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AFFORDABLE FOR WHOM?

REFLECTIONS ON THE POSSIBILITIES OF AN EU AFFORDABLE HOUSING PLAN FROM A HOMELESSNESS PERSPECTIVE

FEANTSA

AUTHOR:

Ioana Vlad, Policy Officer, FEANTSA

DESIGN BY:

Bryony Martin, Communications Officer, FEANTSA

IMAGES:

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INTRODUCTION

The new Commission's mandate promised, through Ursula von der Leyen's Political Guidelines, a first-ever series of actions in response to the European housing crisis. However, there are currently inconsistent references in the EU level political commitments as to how to define affordable housing. Considering the lack of consensus on what affordable housing means, this document aims to contribute to the ongoing reflection on how the EU can best address the housing crisis, and what risks lie ahead.

With housing policies as a national competence of Member States, the European Commission's announcement of a European Affordable Housing Plan represents a novel undertaking, despite EU legislation already having both a direct and indirect impact on housing at the national level. The European Green Deal has been a particularly decisive development, setting targets for moving the built environment towards carbon neutrality through the Renovation Wave and the Fit for 55 package, but also stirring investment and promoting sustainability, social inclusiveness and aesthetics through initiatives such as the New European Bauhaus and Affordable Housing Initiative. Complementing the green transition goals, the European Pillar of Social Rights was adopted in 2017 to guide European social policy, with principle 19 stipulating housing and assistance for the homeless. Despite the explicit focus on housing in relation to homelessness in EU social policy, housing (un)affordability has emerged as a more widespread hot topic in several national contexts across Europe, but also in the last European elections, prompting the promise of EU level action in this field. It is worth remembering however that, although it might seem unprecedented, supra-national initiatives on housing in Europe have already existed, namely in the social policy of the European Coal and Steel Community, the precursor of the European Union. From 1954 to 1979 the High Authority of the European Coal and Steel Community contributed to financing more than 160,000 dwellings across the six member countries. This housing programme reflected the preoccupation of the Community with the link between housing quality and workers' productivity and effectively contributed to innovation and industrialisation in the building sector (Verschueren 2016).[1]

In recent years, housing has become more prominent on the EU agenda, with repeated commitments to more investment into social and affordable housing on behalf of Housing Ministers under the Spanish and Belgian presidencies of the Council of the European Union, as stated in the Gijon and Liege Declarations. Moreover, the 2021 Lisbon Declaration on the European Platform on Combatting Homelessness particularly stressed the link between homelessness and an insufficient supply of social housing. More recently, through the La Hulpe declaration in April 2024, the European Parliament, the Commission, Member States, trade unions and civil society likewise recognised the need for continued action 'on **accessible, efficient, green and affordable social housing** to meet the housing needs of all, to eradicate homelessness and to promote 'a housing first' approach'. They also recognised the specific impact of high living costs on people with low incomes and called for the mainstreaming of the European Pillar of Social Rights in all relevant policy domains, to make sure they 'do not exacerbate poverty or inequality'.

In the most recent developments, the political programme announced in July 2024 by Ursula von der Leyen for her candidacy to serve a second mandate as President of the European Commission notes the dramatic rise in the percentage of household income spent on housing, the soaring prices and the 'significant and growing investment gap in **social and affordable housing**'. Consequently, she proposed, among others: the development of a European Affordable Housing Plan and, together with the European Investment Bank, of a 'pan-European investment platform for **affordable and sustainable housing** to attract more private and public investment,' doubling the planned cohesion policy investments in affordable housing, enabling support for **energy efficiency and**

social housing through the revision of State aid rules, and tackling the issues of short-term rentals and inefficient use of the housing stock.

In July 2024, the European Investment Bank (EIB) announced a series of three meetings that would gather stakeholders to discuss barriers and solutions to support affordable and sustainable housing in Europe.[2] In this context, the EIB proposed to work within the framework of a housing continuum[3], where affordable housing is represented as a distinct category from social housing. Although they continue to refer to the broader sector as "social and affordable housing," affordable housing emerges in these discussions as an intermediary bracket between social housing and the market, which is meant to address the growing needs of the middle-income groups, as opposed to social housing that is supposedly limited to the low-income households.

Across the multiple positionings of different actors at the EU level, we can notice that affordability and affordable housing are employed in various ways, with different accents and conceptual connections. Among these, we can see an increasing disconnect between social housing on the one hand and affordable housing on the other, with an emerging definition of affordability as exclusively tied to the housing needs of middle-income groups.

