potentially at the cost of a disincentive to increase income ("poverty trap") and little incentive to "shop" for more affordable housing. In reality, there was little evidence of these apparent incentives having these effects. Nonetheless, in 2008, private tenants' eligible rent ceased to be their contractual rent, but instead was based on a 'local housing allowance' set at the median rent for property within a 'broad housing market area'.

The cost of HB rose as social rents rose and the private rented sector grew, leading the government to seek to contain costs, particularly after 2010. The main restrictions were:

- The eligible rent for private tenants was reduced from the median rent to the 30th percentile. Moreover, this has been subject to freezes and other measures that have tended to decouple the eligible rent from the contractual rent.
- Social tenants' eligible rent is now reduced (in England and Wales) where they are judged to have a spare bedroom, hence its nickname, the "bedroom tax".
- A further "backdoor" restriction arises from the "benefits cap" which limits the total amount of social security that a non-working working age household can receive. When its notional entitlement exceeds this amount it is clawed back by reducing housing support.

The government introduced a system of Discretionary Housing Payments, operated by English local authorities and the Welsh and Scottish governments, to assist tenants experiencing hardship.

Between 2013 and 2019 the government reformed the social security system by combining six working-age benefits into a single Universal Credit. This included **Housing Benefit.** Under Universal Credit, housing assistance is provided in much the same way as under HB. However, the taper (rate at which the benefit is withdrawn as income rises) is lower-at 55 per cent. It should also be noted that HB/UC is less generous towards younger people. Personal allowances under HB/UC are lower for people aged under 25, and this feeds through into the amount of housing assistance that is provided. Moreover, single people aged under 35 are entitled only to housing assistance based on the cost of shared accommodation ("shared accommodation rate").



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### 4.2.6 Policy issues

The British system of housing allowances registers as being the most expensive internationally (see Figure 4.1). This is something of an exaggeration because the statistics collected by OECD appear to exclude housing support delivered through social assistance systems (as opposed to named “housing allowances”) in other countries.

Nonetheless, the UK appears to be an outlier in terms of the cost of its housing allowance. This can be attributed to the absence of any support for housing costs in mainstream social assistance benefits and the UK’s relatively high levels of income poverty. Despite a relatively large social rented sector, some 60 per cent of social tenants nonetheless receive housing allowances. The government did order social landlords to reduce their rents (in England) over several years, but this had the effect of limiting social landlords’ ability to invest in existing and new stock. Ironically, housing allowances enhance the supply-side by increasing the value of the stock and hence the ability to secure private finance. The expansion of the private rented sector at market rents has been a further driver. So far government has chosen to limit costs by limiting housing allowances rather than by controlling private rents.

Currently, there is a policy dilemma. Almost 90 per cent of housing subsidy is delivered through housing allowances compared to less than 20 per cent in the mid-1970s. Whilst it is widely accepted that subsidy has swung too far towards demand-side assistance, it is difficult to reverse the pattern without a substantial medium-term increase in supply-side subsidies, which would entail an increase in overall housing subsidy. This leaves the UK with an expensive system whose safety net function has nonetheless been undermined.

This section is largely based on: Stephens, M (2024) Housing benefits, housing policy and social security-the long view, 45–56, in Stephens, M, Perry, J, Williams, P and Young, G (eds.) UK Housing Review 2024, Coventry: Chartered Institute of Housing.

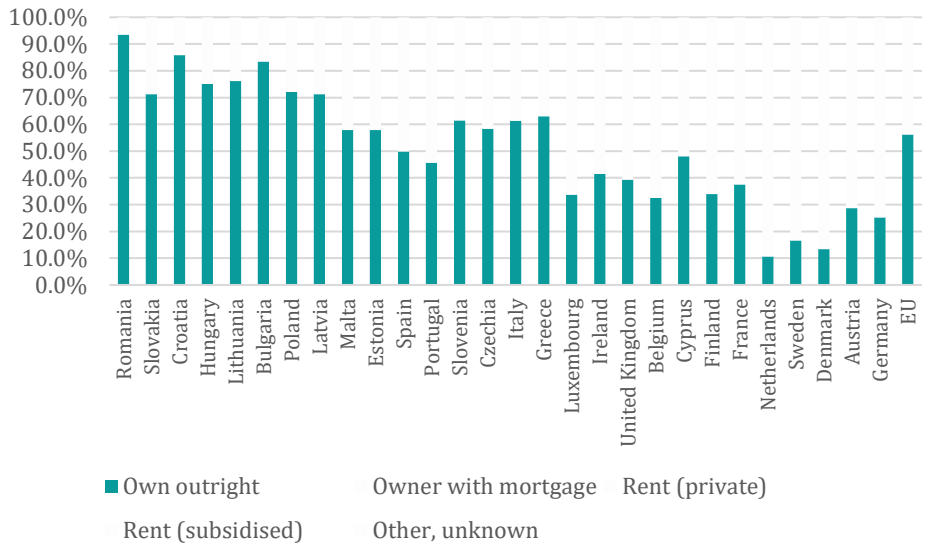


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## 4.3 Measures assisting with access to homeownership & rent guarantees

Homeownership rates across the EU27 are high on average, with around three-quarters of households owning their homes, either outright or with a mortgage (OECD, 2024). Ownership is especially dominant in Central and Eastern European (CEE) countries such as Romania, Slovakia, and Croatia, where more than 90% of households are homeowners. By contrast, countries in Western and Northern Europe tend to have lower homeownership rates; for instance, Germany and Austria have less than 50% of households owning. The United Kingdom stands just below the EU average at around 68%.

**Figure 4.5: Housing tenure distribution Share of households in different tenure types, in percent, 2022 or latest year available.**




Source: OECD (2024), OECD Affordable Housing Database - indicator HM1.3 Housing tenures, https://oe.cd/ahd.

In CEE, the privatisation of public housing in the 1990s turned tenants into homeowners virtually overnight (Lux, 2012; Hegedüs, 2023). In Southern Europe, weak rental markets, strong family networks, and limited social housing have long made owner-occupation the default tenure, often supported by intergenerational transfers (Wind and Dewilde, 2019). In both cases,



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homeownership may act as a substitute for underdeveloped welfare systems, providing security in old age and a hedge against weak rental protections (although it is also worth noting that there is considerable controversy around the concept of asset-based welfare through home ownership; see Stephens, Lux and Sunega, 2015).

By contrast, countries with lower homeownership rates may feature large, well-regulated rental sectors that provide secure and affordable alternatives (Kemeny, 2006; Castles, 1998). In Germany and Austria, for example, historical traditions of tenant protection and extensive social rental provision mean that renting has retained social legitimacy (Debrunner et al. 2024; Kaas, et al. 2021). In addition, mortgage markets in countries with tighter lending criteria can slow the expansion of homeownership (Stephens, 2007). These countries may also combine regulated rental markets with more robust welfare states, reducing the need for households to treat homeownership as a form of private welfare (Wind and Dewilde, 2019).

This section of the chapter explores forms of assistance to homeowners and buyers. These typically include, for example:

Grants to home buyers (i.e. direct financial assistance, typically targeted at first-time buyers (FTBs), young families, or low to middle income groups and intended to lower up-front costs / reduce down payments);

- Mortgage guarantee and insurance (including state-backed guarantees or insurance schemes that lower deposit requirements and credit risk);
- Tax relief measures (most commonly mortgage interest tax relief or tax exemptions on property transactions).

### 4.3.1 Aims

The aims of homeownership assistance are as follows. First, homeownership may function as a political tool. Rooted in the belief that homeownership fosters attachment to the social and economic status quo, some studies suggest it makes individuals more conservative and less inclined toward radical or left-leaning politics - illustrated, for example, by evidence linking the UK's Right to



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Buy policy to shifts in voting behaviour (Williams et al., 1987). In post-socialist Europe, the mass privatisation of public housing stock was similarly justified as a means of creating a property-owning class and consolidating democratic transitions (Lux, 2012; Hegedüs, 2023). More broadly, Kemeny's (1980) thesis highlights how political choices about welfare design shape the tenure system: where welfare states are less generous, governments have historically promoted homeownership as a substitute for state-provided security, whereas stronger welfare regimes traditionally rely less on ownership to achieve political or social stability.

Second, homeownership assistance is often justified by reference to its supposed economic and social spillovers. As Andrews and Sánchez (2011, p. 210) note, "The main economic argument for subsidising homeownership is that ownership *may* give rise to positive spillovers for society" (emphasis added), such as improved wealth accumulation, enhanced security in retirement, better childhood outcomes, or stronger civic engagement, although the evidence for each remains contested. O'Sullivan and Gibb (2012) likewise argue that the economic benefits of homeownership are frequently overstated. Nevertheless, European governments continue to pursue homeownership as a means of achieving broader public policy goals, including reducing long-term pressure on pension systems and welfare safety nets by enabling households to build equity (Wind and Dewilde, 2019). Kemeny (2006) suggests that welfare retrenchment, particularly reductions in pension generosity, may push even traditionally rental-oriented countries towards greater support for owner-occupation as a private substitute for public welfare.

Finally, in Western Europe, fiscal instruments such as mortgage-interest relief, subsidised loans, and credit guarantees have long been framed as tools to widen access to ownership and distribute the gains of housing wealth (Stephens, 2007). These forms of homeownership assistance serve not only social and distributive aims but also macroeconomic functions, operating as a form of "credit policy" that stimulates mortgage lending, construction, and household consumption (Lepers, 2024).



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### 4.3.2 Prevalence across European Countries

Table 4.3 (below) represents an initial attempt to map the coverage of homeownership assistance across Europe and the UK. The analysis is based on information drawn from the European Mortgage Federation Hypostat country reports and OCED data

The table shows that subsidised mortgages and guarantees (to use the OECD's terminology) appear to be the most common type of homeownership assistance among the Europe and the UK, at least for the past five year period. Tax relief measures can be found in about half of EU countries, while direct grants to homebuyers appear to be offered in almost as many countries. Overall, the specific forms of support provided by European governments (and the aims of housing policy) vary across countries, with many offering multiple forms of assistance.

**Table 4.3: Type of homeownership assistance by country (2020-25)**

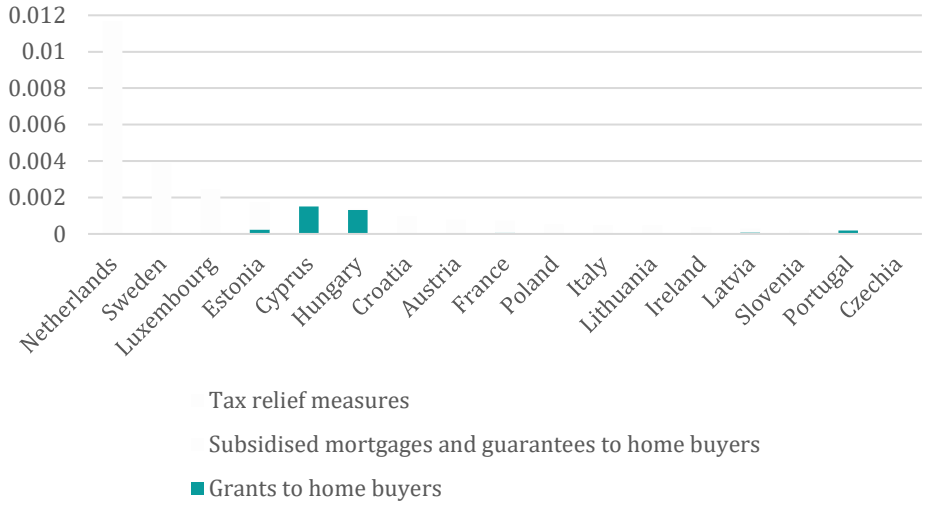
| Subsidy Type | Country | No. |
|---|---|---|
| Grants to homebuyers | CY, EE, ES, FR, HR, HU, IE, IT, LU, LV, MT, PT, SK | 13 |
| Subsidised mortgages and guarantees | AT, CZ, DE, DK, EE, EL, ES, FR, HR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, RO, SK, UK | 22 |
| Tax relief measures | BE, BG, CZ, EE, FI, FR, IE, IT, LU, NL, PL, PT, SE, SI, SK | 15 |

Source: European Mortgage Federation-Hypostat Country Reports and OECD 2023, 2021 OECD Questionnaire on Affordable and Social Housing (QuASH).



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**Figure 4.6: Public spending on grants and financial support to home buyers and homeowners. As % of GDP, 2022 or latest available year.**




Source: 2023, 2021 OECD Questionnaire on Affordable and Social Housing (QuASH).

The level of public spending on homeownership a in each case also varies but appears generally to be quite modest, averaging 0.15% of GDP, at least for the 17 EU countries included in the OCED QuASH dataset (see Figure 4.6, above); although the cumulative impact of tax breaks and expenditures is significant. In the Netherlands and Sweden, where the data refer to 2020/21, higher spending appears to be driven by comparatively more generous tax relief such as mortgage interest deductions (Matsaganis and Flevotomou, 2007, p. 5), while in Hungary, Cyprus, and Estonia support appears to be more oriented toward grants or (in the latter case) mortgage guarantees (OECD, 2023; Hegedüs, 2023 p. 186-88).

### 4.3.3 Design

This section of the chapter explores some country-specific examples of homeownership support mechanisms in more detail, using the OECD's categorisation: grants to home buyers, subsidised mortgages and guarantees, and tax relief measures. We also consider shared equity models as a separate category.



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## Grants to home buyers

Grants provide direct financial support to reduce the upfront costs of acquiring a home-most commonly the deposit, purchase price, or renovation costs. Their primary goals is to overcome liquidity constraints, helping households lacking sufficient savings to enter homeownership. As the examples below demonstrate, grants may also be used to pursue demographic or spatial objectives, such as supporting young families, tacking depopulation in rural areas, or stimulating demand in weaker housing markets. Typical beneficiaries include: FTBs, especially those with low to moderate incomes; young families with children, who are often explicitly targeted; households in designated areas, such as rural municipalities or distressed regions; and low-income households eligible for means-tested support.

Rural and regional housing grants, for example, are exemplified by Spain's *2022-2025 State Housing Plan*, which offers grants of up to €10,800 to people under 35 purchasing a home in villages with fewer than 10,000 inhabitants (Idealista News, 2024). Similarly, an earlier version of Hungary's *CSOK* (Family Housing Allowance) programme, the *Rural CSOK* programme, provided non-repayable grants of up to 10 million HUF, depending on the number of children and the property's location, to encourage settlement in smaller towns and villages (Helpers Finance, 2024; László, 2025).

Family and child-related housing grants are prominent in CEE countries. In Hungary, the *CSOK* programme has been a key form of support, providing non-repayable grants linked to family size and property type. More recently the emphasis has shifted away from direct grants toward low-interest state-backed loans. The new *CSOK Plusz* programme offers subsidised housing loans at around 3% interest to married couples planning to have children (ibid; csalad.hu, 2024); while complementary schemes such as the *Babaváró* ("baby-expecting") loan offer interest-free, partially forgivable loans to families planning to have children, with some reports suggesting it is mainly used by couples to purchase a home (Hungary Today, 2023). Latvia's ALTUM programme also focuses on families with children, providing grants of €8,000 to €12,000 to households with at least three



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children (or a disabled child) when purchasing or building an energy efficient home, subject to income limits and other conditions (ALTUM, n.d.).

Income-tested homeownership subsidies are also available in some Western European countries. In Luxembourg, for example, residents who own no other property can receive a grant of €500 to €10,000 based on household income, with higher amounts (up to 40% more) for apartments or terraced houses (BGL BNP Parabis, 2025); while in Malta, the Housing Authority provides a €10,000 FTB grant, paid in annual instalments of €1,000 over 10 years, to anyone purchasing their first home after 2022 (Housing Authority, n.d).

These grants appear often to sit alongside subsidised loan schemes - as seen in Hungary, Luxembourg, and Malta - forming part of broader housing assistance frameworks that combine grants, guarantees, and low-cost finance to improve access to homeownership.

### Subsidised mortgages and guarantees

Subsidised and/or interest-free loans and mortgage guarantees aim to improve affordability and access to credit by lowering borrowing costs or reducing lender risk. They enable households to borrow at below-market interest rates, with lower deposits or higher loan-to-value (LTV) ratios than would otherwise be possible. These measures also serve macroeconomic goals by stimulating housing construction, supporting financial sector stability, and promoting countercyclical lending during downturns. Typical beneficiaries include: FTBs facing high deposit or lending constraints; young households and couples, often with incentives linked to childbearing; moderate-income households who can sustain repayments but struggle with deposits; buyers of new-build homes, where schemes explicitly tie support to construction activity; and developers and lenders, indirectly, through increased demand and reduced credit risk.

Interest-free and subsidised loans appear to be among the most common of instruments used to help FTBs and low-income households access homeownership. France's *Prêt à Taux Zéro* (PTZ), for example, is a flagship zero-


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interest loan covering 10-15% of a property's value depending on location and property type (Service Public, 2025), which is available alongside the *Prêt d'Accession Sociale* (PAS), which is a means-tested social mortgage with below-market rates for lower income borrowers (ANIL, n.d). In Greece, the *My Home* programme similarly combines interest free government loans with low-interest bank finance to lower repayment costs (National Bank of Greece, n.d), while Poland's *Bezpieczny Kredyt 2%* (Safe Credit 2%) scheme fixes mortgage interest at 2% for 10 years, with the state covering the difference (Poręcki, 2024).

