



## 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



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



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



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.



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

Source	Instrument	Definition/ explanation
<b>Governments</b>	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-fenced 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.
<b>Internal finance</b>	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.
<b>Markets</b>	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
<b>Non-profit sector</b>	Savings schemes	Loans funded from nonprofit finance derived from household savings,



**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 Funds	Tenants' Down Payments
Austria	X	X	X	X	X	X	X	X					X	X
Belgium <sup>1</sup>				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	
Hungary <sup>2</sup>					X									
Ireland		X	X		X	X								
Italy <sup>1</sup>														
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	
Spain <sup>1</sup>		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. <sup>1</sup>: sources of finance used vary between the different regions of these countries <sup>2</sup> at the time of writing there was no formal funding scheme for social housing provision in Hungary, however municipalities do provide grant funding on an ad hoc basis.



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



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 ensure 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



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).

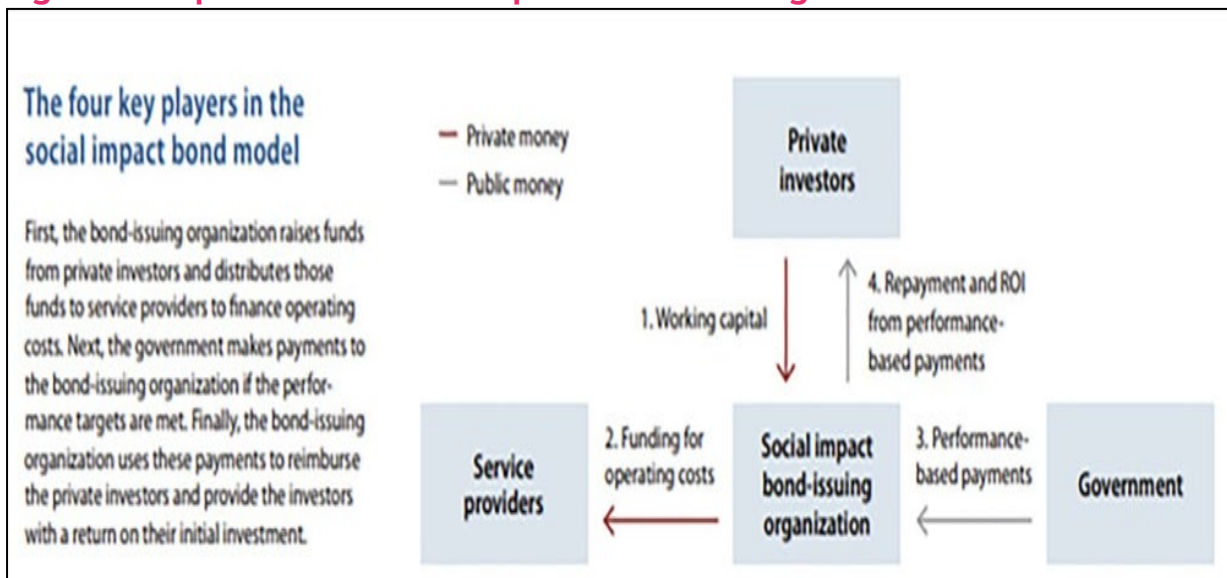


## Policy Snapshot 2.1: NWB Bank SDG Housing Bonds Impact Measures, the Netherlands.



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



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



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.



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



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).



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



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



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’



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



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/>



## 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 the 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



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.



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



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.