As the European Federation of National Organisations Working with the Homeless (FEANTSA), our primary concern is with the unmet housing needs of poor and socially excluded households. We expect the first-ever EU initiatives to tackle the housing crisis to also contribute to tackling homelessness. In the hearings for the members-designate of the Commission, we have seen commitments on the part of the Executive Vice-President for People, Skills and Preparedness and the Commissioner for Energy and Housing that the future Affordable Housing Plan will also address the needs of the most vulnerable people and those experiencing homelessness. Both indicated that the future affordable housing plan would contribute to ending homelessness and rehousing those experiencing homelessness by scaling up the Housing First approach. However, the announced measures, especially on the financing front, raise questions about the capacity to deliver the desired outcome of housing affordability for the most vulnerable, due to a strong focus on the role of private finance. **In the following sections, we will explore the concepts of affordability and affordable housing as two distinct concepts, the second emerging as a new niche market, whose profitability is at odds with meeting the needs of the lower income households.**

HOUSING AFFORDABILITY IN A HUMAN RIGHTS FRAMEWORK

Affordability is one of the seven criteria that define the right to adequate housing as a human right within the UN framework, along with **security of tenure, availability of services, habitability, location, accessibility, and cultural adequacy**. According to this definition, 'housing is not adequate if its cost threatens or compromises the occupants' enjoyment of other human rights',[4] indicating a residual income approach to housing affordability, which we will discuss more in the next section.

The right to housing is enshrined in the Revised European Social Charter under article 16, stipulating 'the right of the family to social, legal and economic protection'. It is moreover explicitly addressed under article 31, which stipulates that: 'with a view to ensuring the effective exercise of the right to housing, the Parties undertake to take measures designed: 1. to promote access to housing of an adequate standard; 2. to prevent and reduce homelessness with a view to its gradual elimination; 3. to make the price of housing accessible to those without adequate resources.'[5] At the European Committee of Social Rights, the Council of Europe's body responsible for monitoring the implementation of the European Social Charter, the collective complaints procedure has been increasingly used to bring attention to the violation of the right to adequate housing in a number of countries, with complaints against France, Italy, Netherlands, Ireland and the Czech Republic.

The right to housing is often invoked in housing policy discussions in a vague way that makes abstraction of minimum norms and binding obligations. This does not serve the actual advancement of the right. A genuine human rights approach necessitates particular attention to access and affordability for disadvantaged and vulnerable households.[6]

At the EU level, housing affordability, particularly in relation to homelessness and housing exclusion, has become increasingly central in the social policy area, with a commitment to "Housing and assistance for the homeless" as principle 19 of the European Pillar of Social Rights. Part of delivering on the implementation of the European Pillar of Social Rights Action Plan, the European Platform for Combatting Homelessness was launched in 2021 with the signing of the Lisbon Declaration, through which European institutions and all member states recognised homelessness as the most extreme form of social exclusion and pledged to work towards ending it by 2030.

The issue was further addressed in the 2021 European Parliament resolution on access to decent and affordable housing for all, which acknowledged rising homelessness across the EU and the increasing unaffordability of housing especially for households at risk of poverty and for vulnerable groups.

DEFINITION AND MEASUREMENT OF AFFORDABILITY

But how is affordability defined and measured? The OECD database on housing affordability provides a useful overview of an array of indicators relating to housing affordability, social housing stock evolution, spending, and housing policies. It also synthesises the measurement approaches to affordability, with their advantages and limits: price-to-income, expenditure-to-income, and residual income.[7] Among these, expenditure-to-income is the indicator based on which both Eurostat and OECD calculate the housing overburden rate, defined as the share of households that spend more than 40% of their disposable income on housing.[8] The expenditure-to-income indicator conventionally sets 30% of gross income as a limit under which housing is deemed affordable. However, **both 30 and 40% are arbitrarily set and don't reflect the varying burden across income distribution: for example, for a poor household, spending even 10 or 20% on housing could be too much.**

The need for public policy to take into account the impact of housing costs on different income groups is further supported by the data on the distribution of the housing overburden rate. While on an EU level the rate fell from 11.6% in 2013 to 9.4% in 2019, if we look in more detail, we find that 31.7% in the bottom income quintile spend more 40% of their income on housing, as compared to 8.2% in the second quintile,and 1.2% in the top (Eurofound 2023, p.19).

"CERTAINLY, 30% OF 5000 EUROS AND 30% OF 1000 EUROS PER MONTH DO NOT MEAN THE SAME THING"

Moreover, while the EU average housing costs as a proportion of disposable income was 19.7% in 2023, for households at risk of poverty these costs amounted to an average of 38.2%, with significant differences between countries. For instance, housing costs represented 67% of the income of poor households in Denmark, 62.4% in Greece, and over 45% in the Netherlands and Germany (FAP, FEANTSA 2024, p.78).

Besides the differences in the overburden rate and the housing costs related to income, we should also consider the intersecting vulnerability depending on tenure status. Thus, while between 2010 and 2019, homeowners' spending on housing reduced from 18% to 16% of their income, tenants' spending increased from 28 to 31% (Eurofound 2023, p.18).