State-backed mortgage guarantees also feature prominently in several countries, enabling banks to offer higher LTV ratios. Estonia's *KredEx* guarantee, for example, allows young families to borrow with as little as 5-10% down payment, with the state guaranteeing 24-40% of the collateral value (Estonian Business and Innovation Agency, n.d.). Latvia provides similar guarantees covering 5-50% of the loan (ALTUM, n.d.), while Lithuania's version includes grants equivalent to 10-15% of the loan value (Ministry of Social Security and Labour, 2025). In Finland, the government guarantees up to 20% of a property's value (capped at €50,000), allowing lenders to issue loans with LVTs up to 95-100% (Ministry of the Environment, n.d.). Italy's *Fondo Garanzia Prima Casa* (First Home Guarantee Fund) provides guarantees of up to 80% of the loan for buyers under 36 (CONSAP, n.d.), and Portugal's youth guarantee scheme offers up to 15% coverage for FTBs under 35, facilitating 100% mortgages (Caixa Geral de Depósitos, 2025). Romania's *Noua Casă* (New Home) programme allows purchases with as little as 5% down payment, backed by government guarantees of up to 20% (or 25% for energy-efficient properties) (FNGCIMM, n.d.).

### Tax relief measures

Tax relief measures lower the tax burden associated with buying, owning, or financing a home. These measures include mortgage interest deductions, which reduce the cost of borrowing; property transfer and registration tax relief, which lower transaction costs; and value-added tax (VAT) reductions on new homes or renovations, which reduce acquisition and construction costs. Their overarching



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purpose is to promote homeownership affordability, stimulate housing market activity, and, historically, to encourage savings through ownership. Typical beneficiaries include: middle- and higher-income households, who benefit most from interest deductions due to larger tax liabilities; FTBs, where transfer tax exemptions explicitly target them; buyers of new-build homes, where VAT reductions apply; and existing homeowners with mortgages, at least in countries where interest deductions apply broadly. This subsection looks at examples of each in turn.

A number of European countries continue to support homeownership indirectly through tax deductions on mortgage interest payments. In Sweden, borrowers can deduct 30% of annual interest costs up to SEK 100,000 and 21% on the portion above that amount (Nilsson, 2025, p. 78). In Czechia, interest on mortgage loans for owner-occupied housing may be deducted from taxable income up to CZK 150,000 per year for loans contracted after 2021, or CZK 300,000 for earlier mortgages (Kotek and Sindel, 2025, p. 52). Slovakia provides a more targeted form of support through a tax bonus for young borrowers, covering 50% of paid interest up to €1,200 annually, typically for a five-year period (Hoščuk, 2025, p. 70). However, this type of tax relief appears to be declining elsewhere: both Finland and Estonia, for example, have abolished mortgage interest deductibility for owner occupiers in recent years (2023-24), citing efficiency and equity concerns (Finnish Tax Administration, 2023; Estonian Tax and Customs Board, 2024).

Exemptions on property transfer or registration taxes, like many of the interventions discussed so far, appear most commonly to be targeted at FTBs and younger households. In some parts of the UK, FTB stamp duty relief reduces the tax burden on new homeowners purchasing their first main residence. In England, FTBs pay no Stamp Duty Land Tax (SDLT) on the first £300,000 of a property's value, and 5% on the portion between £300,001 and £500,000. For homes costing more than £500,000, standard SDLT rates apply and the relief is not available (UK Government, n.d.). The Scottish equivalent is the Land and Buildings Transaction Tax (LBTT), which includes a FTB exemption on the first


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£175,000 of a property's value (Revenue Scotland, n.d.). To qualify, in both cases, the property must be the main residence, and all purchasers named must be first-time buyers. There is no FTB relief in Wales.

In Belgium, property transfer taxes (known as registration duties) are levied regionally. In Flanders, the duty rate on a sole or primary residence has been progressively reduced (2% in 2025, down from 3%), while Brussels grants an abatement on the first €200,000 of a property's value, effectively exempting this portion from the standard 12.5% duty (Kryszkiewiez and Simonet, 2025; Government of Flanders, n.d.; Brussels-Capital Region, n.d.). Similar measures exist elsewhere: Portugal exempts homebuyers under 35 from both IMT (property transfer tax) and Stamp Duty when purchasing their first primary residence below specified value thresholds (Silva and Silva, 2025, p. 64); and, in Italy, the aforementioned *prima casa* scheme provides reduced transfer and registration charges for FTBs (the registration tax is cut to 2% from the standard 9%) for purchases from private sellers, alongside reductions in other fees (Marino, 2025, p. 82). By contrast, Finland has recently moved in the opposite direction, abolishing its long-standing FTB exemption from transfer tax in 2024, although overall rates were lowered (Finnish Tax Administration, 2023).

A smaller number of countries provide VAT relief on property purchases or renovations to enhance affordability or promote regeneration. In France, buyers of new dwellings located in designated urban renewal zones may qualify for a reduced VAT rate of 5.5%, rather than the standard 20%, provided that income and location criteria are met (Cartier, 2025, p.27); while in Italy, purchasers buying directly from a registered builder may access a reduced VAT rate of 4% under the *prima casa* scheme, complementing the lower registration duties described above (Marino, 2025, p. 82). These targeted VAT schemes aim to promote homeownership in areas targeted for urban regeneration (in the case of France) and encourage investment in newly built or energy-efficient housing (in the case of Italy) while moderating acquisition costs for eligible households.



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## Shared-equity models

Shared-equity schemes are designed to reduce the upfront cost of purchasing a home by allowing buyers to acquire only a share of the property (e.g. 25-80%), while a public body, non-profit provider, or developer holds the remaining equity stake. Because the buyer finances only their own share, these schemes lower deposit and mortgage requirements, making ownership accessible to households who could afford ongoing payments but cannot meet full-market purchase prices. They also help maintain long-term affordability, since resale rules and equity-sharing mechanisms prevent full price inflation from being passed on to future buyers. In some cases (e.g. equity loans), shared-equity models also serve as countercyclical tools, supporting construction activity and market confidence. Typical beneficiaries include: FTBs unable to purchase at full market value but who can afford partial ownership and ongoing costs; moderate-income households, particularly those just above social housing thresholds but priced out of full ownership; younger households and key workers, where schemes are targeted at groups facing the largest affordability barriers; and buyers of new-build homes, since shared-equity products are often linked to stimulating supply. Indirect beneficiaries include developers, who gain from increased demand and reduced sales risk, and governments and housing providers, which retain a long-term equity stake and can recycle gains into future affordability programmes.

Examples can be found in France, which operates shared-equity and rent-to-own schemes to improve affordability for households with modest incomes (Cartier, 2005, p. 27), and in Malta, where shared equity schemes support those “aged over 30 years who, due to their age and income, cannot take a loan that suffices to purchase their home. In the latter case, the Housing Authority purchases up to 50%, not exceeding €100,000, of a property worth up to €250,000.” (Micallef and Schembri, 2024, p.4). Althought nor restricted to first-time buyers, shared equity models have also played a significant role in helping buyers access homeownership in the UK, amid high house prices and deposit barriers. These schemes, most notably the Help to Buy: Equity Loan (2013–2023)


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and various shared ownership programmes, allowed purchasers to buy a share of a property (typically 25–75%) while the government or a housing association retained the remaining equity. Buyers then paid a mortgage only on their share and, in the case of shared ownership, a subsidised rent on the rest (see policy box 4.2. for more detail).

### Rent Guarantee Schemes

Rent guarantee schemes are designed to reduce landlord risk by offering an institutional or publicly backed assurance that rent will be paid in cases of tenant default. Their core purpose is to widen access to private rented housing for groups who experience barriers because they cannot meet traditional guarantee requirements, such as young people, low-income households, or those without family guarantors. Although rent guarantees function as an important tool for enabling equality of access and increasing landlords' willingness to rent to potentially vulnerable groups, they appear far less common across Europe than homeownership assistance schemes. In the course of our review we were only able to identify a handful of examples, although it is likely that additional local or municipal initiatives exist that are less systematically documented.

France's public rent guarantee *VISALE* was introduced in 2016 to replace the GRL scheme and operates as a free institutional guarantee for young people and new entrants to the labour market, covering up to 36 months of unpaid rent and certain damages, with applications completed digitally by the tenant through *Action Logement*. The scheme provides an important equalising mechanism for under-30s who are often excluded from private guarantees, enabling them to present a recognised guarantee regardless of family resources or employment precarity (UNCLLAJ, 2020).

Spain has recently expanded its rent guarantee coverage through a new state-backed rental guarantee established under *Real Decreto-ley 1/2025*, which allows the central government to act as a guarantor for young people and low-income households in order to reduce landlord risk and facilitate access to the private rented sector (Government of Spain, 2025). This national measure sits alongside



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regional schemes such as Catalonia's *Avalloguer*, which covers up to six months of rent for participating landlords (Generalitat de Catalunya, n.d.), and municipal initiatives such as Mataró's EU-funded *"Yes, We Rent!"* scheme, which deploys rental guarantee funds to encourage the release of vacant dwellings (Scheffler, 2020).

Belgium operates a decentralised set of public rental guarantee mechanisms, including the Brussels Housing Fund and the Fonds BRUGAL, which provide advances or guarantees helping low-income tenants to constitute a rental guarantee for landlords (fonds.brussels, n.d.). Throughout the country, local public social welfare centres (CPAS/OCMW) can assist with the constitution of a rental guarantee, including issuing a letter de caution in which they formally promise to pay the rental guarantee to the landlord if the tenant does not meet their obligations, effectively allowing social assistance bodies to act as public guarantors  also issue letters of guarantee or bank guarantees to landlords on behalf of households experiencing financial difficulty, effectively allowing social assistance bodies to act as public guarantors (SPP Intégration Sociale, n.d.; Bernard and Lelubre, 2025). However, these schemes vary significantly across municipalities, reflecting Belgium's fragmented welfare governance (ibid).

### 4.3.4 Impact

This section reviews evidence on the impacts of policy instruments to promote homeownership, focusing on cash grants and direct assistance, subsidised mortgages and guarantees, and tax relief measures, in turn. Drawing on international studies, it explores how these interventions influence homeownership, affordability, and distributional outcomes, while highlighting some unintended consequences. The section concludes with an overall assessment of the effectiveness of the different forms of homeownership assistance in attaining affordable and inclusive housing, particularly for low income and marginalised groups.

Evidence on the specific impacts of cash grants in European contexts appears to be limited. However, evidence from the US shows that cash grants and down


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payment assistance consistently reduce liquidity constraints and raise the probability that constrained renters become home owners, especially when grants are modest and well-targeted. Using longitudinal U.S. data, Herbert and Tsen (2007), for example, show that relatively small grants (US$1,000-5,000) generate sizable increases in transitions to ownership, with diminishing marginal returns at higher grant amounts. Evaluations of U.S. federal and local programs, such as the *American Dream Downpayment Initiative*, have similarly reported measurable improvements in access to homeownership when grants or forgivable loans are well-targeted and paired with financial education (Turnham et al., 2004). A more recent simulation in the U.S. indicates that larger one-time grants could materially expand the pool of "mortgage-ready" renters, particularly among Black and Hispanic households, but with wide geographic variation (McCue, Hanifa and Herbert, 2023). A broader synthesis highlights substantial latent demand that could be unlocked by either modest grants or larger shared-equity-scale subsidies (Perkins et al., 2022). That said, comparative reviews caution that poorly targeted cash grants can be fiscally inefficient and prone to price capitalisation (i.e. reflected in higher house prices) in tight markets with benefits skewed to better-off buyers unless carefully targeted and coordinated with supply-side measures (Atterhög and Song, 2009).

Studies of subsidised and low-interest loans show that they, too, can temporarily stimulate demand and accelerate access to homeownership, but often with limited or regressive long-term effects. For example, analyses of France's PTZ demonstrate that the scheme loosened borrowing constraints and enabled roughly 75,000 additional FTBs, yet about 85% of beneficiaries would have purchased without it, indicating substantial windfall gains and price capitalisation (Gobillon and Le Blanc, 2008). Similarly, Poland's *Rodzina na Swoim* mortgage subsidy programme modestly improved access for middle-income households but failed, according to Radzimski (2014), to improve affordability or increase supply, with benefits concentrated in wealthier regions. In Croatia, the *Subvencioniranje Stambenih Kredita* (SSK) has been found to drive house price inflation and speculative investment while excluding lower-income renters


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(Fernández & Bežovan, 2023). These findings suggest that demand-side mortgage subsidies, when unaccompanied by housing supply measures or income targeting, tend to reinforce market inequality rather than reduce it.

By contrast, state-backed mortgage guarantees and shared-equity models show greater potential when carefully designed, though their purpose is not always strictly affordability-driven. In some cases, including Help to Buy in the UK and temporary reductions in transaction taxes, such schemes are explicitly intended as market stabilising instruments, supporting demand and construction during downturns rather than allowing prices to adjust downward. The Dutch National Mortgage Guarantee (NHG), for instance, acted as a countercyclical stabiliser during the 2008-2010 financial crisis, maintaining credit flows and borrower confidence without major fiscal risk (Priemus, 2013; see policy snapshot 4.4 below). Yet international evidence also highlights limits to such tools: in the U.S., expanding federal mortgage guarantees through higher conforming loan limits had no measurable impact on homeownership (Grundl and Kim, 2021), while inflating prices and shifting financial risk onto taxpayers. Shared equity schemes, by contrast, combine upfront subsidy with long-term affordability and stewardship mechanisms, reducing foreclosure risk and ensuring lasting benefit to future buyers (Perkins et al., 2022).

Across OECD and EU contexts, mortgage interest deductions (MID) are among the most expensive and distortionary forms of housing support. Studies from the United States, Denmark, and the Netherlands show that while the MID lowers borrowing costs and encourages larger mortgages, it has no measurable effect on overall homeownership rates (Gruber et al., 2021; Hilber and Turner, 2014; Van Ewijk et al., 2007). Instead, it increases household leverage, inflates house prices (particularly in markets with inelastic supply) and disproportionately benefits high-income households (Valentin, 2023; Leodolter and Rutkowski, 2022; Matsaganis and Flevotomou, 2007). The result is a regressive and fiscally costly subsidy, estimated at around 0.5-1.8% of GDP in some EU states (Leodolter and Rutkowski, 2022, p. 4). Evidence from quasi-experimental settings (e.g. Denmark's 1987 reform) confirms that reductions in the MID significantly lower borrowing


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and house prices but do not reduce ownership, highlighting its inefficiency as a tenure-promoting policy (Gruber et al., 2021).

Similar dynamics are observed in other forms of transaction-based or consumption tax relief. Property transfer tax exemptions for FTBs, such as those seen in Belgium and France, can temporarily boost demand but are often capitalised into house prices, benefitting sellers rather than buyers (Gobillon and Le Blanc, 2008; Xhignesse and Verbist, 2022). These policies frequently reinforce spatial and social inequalities, as benefits accrue to higher-income and suburban households, contributing to urban sprawl and environmental inefficiency (ibid). VAT reductions on construction or renovation, used in the Netherlands and France during market downturns, may support short-term activity but are poorly targeted and fiscally inefficient, providing limited benefits to low-income households while stimulating speculative investment (Pollard, 2010; Priemus, 2013).

A growing consensus, reflected in both European Commission and OECD analyses, supports phasing out broad-based tax deductions and transaction exemptions in favour of targeted, tenure-neutral instruments, such as tax credits (financial incentives that allow eligible taxpayers to deduct the value of the credit they've earned from the total amount of tax they owe to the state) or direct assistance to low-wealth FTBs, which are more efficient and equitable means of supporting homeownership (see Valentin, 2023, p. 1507).

### 4.3.5 Conclusions

Taken together, the international evidence shows that not all homeownership assistance is equally effective at supporting affordable and inclusive access to ownership. (see summary table below). Across the body of evidence, the most effective and equitable instruments for expanding affordable homeownership, particularly for low-income or marginalised groups, are:

Targeted cash grants and downpayment assistance, especially modest, well-designed grants paired with borrower support, which show the strongest



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evidence of increasing ownership among credit-constrained households (Herbert & Tsen, 2007; Turnham et al. 2004; McCue, Hanifa, and Herbert, 2023).

Shared-equity models, which reduce both deposit and repayment burdens and preserve affordability over time (Perkins et al., 2022).

Tightly regulated mortgage guarantee schemes (e.g. the Dutch NHG), which reduce lender risk and stabilise markets without substantial price inflation (Priemus, 2013).

By contrast, the least effective and most regressive policies are:

- Mortgage tax deductions, which consistently fail to raise ownership rates while driving debt and prices (Gruber et al., 2021; Hilber and Turner, 2014).
- Broad transaction tax exemptions, which tend to be capitalised into prices and rarely help the most excluded households (Gobillon & Le Blanc, 2008; Pollard, 2010; Xhignesse & Verbist, 2022).
- Untargeted subsidised mortgages, which generate windfall gains, price inflation, and limited benefit for the poorest (Gobillon & Le Blanc, 2008; Radzimski, 2014).
- Overall, the international evidence suggests that strategies combining targeted upfront assistance, shared equity models, and supply-side measures offer the strongest pathway to expanding secure and inclusive homeownership.

In terms of rent guarantees, taken together, the examples from France, Spain, and Belgium suggest that rent guarantee schemes can play an important role in improving access to the private rented sector for groups facing structural barriers. Yet the effectiveness of these schemes appears often to be constrained by fragmentation, administrative complexity, low levels of awareness, uneven territorial coverage, and inconsistent landlord acceptance. In France, for examples, *VISALE*'s potential is weakened by low visibility and competition with private insurance (UNCLLAJ, 2020), while similar issues of overlap and inconsistency arise across Belgium's municipal governance structure. Bernard and Lelubre (2025) argue that rent guarantee mechanisms in Belgium often fail to remove barriers for low-income households. Landlords frequently distrust CPAS guarantees due to administrative delays and the stigma attached to



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welfare recipients, while the legal bank guarantee system is rarely applied in practice because banks impose additional conditions or circumvent their obligations. As a result, the rental deposit remains a major obstacle to housing access, leading Bernard and Lelubre (2015) to call for a centralised public guarantee fund as a more effective and equitable solution. A report by FEANTSA (2021, p. 63) echoes this call for a universal rent guarantee in France which they argue would avoid many of the equity and access problems generated by competing or fragmented guarantees.