This differentiated impact of housing costs on poor households also explains the emphasis in the European Parliament's 2021 resolution on decent and affordable housing on the need for an EU level definition of housing affordability based on residual income that also takes into account eviction and poverty rates, as well as on the need to reassess the overburden threshold to have a more detailed representation of the impact of housing costs.[9]

Thus, the 30% and 40% as affordability and overburden thresholds need to be complemented by other types of data, such as level of income, tenure status, and family composition. In the operationalisation of affordability, we must take into account whether the remaining income after paying for housing costs actually covers other basic needs, conventionally measured through calculating a basket or budget of non-shelter necessities. Certainly, 30% of 5000 euros and 30% of 1000 euros per month do not mean the same thing, and by only applying this benchmark percentage it is possible to overstate affordability for the poorer households while understating it for the ones with a higher income.[10]

Finally, affordable housing can become a very misleading concept if we don't ask ourselves '*affordable for whom?*'. In Canada for instance, as part of the National Housing Strategy (2018-2028), only about 1500 of 41,500 dwellings (or 3.6%) delivered under the rental construction programme are in fact affordable to low-income households, leading experts to argue for an additional distinction between affordability and deep affordability (Whitzman 2024).

THE LINK BETWEEN HOMELESSNESS AND HOUSING

Affordable housing contributes on the one hand to prevent one from becoming homeless, and on the other represents an increasingly central component of policies seeking to bring an end to homelessness.

Recent data on homelessness (Fondation Abbé Pierre, FEANTSA 2023, 2024; OECD Country Notes 2024; FAP 2024) shows an increase in many European countries in the number of people under the first three European Typology on Homelessness and Housing Exclusion light (ETHOS light) categories (rough sleeping, emergency accommodation, and temporary accommodation).[11] Compared to 2012, within a decade, the number of homeless people grew by almost a quarter in Spain (Fondation Abbé Pierre, FEANTSA 2023, p.30) and doubled in France, to more than 300,000 persons.[12] In Ireland, within two years (2021-2022), the number of people in emergency accommodation increased by 40%, with the fastest surge in the number of families (+42%) (Fondation Abbé Pierre, FEANTSA 2023, p.34), and with the number of children growing by 70% between 2021 and 2023 (Fondation Abbé Pierre, FEANTSA 2024, p.40). Based on the most recent data, 1,300,000 people were counted as experiencing homelessness in Europe, with almost 400,000 of them being children (FEANTSA and Fondation Abbe Pierre 2024).

Each night in Europe, there are:

1,300,000

people experiencing homelessness

400,000

of whom are children

(Fondation Abbé Pierre, FEANTSA (2024) Report: Ninth Overview of Housing Exclusion in Europe 2024)

The unaffordability of housing and the rise in homelessness was also accompanied by the growth and diversification of temporary accommodation.

While the number of people and families experiencing homelessness, as well as the scale of the emergency response to homelessness, have increased, both the social housing stock and public spending on housing have decreased (OECD 2021, p.58, 63).[13] At the same time, an alternative re-focus on a housing response to homelessness has also emerged, grounded in the proven efficiency and spread of the housing first approach and more specifically on the benefits of public housing in relation to homelessness. Thus, public housing has been found ‘to be a very strong protective factor reducing risks of homelessness’ (O’Sullivan 2022). It has also been found to be a decisive element in the feasibility and scaling of housing first programs (Provivienda & Hogar Si).

For this reason, the access of homeless households to social housing is prioritised in some places. For instance, in Scotland, almost 40% of the lets of councils and housing associations were to people assessed as homeless in 2021-2022 and in 2022-2023 local authorities further increased the proportion of lets to homeless households to 49% (Scottish Housing Regulator 2023, The Scottish Government 2023). In Belgium, the Brussels Region government introduced in 2024 a 3% priority allocation quota to social housing for homeless people, which will grow progressively to 6% in 2027 (BX1 2024). However, as the 2023 Eurofound study notes, waiting lists are significant in both countries with large shares of social housing and in the ones with marginal shares,[14] pointing to the gross insufficiency of the stock in relation to the needs.

TRANSFORMATIONS OF SOCIAL HOUSING AND THE RISE OF AFFORDABLE HOUSING

Across Europe there isn't a single, common definition for social or affordable housing. The former is differently defined across countries, such as subsidised housing in Germany or Austria; social housing in France, Belgium, and several Central and Eastern European countries; general housing in Denmark, public housing in Sweden; and social or council housing in the UK.[15] For instance, OECD uses a general definition that is taken up in subsequent research (e.g. Eurofound 2023), as 'residential rental accommodation provided at sub-market prices that is targeted and allocated according to specific rules, such as identified need or waiting lists' (2020, p.4). It distinguishes it from *affordable housing*, 'which refers to rental and owner-occupied dwellings that are made more affordable to households through a broad range of supply- and demand-side supports (including housing allowances or vouchers, subsidies or tax relief to first-time homeowners)' (Ibidem). Other researchers however (e.g., Blessings 2015), bundle together different types of housing, be it social, public, intermediate or affordable, under the umbrella of "state-subsidised rental housing", thus emphasising, besides the public mandate in the allocation process, the direct or indirect forms of state support in its production (p.4).

Several studies noted the decrease in public spending on the supply side since the Global Financial Crisis (in the EU, by 44% between 2009 and 2015- Caturianas et al 2020 p.29), and a declining share of social housing, 'reducing the affordable housing supply for low-income households' (OECD 2021. p.58). The study commissioned by the European Parliament's EMPL Committee further notes several other trends in European housing policies, namely the shift in housing provision from the central to the local levels of the state, but also towards the private non-profit and for-profit providers, while housing provision becomes increasingly funded through a mix of government funding and capital markets or private investment (Caturianas et al 2020, p.29). Both studies acknowledge that affordable housing is becoming a more distinct field of policy making.

As noted, one of the consequences of the decreasing public spending on housing has been the increasing self-reliance of housing bodies and a turn towards more marketised management of social or public housing, as well as to sources of funding from financial markets and institutional investors. A few examples are in order, to illustrate this trend.

In the case of France, Herrault's study on Metropole de Lille (2024), shows that low-rent units were disproportionately targeted for sale or demolition between 2010 and 2021, while the obligation to replace the social housing stock resulted in a much smaller proportion of very social housing (PLAI) and an increase in the higher rent social housing, despite 77% of social housing applicants qualifying for PLAI housing. This was in line with a growing marketisation of social housing, as evidenced by the representative of one social housing provider in Lille: 'today we are not afraid of producing anything other than very social units' (p.11). This process is also taking place at a national level, with 70% of the 2.4 million applicants qualifying for the lowest-rent social housing (Fondation Abbé Pierre 2024, p.30).

In the case of Sweden, Gustaffson (2019) shows that, following major government cuts to public housing funding in the '80s and '90s, the public housing company MKB in Malmo started to organise its housing stock according to how attractive its location was, to sell the less attractively located stock and buy in more appealing areas of the city. Its strategy was aligned with broader urban objectives of city rebranding aimed at the middle- and upper-income layers. As a consequence of this decades-long process, rent levels in Malmo's public housing have increased by 50% since 2003, compared to a 31% increase on a national level (p.5). Moreover, Grander's study (2017) on the eligibility criteria set by municipal housing companies in Sweden shows that most of them have strict financial requirements for their prospective tenants in terms of income-to-rent ratio (3 or 4:1) and an important percentage of them do not consider housing allowances or social benefits as legitimate income (p.8-9).

IN THE MÉTROPOLE EUROPÉENNE DE LILLE, BETWEEN 2010 AND 2021 ONLY 16% OF NEW SOCIAL HOUSING WAS LOW RENT SOCIAL HOUSING (PLAI)..."DESPITE 77% OF SOCIAL HOUSING APPLICANTS QUALIFYING FOR PLAI HOUSING"

Herrault, Hadrien (2024) Unravelling social housing exclusion. Marketization, privatization and neoliberal reforms in the Métropole européenne de Lille. Housing Studies

The UK also illustrates this trend. Following cuts to Housing Associations' (HA) funding through 2010-2012 reforms, HAs increasingly turned to the bond market for financing their development projects, leading to more than doubling of their debt between 2006 and 2015 (Wainright & Manville 2017, p.8). Maintaining the bond market rating and ensuring cash flows had direct consequences on the management of the tenant portfolio, leading to the rejection of households deemed too high risk (Idem p.14). Financial viability as the main criterion is also exemplified by council housing development. Bloom's study on the housing company of Newham London Borough shows that only 20% of the council's developments in 2022 are social rented homes, reflective of the fact that 'central state privileges the construction of more expensive forms of subsidized housing' (Bloom 2023, p.10). Both Wainright & Manville and Bloom show that local councils, as well as HAs engage in land value capture tactics to increase their revenue, for instance through the development of private rental properties at market price. Moreover, as Blessing documented in her comparative study on the UK, US, and Australia on neoliberal reforms in social housing policies, 2010 reforms in the UK replaced major public grant cuts for social housing with an Affordable Homes programme, de facto pushing housing associations to reconvert social units into affordable rents as part of their redevelopment projects. Over 11,000 units were thus converted in London by 2015, with changes to time-limited tenures, a refocus on households with income growth potential, and leading to the displacement of low-income households (Blessing 2015, p. 14-15). More recent research indicates a much higher number of reconversions, Preece et al noting that more than 111,000 units were converted from social stock to Affordable Rent between 2012 and 2018 (2019, p.5).