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## Table 4.4: Effectiveness of Homeownership Assistance for Affordable and Inclusive Access

| Policy instrument | Intended purpose | Who benefits most in practice? | Effectiveness for low-income & marginalised groups | Key impacts / evidence | Main unintended consequences |
|---|---|---|---|---|---|
| Cash grants & direct financial assistance | Reduced liquidity constraints; help with deposit/purchase costs; support rural/young family housing | FTBs; young families; moderate-income buyers; rural residents | Moderately effective when targeted; strongest evidence of improving access for low-income and minority households (US studies) | Small, well-targeted grants significantly increase transitions to ownership (Herbert & Tsen, 2007; Turnham et al. 2004; McCue, Hanifa, and Herbert, 2023) | Price capitalisation in tight markets; windfall gains to higher-income households if untargeted (Atterhög & Song, 2009) |
| Subsidised / low-interest mortgages | Reduce borrowing costs; expand credit access; stimulate construction | Middle-income buyers; new-build purchasers; households marginally constrained | Low effectiveness for poorest households; benefits concentrated among moderate and higher-income buyers able to meet payment tests | High share of windfall gains (e.g. France's PTZ: 85% would have bought anyway); stimulates demand more than access (Gobillon & Le Blanc, 2008; Radzimski, 2014) | House price inflation (Croatia SSK); encourages leverage; limited supply response. |
| State-backed mortgage guarantees | Reduce lender risk; enable high LVT loans; stabilise mortgage markets | Creditworthy FTBs with limited deposits; younger households | Potentially effective when strictly regulated (e.g. NHG), but limited benefit for lower income groups | Dutch NHG stabilised mortgage market and maintained access during downturns with low financial risk (Priemus, 2013); guarantees improve credit availability | Can inflate prices if limits are high or rules loose (US conforming loan limits: Grundl & Kim, 2021) |
| Shared-equity models | Reduce upfront costs; support long-term affordability; allow partial ownership | FTBs priced out of full ownership; moderate-income households | High effectiveness: reduces deposit and monthly repayments; preserves affordability for subsequent buyers | UK and French schemes demonstrate strong stewardship; reduce foreclosure risk; expand sustainable access (Perkins et al. 2022) | Requires good regulation; risk of complexity for buyers; developer dependence (as with UK HtB) |
| Mortgage interest deductions (MID) | Lower cost of borrowing; encourage ownership and mortgage uptake | Higher-income households; existing owners with large mortgages | Very low effectiveness; regressive; almost no impact on homeownership rates | No measurable effect on homeownership (Denmark, US, Netherlands); raises debt and prices (Gruber et al., | Large fiscal costs (0.5-1.8% GDP); price inflation; wealth inequality |



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| | | | | | |
|---|---|---|---|---|---|
| | | | | 2021; Hilber & Turner, 2014) | |
| Transfer tax relief (e.g. FTB stamp duty exemptions) | Reduce transaction costs; support FTBs; stimulate activity | Middle-income FTBs; buyers in mid-priced markets | Low to moderate effectiveness; often capitalised into prices; limited benefit for lower-income households | Raises transaction volumes in short term; price capitalisation widespread (Gobillon & Le Blanc, 2008; Xhignesse & Verbist, 2022) | Benefits captured by sellers; reinforces spatial inequities |
| VAT reductions on new homes / renovations | Lower acquisition/renovation costs; stimulate construction; target regeneration | Developers and high-income buyers; households in designated zones | Low effectiveness for affordability unless paired with income/price targeting | Supports short-term market activity (France, Italy); limited distributional benefits (Pollard, 2010) | Fiscally inefficient; can fuel speculative investment |



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## Policy Snapshot 4.4: The Dutch National Mortgage Guarantee (NHG)

***Policy context:*** The *Nationale Hypotheek Garantie* (NHG) is a central pillar of the Dutch housing finance system. Introduced in 1993 by the Dutch government together with the Association of Netherlands Municipalities (VNG), it evolved from earlier municipal and national guarantee initiatives and is administered by the non-profit Homeownership Guarantee Fund (*Waarborgfonds Eigen Woningen*, WEW), which operates with an explicit state backstop. The NHG's creation aligned with the liberalisation of Dutch mortgage markets during the 1990s, when policymakers sought to expand access to homeownership and stimulate mortgage lending without exposing the state to direct financial risk (Priemus, 2013).

***Policy design and implementation*:** The NHG's central purpose is therefore to improve affordable access to homeownership and support housing market stability by reducing risk for both lenders and borrowers. It operates as a mutual guarantee fund: borrowers pay a one-off premium, pooled and managed by WEW, which insures mortgages that meet strict eligibility criteria.

***Eligibility and coverage:*** The NHG is open to all households, not a targeted programme, though its design indirectly favours FTBs and middle-income households. Mortgages must fall below a maximum property value cap, which adjusts with market conditions (€450,000 in 2025; Hypotheker, n.d.; ABN AMRO, n.d.; NHG, 2025). The home must be the borrower's primary residence, and refinancing is permitted under specified conditions.

***Premium and uptake:*** Borrowers opting into the scheme pay a one-off premium, currently 0.4% of the mortgage amount (ibid, p. 16). Although this can be a substantial upfront cost, uptake remains consistently high. A 2023 article indicated that over 40% of all home purchases used an NHG-backed mortgage, calling the scheme ""particularly popular among first-time buyers" (DutchNews, 26 October 2023). The patterns suggest that the NHG is particularly attractive for high-LTV borrowers facing liquidity constraints, especially younger and first-time buyers.

***Guarantee mechanism and remission scheme:*** The NHG guarantee protects both lenders and borrowers, but in different ways. It does not make ongoing mortgage payments. Borrowers remain responsible for monthly instalments. Lenders must first explore all feasible forbearance options (e.g. temporary payment changes, term extensions). It compensates lenders for losses after a forced sale. If a borrower must sell their home at a loss due to circumstances beyond their controls (e.g. unemployment, disability, or divorce), and the sale proceeds do not cover the outstanding mortgage, WEW reimburses the lender for the residual loss. The scheme is financially self-sustaining, with an explicit state guarantee as backstop that activates only if the fund's reserves are exhausted, which has never occurred to date. By 2017, NHG guarantees covered around €190 billion of outstanding loans, more than half of the Dutch mortgage market, while maintaining a strong capital position (WEW Annual Report, 2017).

***Outcomes and unintended consequences:*** The NHG scheme has resulted in a number of positive outcomes. It proved especially valuable during the 2008-2013 financial crisis, when the government temporarily raised the eligibility cap to sustain credit availability (Priemus, 2013, p.351). The guarantee allows lenders to offer lower interest rates (typically 0.3-0.6 percentage points below market averages) since NHG



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loans carry reduced credit risk (Hypotheker, n.d.; ABN AMRO, n.d.). This directly improves affordable access to homeownership for eligible households that might otherwise face lending constraints, including FTBs, high-LTV borrowers, single parents, and the self-employed. Some analysts highlight a risk of moral hazard, as both borrowers and lenders may take on slightly higher debt/credit obligations knowing that residual losses are partially guaranteed (Kerste et al. 2011, cited in Priemus, 2013, p. 354). Evidence of NHG-driven house price inflation is limited, partly because the value cap restricts coverage primarily to mid-market properties, dampening broader market effects.

## Policy Snapshot 4.5: The UK Help to Buy Equity Loan Scheme

**Policy context**
The Help to Buy: Equity Loan (HtB) scheme was introduced in England in April 2013. Although often described informally as a UK-wide initiative, the equity loan operated only in England; Scotland and Wales introduced their own, differently designed schemes that were generally more targeted. The English version emerged in the aftermath of the Global Financial Crisis, when house prices had recovered faster than FTBs' ability to save deposits. A combination of high house prices, stagnant wages, and tightened post-GFC prudential regulation (notably higher deposit requirements and stricter mortgage underwriting rules) created a widening "deposit gap".

The scheme was also explicitly intended as a market-stabilising tool. By design, it applied only to new-build homes, reflecting the government's aim to boost housing construction and support major housebuilders during a period of weak demand. Contemporary analysis shows that, at peak, between 36 and 48% of sales by five of the six largest UK housebuilders were supported by HtB (Stephens and Blenkinsopp, 2020), demonstrating its role in underpinning the speculative development model.

The scheme was financed through HM Treasury's financial transactions budget (i.e. capital expenditure that sits off the government's current balance sheet because loans are expected to be repaid). This accounting treatment was politically important: it enabled the government to commit tens of billions of pounds without increasing reported public spending. As later confirmed by both HM Treasury and the National Audit Office (NAO) the government expected (and is on track) to make a net profit from the scheme as equity loans are repaid.

**Policy design and implementation**

***Objectives and rationale***
The HtB Equity Loan aimed to: Reduce deposit constraints for prospective homebuyers, particularly but not exclusively FTBs. Support new-build housing output by stimulating effective demand. Stabilise the post-crisis housing market and maintain developer confidence.

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***Key features***

Buyers could purchase a new-build home with a 5% deposit, with the government providing an equity loan of: up to 20% of the purchase price outside London, up to 40% in London (from 2016). Equity loans were interest-free for five years, after which a 1.75% fee applied, rising annually by RPI +1%. The scheme also had a price cap (initially £600,000 for all England), revised in 2021 to include regional caps. The government took an equity share, meaning its financial return depended on market values at sale or repayment. And, finally, the buyer had to take a qualifying repayment mortgage alongside the equity loan (Homes England, 2020; UK Government, 2021).

***Administration and uptake***

While HM Treasury provided the financing, Homes England administered the scheme, working with lenders and developers. Developers registered with the scheme and were required to meet certain consumer-protection requirements, but the policy substantially aligned with their commercial incentives, thus helping to ensure fast uptake.

Uptake was very high: Over 387,000 households had purchased through HtB (UK Government, 2023). Roughly 80% were FTBs. A large proportion of purchases were higher-LTV households who used the scheme to bridge the deposit gap. New-build developers widely integrated the scheme into their sales model, often marketing HtB explicitly in show homes and online listings (Whitehead et al., 2018).

***Outcomes and unintended consequences***

Evaluations of HtB reveal that the scheme achieved some of its stated aims, but with substantial inefficiencies and several important unintended consequences. Evidence from Whitehead et al. (2018) indicates that the programme had a meaningful stimulatory effect on both demand and supply in the new-build sector, but the scale of deadweight was considerable. National demand additionality-that is, the share of buyers who would not have purchased without assistance-was estimated at 37%, implying that roughly sixty percent of all HtB purchases would have occurred in the absence of the scheme. This figure is central to any assessment of effectiveness: it suggests that the majority of public funds were absorbed by households who were not financially constrained and by developers whose sales were simply accelerated rather than induced.

On the supply side, supply additionality was lower still, at around 14.5% of total private output nationwide. The picture varied across regions, with only 6.6% additional supply in London compared with 16.3% in the Midlands. These regional patterns reflect both underlying land-market constraints and the concentration of new-build activity in lower-cost areas. Although the scheme did facilitate an uplift in construction, much of this effect appears to have been marginal rather than transformative.

The scheme's impact on prices also varied depending on local market conditions. Whitehead et al. (2018) found no strong evidence that HtB increased overall house price inflation in England, largely because the scheme accounted for a relatively small share of total transactions. However, the more fine-grained econometric analysis by Carozzi, Hilber and Yu (2020)

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demonstrates that in supply-constrained regions, particularly London and parts of the South East, the equity loan scheme substantially increased new-build prices-often by more than the value of the interest subsidy provided to buyers. In more elastic markets, by contrast, HtB stimulated output without putting significant upward pressure on prices. Developers also exhibited clear price-bunching behaviour around the eligibility thresholds (notably the £600,000 cap), strategically setting prices just below the limit to ensure units qualified for the scheme. These findings indicate that HtB acted, in practice, as a developer subsidy in constrained regions, while functioning more as a demand stimulant in more elastic areas.

The distributional effects of the scheme were similarly uneven. Although 80% of participants were FTBs, the beneficiary group was skewed toward households with above-average incomes, those capable of managing mortgage payments but constrained by deposits rather than affordability. The scheme did relatively little to assist renters or low-income households lacking the income to sustain repayments. Instead, it significantly benefitted large housebuilders-who incorporated HtB into their sales strategies-and households purchasing mid- to high-priced new-build properties. Thus, while it expanded access for some moderate earners, it had limited influence on broader affordability challenges.

From a fiscal perspective, HtB appears favourable fiscally to the government. Because the scheme was funded through HM Treasury's financial transactions budget, its costs were recorded off the balance sheet on the expectation of repayment. The NAO (2014) estimated that the government would make a gross return of around £4.8 billion by 2040-41, and later projections confirmed that the value of the government's equity stake-approximately £40 billion by the end of the scheme-positioned it to profit as households repay loans or sell their properties at appreciated values. This fiscal gain, however, is inextricably linked to the broader role HtB played in maintaining house prices and supporting developer balance sheets, rather than allowing the market to adjust downward after the GFC or during the Covid-19 pandemic. Some commentators argue that this propped-up housing model-combined with post-crisis prudential mortgage regulation-reflected a fragmented government approach in which one arm tightened access to credit while another attempted to compensate for that very constraint.

In summary, HtB delivered substantial short-term benefits to developers and moderate-income buyers seeking to overcome deposit barriers, and it helped sustain England's new-build sector during two periods of economic uncertainty. Yet its effectiveness as an affordability intervention was limited. The high deadweight, concentration of benefits among better-off households, and price inflation in constrained markets indicate that the scheme was a costly and relatively blunt instrument. Rather than reducing structural affordability pressures, HtB has not changed existing patterns of inequality, while achieving only modest gains in additional homeownership.

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## 4.4 Allowances to tackle energy poverty

### 4.4.1 Aims

This part of the chapter reviews housing allowances aimed at tackling energy poverty. Housing and energy poverty are intricately interrelated. Rising housing costs and inefficient buildings increase financial burden and limit access to essential energy services for vulnerable households. At the same time, obligations to reduce greenhouse gas emissions through implementing energy efficiency measures place an unfair burden on vulnerable households. (Von Platten et al., 2022). To reduce disparities and support a just energy transition, targeted policies promoting energy efficiency and affordable housing are essential. In 2023, 18.5% of EU households did not have sufficient insulation or heating to keep their residence comfortably warm (Ozdemir and Koukoufikis, 2025). Increasing housing costs are driving up income inequality across all Member States, with low-income households being hit the hardest, many of whom now spend over 40% of their income on housing. Since 2015, house prices across the EU have risen by over 50%, while rents have gone up by more than 13%. To reduce these disparities and support a fair energy transition, targeted policies promoting energy efficiency and affordable housing are essential. There is widespread recognition that these policies need to be particularly focused towards vulnerable groups in society most impacted by high housing and energy costs: the elderly in single-person households (Karpinska and Śmiech., 2023), young adults, low-income families and renters, who tend to live in older, predominantly energy-inefficient buildings, resulting in higher utility costs and adding more strain to already limited finances (Ozdemir and Koukoufikis, 2025). Substandard housing typically features inadequate insulation, outdated heating systems, and structural inefficiencies, leading to higher energy use to achieve basic comfort.

Energy poverty is the inability to “attain a socially and materially necessitated level of domestic energy services” (Kyprianou et al, 2019, 46). Within the EU this occurs largely due to low incomes, poor energy performance of buildings and high energy costs, and homes that leak heat, have inadequate insulation, damp, old windows and inefficient heating systems (Housing Europe 2024). Research has made the consequences of energy poverty increasingly apparent, noting also

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that it is strongly correlated with health problems, reduced well-being and social exclusion. Ultimately, homes that are cold or that can't maintain comfort in winter (or summer) pose direct risks to their inhabitants (Housing Europe, 2024). Energy poverty rose between 2021 and 2023, with the percentage of Europeans unable to keep their homes adequately warm increasing from 6.9% to 9.2% (Eurostat, 2024). There is, however, some debate over the levels of energy poverty within the EU, with the EC stating that between 8% and 16% of the EU population were energy poor. Further, it was argued that being energy poor did not always align with being income poor, pointing to the costs of inefficient older housing, amongst other factors, and pointing to the complexity facing policymakers as they seek to target the energy poor (EC, 2024). Also, in the UK context, a recent House of Commons report criticised the definition of "fuel poverty" as too simplistic to capture the range of factors causing energy poverty, leading to its potential underestimation at around 11% of households in England were classed as fuel poor, 34% in Scotland, 14% in Wales, and 24% in Northern Ireland (Bolton and Hinson, 2024). The use of multidimensional criteria to identify different forms of energy poverty has been established in a key study (Thomson et al., 2017). This is because there is often little overlap between households with a high energy expenditure and those which cannot adequately heat their homes).

### 4.4.2 Prevalence across European Countries

This is a field characterised by diversity and complexity, also within EU policy and regulatory frameworks. Housing allowances and financial assistance schemes are designed to address energy poverty by helping low-income households manage both housing costs and energy expenses. These programmes are typically implemented at the national or regional level, but EU-wide initiatives also exist. All European countries are mobilising policies to address energy poverty through housing allowances, social security and measures aimed at energy efficiency. The number of policy measures aimed mainly or exclusively at energy poverty has increased substantially, as have policies that have a significant component addressing energy poverty (Heller et al., 2024).