In Italy, a right to buy scheme was introduced at the beginning of the 1990s, leading to the sale of 120,000 social homes in the first ten years and government spending on housing reduced drastically (first through the freeze of the GESCAl fund in 1998 and then through a reduction of funding for the Regional Programme for Public Housing, which in Lombardy lowered from 1.2 billion to less than 0.15 billion between 2002 and 2016) (Belotti& Arbaci 2020, p.8-9). As Belotti and Arbaci's case study on the Lombardy Region shows, the regulatory and institutional infrastructure put in place since mid-2000 enabled a wider variety of "quasi-market rental contracts" that would ensure the financial viability of the social housing projects by catering to middle-income groups, while invoking social mixing objectives. This was established through the development of a fund system, first in Milan and then extended nationally (since 2008) with the purpose of attracting capital from the financial markets into the production of social housing (p.13). To accomplish this aim, regional authorities started using the lease of public land as leverage in public-private partnerships (Idem p.10) and introduced a moderate rent regime, to turn new production into a viable investment (Holm et al 2022, p.121). Although local authorities negotiate a quota of social housing in the new public-private developments - for instance, Milan's 30% quota for developments larger than 10,000 sqm - developers also have the possibility to pay a lump sum instead of delivering the quota (Idem p.128). To that matter, the redevelopment of a former brownfield in Milan that was the object of a recent case study shows that only 11% of the planned supply is social housing, the rest being divided between moderate rent (22%) and dwellings to be sold at below market price (Idem p.133). When compared to the social housing waiting lists that in Milan were reported to include more the 10,000 families at the end of 2023 (Lungarella 2024), we see that social housing development done according to financial viability criteria and based on the involvement of institutional investors does not adequately respond to the existing needs of the lower income groups.[16]

Another worrying development that comes from the increasing reliance on private investment in the production of housing is **re-signifying affordability not in relation to the income level of different social groups or to production costs, but in relation to market price**. We see this in the case of the UK, where affordable housing rent is defined as 80% of market rent (for a discussion see Blessing 2015), but also in the case of France, with the emergence of intermediate housing (LLI) as 15% below the market rent (for a discussion see Gimat et al 2022). The latter was subject to a recent law proposal that would have included it in the production quota for social housing, allowing housing organisations to deliver intermediate housing instead of real social housing (see Fondation Abbé Pierre, 2024; Collectif Associations Unies, 2024).

With the emergence of an affordable housing market, specialised investment funds started to develop, as noted above in the case of Italy. This is also the case of the Vicinity Fund in Belgium, which pools public and private money to develop affordable housing specifically targeted at middle-income groups between the fourth and seventh income decile. **We can thus observe additional redefining of affordability that disconnects it from an approach that considers the differences between income groups, and exclusively addresses the middle and upper middle classes**. This re-signifying is in line with the financial viability and profitability requirements of such investments that could not be met by addressing the needs of the lower-income and most vulnerable categories. Moreover, as noted in a recent comparative study on the strategies of for-profit landlords in the affordable housing market in France, Ireland, and Germany, they employ a "spatially selective process", developing housing not based on demand, but based on the low value of the land so they can exploit the rent gap (Wijburg &Le Corre 2024). This is also the case of the Vicinity Fund, which explicitly targets the so-called low-income neighbourhoods.[17] Although discursively aligned to urban revitalisation objectives, this also effectively contributes to gentrification processes, and thus to the potential future displacement of low-income groups.

We thus see that, on the one hand, the income to rent ratio is being used for a stricter and more exclusive selection of social housing tenants based on financial viability considerations, to the detriment of the lower-income households. On the other hand, we notice that the changes in social housing financing towards an increasing reliance on private investment works against the servicing of the more vulnerable households. Complementing lower public spending with attracting private financial investments leads instead to the further assetisation and financialisation of housing and cannot deliver for the more vulnerable and lower-income population.

SOCIAL VERSUS AFFORDABLE HOUSING? THE ROLE OF THE EU

It has been estimated that the public investment gap in affordable housing in the EU stands at 57 billion euros per year (Caturianas et al 2020, p.13). It has also been noted that although the EU has no direct competence in relation to housing policies, which fall under the responsibility of Member States, it nonetheless has a direct or indirect influence on them through EU-level fiscal, cohesion, competition, climate, and financial market related policies.

EU fiscal rules established during the 1990s through the Stability and Growth Pact (SGP) set maximum values for governments' deficit and debt levels, at 3% and 60% respectively of their GDP. Surpassing the established ratio between expenditure and revenues triggers an excessive deficit procedure, when the respective government must take measures to restore budget discipline.[18] However, the SGP also stipulates a general escape clause that was activated for the first time in 2020 due to the COVID-19 outbreak, 'to provide leeway for Member States to adopt emergency measures with major budgetary consequences' (European Parliament 2021). The clause was active for four years to encourage post-pandemic economic recovery, but in July 2024 the Council of the European Union launched the excessive deficit procedure against seven countries (Council of the European Union 2024). With increasing revenues through taxes as an unpopular solution in the context of global competition for attracting investments, reductions in public spending have usually been the policy answer (Streeck 2014). As Gimat et al note, the housing sector has been a prime target of fiscal consolidation policies due to three factors: it is considered more marginal in comparison to other pillars of the welfare state such as health or education; it is rather centralised, making it easier to make budget cuts; and it requires a substantial mobilisation of resources (2022, p.25). However, the multiplication of crises (e.g., climate, housing, or energy) requiring increased public spending to address them brings into question the adequacy of such strict limits on public budgets, so more calls have started to emerge on exempting certain types of investments from deficit and debt rules (for instance for deficits resulting from climate change mitigation, Finance Watch 2024).