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Additionally, the uneven effectiveness of policies to address energy poverty itself is a factor, especially in the context of increasing prices and volatile energy markets. Within the EU, Member States have been assigned by the EC the responsibility of dealing with energy poverty within their own territories. Still, many Member States do not recognise energy poverty as a distinct problem (e.g. Austria and Germany) or do not have a binding definition (e.g. Italy) for policymaking purposes (Bouzarovski et al., 2021). Energy efficiency and housing renovation policies, with measures directly targeting low-income groups, are present in most National Energy and Climate Plans (NECPs) (Bouzarovski et al. 2021, 10). However, energy and housing policy objectives are not always explicitly merged in policy, with a tendency to address energy poverty through wider housing and social policy instruments also apparent, such as in Germany, with its policy .

In the EU context, the EED (Energy Efficiency Directive), one of the most important EU measures to address climate change, also requires Member States to prioritise energy-poor households for efficiency measures (European Parliament, 2022). The EED mandates monitoring and evaluation instruments to ensure that energy-poor households receive support (European Parliament, 2022). The National Energy and Climate Plans (NECPs), outline how EU countries intend to meet the EU energy and climate targets for 2030. Many countries highlight energy payment or financial assistance, such as social tariffs (in Belgium and Portugal), vouchers (Cyprus, Italy, France), energy, winter or heating allowances (Bulgaria, Denmark, Lithuania, Luxembourg and Poland) (Bouzarovski et al. 2021, 10). Price regulation is mentioned in the plans of Hungary, Bulgaria and Italy, but the subsidy is not specifically aimed at low income and vulnerable households (Bouzarovski et al. 2021, p. 10). Addressing energy insecurity is part of EU Energy Law (initiated first in 1997). Further complexity to be accounted for in the European context is provided by the different levels of policymaking, with subnational (federal states, regions, municipalities), sometimes having responsibility and a degree of autonomy in policy, whether in terms of energy efficiency and retrofitting policies (Belgium), social housing programmes (Austria) or local capacity-building (Croatia) (Bouzarovski et al. 2021, p. 10).

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National government is, by and large, the primary source of setting laws, budgets, national social security programmes, taxation, regulated tariffs and subsidies. However, regional and subnational levels of government in countries with federal or quasi‑federal systems (Germany, Spain, Belgium) may administer or co‑fund welfare measures, provide local grants, or implement regional energy efficiency programmes. Also, in devolved systems (such as UK), the parliaments/ assembly of Northern Ireland, Scotland and Wales run programmes for the most vulnerable households. Local government and municipalities are sometimes involved in providing advice (via welfare offices), the provision of emergency vouchers and social assistance programs. Finally, utilities and suppliers are crucial. Even when the policy is national, much of the implementation is via energy suppliers (e.g. applying social tariffs, discounting, allocating vouchers) or via regulated utility tariffs.

Most countries have provided or continue to provide some range of subsidies. These have often been temporary, related to the pandemic or crisis of rapid energy price increases in 2022 as a result of the Ukraine War or are related to winter (need to double-check summer measures) (e.g. Eurofound, 2023). European countries spent a huge amount on subsidy schemes in 2022-3. In response to the surge in energy prices in the midst of the Ukraine war, EU countries implemented national crisis measures that resulted in an estimated €145 billion in energy subsidies in 2023, a decrease from €187 billion in 2022. Across the EU, more than 270 national initiatives were introduced to tackle the energy price crisis. Households were the primary recipients of this support, receiving €121 billion between 2021 and 2023 (EC 2025). Industry and the transport sector followed, with €30 billion and €28 billion, respectively. In total, cross-sectoral aid to all energy consumers amounted to €125 billion over the same period (EC 2025). Of course, the emergency measures were mainly temporary (with most now gone), and were very expensive, as well as doing nothing to address the structural problem of volatile energy markets. Consumers also had to be aware and able to access sometimes complex schemes, which provided particular challenges for those with limited access to internet and limited native language skills (Housing2030). European countries with direct allowances

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researched here include, according to Eurofound (2023): Austria, Belgium, Bulgaria, Croatia, Cyprus, Denmark, Estonia, France, Finland, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden, UK.

### 4.4.3 Design

In this review, we are concerned particularly with two main types of financial allowances in use across Europe: energy cost allowance and energy efficiency allowances.

#### Energy cost allowances

Energy cost allowances refer to direct financial transfers, subsidies and benefits provided to households to reduce the proportion of income spent on energy. These measures are designed to ensure access to essential services such as heating, cooling and electricity, and are typically targeted at low-income and vulnerable populations. They are thus seen as key tools to mitigate the risk of energy poverty, especially in the context of increasingly volatile energy prices. Energy cost allowances provide immediate, targeted relief to vulnerable households, and stand in contrast to supply-side measures aimed at systemic change that may, over time, lower energy prices. The effectiveness of energy cost allowances is often evaluated in terms of the proportion of energy costs covered or the income-adjusted support provided (HousingEurope, 2030). Assessments normally involve comparison against established thresholds, such as a percentage of disposable income or the official poverty line.

Some European countries provide direct subsidies, tax reductions or vouchers to low-income households to cover the cost of energy bills (e.g., heating, electricity). These allowances are often linked to income levels, family size, and energy consumption. It is worth noting that Barella et al. 2021 have questioned the effectiveness of direct payments in alleviating energy poverty (e.g. Thermal Social Allowance in Spain, due to design issues) due to the difficulty in identifying those in need and then addressing effectively energy poverty through a combination of policy measures.

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## Energy efficiency allowances

Upgrading energy efficiency, especially through improved insulation and renewable heating systems, has been identified as capable of reducing utility bills, emissions, while improving living conditions. Energy efficiency upgrades can, however, increase property values and rents and landlords may also pass renovation costs onto tenants. This highlights the need for integrated policies to address both housing affordability and energy poverty. Recent research shows that increased and integrated public spending on social exclusion benefits, housing allowances, and energy efficiency improvements helps reduce the risk of long-term energy poverty (Ozdemir and Koukoufikis, 2024). Recent research published in Housing2030 reports argued that the following combination of measures is necessary to alleviate energy poverty: systematic refurbishment of housing stock, retrofitting, especially in the affordable / social housing market. But serious obstacles are apparent, not least huge up-front investments required and costs of subsidies when energy prices rise. The setting and implementation of regulation is also crucial (to retrofitting and other measures), and most be clear and reliable enough to encourage sustained investment, meeting e.g. Minimum Energy Performance Standards (MEPS) and stricter building codes for new builds.

There are a range of schemes available. Up‐front grants or vouchers that cover a fraction (or sometimes most/all) of the cost of installing insulation, replacing windows, upgrading heating systems, adding renewable heating or solar PV. Alternative measures include, low-interest loans or financing (in some cases with repayment grants or interest rebates) or tax relief or credits for energy efficiency improvements have been offered (e.g. in Germany) (Heller et al., 2024). Some measures focus specifically on low-income or vulnerable groups, often meaning higher subsidy percentages or full funding for households on means‐tested benefits. These are often combined with programmes for social housing / housing associations, where governments or local authorities fund upgrades in housing provided for low‐income tenants. Most recently, the EC (2024) has argued that many funding schemes have been shown to deliver energy savings, but there is variation in terms of cost‐effectiveness, reach and uptake with low-

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income households. The chapter argues that better programme design and coordination is necessary, with clearer targeting, avoidance of duplication (EC, 2024).

### 4.4.4 Impact

#### Energy Costs

Energy Bill Subsidy. Example: France provides the Chèque énergie (Energy Check) programme, which entails financial assistance to households for energy bills or energy-saving work. Research has shown that the programme may have led to a reduction in arrears and disconnections, at least in 2021, but that it is hard to discern the effects of the programme without a consideration of the related measures being implemented and doubt over the size of payments (Legros and Martin, 2022). Other examples: Italy has the Bonus Sociale Energia (Social Energy Bonus), which helps low-income families pay their electricity and gas bills. Norway: Norgepris, which was started in 2025.

#### Heating Assistance/ Allowances

These specifically target energy costs during colder months, often providing financial support for winter heating bills. There is variation in societal coverage of subsidy, with many schemes aimed at low-income groups and others provided universally. For example, in the UK the Warm Home Discount which covers October-March is available to low income but means-tested, pensioners and those with high energy costs. In contrast, the Energy Bills Support Scheme (EBSS), a response to price crisis in 2022-2023, was available to all consumers. This provided £400 to all households in Great Britain in 6 monthly instalments from October 2022 to March 2023. Delivered via energy suppliers as a discount on bills (no application needed). Part of a broader package including the Energy Price Guarantee and targeted support for low-income and pensioner households. Examples: Hungary has the Winter Heating Allowance, which helps low-income households pay for winter heating costs. Portugal has a similar program where eligible low-income households receive financial support for heating expenses.

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## Social Tariffs for Energy

Many countries offer social tariffs for energy, where low-income households pay reduced rates for electricity, gas, and heating. These social tariffs are usually available for households receiving social welfare benefits or with low income. Examples: Spain offers a Social Electricity Bonus (Bono Social), providing discounts on electricity bills for vulnerable households (e.g., pensioners, low-income families). However, such programmes often face challenges in targeting, as some eligible households are unaware of the discounts or fail to apply in time. Additionally, social tariffs are generally seen as a temporary solution rather than a long-term fix to energy poverty. Other examples include: Greece provides the Power Allowance to low-income households, reducing their electricity costs; Portugal-Social Electricity and Natural Gas Tariffs (Tarifa Social) offers a 30-35% discount on electricity and gas bills for eligible low-income or vulnerable customers. Automatically applied based on income or receipt of certain social benefits (Sgaravatti, 2021).

## Housing Benefit or Housing/ Rent Allowances

Many countries, notably Germany, Denmark and Sweden, provide housing benefits that can be used toward rent or utility bills. These tend to be found in countries where energy poverty is less prevalent and remain largely targeted within the broader context of income poverty, with solutions sought through social policy frameworks (Bouzarovski et al. 2021, 9). However, Poland is an example of a country with prevalent energy poverty and an approach still rooted in wider social security policy. Czechia also has a combined housing and energy subsidy program for low-income families to cover both rent and energy costs. In the United Kingdom the Housing Benefit system helps cover the rent costs for low-income individuals. Studies have shown that housing benefits, when combined with energy-specific allowances, can significantly reduce the likelihood of energy arrears and prevent utility shut-offs e.g. Joseph Rowntree Foundation (2013; 2018).

Germany offers Wohngeld (housing allowance) to help people with the cost of rent or homeownership, which can indirectly help with energy costs. Research

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(Grösche 2018) on Wohngeld shows that it can reduce housing-related financial stress and indirectly help mitigate energy poverty by ensuring that households are able to cover both rent and energy bills, with around 500,000 receiving direct financial assistance: part of social benefit for low income in 2024. Because of the rising energy costs in recent years, the government has developed a permanent heating costs mechanism to be reviewed every two years. However, there is some question as to whether the allowance is always sufficient to meet rising energy costs, particularly in larger or poorly insulated homes. Indeed, it has been further argued that the provisions for Wohngeld, notably that the rent cost must be low, generally leads people to live in energy inefficient accommodation, which in turn increases their costs on energy and can negate any allowance provided (Grösche 2018)

### Price caps (electricity, gas, heating)

Example: Hungary: Universal Price Caps on Electricity and Gas. There are fixed, regulated prices for electricity and gas well below market rates, regardless of income. These caps were in place even before the Ukraine war and remain in place.

### Tax reductions

Example: Netherlands-Temporary VAT Cut on Energy. The Dutch government reduced the VAT on energy from 21% to 9% for 6 months in 2022 to ease household burdens. This measure was complemented by other relief schemes like one-off energy compensation payments (Sgaravatti, 2021).

### Energy Efficiency Allowances

Allowances/grants/subsidies targeting low□income households. Housing2030 has collected a number of practices where mainly national governments or, less commonly, regions provide financial support to low-income households to help with the costs of both renovating for energy efficiency, and in some cases, to help manage energy bills. Examples include: Lithuania, Germany, Slovakia, France and the Netherlands where programmes specifically help low income people with

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renovation and energy costs (Housing2030). The Habiter Mieux (“Better Living”) programme in France aims to complement existing financing for energy renovation, specifically focussing on low‑income households. Germany’s state-owned development bank, KfW Bank, offers a range of financial products to support energy efficiency improvements, including insulation in residential properties, such as a large number of low-interest loans and grants for retrofitting buildings to improve their energy performance. In Lithuania, there are national programmes (e.g. the Jessica II Fund) offering subsidised credit for multi‑apartment building modernisation. Some key features include: fixed low interest over a long repayment period, grace periods, and partial write‑offs of subsidies if certain energy performance targets are met (Housing2030).

In addition to national and EU-wide initiatives, some regions and municipalities have created their own programs to address energy poverty, focusing specifically on improving the insulation of low-income homes. In Spain there are numerous regional policies, with Catalonia being very active in establishing programmes to support the energy renovation of residential buildings, including insulation, in both private and public housing.

### Revolving funds & auctioning mechanisms

Some countries (e.g. Austria, Czechia, France, Poland, Slovakia and Slovenia) have set up revolving funds, which are low-interest loans and grants provided, organised and managed to reduce upfront cost burdens for households (especially low income and vulnerable). A revolving fund is a financial instrument designed to maintain a sustainable cycle of capital for designated purposes, such as project financing or loan provision. As repayments are made, the recovered capital is redeployed to support subsequent initiatives, thereby enabling continuous reuse of the initial financial resources. The process begins with the establishment of an initial capital base, usually provided by government, nonprofit organisation, financial institution, or via grant funding. This capital serves as the source from which loans, grants, or targeted projects are initially financed. Finance is then distributed to eligible recipients to support the designated activities -for example, housing renovation works - with obligations

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related to loan repayment or other forms of financial return. The supported projects subsequently generate financial returns, either through direct revenue or cost savings. These returns are channelled back into the revolving fund. In the context of housing renovations, for instance, repayment may occur when the property is sold or rented, at which point the renovation costs are returned to the fund and become available for future housing projects. As funds are replenished through repayments or returns, they are reallocated to finance new initiatives, thereby sustaining an ongoing cycle of investment and ensuring the long-term continuity of the financial mechanism.

In many cases, revolving funds are complemented with specialised guidance, e.g. on energy consumption, intended to enhance the effectiveness and long-term viability. Besides outright grants, there are schemes using soft/low interest loans, revolving funds, often linked to conditions for achieving energy savings. In some programmes, a portion of the loan can be written off if performance targets are reached. Auctioning of $CO_2$ allowances is one recent source for financing renovation grants (e.g. in some EU states).

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## Policy Snapshot 4.6: Slovakia Revolving Funds

The Green for Households (Zelená domácnostiam) programme-financed primarily through European Union resources-provides direct financial incentives in the form of vouchers to households for the installation of small-scale renewable energy technologies, such as photovoltaic systems and heat pumps. The scheme is designed to support the deployment of small-scale renewable energy (RES) technologies in households, comprising both single-family homes and residential apartment buildings. The primary beneficiaries of the initiative are private individuals, and the project is implemented across the entire country.

The project seeks to mitigate the economic barriers associated with the extended payback periods of small RES technologies, as well as the financial constraints arising from the disparity between their purchase costs and the actual purchasing power of households. For electricity generation, a small-scale device is defined as a system with an installed capacity of up to 10 kW. In the context of heat production, a small-scale device refers to a system capable of meeting the building's overall energy demand.

Financial support is provided in the form of vouchers. These vouchers are issued following the submission of an application by the household and become valid upon activation by an accredited technical provider. The initiative supports the installation of a range of RES technologies, including photovoltaic panels, solar thermal collectors, heat pumps, biomass boilers, and wind turbines.

The first three phases of the national Green for Households project were financed by the European Regional Development Fund (ERDF) through the Operational Programme Quality of Environment (2014–2020). The current phase is financed by the ERDF under the Programme Slovakia (2021–2027).

This scheme operates in parallel with SHDF initiatives (see below) by promoting household-level adoption of renewable energy solutions.
It has been identified as 'good practice' by "Intereg Europe", who noted the uptake of more than 86,000 technologies:

**State Housing Development Fund (SHDF)**

A revolving fund established in 1996 to implement the state's housing policy objectives, with a focus on new construction, renovation, and upgrading of the existing housing stock. It provides long-term, preferential loans to individuals and entities for housing construction and refurbishment, including measures aimed at improving energy performance. Largely self-sustaining through the recycling of loan repayments, supplemented by allocations from the state budget and European Union funding sources.

Source: https://www.interregeurope.eu/good-practices/zelena-domacnostiam-green-for-households

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### 4.4.5 Conclusion

Ultimately, there is a fundamental tension between cost and affordability in building upgrades. Many low-income households live in the worst-performing buildings, hence targeting support to those worst buildings is most effective in reducing energy poverty. Substantial and effective renovations require investment and these costs too often fall onto tenants through higher rents or building maintenance costs. Tenant protection is thus essential to avoid gentrification, the displacement of vulnerable households through increasing housing costs. Some countries, like Denmark, have adopted integrated solutions that combine housing allowances, energy support and energy efficiency improvements.

While energy efficiency measures are important, most research points to the significance of their integration in wider measures (as above, also recommended in recent EU legislation). Housing2030 argue that integrated programmes have proven to be more successful in reducing energy poverty compared to single-focus policies. Thomson and Bouzarovski (2019) argued in a report for the European Energy Poverty Observatory that combined approaches provide long-term solutions, improving both the affordability of energy and the energy efficiency of homes, reducing arrears, improving health outcomes, and enhancing financial stability for low-income households. In summary, evidence from a number of European studies shows that insulation and other energy efficiency improvements have been highly effective in reducing energy poverty for low-income households. However, common challenges include financing the upfront costs for vulnerable households, administrative barriers, and better targeting building inefficiencies.

Extensive research on Europe suggests that the allowance measures covered here, from subsidies to retrofitting schemes, do have traction, as do social and welfare policies (energy allowances). However, there is great divergence across countries, with big differences in base conditions, climate, housing stock, policy culture and income levels (Heller et al, 2024). The nature of allowances varies according to whether they are targeted or universal. There is also a temporal dimension, with short-term emergency measures, contrasting with longer-term

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policies, more structural in their effects. Direct energy cost relief can reduce incentives to invest in long-term energy efficiency. Targeting immediate support to the most vulnerable, while focusing efficiency measures on buildings suitable for renovation, would likely be more effective. Financial and institutional barriers are strong, notably high up-front costs of renovations / energy efficiency upgrades, especially in older and inefficient buildings. Subsidies are often not sufficient to overcome these costs barriers. Sudden energy price shocks (e.g. 2022-3) can reverse gains and make households vulnerable in spite of allowances (Heller et al, 2024). While energy efficiency upgrades can help reduce energy consumption, they sometimes lead to increased property values in areas undergoing renovations, causing displacement of low-income residents (green gentrification) (Anguelovski et al., 2022).

Alongside, this, issues of assessing the effectiveness of policies remain prominent, with challenges in collecting and monitoring data. Energy poverty itself is hard to define uniformly because indicators vary and are often difficult to access, with many being self reported, such as the inability to heat, share of income spent on energy and arrears in bills. One of the main challenges identified in housing allowances and energy support programmes is poor targeting, where some eligible households do not receive benefits due to lack of information or complex application processes. In some countries, a significant portion of the population at risk of energy poverty remains undocumented or untargeted by existing programs (e.g. Energy Poverty and Social Inclusion Reports (2020)). This complicates policy comparisons, tracking and learning (Heller et al,2024). Further, there are still many countries with few or no measures specifically aimed at energy poverty. This means that what works in one country may not in another. Against this background, the notion of best practice is challenging if not problematic, and requires careful consideration before its use in policy and research recommendations.

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## 4.5 Conclusions

This chapter has shown that allowances are having significant impacts in addressing housing affordability and energy poverty, particularly in the light of more structural or far-reaching regulatory changes in the markets of housing and energy. The costs of allowances have been increasing as both housing and energy prices have risen steeply and become volatile. Summarising the findings from the three main sections, we can state the following:

### Housing Allowances

Housing allowances exist in all countries, but their expenditure, design and role vary, ranging from a basic safety net to broader affordability support, sometimes supplemented by social security assistance. They can significantly improve housing affordability and reduce poverty as a result of housing costs. Potential risks include rent inflation, “upmarketing,” and work disincentives, though these are not well evidenced and can also be mitigated. With reduced supply-side subsidies, housing allowances have become more important and can also support access to social housing and leverage private investment, with their impact strongest when combined with social housing provision.

### Allowances assisting homeownership and rent guarantees

International evidence indicates that not all homeownership support promotes affordable and inclusive access. The most effective policies for low-income or marginalized groups are targeted cash grants or downpayment assistance, shared-equity models, and well-regulated mortgage guarantees, which increase ownership while maintaining affordability and market stability. In contrast, mortgage tax deductions, broad transaction tax exemptions, and untargeted subsidized mortgages are regressive, often inflating prices and benefiting higher-income households. Overall, combining targeted upfront support, shared equity schemes, and supply-side measures is the most promising approach.

Regarding rent guarantees, schemes in France, Spain, and Belgium have improved access to the private rental sector but are often limited by their fragmentation, administrative complexity, low public awareness, uneven

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coverage and landlord distrust. Centralised or universal public rent guarantee funds can be recommended as ways to enhance effectiveness, equity, and accessibility for low-income households.

### Allowances addressing Energy Poverty

Research shows that subsidies, retrofitting schemes, and energy allowances can reduce energy hardship, but effectiveness varies widely due to differences in climate, housing, policy and income levels. Targeted short-term support for vulnerable households combined with long-term energy-efficiency measures is generally seen as more effective than universal or emergency relief alone. Barriers include high upfront renovation costs, limited subsidies, poor targeting, and sudden energy price shocks, while energy-efficiency upgrades can inadvertently cause displacement ("green gentrification"). Measuring policy impact is challenging due to inconsistent indicators, limited data, and undocumented energy-poor populations. Cross-country differences complicate comparisons, making "best practice" recommendations difficult, which is compounded by uneven monitoring and evaluation.

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# 5 Tax and Regulation

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## 5.1 Introduction: Combining taxation and regulation as means to raise housing affordability

The EqualHouse report, Financial, Fiscal and Monetary Forces Shaping Europe's Housing Systems (D4.1) undertook a comparative analysis of how policies supporting those forces have shaped European housing systems over the past two decades. The report took a macro-level overview of the European housing systems within the remit of the EqualHouse project and sought to capture the relations between housing, tax and finance across these by assembling and analysing available secondary datasets. This chapter engages with tax and regulation for housing by identifying examples of how these modes of public intervention are applied and analysing these with respect to specific policy instruments used to achieve housing goals.

Governments' use of tax and regulatory instruments within housing markets and non-market housing provision is a common means of addressing issues of quantity, quality and pricing. A common characteristic of the tax and regulation of housing is that particular instruments target particular markets and tenures, producing direct effects within the market and / or tenure in which they operate but also indirect effects across markets and tenures. For example, the regulation of mortgage markets impacts on effective demand for owner occupied housing but also impacts the tenure balance between owner occupied and rented housing, with effects on overall affordability contingent upon the starting allocation of households between tenures. A temporal dimension might also be evident, as where taxes on housing are set at a lower level than for alternative assets. In this first instance, this may raise affordability by lowering the tax burden on homeowners though over time, where supply is inelastic to demand, favourable tax treatment of housing can capitalise into increased house prices.

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This chapter investigates how three examples of tax and regulatory policy instruments are used across Europe with respect to housing affordability. The three instruments covered are: rent regulations; tax breaks; and housing regulation. Regulation and taxation are not typically grouped together by either economists or political scientists (Rixen and Unger, 2021). Where the primary function of regulation is to direct behaviour using rules and sanctions to support their enforcement, the primary function of taxation is to raise revenue. As this introduction will go on to note, however, overlaps are evident with respect to the behavioural effects on housing market participants that taxation measures cause alongside their revenue-raising function, as well as where regulation can substitute for taxation. The remainder of the introduction will discuss the functions and features of regulation and taxation before the chapter moves on to address four examples of policy instruments using regulation and taxation to address housing affordability.

Welfare economists distinguish between regulation, finance (including taxes), production and income transfers as alternative types of state intervention that are used to address market failures and achieve public policy goals (Barr, 2020), including housing affordability. In a distinct but analogous literature, political scientists define policy instruments as specific tools used by governments or public bodies empowered by governments to intervene in markets with the aim of achieving policy goals by means of adjustments to the quantity, price, or other aspect of goods and services (Capano and Howlett, 2020). The means used to change these aspects include regulation, grants, loans and loan guarantees, insurance, and vouchers (Salamon, 2002).

Regulation and tax, as the policy instruments affecting housing affordability that are the focus of this chapter, must be understood as two separate types of intervention with distinct market effects but also in acknowledgement of overlaps with respect to one another, including where each might partially achieve the effects more closely associated with the other.

Whereas taxation is a well-defined and much-studied concept with a clear and extensive basis within economics, regulation is a concept lacking in clarity and broad in scope, with interest from across the social sciences (Koop and Lodge,

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2015). Broader definitions incorporate social control and acknowledge unintentional and non-state modes (Baldwin et al., 2012) in a sense that hews close to informal institutions such as social norms. More narrowly, regulation is characterised as being exercised under the authority of the state and involving deliberate and sustained controls to bring about desired outcomes (Selznick, 1985). While regulation may be used to alter behaviour in accordance with social standards (for example rules governing the sale of alcohol), it is often primarily intended to affect markets by raising the quality of information (e.g. food ingredients), ensuring standards of professional practice (e.g. for dentists), or setting prices (e.g. minimum wages) (Barr, 2020). Alongside the imposition of rules, inherent in regulation is the use of third-party sanctions by government to enforce those rules. In its simplest form, this defines regulation as a legal mandate backed by sanctions (Koop and Lodge, 2015), though broader definitions may encompass social or self-sanction, as for professional or ethical standards (OECD, 1993).

A concept with much greater conceptual clarity, taxation refers to the taxes paid by firms and households or, in a broader sense, the combination of taxes raised and transfers issued using tax revenue (Salanié, 2011). While taxes are most closely associated with their revenue-raising function, they also affect the behaviour of agents paying (and not paying) taxes. The distinction between the formal incidence and the economic incidence of a tax is salient in this respect (Gibb, 2026). The formal (or legal) incidence of a tax is the levying of the tax on firms or households in the form of a burden of payment. The economic incidence describes how economic welfare changes due to how the market responds to the tax. In the first instance, the levying or adjustment of a tax offers incentives to agents who adjust their behaviour in order to reduce or avoid their tax burden. This is most obvious in the case of taxes introduced with the stated purpose of incentivising particular outcomes, as in the case of taxes on sugar designed to disincentivise sugar consumption and lead to improved health outcomes (Alcott et al., 2019).

Beyond direct behavioural impacts, taxes have indirect second round effects on income and substitution. Taxes on income or property levied on households

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reduce funds available for consumption and thereby affect decisions on spending across the board. Taxes on particular goods, as in the case of sugar, cause agents to substitute alternative goods. An important quality of the economic effects of taxes is that they are felt beyond the party on which they are levied, being spread between consumers and producers as each receives different price signals. While consumers adjust spending according to where taxes are levied, producers likewise reduce production within a price system that is no longer coordinated (Salanié, 2011).

As taxation impacts upon the behaviour of market participants, so too are there instances where regulation may substitute for taxation. Lunde and Whitehead (2021: 23-24) suggest that in the case of capped rents on social housing in the UK and France 'regulation is substituting for taxation', as social housing providers are being asked to reduce their revenue to provide a social benefit for tenants rather than to pay a greater proportion of their revenue as tax which may in turn be used to subsidise rent paid by social tenants.

Within housing, regulation and taxation are used to serve varying revenue-raising and economic purposes. Tax on housing, comprising recurrent taxes on immovable property, estate, inheritance and gift taxes, recurrent taxes on net wealth, taxes on transactions, and others, made up an average of around 5.5% of total tax revenues across the OECD in 2020, with the largest share of this being the 62% collected as recurrent tax on immovable property and accruing to local governments (OECE, 2022). Totals collected from taxation on housing represent a significant source of revenue for local and national governments, illustrating that their revenue raising role is important and must be considered where taxes are designed or adjusted with their economic incidence in mind.

Housing regulation addresses a wide range of aspects, including: physical characteristics grouped under the category of building regulations; regulations for social housing, which may represent sector-specific physical requirements (for example, in England space standards exist for social housing only) or standards for operators; rent regulations; and the regulation of finance for housing through the mortgage market. Regulations aim directly to guide the behaviour of market participants, analogous to the economic incidence of taxes, whether by ensuring

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standards of operation with the provision of social housing or by controlling effective demand for housing acquisition through financial regulation.

The remainder of the chapter is structured as follows. First, we set out how rent regulations are used across Europe to address housing unaffordability.

## 5.2 Rent Regulations

This section establishes the meaning of rent regulations, extending this to their varied form and application in use. It goes on to address the strengths and weaknesses of rent regulations as a form of policy used to address housing affordability, and details selected policy snapshots of cases in which rent regulations of different sorts have been applied.

### 5.2.1 Definition

Kettenun and Ruonavaara (2021:1447) define 'rent regulation as a type of tenure legislation that states limitations to rent setting and rent increases by private (i.e. for profit) landlords.' Rent regulations are typically classified into three generations. The 'first generation' of rent controls, common in the twentieth century, can be defined as 'a nominal rent freeze that leads to a fall in real rents and to a rent level that is significantly below the market rent level' (Lind, 2001:43, cited Gibb et al., 2022:13). 'Second generation' rent controls are viewed as regulations rather than controls and can be varied. The term covers a variety of controls which 'try to mediate the behavioural impacts of regulation by allowing rental adjustments to reflect, among other things, challenging market conditions, cost inflation, or the costs of refurbishment' (Gibb et al., 2022:14). Second generation rent controls can also include 'further features such as enhanced security of tenure or other changes in tenancy protections or tenants' rights' (ibid.). 'Third generation' rent control refers to 'rents being "reset" at market levels between tenancies' (ibid.:14). Second and third generation rent controls are typically viewed as 'rent stabilisation.'

### 5.2.2 Use and implementation

Rent controls can be implemented at a local, regional or national level. Stacy et al. (2021:5) identify the 'key components of rent control regulations' to be

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implemented. Firstly, they identify 'permitted rent increases' as 'the maximum rent or increase in rent that a landlord can charge to a tenant and how such increases are determined.' Secondly, they note the 'types of housing covered', defined as the 'characteristics that make rental housing ineligible for rent regulation.' Thirdly, they mention 'unit decontrol', 'the process through which a unit or building becomes deregulated.' Fourth are 'exceptions to rent caps,' defined as 'individualised increases granted to owners under certain conditions, such as cost pass-throughs for improvements or appeals for right to fair returns.' Fifth, are 'tenant protections,' for example 'just cause eviction and protection against harassment by landlords' (ibid.).

Rent controls are typically decided based on 'the age and size of the property and the landlord's portfolio' (Stacy et al., 2021:8). Rent controls frequently exclude new properties due to pressure by 'developer and real estate lobbies' who often argue that 'rent control may dampen new development, unfairly burden small landlords, or reduce their profit margins' (Stacy et al., 2021:8). They may also 'exempt buildings constructed after a certain date, or offer a grace period before a building is incorporated into the controlled stock' (Stacy et al., 2021:8).

In the European context, Sisson and Bowyer-Pont (2023) identify 19 countries in Europe that implement some form of rent control: Austria, Belgium, Croatia, Cyprus, Denmark, Finland, France, Germany, Ireland, Italy, Luxemburg, the Netherlands, Norway, Poland, Portugal, Scotland, Spain, Sweden and Switzerland.

Furthermore, Kettenun & Ruonavaara (2021) examine rent regulation across Europe. They assess the 'hardness' of rent regulation across 33 European countries in relation to the generation of rent control (see Appendix 1). They classify rent regulation as being second or third generation for 'countries that regulate rents or rent increases,' while they classify those 'with no rent regulation… as having free rental markets' (ibid.:1447). A total of six countries were classified as Second Generation, ten as Third Generation and 17 were classified as not having any form of rent regulation.

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### 5.2.3 Strengths and weaknesses

Kholodilin (2024:2) reviewed 206 outputs from 1967 to 2023, of which 112 were 'empirical published articles,' to examine 'the effects of rent control.' He found that 'rent controls lead to lower rents in controlled housing and higher ownership' (Kholodilin, 2024:no page). Other impacts can be 'higher homeownership rates or lower inequality' (Kholodilin, 2024:no page). Moreover, Wheatley et al. (2019:3) identify the key benefits of rent controls as helping to potentially 'reduce poverty, and to enable or speed up the route into owner occupation.' Singer Hobbs et al. (2026: 6) also identify benefits in terms of 'reducing rents and slowing rent growth in covered units, with spillover benefits for health and education'.

However, Kholodilin (2024:2) argues that despite the benefits, those who benefit are usually 'long-term residents of the area,' while new residents 'often end up living in more expensive uncontrolled housing or lower quality regulated rental units' (ibid.:2). Further, on the negative side, Kholodilin (2024:2) suggests that landlords will typically respond to lower rental prices by taking actions 'such as reducing maintenance spending, attempting to convert their rental properties into owner-occupied homes, and constructing fewer new rental housing units.' He predicts that 'low rental prices create an excess demand for housing,' which can lead to 'a mismatch between available housing units and the number of households seeking housing,' as well as reduced labour mobility. He argues that 'discrimination can also intensify, as marginalised groups find themselves disproportionately affected by the housing shortage' (ibid.).

Kholodilin (2024:no page) thus identifies a range of indirect impacts: 'reduced supply of rental housing; reduced construction; reduced housing quality; reduced mobility; increased misallocation of housing; [and] increased rents in housing not subject to rent control,' thus affecting the welfare of tenants in these properties (see also Singer Hobbs et al., 2026). Even for tenants in rent-controlled properties, he argues that there can be negative effects as a reduction in the maintenance of these properties, which can cause 'a decreased housing quality' (ibid.). Rent controls can also impact 'the overall supply of [rental] housing' (ibid.).

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Kholodilin published work on this literature review earlier in 2022. He analysed the effects of rent control by continent by recording the number of studies in which each effect was examined (ibid.:6). In North America, he found the largest number of studies identified the following effects: controlled rents, mobility, quality, construction, homeownership, homelessness, uncontrolled rents, value, supply, misallocation, segregation, vacancy, net welfare, commute times, inequality, profitability and tax base. In Europe, the largest number of papers noted: controlled rents, mobility, construction, homeownership, misallocation, supply, uncontrolled rents, quality, segregation, value and vacancy. A small number of papers identified effects in Africa (controlled rents, supply, marriage, side payments); Asia (net welfare, vacancy, homeownership and mobility); Oceania (controlled rents, mobility, homeownership and uncontrolled rents); and South America (controlled rents). Overall, 19 'socioeconomic, demographic and security effects of rent control' were noted, which were 'ordered by the number of studies and thus, by their prominence from the perspective of researchers,' thus listing them as follows: 'controlled rents, mobility, homeownership, construction, quality, supply, uncontrolled rents, homelessness, misallocation, value, segregation, vacancy, net welfare, commute times, inequality, marriage, profitability, side payments and tax base' (ibid.:7). Thus he argued that while rent regulations may have the intended aim of controlling rents, there are many unintended effects too (ibid.). From this review, Kholidilin (2022:17) concluded that:

*'although rent control appears to be very effective in achieving its main goal – lower rents – it also results in a number of undesired effects, for example, lower mobility and residential construction. These unintended effects counteract the desired effect and, thus, diminish the net benefit of rent control. Therefore the overall impact of rent control policy on the welfare of society is not clear.'*

However, despite this evidence, Gibb and Marsh (2024, p.2) highlight the challenges of evaluating the evidence on the impacts of rent controls, arguing that:

*'It is difficult to separate rent regulation and its effects from other components of the private rented sector regulatory architecture e.g., tenancy length and*

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*security. In addition, enforcement shapes the impact of regulatory intervention but the need for, and challenges regarding, effective enforcement in the private rented sector is not always given prominence. Also, a key feature of the debate is the weight given to context, history and institutions and how they interact with any given mechanism for rent regulation. The more importance placed upon these contextual factors and design details, the less the findings from empirical studies can be generalised'* (*ibid.*).