As part of the cohesion policy, cohesion funds amount to around a third of the EU budget and are aimed at reducing the economic disparities between European regions. The European Regional Development Fund and the European Social Fund Plus are the largest cohesion policy instruments, targeted, albeit not exclusively, at less developed regions. In order to encourage the use of EU funds, including cohesion money, for the development of social and affordable housing in Member states, the European Commission published in 2024 an operational toolkit for investments in social housing and associated services, which reviews the possibilities associated with different types of funds and showcases several success stories (European Commission

2024). However, beyond particular examples, we also need to look closer at the long-term distribution of funds within the cohesion policy. A 2024 study shows the effects of cohesion money in the past 30 years on different income deciles (Redeker et al 2024). Although confirming the positive impact of EU regional funds on the average household income, it concludes that the money goes to the wrong places and the wrong people for several reasons. Firstly, income inequality is higher *within* regions than *between* regions and, since there is no allocation rule within regions, the money tends to go to the more prosperous places with better administrative capacities. Secondly, the richest 30% are the ones that benefit the most from income growth, with little effect on the middle-income group, no effect on the poor households, and no evidence of a trickle-down effect, with high-skilled workers getting a higher income boost than less skilled ones. This shows that the funds don't have the intended redistributive and corrective effect, contributing instead to the increase of income inequality (p.6-8).

"THE FUNDS DON'T HAVE THE INTENDED REDISTRIBUTIVE AND CORRECTIVE EFFECT, CONTRIBUTING INSTEAD TO THE INCREASE OF INCOME INEQUALITY"

Moreover, without ringfencing policies for social housing spending, such investments depend on the willingness and capacities of local bodies and, in case of underspending, the resources are redirected to other more popular budget lines. This was the case in Romania's 2007-2013 implementation of the Regional Development Fund programme, where the 2017 final report of the Ministry of Regional Development noted that under 10% of the money allocated for social housing infrastructure was spent, pointing to the lack of interest for this budget line, as opposed to an under-estimation of the existing interest for tourism and road infrastructure projects (Romanian Government 2017).

Such considerations must be factored into upcoming EU policy decisions regarding affordable housing financing, as the European Commission made the increase of cohesion spending one of the main axes of the Affordable Housing Plan.

However, the ambiguity in defining affordable housing might make EU funds spending on housing more attractive to local governments, as it will allow them to focus on catering to middle- and upper-middle income groups they already seek to attract, without having to address the growing housing needs and unaffordability within the more vulnerable and low-income categories. This reading is grounded in the recent discussions at the EU level around the development of the first-ever European Affordable Housing Plan, which stress the need to move away from "only" servicing the poor. As shown in the previous section, this is a misrepresentation of reality. This interpretation is further supported by the definition of affordable housing currently promoted by the European Investment Bank as an intermediate category between social and market housing, thus defining it not across the income spectrum, but in relation to market price.[19]

A third and more debated EU lever on national housing policies is represented by competition and state aid rules to limit so-called market distortions. This materialised in a definition for services of general economic interest (SGEI), as 'economic activities that public authorities identify as being of particular importance to citizens and that would not be supplied (or would be supplied under different conditions) if there were no public intervention' (European Commission 2021, p.37). The first SGEI package was established in 2005 and revised in 2012, and it aimed to provide Member States with a clear framework on what constitutes state aid. Consequently, social housing provision is not considered state aid as long as it targets 'disadvantaged citizens or socially less advantaged groups, who due to solvency constraints are unable to obtain housing at market conditions' (Idem p.62). The targeting does provide leeway in the national definition of social housing, as it does not pre-set certain criteria, but asks for a sufficiently precise scope (L'Union Social pour l'Habitat 2018). However, during the 2000s, it has been instrumentalised by national actors in attempts to weaken social housing provision, contributing in some cases to ongoing residualisation processes, which in turn undermine public support for social housing (van Gent & Hochstenbach 2020). Three such files were:

1. the 2005 Commission's investigation on the financing of housing associations (wocos) in the Netherlands,
2. the 2005 complaint of the Swedish Property Federation regarding the alleged indirect state aid for public housing companies in Sweden,
3. and the 2012 complaint to the Commission filed by the Union Nationale de la Propriété Immobilière on alleged breach of state aid rules in the financing of social landlords in France.