### Policy snapshot 5.1: Germany

By 2018, on average, nearly half (49%) of households in Germany lived in rented homes, perhaps partly due to strong tenants rights in Germany law (Breidenbach et al., 2022). Howeever, while rents in Germany were relatively stagnant from 1995 until 2010, they have increased rapidly since this time, at the same time as rates of vacancy have declined (Mense et al., 2023:5).

German tenancy law thus aims to help protect tenants, typically providing open ended contracts and stipulating that rents cannot be increased by over 20% within three years, unless there is 'substantial investment.' It also does not allow rents to be increased above 'the comparative rent index once a contract is signed' (Breidenbach et al., 2022:1). If landlords wish to increase rents, this must therefore be done through new lettings, rather than existing contracts (Breidenbach et al., 2022).

The current rent controls in place in Germany were introduced by the Federal Government in 2015 in response to increasing rental prices (Breidenbach et al., 2022). Prior to this, in 2013, the German government introduced a policy to increase the construction of affordable housing in response to increasing rental prices (Breidenbach et al., 2022). This led to the *Tenancy Law Amendment Act*, introduced in June 2015, legislating for rent controls; this was followed by a second amendment in January 2019 'to strengthen tenants' rights when being asked to pay excessive rents (Breidenbach et al., 2022:2). Through this legislation, rent controls can be introduced for five years at a federal state level, with the federal state government being responsible for deciding which municipalities should have rent controls in their state regulations (Breidenbach et al., 2022). Rent regulations can thus be introduced where there are deemed to be 'tight markets', based on four criteria:

'(1) rents in the municipality rise faster than the national average, (2) the average rent burden ratio is higher than the national average, (3) the population is growing while new construction activity is not keeping pace, and (4) the vacancy rate is low while demand is high' (Breidenbach et al., 2022:7).

Through the *German Tenancy Law Amendment Act*, properties can be exempted from rent controls if they meet certain criteria (Breidenbach et al., 2022). Firstly, for properties rented out for the first time after 1st October 2014,

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with the aim being to encourage construction. Secondly, so as not to act as a deterrent for investment, homes can be exempted (i) if a home is rented for the first time after a 'comprehensive modernisation'; (ii) if improvements were made 'in the three years prior to the introduction of the rent control, the rent is exceeded by the amount of the modernisation apportionment possible for this modernisation during the lease'; and (iii) 'If the rent was already above the maximum value, the protection of existing buildings applies, and the dwelling can still be offered and rented at this price' (Breidenbach et al., 2022:2).

Using 'a triple difference event study approach on rental offer price data,' Breidenbach et al. (2022: 1) subsequently found that rental costs have reduced by up to 5% for all dwellings (and up to 9% for specific types), partly helped by this legislation. However, they find that the effect only lasts up to a year, with little impact on rental prices going forward. They also found that rental controls tended to benefit properties in neighbourhoods that tend to be home to higher-income households, thus not achieving the original aim; and that rent controls affect the quality of the dwellings (Breidenbach et al., 2022:1).

Moreover, Saxenberger (2024: no page) reflects that it is difficult to evaluate the effectiveness of these measures becuse of 'a lack of nation-wide, specific, and conclusive data on parameters (such as past rent levels or renovation activities)' They also identify insufficient recent studies since 2020, with many of the existing studies being published in 2016-2018. In this context of insufficient data, they highlight that many of these studies are 'based on simulations, experences from other countries, or possibly distorted models which leave out crucial other effects for rent price formation' (*ibid*.:no page).

Despite these challenges, they find that most studies conclude that 'while the rent brake is somewhat effective in reducing rent prices, it is questionable whether it created the meaningful social impact it was intended to have,' although it has seemingly led to 'a slight decrease in the growth of rent (with regional differnces) and heightened awareness among landlords and tenants regarding the dynamics of rent pricing,' while the concerns about limiting 'renovations, maintenance and construction of new dwellings did not materialise,' due to the exemptions noted above (*ibid*.:no page).

Based on the evidence, they identify keyf actors limiting the effectiveness of the policy. Firstly, that its 'vague formulation and non-uniform implementation limits its basic functionality.' Secondly, that compliance amongst landlords can be a challenge, with different strategies being adopted to avoid adhering to the policy. Thirdly, they identify issues with the rent calculation system (*ibid*.). Finally, they highlight a deficiency in country-level data on key metrics, such as 'modernisation activities, previous rent levels and current rent levels'; and secondly, they find that research tends to agree with the need for a combination of different 'strategies and instruments' to address 'housing shortages and inequality' in the PRS (*ibid*.; see also Baye & Dinger, 2024).

The policy has now been extended until 2029 'in response to the ongoing housing affordability crisis, high inflation and rapidly rising rents in the country's largest cities' (Centrarium, 2025: no page).

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Source: Breidenbach et al. (2022); Mense et al. (2023); Centrarium (2025); Baye & Dinger (2024)

## Policy snapshot 5.2: Scotland

The Scottish National Party government in Scotland has introduced a range of policies over the last decade or so aiming to improve conditions for tenants in the PRS. The 2016 *Private Housing (Tenancies) (Scotland) Act* introduced, from 2017, Private Residential Tenancies to replace short-assured and assured tenancies and also provided local authorities with additional 'powers to implement rent caps in designated areas so-called "rent pressure zones" where rent increases were deemed to be "excessive"' (Serpa & Robertson, 2020:16). However, no rent pressure zone was ever implemented (*ibid.*).

In response to the Covid-19 pandemic and its impact on tenants, the Scottish Government then 'introduced a rent freeze and eviction moratorium for existing tenancies as part of measures to tackle the cost-of-living crisis' in 2022; in April 2023, the rent freeze was extended and changed to a 3% cap; it was then further extended until March 2024 (Bangham et al., 2026:35).

The *Housing (Scotland) Act 2025* further strengthens these rights, introducing the power 'for long-term, evidence-based rent controls to be introduced in areas where rents are rising steeply' (Scottish Government, no date: no page). Since the introduction of this law on 1 April 2026, local authorities have a legal obligation to 'assess rent conditions in their area' and must 'submit a report to Scottish Ministers at least once every 5 years' (*ibid.*). Based on these assessments, decisions will be made regarding whether or not to 'designate a rent control area.' Rent control areas can only be imposed by Scottish Ministers 'if they are satisfied that restricting rent increases is: necessary and proportionate to protect the social and economic interests of tenants in that area; [and] a necessary and proportionate control of landlords' use of their property' (*ibid.*).

The rent cap limits rent increases to the Consumer Price Index (CPI) plus 1%, up to a maximum of 6% (Scottish Government, no date: no page). The restrictions apply 'both during a tenancy and between tenancies' and rents in a rent-controlled area are only alowed to be raised once a year, regardless of whether the tenants have changed or not (*ibid.*). Tenants can challenge any increases they deem to be against these regulations through a Rent Officer or the First-tier Tribunal (Housing and Property Chamber) (*ibid.*).

However, this policy does not apply in all circumstances, with it not being applicable:

> *'...at the start of a new tenancy in a property that: is completely new to the private rented sector; was bought by a landlord with vacant possession, and the new tenancy is the first since that purchase; has not had a private residential tenancy in the previous 12 months'* (Scottish Government, no date: no page).

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Certain properties are also exempt, including Mid-Market Rent and some Build-to-Rent properties. In certain circumstances, increases above the rent cap may be permitted, for example in 'cases where rent has been consistently below market rate or where a landlord has invested in improving the property' (Scottish Government, no date: no page).

Sources: Serpa & Robertson (2020); Scottish Government (no date); Bangham et al. (2026)

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## Policy snapshot 5.3: The Netherlands

The Netherlands implemented rent freezes and subsidy structures in the 1960s. While the policy has shifted since this time, rent controls remain in both the private and social rented stock (Haffner, cited in Whitehead and Williams, 2018). The country has typically been characteried by a strong social housing sector, although there has been a trend towards home ownership in recent years (Hochstenbach, 2023; Haffner & Hulse, 2026).

In 2016, temporary two-year rent contracts were introduced through the Rental Market Transition Act (see Lankhuizen & Rouwendal, 2024), applying less stringent controls in the PRS, when compared to the social rented sector (Haffner, cited in Whitehead & Williams, 2018.:22). Rental values in the PRS were no longer set using a points system and there was no limit on the maximum rent that can be charged. This trend has therefore been characterised as one of 'continuing decontrol of higher valued properties' (*ibid*.:22).

At this time, the 'liberalisation' rent level was set; any rent equivalent to or below this level was regulated, while anything above it was not, a so-called 'liberalised rent' (Haffner, cited in Whitehead & Williams, 2018:21). Rents are regulated based on 'quality points' through the Dwelling Valuation System, with points being calculated in relation to the dwelling's 'quality and access to local amenities' (*ibid*.). From this, a maximum rent is set, based on the number of points. In 2018, PRS rents were 84% of the maximum rent on average (*ibid*.:21-22).

The temporary two-year contracts were stopped in 2023, with a recognition in 2022 by the reinstated Minister of Housing regarding 'the need for more intervention and regulation' (Lankhuizen & Rouwendal, 2024:282).

More recently, the Dutch government introduced the *Good Landlordship Act* in July 2023 and the *Affordable Rent Act* in April 2024 to try and remedy high rental costs (Housing Europe 2024, see also Haffner, 2025). These Acts both aimed to strengthen housing affordability and tenants' rights, introducing rent controls for homes in the middle range (Housing Europe, 2024:no page). This applied regulations previously only relevant for the regulated and social sectors, involving the implementation of a cap based on the Home Valuation System. This uses quality indicators to allocate points to each dwelling, which are then tied to a maximum rent (*ibid*.). The legislation makes the Home Valuation System compulsory, prohibiting rents from being greater than those set by the Home Valuation System (*ibid*.). It also introduces protections for tenants from large rent increases above +1% of wage development. However, it is only mandatory for new rental agreements. Nevertheless, it therefore helps provide more options for those on a middle income to access affordable accommodation close to their employment and social lives (*ibid*.).

Source: Haffner, M. in Whitehead and Wiliams (2018); Hochstenbach, (2023); Lankhuizen & Rouwendal (2024); Housing Europe (2024); Haffner (2025; Haffner & Hulse (2026)

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## 5.3 Tax breaks

This section establishes what is meant by tax breaks and introduces the rationales underlying the use of this instrument in the promotion of housing affordability. Following this it sets out how tax breaks are used within policy, noting scales of government and conditions of application, before going on to cover the strengths and weaknesses of the instrument. Finally, selected policy snapshots give practical examples where tax breaks have been used within Europe.

### 5.3.1 Definition

Taxes foregone, or more commonly tax breaks, are taxes that are potentially collected but which a tax collecting body elects not to collect as a means to incentivise a particular behaviour. A helpful way to consider this is as a decision not to tax what would 'normally' be collected in a baseline scenario, based on the principle that, unless there are reasons to do otherwise, similar activities should be taxed in similar ways (IFS, 2025). In the case of housing, the baseline scenario would be to assume that housing would be taxed in the same way as are other investments, then to identify the ways in which the treatment of housing diverges from this.

Housing is, for the typical household, the largest investment, greatest monthly outgoing, and most substantial component of gross wealth (Meen and Whitehead, 2020). Moreover, housing differs from other assets in both serving demand and satisfying need. While Wood (2003) argues that broader fiscal concerns tend to dominate housing policy goals in the design of taxation measures, elsewhere there is a perception that governments have, with respect to taxation, tended to favour the ownership of housing over that of other assets, negatively impacting not only upon asset portfolio neutrality but also tenure neutrality in housing (Bramley et al., 2004). Indeed, it has been argued that there exists a perception of owner occupation as a preferred tenure across many countries, with consequences for the balance of tenures within the housing system as a whole that may counteract supports for the affordability of owner occupation (Scanlon and Whitehead, 2004; Ronald, 2008). A suggestion prevails

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that support for owner occupation through the tax system is a fair response of policymakers to the aspirations of potential homeowners. O'Sullivan and Gibb (2012, p.273) suggest that this rationale must be tested against competing benefits of tenure-neutral taxation of housing as well as the costs of such supports for owner occupation. In this respect the authors advance a number of arguments in support of taxing housing without preference to owner occupation as a tenure.

- To make available savings for investment in more productive assets.
- To reduce the quantity of investment capitalised into land values, thereby acting as a demand stimulus that puts pressure on land-use planning.
- The aim of promoting housing market and housing system stability is not best served by favourable tax treatment of owner occupation.
- Preferable treatment of owner occupation is regressive due to the uneven distribution of housing wealth, with a particularly strong effect due to inter-generational differences.
- Housing wealth as a potential source of tax revenue is left untapped.

In spite of these criticisms, as a substantial and lumpy asset for households, changes to the tax treatment of housing have powerful and potentially heavily detrimental effects on household finances. Political will to eliminate tax breaks is therefore difficult to muster and may need to be expended where the balance of costs and benefits make it more feasible, as for example when mortgage interest tax relief was removed during a period of low interest rates when debt servicing costs were comparatively low in the UK.

### 5.3.2 Use and implementation

Housing taxation sits within country-specific systems that encompass multiple tenures and combine tax incentives with subsidies. Moreover, the efficiency and equity effects of particular taxes and their levels are dependent upon mortgage markets and their regulation, banking systems, and the broader institutional and regulatory apparatuses that govern housing markets in a given national context (Wieser and Mundt, 2014). As with other sorts of taxes and tax incentives, a full understanding of the fiscal and behavioural effects of changes to a given tax can

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only be fully comprehended with a full knowledge of the rest of the tax and fiscal regime.

Were housing assets taxed at the same rate as other investment goods, it would be expected that income or imputed income (the income effectively generated when an owner occupier forgoes a rental income on their property in exchange for not themselves paying rent) would be taxed alongside asset value, accounting for depreciation (Lunde and Whitehead, 2021). Indeed, this expectation is to a great extent – though not entirely – met in the case of private landlords, who are across Europe generally liable for tax on rental income, and must also pay capital gains tax on value uplift, albeit with exemptions – especially for the latter – in a number of countries. For owner occupiers, by contrast, imputed rent is taxed only in the Netherlands (at a very low rate), having been historically taxed in a wider range of countries, while capital gains tax exemptions are widespread (Wieser and Mundt, 2014; Lunde and Whitehead, 2021). A further tax break offered to owner occupiers in a minority of countries, and in a policy that has in previous decades been more widespread, is mortgage interest tax relief (Barrios et al., 2019). While mortgage debt might be expected to be considered as expenditure rather than income for private landlords, the granting of mortgage interest tax relief is mixed across Europe, with a range of levels of relief granted (Lunde and Whitehead, 2021).

### 5.3.3 Strengths and weaknesses

Tax breaks may be considered as direct subsidies where they are offered with the explicit aim of achieving a policy goal, deviating from the normal tax system in order to favour a particular industry or outcome (Surrey and McDaniel, 1979). By this definition, the preferential tax treatment of owner occupation is not presented as, but nevertheless has the economic effects of, a subsidy. Yates (2012) distinguishes between targeted and indirect subsidies for housing, arguing that tax concessions to users of housing, though they are not taken into account as budget outlays spent in exchange for an increase in a particular tenure or pattern of consumption, are in effect indirect subsidies.

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The rationale underlying the use of tax breaks to incentivise particular behaviours within the housing market, with resulting effects on the housing system as a whole, is that the preferred behaviour generates welfare benefits and / or positive externalities. As noted already, housing generally represents the greatest source of savings and wealth for most households (Meen and Whitehead, 2020) and acts as a complement to pensions by removing the burden of rent payments in retirement (Eckardt et al., 2018). Additionally, home ownership has been argued to lead to better maintenance of property and lower crime rates (Disney et al., 2023; Gatzlaff et al., 1998). Whitehead et al. (2005), in examining housing policy in England, suggest a desire to reduce government expenditure on housing as a motivation for the encouragement of owner occupation. This is supported by the suggestion that the role of homeownership in complementing pension income noted above can also be understood as a reduction in the governmental welfare bill for pensioners (Smith and Searle, 2010).

These benefits come in the first instance at the cost of reduced tax revenues, though a number of additional trade-offs result. Favourable tax treatment of housing relative to other assets generates deadweight welfare losses because it distorts investment decision-making to result in an overallocation of resources into housing (Skinner, 1996). Distortions may also result in labour markets due to differences in house prices between regions with stronger and weaker employment and wages. Households attempting to move from weaker to stronger housing market areas are constrained by the need for additional equity whereas households moving from stronger to weaker housing market areas are able to reduce their borrowings (Cameron and Muellbauer, 1998).