Without contesting the potential residualising effect of state aid rules on national social housing provision, some research looked into how these investigations and the processes they entailed aligned with the interests of other national political actors (Brice 2018, van Gent & Hochstenbach 2020). For instance, in the case of the Netherlands, the 2009 EC ruling that deemed the subsidy scheme for housing associations as incompatible with the competition law met on a national level with a combination of the already poor image of housing associations and the government's own interest to further reform housing policies. Moreover, these overlapped with subsequent austerity measures that weakened especially the smaller wocos, such as a burdensome levy on housing associations and pressures to sell parts of their stock (van Gent & Hochstenbach 2020). However, in the case of France, an alignment between the government's commitment to protect the social housing system and key Commission actors led to an indefinite delay of the investigation, as shown by Brice (2018),

The recent commitment of the president of the European Commission to revise the state aid rules[20] is in line with the repeated calls that restricting provision to the most disadvantaged citizens impedes housing providers from addressing the growing housing unaffordability of middle-income groups (European Commission 2021). Several observations are in order: currently in some countries, a high percentage of the population is eligible for social housing (over 60% in France, over 40% in the Netherlands; in Romania, the income ceiling for applying for social housing is as high as the average national wage). This does not mean that the target population, especially the most vulnerable, are actually serviced. Despite social housing making up 38% of the total housing stock in the Netherlands, the waiting lists are years, even decades-long in some municipalities (Eurofound 2023, p.47); in France, as noted in the previous section, there is a mismatch between the need for very social housing (PLAI) as indicated by the income levels of the applicants and the delivery of this type of housing; Romania, despite having the largest share of the population living in overcrowded accommodation in the EU, has under 2% social housing. It is thus of great concern how a looser version of the state aid rules will help deliver for the already underserved needs of lower-income and more vulnerable groups instead of crowding them out.

A fourth European policy area impacting national housing markets and policies is the climate policy. The 2020 European Green Deal set the member states on a course towards climate neutrality, where buildings' renovation has been a distinct component due to their high share in the EU's energy consumption and greenhouse gas emissions (European Commission 2020a). The Fit for 55 package was advanced in 2021 as a framework connecting the different legislative strands aiming to reduce Europe's net greenhouse gas emissions by at least 55% by 2030, such as the Energy Efficiency Directive, the Energy Performance in Buildings Directive (EPBD), and the EU Emissions Trading Scheme Directive. While the renovation targets generally lagged behind, with only 1% of buildings undergoing energy-efficient renovation every year, it has been argued that even the 2024 revised EPBD that prioritises vulnerable households with the worst performing houses and highest energy poverty lacks guarantees of firm enforcement, especially concerning targeted funding (FEANTSA 2024a, 2024b). Moreover, increased energy efficiency has been connected to higher property value and rents; a Joint Research Centre report shows that energy efficiency improvements led to a 3-8% increase in price and about a 3-5% increase in rents in the residential sector (Zancanella et al 2018, p.27). Recent research has also explored how the carbon logic, with the associated pressure for low-carbon construction, is articulated with the financial logic by different types of investors in the build-to-rent residential market and how these new building standards fit into new strategies of housing assetisation, with cheaper finance available for green, albeit more expensive, projects and more expensive finance for the less carbon focused ones (Wainwright & Demirel 2022). **Building retrofitting has also been connected to the spread of "renovictions", such improvements having been instrumentalised to justify rent increases that lead to either the direct displacement of existing tenants or broader gentrification processes** (FEANTSA 2022; Holm et al 2023).

Finally, we will briefly address also the potential impact on national housing systems of the envisioned strengthening of the Capital Markets Union and the associated revival of the European securitisation market.[21] Improving the flow of investments and savings across the EU and thus creating a single market for capital is considered 'essential for delivering on all of the EU's key economic policy objectives, 'which requires massive investment that public money and traditional funding through bank lending alone cannot deliver' (European Commission 2020b). The action plan advanced in 2020 by the European Commission, called "A Capital Markets Union for people and businesses", goes on by stating that 'only well-functioning, deep and integrated capital markets can provide the scale of support needed to recover from the crisis and power the transition' (European Commission 2020). As part of the implementation of this action plan, the 2015 regulation on European long-term investment funds (ELTIFs) was reviewed, to stimulate the mobile private liquidity flows into infrastructure projects. While the 2015 regulation advertised ELTIFs as providing "a steady income stream" for pension funds, insurance companies, foundations, municipalities, and individual investors alike, it nonetheless limited the eligibility of real assets (including social infrastructure such as housing) as investment assets to those that demonstrate long-term commitment and social benefit, explicitly with the purpose to avoid speculative investments.[22] However, the 2023 amended regulation on ELTIFs diluted these restrictions in order to enhance the flexibility in the investment strategies of asset managers.[23]

Considering that the announced pan-European investment platform for affordable and sustainable housing aims to stimulate the mobilisation of private investment into housing development, a fundamental question that must be addressed in both the Affordable Housing Plan and the platform's design is how the capital market integration process contributes to the ongoing financialisation of housing.To that matter, in 2020 the EMPL Committee in the European Parliament commissioned a study called "Policies to Ensure Access to Affordable Housing" (Caturianas et al 2020). This study identified the process of housing financialisation as one of the drivers of housing costs and unaffordability in the EU. Following the 2017 report of the UN Special Rapporteur on the right to adequate housing, the study defined housing financialisation 'as the transformation of housing into a financial asset or commodity for secure investment and/or profit making, rather than a social good/human right' (p.19).