A further inefficiency cost results where tax breaks are capitalised into house prices, the extent to which this capitalisation occurs being in part dependent upon the price elasticity of the supply of housing (Hilber and Turner, 2014). Tax policy for housing focuses on the demand side of housing markets and, without coordination with supply side policies, may result in increased demand against a relatively inelastic supply of housing. This can produce the perverse outcome that tax breaks for homeowners in fact raise the cost of owner occupation in the long-

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term by causing households to bid up prices (O'Sullivan and Gibb, 2012), with increased price volatility also a possible consequence (Splinter, 2018).

Distributional effects are evident where benefits of favourable tax treatment accrue to owners of more expensive housing, for whom tax reliefs are worth more, as in the case of capital gains tax and mortgage income tax reliefs (Oxley and Haffner, 2010). Fairness concerns also arise with respect to intergenerational concerns and an incentive among existing homeowners to maintain the status quo in taxation of owner occupation (O'Sullivan and Gibb, 2012).

### Policy snapshot 5.4: Ireland's Help to Buy Scheme

Introduced in 2016 as a temporary measure within the broader Rebuilding Ireland programme and set to run at the time of writing until the end of 2029, the Help to Buy (HTB) scheme benefits first time buyers purchasing a new home, including self-build. The scheme is designed to support home ownership (though the wider programme of which it is a part includes social housing investments) alongside the supply of new housing. Benefits offered come in the form of a refund of income tax and Deposit Income Retention Tax (paid on interest earned on savings) over the four-year period prior to the purchase, up to a limit of €30,000 or 10% of the value of the property, for which the Loan to Value ratio is capped at 70% (Irish Tax and Customs, 2026). Although the scheme is styled as a tax refund, it functions effectively as a subsidy not directly linked to future capital growth that would return to government, unlike for example comparable schemes in which subsidy is granted in the form of an equity share.

A report for the Central Bank of Ireland (Bandoni and Pratap Singh, 2024) identifies a number of trends evident in the use of HTB. Homes purchased under the scheme are typically more expensive compared to properties bought by FTBs outside of the scheme. This may be an effect of the type of properties available to the scheme, being disproportionately larger suburban houses, with the per sqm value being similar between first time buyer properties bought using HTB and other first time buyer properties. Scheme beneficiaries are typically higher earners, which most likely reflects the fact that the scheme is used to purchase more expensive homes. HTB buyers are on average a year younger than other FTBs, which may be attributable to the maximum deposit constraint and could have supported scheme beneficiaries to become owner occupiers at a younger age than would otherwise have been possible. As an explicit demand-side stimulus, the effect of the scheme on supply is indirect, acting to reduce market risk for residential developers. Analysis from the Irish Department of Finance (2021) attributes a small increase in average house prices to HTB, while the Parliamentary Budget Office (2022) argues that the scheme has served to inflate the size of deposits, based on the suggestion that a third of recipients were able to raise a 10% deposit without accessing HTB and has used the scheme to raise a greater deposit.

Sources: Irish Tax and Customs (2026), Bandoni, E. and Pratap Singh, A. (2024), Department of Finance (2021), Parliamentary Budget Office (2022).

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## Policy snapshot 5.5: France's 228ispositive PINEL

Tax incentives can be used to incentivise investment in affordable housing, as in the case of the dipositif PINEL in France, named for the Minister for Housing at the time of its introduction in 2015, Sylvia Pinel. The dipositif (device, instrument) offers a nominal reduction in income tax to owners of newly developed and acquired property rented out as affordable housing, as determined by locally set rent regulations and the income of tenants. The income tax reduction is set according to a percentage of the property price and along a scale relative to the period for which the property is let at an affordable rate. Accordingly, a property let as affordable housing for six years grants an income tax reduction equal to 12% of the property's value, while property let for nine years is worth a discount of 18% of its value, and for 12 years 21% (Ministère de l'Action et des Comptes Publiques, 2024).

This is a use of a tax break on the supply side, incentivising landlords to increase the supply of affordable housing by offering reductions in tax contributions in exchange for affordable housing provision. A distributional problem stemming from this approach is that those with the means to invest in additional property are typically comparatively wealthy. Indeed, more than 50% of investors taking advantage of the dipositif PINEL were found to belong to the top income decile (Deniau et al., 2019, cited in OECD, 2022). A further criticism levelled at this approach to affordable housing delivery is that, where supply is inelastic to demand, tax incentives may encourage a substitution of affordable housing in place of, rather than in addition to, market rate housing (OECD, 2022). The scheme was closed to new applicants on 31st December 2024 following a number of evaluations raising criticisms including those cited above, though the response of the French Court of Auditors responded to the closure by pointing to the ability of the dispositif to supply quality housing in high demand areas to households struggling to find property in the private and social sectors (Chocron, 2024).

Sources : Chocron, V. (2024), Deniau, F.-X., Krieff, D., Maréchal-Dereu, C., Apers, É., Bégassat, L. and Guillou, A. (2019), Ministère de l'Action et des Comptes Publiques (2024), OECD (2022).

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### Policy snapshot 5.6: Removal of Mortgage Interest Tax Relief: Ireland

Functioning as an incentive to home ownership achieved through use of a mortgage loan, Mortgage Interest Tax Relief (MITR) allows mortgage holders to deduct the interest component of mortgage repayments from their tax liabilities. Across much of the EU this practice is common, with MITR granted in Belgium, Czechia, Estonia, Italy, Luxembourg, the Netherlands, Finland, and Sweden, while in Ireland, Spain, France, Lithuania and Portugal (Leodolter and Rutkowski, 2022), as well as the UK (Lunde and Whitehead, 2021), MITR has been removed since the beginning of the 21st century.

Ireland has, since 2009, gradually phased out MITR for owner occupiers with a mortgage, relief being fully abolished in 2021. As a member state with a level of homeownership close to the EU average (OECD, 2026) and which has, within the past 30 years, undergone a period of economic growth well above the EU average (World Bank, 2026), Ireland's house price inflation and volatility in the years leading up to the Global Financial Crisis led to a reassessment of the costs and benefits of MITR. The removal of MITR may in the first instance increase owner occupied household tax payments and therefore be a barrier to affordability. Yet tax incentives to home ownership have a tendency to raise demand for housing by increasing the returns to homeowners and may therefore in the long-run raise house prices and reduce affordability. This policy snapshot is an example of how the removal of a tax break may serve to increase affordability overall.

Sources: Leodolter, A. and Rutkowski, A. (2022), Lunde, J and Whitehead, C. (2021), OECD (2026), World Bank (2026)

## 5.4 Housing Regulation and Affordability

This section defines the use of housing regulation within the context of housing affordability. It establishes the meaning of regulation for housing affordability and in the particular case of the regulation of social housing provision, before describing the use and implementation of housing regulation for affordability across a range of examples in Europe. Finally, the section addresses the strengths and weaknesses of approaches taken.

### 5.4.1 Definition

Barr (2004) identifies four main modes of intervention in response to market failures or social justice concerns around provision of welfare services broadly conceived. These are regulation, subsidies (including tax concessions), direct provision by the State or its agencies, and transfer payments through the benefits and tax system. Barr is concerned also with the fitness of each mode of intervention in relation to the specifics of the market failure or injustice found,

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going so far as to argue that certain interventions are less effective and even deleterious to outcomes compared to alternative interventions not chosen. Thus, as is often argued by economists, rather than using rent regulation, well-designed transfer payments or other subsidies may be better able to deliver housing affordability with less adverse unintended consequences (see Stephens and Gibb, 2024, for a more nuanced position).

Regulation of housing can be considered by sector or by function. Across sectors or tenures, we can distinguish regulatory regimes and effects relating to the providers of rented, as well as social tenants or households in affordable housing, for private tenants and for mortgage borrowers (as well as consumers more broadly). Functionally, we might usefully distinguish between price and non-price regulation. Elsewhere in this paper we look closely at rent regulation in the private rental sector, but we also consider how regulatory governance of social and affordable housing can support or indeed inhibit the provision of such housing and affordability outcomes for those living in such housing.

### 5.4.2 Regulation of social and affordable housing

Regulation is a complex and multi-dimensional set of actions and relationships with different consequences across European national housing systems. Analysis of regulation-based public policy asks why it came about, what its objectives are, why it takes the form it does, what are the outcomes it generates, how is it evaluated and how different parties acquiesce to, resist or attempt to manage or even capture the regulatory process (Lawson and Davies, 2021).

There is considerable academic and practical interest in whether regulation is too light, whether it is deemed to be excessive, and within that debate, a sense of the impacts and outcomes associated with regulations, by themselves or in conjunction other interventions and sector contexts (OECD, 2021). Changing stances to regulation may also reflect wider debates about markets, (de)regulation and neo-liberal discourses. It is also apparent in the housing sphere that wider regulatory forces play a key role e.g. international banking and financial regulation, micro and macro prudential regulation post 2008, the governance of executive agencies and non-departmental public bodies, the

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wider nature of civil, charity and criminal law including property rights in a given nation public health standards, enforcement and cultural attitudes to regulatory compliance (Earley et al, 2025).

Looking across Europe, social and affordable housing tends to have responsible government departments making policy and channelling public funds to support below market provision. The government role is often augmented by a regulatory, supervisory or oversight function. This may be provided directly by the government department, though it is often housed in a national housing agency for non-market housing, in local government, or through dedicated regulatory agencies.

Social housing regulation has multiple functions. It seeks to ensure that public money made available to providers is properly used and that there is value for money for taxpayers. They also may establish monitoring of management and financial performance, as well as collecting annual data returns on performance and adequacy, and ensuring the provider fulfil their legal duties as landlords (e.g. with respect to health and safety laws). This may be part of a wider programme of continuous improvement. Regulators may also take specific interest in the capital funding, asset management and treasury management practices. This is both about assurance but also provides comfort to lenders who have long term financial relationships with providers. In some countries working closely with the regulator under such statutory regimes is necessary for the receipt of public funding.

Regulatory systems also, explicitly or implicitly, operate to further the interests of the tenants of such non-market providers. This may be simply to secure a strong system of social and affordable housing by maintaining standards as set out above. It might also be through guaranteeing tenant rights and even acting as a mechanism to protect tenants in their homes if the provider gets into financial or governance difficulties. Clearly, this system of regulation also enables and supports affordability for individual tenants by facilitating below market rent regimes, reducing the cost of borrowing and providing a key part of the superstructure that keeps tenants secure in their home.

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Before proceeding further, a point on method. Social housing regulation across Europe is a difficult area to research in relation to often indirect affordability impacts. It is also by definition highly path dependent on the individual policy, institutional and legislative developments of individual nations. This is particularly the case with social housing regulation, for which there is little international literature (rare examples are Housing 2030, Gilmore, 2017; Lawson and Davies, 2021; and OECD/EU, 2025). However, we were able to benefit additionally from the work done last year for the Irish government by Housing Europe which examined social housing to a common template across the EU (plus the four nations of the UK). We are grateful to Michelle Norris who shared the relevant parts of the country studies she synthesised for that project. This also indicated considerable variation in how social housing regulation is understood and carried out. We are also grateful to our colleague Julie Lawson who provided several directly relevant international comparative references which among other things provide a rigorous analysis of regulation systems and outcomes.

Social housing regulation performs a necessary function to support the resilience of social and affordable housing and in doing so protects stable below market rents, critical for affordability and for low to moderate oncome household wider choices. By doing so it supports the affordability component of the right to adequate housing. Regulation can also explicitly support targeted or indeed universal access to and allocation of non-market housing, as well as work in different ways and to different levels of participation, to ensure tenant voice, consultation and in some case community control is embedded in the system of social housing (Lawson et al, 2020; Lawson and Davies, 202). Of course, the absence or weakness in these relationships and duties can in turn weaken the reality and potential of social housing systems and hence affordability outcomes and choices.

### 5.4.3 Use and implementation

There is a closely integrated relationship interwoven between effective social and affordable housing systems and their models of regulation. As mentioned earlier it is important to a stress that regulation mode is designed to function

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alongside specific forms of social housing system in terms of rent-setting, public funding, scale and ownership forms: not for profit or limited profit models, council housing, and for-profit operators. It is important to remember that such models do not readily transfer between different types of social housing system. This is another reflection of path dependency and the risks of untutored policy transfer. Regulation does not exist in a vacuum and operates alongside other forms of regulatory presence such as charity regulators, finance and banking regulation, consumer protection and much more – all of which have EU as well as national features. Nations with more limited social housing often will have less overt social housing regulation mechanisms (and that is part of the lock-in reasoning for the under-development of those systems).

A key element of change within the social rented and affordable housing sectors has been the advent of hybridity or combining the traditional social or community mission of not-for-profit providers with diversification into commercial activities and subsidiaries. This began with a range of community activities allowing surpluses to be recycled but has, as a response to finite and sometimes reduced public funding supports, grown into commercial housing offers as well as public private partnerships, sale and leaseback, local housing companies emerging from council housing in England, and larger providers evolving into complex and varied group structures of social businesses. All of these in different ways make regulation more complex but also add risk which may ironically make regulation more rigid and conservative to manage the dilution and masking of the social mission into different forms of provider hybridity.

Social and affordable housing providers generally face networks of overlapping regulation: statutory or governmental regulation (which may be provided by national government, local government or standalone agencies with varying powers), but also where appropriate oversight and regulation as charities or foundations, or as carriers of financial debt, and also if specific duties are performed such as care home provision.

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### 5.4.4 Strengths and weaknesses

Overall, a strong but appropriate regulation system can sustain and support active and successful social housing systems generating resilient and affordable housing outcomes consistent with a range of wider housing, public policy and social objectives. These are path dependent and embedded in national housing systems – they cannot simply be transplanted. Nonetheless, there are wider lessons to learn. What are the key strengths and weaknesses?

#### Strengths

Effective regulation can support and enforce affordability across national social and affordable housing sectors. It can allocate housing progressively to the more vulnerable, protect tenants from precarity and insecurity by providing long term stability.

Supervisory regulation can raise standards in the sector and incentivise through sanctions and rewards compliance and positive innovation by provider governing and executive bodies (though this gets harder if innovation means complex new legal entities that are harder to regulate).

Regulation done well can reduce the risk profile of the sector reducing or capping the cost of private finance and providing comfort for lenders, both of which can support or facilitate a more affordable set of outcomes for tenants.

Regulators can play wider progressive roles such as using their data/monitoring power to undertake research and advise policy through evidence-based analysis.

Housing 2030 also identifies further strengths of good affordable housing regulation. It can build capacity, promote tenant and other stakeholder interests and hold providers accountable to commercial partners and communities served, it can update expectations socially and in wider sense for what is required of good provider standards, and it can promote good value for public money and reduce misuse of public funds.

Gilmour (2017, p.8) reviewing social housing regulation across the OECD provides a general statement of what good regulation looks like:

- Equally protect the rights of tenants and investors (public or private) in social housing

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- Be uniform across the country
- If possible, cover all tenants, public and private. At a minimum enforce the same standards across all types of social landlords
- Be open and transparent, allowing tenants and the media to see the real story
- Have a strong regulator, fully at arm's length from government, prepared to take action
- Encompass meaningful inspections of social housing providers.

Lawson and Davies (2021, p42) drawing lessons for the state of Victoria in Australia conclude that:

*'Good regulation is not a straight-jacket, rather it facilitates purposeful innovation and experimentation, while ensuring prudent compliance in use of public and private funds. It also empowers rather than confines tenants and ensures engagement with their communities. Such regulation need not be top down and onerous, and is best if driven by providers themselves. It should be embedded in their founding constitutions, mission statements and everyday processes and interactions. Social housing is core business, and not something that should be a side interest or even an outsourced task'.*

## Weaknesses

Municipal discretion based on settled governance positions on decentralisation can lead to unintended consequences - undermining the national system of regulation which in turn can lead to capital flight, making it harder to deliver social housing in certain places despite the evidence of housing need. As one possible model, there is no reason why local and regional government should not implement, enforce compliance and manage social housing regulation but consistency within a wider national framework seems to be a necessary condition for effectiveness.

Regulation can be complex both in terms of multi-level governance but also overlapping regulatory and oversight requirements which produce a disproportionate burden on providers, challenging some of the value for money benefits that strong and consistent regulation can offer (Marsh, 2018).

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Despite relative regulatory independence from the state in many national cases, politics and political change can undermine stability and predictability for what are long term permanent organisations with financing and investment decisions measured in decades not electoral cycles. Over the last 25 years, the English model of social housing regulation has been beset by regular volatile swings in politically-led regulatory scope and practice which does not support system continuity or resilience. This may also be reflected in changing emphasis on core housing policy issues – privatisation, rent-setting, allocations, social mix, governmental tenure preferences, etc.).

Housing 2030 (chapter 1) identifies several further important regulatory weaknesses, such as bureaucratic inefficiencies, stifling innovation and not dealing with non-compliance.

### Policy snapshot 5.7. Social housing regulations across Europe

The Housing Europe study for the Irish government (forthcoming) indicates a wide range of social housing regulation in terms of institutional form, powers, multi-level governance and policy stance. It is also the case where social housing is much less developed that there is not always well-developed, institutional regulation of such provision as there is. Countries of particular interest who illustrate the spectrum of regulatory practice for social housing include:

**Austria** – a long-standing legal framework governs the limited profit housing sector such that the distinctive cost-based rents and limited profit system with a strong revolving fund model, is overseen by strict government oversight which combines accountability with financial stability and social objectives. Different federal government departments play this role with specific roles for municipalities. Austria also has municipal housing which often charges rents below cost-based levels but caters to the most vulnerable in society (more so than the non-profits). Lawson and Davies (2021p.46) view Austria's social housing model as the exemplar and this extends to its regulation: *'Clearly defined limited profit housing regulation plays a strong and prescriptive role in the Austrian model. These national laws concerning the setting of costs, rents, restriction of activities, reinvestment of profits and supervision of activities. Regulation defines acceptable activities for housing providers, sets rules for rent-setting, imposes an income ceiling on managers and promotes national design principles. At the regional level, guidelines specify the conditions which must be met in order to receive subsidies (such as cost, size and target households) and, together with municipalities, establish building and planning regulations. Profits are limited, surpluses must be reinvested and cannot be dispersed to any shareholders …. rents are cost based and increases are regulated, and surpluses must be reinvested in new supply'.*

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**Finland** – in 2008 the Finnish housing board became the housing finance and development centre (ARA), a comprehensive affordable/social housing agency which includes oversight and supervision of social housing providers – both municipal companies and foundations. Internationally deemed to be highly effective it, however, fell foul of political change in Finland when in 2024 it was abolished – how this will be fully replaced and the wider implications remains unclear.

**Ireland** – since 2021 ABHRA has been established as the regulator of approved housing bodies; municipal council housing which is dominant in the provision of existing stock social housing is not included. ABHRA is focused on protecting the assets and supporting the management of approved bodies, their finances, housing management, and operation of standards. Council housing regulation on the other hand is based around national audit processes.

**Netherlands** – social housing was restructured under 2015 legislation establishing a new independent regulator (Aw) for the housing association sector overseeing new well-defined statutory rules and prohibitions relating to legitimate activities. (This includes determining whether board and executive staff meet fit and proper tests).

**Denmark** – The Danish Authority of Social Services and Housing is a national public body that plays an important supervisory role for housing, including providing consultancy services to municipalities to improve local housing outcomes and inform policymaking. Lawson and Davies (2021) argue that the effective tenant empowerment of the Danish system means that tenant voice can effectively protect social housing assets, e.g. from privatisation in a way that does not happen elsewhere. They summarise the Danish case (p.47) as follows: *'Clearly defined not for profit, cost rent housing, outlined in [legislation], reinforces tenant service orientation and prohibits acting commercially. There is no national supervisor, as local government plays a key role. Social housing must be run on a limited profit cost rent basis, accessible to all households but be allocated on the basis of local needs, social harmony and commuting patterns and an external and internal waiting list….Local authorities determine 25% of allocations and strongly influence pace of new build and favour special needs housing as providers of start capital and mortgage guarantees'*.

**France** – social housing in its diverse forms (including private not for profits and council provision) is publicly regulated. A multi-level governance system involves the relevant national ministry, municipalities and other actors at the regional/department level. In additional national agencies regarding urban renewal, housing improvement, nationally based funding agencies and 'social housing control' all contribute to oversight and regulation.

**Latvia** – regulation oversight is charged to muncipalities who have discretion and consequently there are different provisions and levels of regulation across the country. This is an indication that wider governance stances regarding local autonomies matter for issues like the regulatory impact on social housing.

**Poland** – in a system of multiple provider types the framework for regulation and supervision comes from the national ministry but is in practice devolved to

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municipalities wherein there is discretion in regulation in practice as well the extent to which municipalities are involved in the delivery of providers themselves. Consequently, variation is observed in the extent and depth of that regulation locally.

**Romania** – while there is a national agency for funding public housing sitting under a funding programme for social and affordable housing that operates nationally, there is no centralised monitoring system tracking how social provision functions, leading to variety of practice locally e.g. cases where municipalities favour tenants who can pay relative to the more vulnerable in society. There is also often lack of resources and capacity to deliver social housing locally, which reinforces these problems.

**UK (i.e. England and Scotland)** – modern process of regulating housing associations began in 1960s but ramped up in 1989 with the advent of mixed financing (grant subsidy and commercial loans for new development) and the need to monitor and oversee all existing business and operations of the non-municipal social and affordable sector. Separate regulators operate in England and Scotland. They are similar but with different emphases. The Regulator in both countries is an arms-length non-departmental public body charged to supervise practice, financial operations and the ongoing basis of providers, and by so doing facilitates access to the grant system and private finance. They are also charged to protect tenant interests and have strong powers to take over and appoint staff and governing boards, often facilitating mergers or take overs with other non-profits to ensure tenants cannot lose their homes (normally these interventions are the result of challenges of poor internal governance or financial problems), and to maintain the integrity of the system as a whole. Despite many individual providers getting into difficulty, since 1989 no tenants have lost their home due to provider failure.

Source: Housing Europe (forthcoming)

## 5.5 Conclusions

The use of tax and regulatory policy instruments to address housing affordability in Europe is wide-ranging and affects housing systems in diverse ways. Temporal trends and spatial patterns across Europe are difficult to discern across the focus of the chapter as a whole. This is in part due to the breadth in fields of public policy covered under the grouping of taxation and regulation, which as noted in the chapter introduction are not typically bracketed in economic or political science analysis, but which nevertheless have in common an impact upon market behaviour, albeit this may be unintended or absent from policy design in the case of taxation. Conclusions can nevertheless be drawn as

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to the characteristics, use and effectiveness of each of the three instruments covered in the chapter and are outlined below.

### Rent regulations

Rent regulation limits rent levels or increases in private housing and is commonly divided into three types: strict rent freezes, flexible systems linked to costs or inflation, and models allowing market resets between tenancies. Policies vary widely in scope and design, including rent caps, property coverage rules, exemptions, and tenant protections. Widely used across Europe, these measures can reduce rents, alleviate poverty, and improve social outcomes. However, benefits often favour long-term tenants, while newcomers may experience disadvantages. Unintended effects include reduced housing supply, weaker maintenance, higher unregulated rents, and market distortions, making overall impacts mixed and highly dependent on design and context.

### Tax breaks

Tax breaks in housing are implicit subsidies that entail governments forgoing revenue by deviating from a baseline taxation scenario. They often favour owner-occupation through concessions such as capital gains exemptions or mortgage interest tax relief, influencing investment decisions. Critics argue that tax breaks that favour owner occupation distort markets, inflate house prices, and disproportionately benefit wealthier households while reducing public revenues and economic efficiency. Housing tax systems vary widely, with landlords typically taxed more than homeowners. Although tax breaks can promote homeownership and maintenance, and reduce welfare costs, especially in retirement, they may also create inequalities, constrain labour mobility, and divert investment from more productive sectors, making reform both necessary and politically challenging.

### Housing regulation and affordability

Housing regulation across Europe is complex, multi-dimensional, and shaped by national institutions and policy traditions. It serves multiple purposes,

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including ensuring effective use of public funds, monitoring provider performance, protecting tenants, and supporting affordability through below-market rents. Systems vary widely and are influenced by broader regulatory environments and housing models, making international comparison difficult. Regulation also helps maintain sector stability and lender confidence but must balance oversight with flexibility. Increasing provider “hybridity” and overlapping regulatory frameworks add complexity and risk. Overall, strong, well-designed regulation is essential to sustain resilient social housing systems and protect affordability and tenant security.

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# 6 Conclusion

This report conducted an extended literature review of the scope, scale, and use of policy instruments used to address housing affordability in Europe. Policy instruments are means to implement policies by adjustments to the quantity, quality, price, or other characteristic of a good or service. The report encompassed a range of themes under which policy instruments are used with respect to housing affordability, comprising: finance for social housing provision; land policy; personal supports for housing and energy costs; and regulatory and tax instruments. The analytical chapters of the report covered each of these themes and are summarised as follows.

## 6.1 Financial instruments for social housing provision

Finance exerts a particularly strong influence on the supply and affordability of social rented housing and other forms of affordable housing provision for low-income households across Europe. This chapter examined the different sources and mechanisms used to finance the capital costs of social housing provision in Europe and assessed their assessed their strengths and weaknesses with reference to four criteria. These are: the availability of each source of finance, the consistency of its availability over time, the affordability for government, landlords and tenants, and its relevance to wider strategic objectives, including any unintended or perverse outcomes.

While each of the different sources of capital is associated with a specific suite of benefits and disbenefits, using multiple and diverse sources to finance social housing provision – including government, private, non-profit and internal finance – is generally preferable. This is because diversifying the sources of finance helps to ensure its supply remains adequate over the long term and to minimise the risks associated with a reduction in any single funding source.

However, both accessing and diversifying capital finance for social housing provision is challenging in some countries and social housing sectors. Where financial markets are less mature, the social housing sector is small and social housing providers don't have the capacity to engage with financial markets,

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raising commercial finance for this sector may be difficult, for instance. Where social housing sectors are small or recently established but growing, the burden of servicing borrowing for social housing development is likely to impede their ability to self-finance. Therefore, in most countries, some public capital finance in the form of grants, loans, loan guarantees and interest subsidies, is a vital enabler of social housing delivery.

Adequate revenue funding is also vital to fund the management and maintenance of social housing and help to the service the debt taken on to finance its capital costs. In most social housing sectors, tenants' rents provide the primary source of revenue funding, therefore the arrangements used in the calculation these rents are important. Arrangements whereby rents are linked to the cost of housing provision (minus subsidies) either at the level of individual dwellings, housing estates or organisational level (of the social housing provider) are more effective in ensuring revenue remains adequate than systems where rents are linked to tenants' incomes or other metrics unrelated to costs. However, the ability of social housing tenants to pay rents that reflect costs is also related to contextual factors such as the size and composition of the social housing sector, income inequality, and the robustness of social security systems.

## 6.2 Land policy instruments

The land policy chapter makes a clear case that affordable housing policy must start earlier in the development process. Land is not a residual technical matter to be dealt with after finance, construction or subsidy settings are designed. It is a necessary input into housing production, a major source of cost pressure, and a key site where public value is either captured for collective purposes or converted into private windfall gain. The literature review concludes that land policy must sit alongside financial supports, tax and regulatory instruments, and personal allowances as a core route to affordable housing supply. Its distinctive role is to mobilise both public land and private land for affordable housing: public land can operate as an in-kind subsidy, while private land can be channelled towards affordable housing where land value uplift has been created by public investment, planning decisions, infrastructure provision and broader economic growth.

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The reports also show that better land policy does not mean faster permits or deregulation – it demands a more coherent approach to land governance, often integrating several policy instruments. The literature review distinguishes between more active approaches, such as public land banking, public land leasing and public support for Community Land Trusts, and more regulatory or enabling approaches, such as inclusionary zoning and land readjustment. Its conclusion is pragmatic: most housing systems require a combination of instruments because land markets, ownership patterns and housing needs differ sharply between places. In high-value locations, land value capture may help fund affordable housing. In weaker markets, or where deep affordability is required, public subsidy and stronger public land intervention remain necessary.

The fieldwork report associated with this report, 'Making a Difference: Land Policies and Housing in the Field', strengthens this conclusion by showing how land policy works in practice. Across Vienna, Helsinki, Brussels, Paris and Valencia, the most effective outcomes occur where public authorities intervene before land value is fully capitalised into prices and rents. Vienna uses land banking, capped land prices and developer competitions to allocate land to limited-profit providers under cost-rent conditions. Helsinki retains municipal land ownership and uses long-term leases, regulated ground rents and cost-based housing systems. Brussels removes land from the market through Community Land Trust stewardship and resale restrictions.

Paris redirects land value uplift into social and intermediate housing through SRU obligations and publicly led ZAC development. Valencia shows that land pooling can generate serviced land and public-use obligations, but also that weak or reversible affordability protections allow public value to dissipate back into private markets.

The policy implication is direct: affordability is most durable when it is embedded in land governance, not added later through compensating subsidy. The field report concludes that land policy shapes not only price, but also location, tenure mix, access to transport and services, neighbourhood composition, urban design quality and liveability. Spatial equity is therefore not a by-product of

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supply; it is an outcome of how land is assembled, serviced, valued, allocated and governed.

The reports are equally clear that policy transfer must be executed carefully. Land-policy instruments do not travel as ready-made models. They are long-term instruments, often developed purposefully and adapted carefully over time. Efforts can fail without legal powers, institutional capacity, active land ownership strategies, and provider systems and market conditions. Better land policy, therefore, requires institutionalisation: dedicated land agencies, transparent allocation and valuation rules, standardised contracts, enforceable affordability obligations, long-term finance, monitoring and public accountability.

The central conclusion is a practical one: governments cannot solve housing affordability by subsidising households after land prices have already absorbed public value. They need to act through good land governance, using a variety of tools such as land banking, leasing, CLTs, inclusionary obligations, and readjustment to shape markets rather than merely respond to them. Better use of land policy tools is therefore not optional; it is the foundation for affordable, inclusive and spatially fair housing systems.

## 6.3 Personal allowances for housing and energy costs

This report has shown that allowances play an important role in addressing housing affordability and energy poverty across Europe, alongside broader structural and regulatory measures in housing and energy markets. However, their effectiveness varies considerably depending on policy design, targeting, and national institutional context. The fiscal cost of these allowances has also increased in recent years, reflecting sustained rises in housing costs and the sharp increases and volatility in energy prices.

Taken together, the evidence across the three main policy areas highlights both the importance and limitations of allowance-based interventions. While they provide essential short-term relief and can improve access to housing and energy services, their long-term effectiveness depends heavily on how well they are integrated with structural housing supply and energy system reforms.

Housing allowances exist in most European countries, but their expenditure, design and role vary widely, ranging from basic safety net provision to broader

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affordability support, sometimes integrated within wider social security systems. They can significantly improve housing affordability and reduce poverty after housing costs. Potential risks include rent inflation through partial subsidy capitalisation, landlord “upmarketing,” and weak or context-dependent work disincentive effects, although the empirical evidence for these outcomes is mixed and they can be mitigated through design. In many countries, housing allowances have become more important alongside a relative shift away from supply-side subsidies and can support access to housing in both private and social rental sectors. Their effectiveness is generally strongest when combined with adequate social housing provision and broader housing supply measures.

Evidence indicates that not all homeownership support promotes affordable and inclusive access. Targeted cash grants or downpayment assistance, shared-equity models, and well-regulated mortgage guarantees are generally more effective for improving access among liquidity-constrained households, although outcomes depend on design and housing market conditions. In contrast, mortgage tax deductions, broad transaction tax exemptions, and untargeted subsidised mortgages are widely considered regressive, often capitalised into higher house prices and disproportionately benefiting higher-income households. Overall, policy approaches that combine targeted upfront assistance, shared equity mechanisms, and supply-side housing measures are most likely to support more equitable and efficient outcomes.

The literature shows that subsidies, retrofitting schemes, and energy allowances can reduce energy poverty, but effectiveness varies widely due to differences in climate, housing quality, policy design and income levels. Targeted short-term support for vulnerable households combined with long-term energy-efficiency measures is generally more effective than universal or emergency relief alone. However, barriers remain, including high upfront renovation costs, limited subsidies, poor targeting and sudden energy price shocks. In addition, energy-efficiency upgrades can lead to unintended consequences such as displacement and “green gentrification,” particularly in pressured housing markets. Measuring policy impact is also challenging due to inconsistent indicators, limited data

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availability and the difficulty of identifying energy-poor households across countries.

Overall, the evidence suggests that allowance-based systems are most effective when they are well-targeted, integrated across policy domains, and combined with structural interventions in housing supply and energy efficiency. Universal approaches tend to be less efficient and can produce unintended distributional effects. Cross-country variation in welfare systems, housing markets, and governance structures further limits the transferability of single "best practice" models, reinforcing the need for context-sensitive policy design.

## 6.4 Tax and regulatory instruments

Policy instruments for the taxation and regulation of housing have direct and indirect effects on housing affordability, their design being crucial in determining the direction and scale of these effects. Well-designed instruments can achieve positive outcomes, as where regulation of social housing provision successfully raises standards in the sector. Yet the complexity of housing systems and the wider market and social contexts in which they sit mean that unintended consequences can often result, with indirect affordability impacts evident in both rent regulation and the regulation of social housing providers. The effects of tax instruments, in particular, inevitably stray outside of the scope of housing policy, given that their primary function is to raise revenue, with economic effects on housing ordinarily being of secondary importance in tax design. Such complexities are also evident in the case of rent regulation potentially constraining supply, in tax breaks for owner occupation that bid up the price of housing, and in municipal discretion over the regulation of social housing providers serving to undermine national governance.

Rent regulations are a form of regulatory instrument that are widely used across Europe and that attract a great deal of attention in housing policy circles as well as in the media. Much of the debate around rent regulations centres on the balance between their effectiveness in raising housing affordability by constraining increases in rents on nominated dwellings versus their potentially negative impact on the supply of new rental housing which may increase rents for unregulated dwellings. Tax breaks are used to incentivise behaviours among

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housing market actors and their effect on affordability stems from whether those behaviours tend to raise or lower affordability for different tenures. Most commonly used to incentivise home ownership by favourable tax treatment of housing compared to other assets, the effect of tax breaks on affordability may be positive for owner occupation in the short run but negative in the long run, as buyers bid up the price of housing. The regulation of affordable housing providers is used as a means to aid the resilience of social housing as a tenure and is highly variable across Europe, with a broad remit that covers a diverse range of aspects. A key issue for the future is how housing regulation addresses the increasing tendency of affordable housing providers to engage in market, in addition to non-market, activities.

## 6.5 Concluding remarks

This report brought together academic and policy literature on policy instruments used to address housing affordability in Europe. The wide range of instruments compiled and reviewed, comprising financial instruments for social housing provision, land policy instruments, personal supports, and tax and regulatory instruments, illustrates the diversity and complexity of housing policy as a field. In terms of theroetical approaches to housing policy, researchers have elsewhere sought to identify commonalities between different European countries based on shared approaches, as has been undertaken in the EqualHouse report, 'Financial, Fiscal and Monetary Forces Shaping Europe's Housing Systems' (D4.1). Further research on the breadth of instruments covered in this report may benefit from a consideration of how policy tools as varied as taxation and land policy could be integrated into a more holistic analysis of housing policy along these lines.

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