In particular, the effects of the expansion of institutional investors into the residential markets have made the focus of two EU-level studies: the 2023 research report "Housing policy under the conditions of financialization. The impact of institutional investors on affordable housing in European Cities", and the 2022 European Greens commissioned report "My Home is and Asset Class. The Financialization of Housing in Europe". These reports show that such institutional investment in housing, which in some places is built on the privatisation of formerly decommodified housing stock, while in others is developing more in niche markets such as student or elderly accommodation, results in rent increases, renovictions, poor maintenance, displacement, and gentrification processes (Gabor & Kohl 2022; Holm et al 2023).

The obvious profit-driven motive of this type of investment is potentially at odds with addressing the needs of the lower income groups, as well as with protecting the social function, affordability, and quality standards of housing produced through such mobilisation of private investment, as encouraged by recent strategic reports (Draghi 2024, Fransen et al 2018). With this in mind, the European Parliament 2021 resolution "Decent and affordable housing for all" called on the Commission 'to assess the contribution of EU policies and regulations to the financialisation of the housing market'.

The issues signalled in the present paper indicate a worrying trend, with **affordable housing increasingly considered a distinct niche market and a rising asset class**. We therefore propose some principles to guide reflection and discussion on the Affordable Housing Plan and the other EU housing-related initiatives. FEANTSA will make an active contribution to the elaboration of the plan and attempt to ensure that the concerns raised in this paper are addressed. The following section outlines a number of recommendations to this effect, which we will continue to refine as the next steps for the Affordable Housing Plan become clear.

RECOMMENDATIONS:

- Guarantee that the EU Affordable Housing Plan specifically addresses the needs of those experiencing homelessness and supports tried and tested solutions such as Housing First initiatives.
- Guarantee that the plan contributes to the construction of housing accessible to low-income households and those facing social exclusion.
- Account for the various national definitions of 'affordable housing' and 'social housing' in the development of the plan. Extensive consultations are necessary about the definition and operationalisation of these concepts, ensuring they do not become mutually exclusive and that they respond to existing housing needs
- Affordable housing should not be exclusively tied to the housing needs of the middle- and upper-middle income groups. The Affordable Housing Plan and all other EU housing-related initiatives should be based on a detailed assessment of housing need, taking account of the differentiated burden of housing costs on different income groups and family structures, with the prioritisation of the most vulnerable
- Prioritise non-profit, non-speculative, public, cooperative, and social housing within this plan. In the face of repeated statements that public money must be used to attract private financing from institutional investors and financial markets into affordable housing construction, we are concerned that affordability for lower-income groups and securing lucrative enough returns for investors do not go well hand in hand, as evidence shows.
- Do not define and promote positive examples of social housing development on the grounds of how much private finance was leveraged by public money and how financially innovative they are. This usually comes with poorer protection of the social function of housing and the prioritisation of the financial viability of tenants to the detriment of housing needs. Instead, positive examples should be defined by the extent to which they respond to housing needs, on a scale starting with those most affected by housing exclusion.
- Conduct a social impact assessment before implementing the plan.
- Take a comprehensive approach to tackling the housing crisis by identifying all available levers of action, such as regulating financial and real estate markets, optimising allocation systems, and enhancing household affordability, e.g., through best practice exchange on rent control and tenant protection. Propose measures that promote effective public policies while respecting the principle of subsidiarity and the authority of each governing body.

- Promote and protect financial circuits for social housing production that don't further expose social housing bodies to market-driven, speculative logic.

- The blurring of lines between public and private in the production of housing comes with the problem of protecting public investment. Public investment in housing (including from European funds) should go hand in hand with keeping such housing affordable in perpetuity and ensuring affordability for the most vulnerable populations. It should also come with strict social conditions in order to prevent social washing.

- Exempt government spending on social housing from calculations of public budget deficits; although the European Economic Governance Framework is not the sole driver of cuts to or underinvestment in social housing, it is easily instrumentalised to justify them

- Earmark social housing spending in cohesion policy to better ensure social housing delivery according to needs

- Ensure the revised state aid rules do not lead to crowding out housing provision for the lower-income groups

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9 "considers that housing is affordable if the occupant's remaining budget is at least sufficient to cover other essential expenditure for a life in dignity; stresses the need to develop a comprehensive definition of housing affordability at EU level taking into account a broad range of indicators such as eviction and poverty rates; points out that the current reference threshold for the housing cost overburden rate of 40 % of the disposable income of a household insufficiently represents the number of households that is overburdened by housing costs; calls for a reassessment of the reference threshold, and invites Eurostat to produce a broader set of data on housing costs expenditure of households from 25 % to 40 % of disposable income at 5 % intervals"

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FEANTSA

European Federation of National Organisations Working with the Homeless

194 Chaussée de Louvain, 1210 Brussels, Belgium
T +32 (0)2 538 66 69 • information@feantsa.org

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