**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)





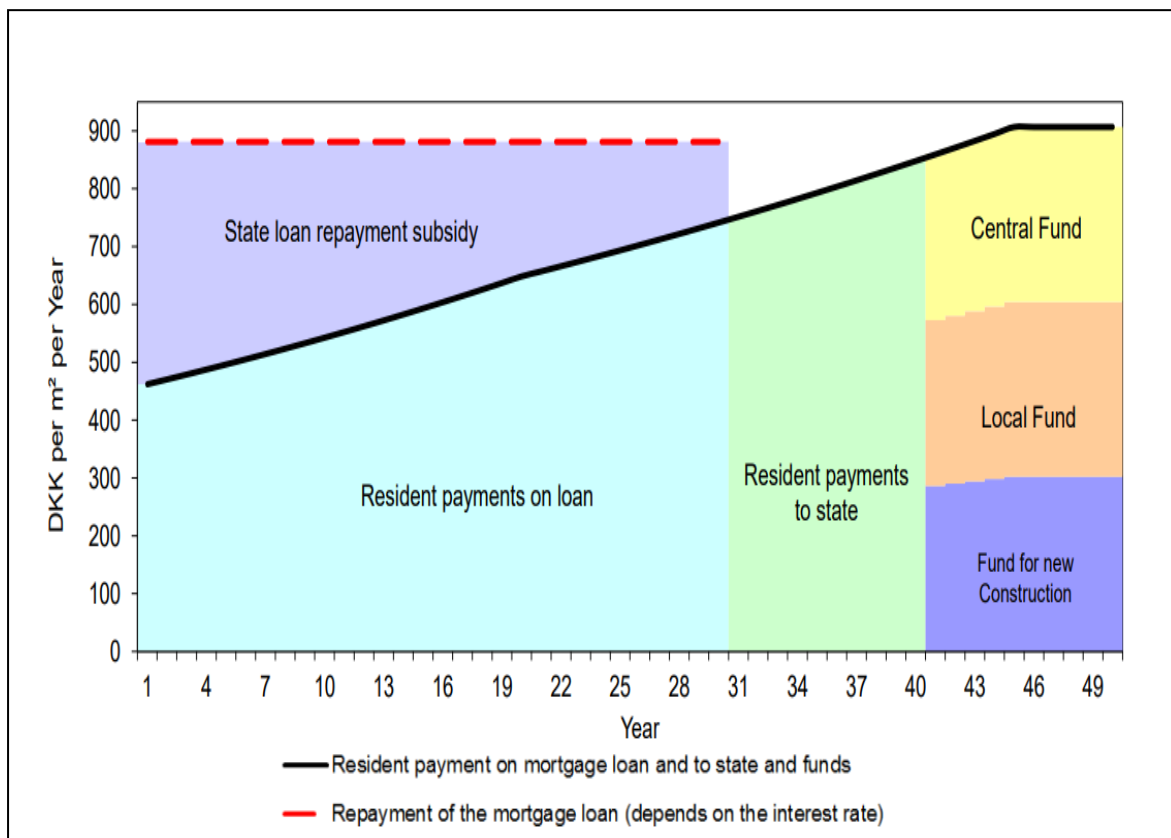
## Policy Snapshot 2.6: Cost Rental Housing in Ireland

Ireland established a new ‘cost-rental’ housing tenure in 2021. Although inspired by the cost rents charged for social housing in Austria, 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).



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).



## 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/](http://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



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.



**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



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



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.)



## 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 part by 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/>



### 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 issues long term, and low-cost favourable loans to housing associations to enable them to 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 is 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 is 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



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.



## 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



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'



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



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 different 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.



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 subsidising 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, subsidising 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.



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

Strengths	Weaknesses
<p><b>Public Capital Grants</b></p> <ul style="list-style-type: none"> <li>• Can provide finance when no alternative sources are available.</li> <li>• Reduces the cost of social housing provision and thereby enables below market rents to be charged.</li> <li>• Reduces the debt finance required to finance social housing and the associated risks and costs.</li> <li>• Reduces the need for ongoing for demand-side subsidies from government.</li> <li>• Can lever additional private or nonprofit finance.</li> <li>• Once off expenditure may be cheaper and more attractive for governments than long-term subsidies.</li> <li>• Can help to counterbalance housing market cycles</li> </ul>	<ul style="list-style-type: none"> <li>• On the government balance sheet.</li> <li>• Depending on the size of the grants provided this may be a deep subsidy which government may be unwilling or unable to fund.</li> <li>• Does not impose financial discipline on social housing landlords or enable government control of these organisations.</li> <li>• Can be more difficult to target at lowest income households than alternative forms of public subsidy such as housing allowances</li> </ul>
<p><b>Government Loans</b></p> <ul style="list-style-type: none"> <li>• Provide finance when no alternatives are available.</li> <li>• Usually cheaper than market loans and available for longer terms</li> <li>• 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.</li> <li>• Can lever additional private or non-profit finance.</li> <li>• Imposes financial discipline on social housing landlords because they must ensure dwellings generate an income to service debt</li> </ul>	<ul style="list-style-type: none"> <li>• On the government balance sheet</li> <li>• If government borrowing capacity is constrained, governments may not be able to finance loans.</li> <li>• Can be more difficult to target at lowest income households than alternative forms of public subsidy such as means-tested housing allowances</li> </ul>
<p><b>Interest Subsidies</b></p> <ul style="list-style-type: none"> <li>• Provides a cost subsidy which enables charging of submarket rents.</li> <li>• Can increase the availability of commercial finance for social housing.</li> <li>• Reduces and flattens the cost of loans which enables higher and more consistent social housing output across interest rate cycles.</li> <li>• Reduces the cost of social housing provision, thereby enabling the charging of below market rents.</li> <li>• Depending on their design and prevailing interest rates, this can be a shallow subsidy which is more affordable for governments.</li> <li>• Addresses the 'front-end loaded' nature of interest repayments which are higher in loan's early years.</li> </ul>	<ul style="list-style-type: none"> <li>• On the government balance sheet</li> <li>• May not be required in the context of low and predictable interest rates.</li> <li>• Depending on the design of interest subsidies and the prevailing interest rate this can be an expensive subsidy for government</li> </ul>
<p><b>Loan Guarantees and Loan Guarantee Funds</b></p> <ul style="list-style-type: none"> <li>• Widens social landlords' access to market finance.</li> <li>• Can reduce the cost of interest on private finance for social housing and thereby enable dwellings to be rented for below market rents.</li> <li>• Well-managed guarantees have little or no impact on the government balance sheet, so they can be cost effective for governments.</li> <li>• Particularly useful when public investment is limited.</li> <li>• Can bolster the credibility of new initiatives, help establish new pathways of investment and ensure market stability during economic crises.</li> </ul>	<ul style="list-style-type: none"> <li>• Moral hazard of supporting risky but desired investments.</li> <li>• Measuring the effect of a guarantee on loan interest is challenging.</li> <li>• May oversupply market finance to a particular market and create unfair competition with other investments.</li> <li>• May lead to inefficient practices because credit costs don't reflect credit risk.</li> <li>• Complex to manage, may need a special purpose financial intermediary to do so.</li> </ul>
<p><b>Tax subsidies</b></p>	



- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Appropriate tax treatment in view of the non-profit status of the vast majority of social housing providers</li> <li>• Can reduce the cost of providing social housing and thereby enable charging of below market rents.</li> <li>• Can incentivise new housing delivery.</li> </ul> | <ul style="list-style-type: none"> <li>• An untransparent form of subsidy, the full costs of which are difficult to measure.</li> <li>• Consequently, tax subsidies may not be well managed and allowed to persist or expand without scrutiny.</li> </ul> |
|--|---|

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



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
<b>Bonds</b>	
<ul style="list-style-type: none"> <li>• May not be on the government balance sheet*</li> <li>• May provide finance when government finance is not available.</li> <li>• May better than bank loans – more suitable for raising large sums for which interest rate may be lower than bank loan.</li> <li>• Imposes financial discipline on social housing landlords – they must ensure the dwellings generate an adequate income to service debt</li> </ul>	<ul style="list-style-type: none"> <li>• May not be available in all countries and to small or start up social landlords (though they may access through bond aggregator)</li> <li>• Likely to charge higher interest rates than public loans.</li> <li>• May generate interest rate risk, although bonds are commonly fixed interest rate for their lifetime.</li> <li>• Loan must be repaid,</li> </ul>
<b>Commercial Bank Loans</b>	
<ul style="list-style-type: none"> <li>• May not be on the government balance sheet*</li> <li>• Widely available</li> <li>• May not be on the government balance sheet*</li> <li>• May provide finance when government finance is not available.</li> <li>• Imposes financial discipline on social housing landlords – they must ensure the dwellings generate an adequate income to service debt.</li> </ul>	<ul style="list-style-type: none"> <li>• May not be available to small or start up social housing landlords.</li> <li>• Likely to charge higher interest rates than public loans.</li> <li>• May generate interest rate risk.</li> <li>• Loan must be repaid</li> </ul>
<b>Private Equity Finance</b>	
<ul style="list-style-type: none"> <li>• May not be on the government balance sheet*</li> <li>• May reduce the upfront costs of social housing development.</li> <li>• May provide finance when governance finance is not available.</li> <li>• Transfers development risk to private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Likely to be more costly over the long term than commercial and particularly government debt finance.</li> <li>• Full or part ownership of social housing may conflict with social housing landlords' ethical/strategic objects.</li> <li>• Extraction of surpluses via profits reduces the potential for internal financing of social housing over the long term.</li> </ul>
<b>Social impact bonds</b>	
<ul style="list-style-type: none"> <li>• May not be on the government balance sheet*</li> <li>• Low financial risk for governments because risk is transferred to bond holders.</li> <li>• Promotes innovation in service design and evidence-based design and the robust measurement and evaluation of results. May therefore enable greater effectiveness and impact.</li> <li>• May require just shallow subsidies from government.</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of finance is dependent on private sector funding and government's willingness to act a commissioner of the finance.</li> <li>• Payment by results model may not be attractive to private investors.</li> <li>• Measuring impact is challenging and requires strong outcomes data.</li> <li>• SIBs can treat vulnerable populations as commodities for private investors.</li> <li>• Risk prioritising services that achieve 'quick results' and deprioritising service users with greater needs</li> </ul>



	<ul style="list-style-type: none"> <li>• Risk crowding out already successful and less costly alternatives funding models.</li> </ul>
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### Sustainable /ESG Finance

<ul style="list-style-type: none"> <li>• May not be on the government balance sheet*</li> <li>• May provide finance when government finance is not available.</li> </ul>	<ul style="list-style-type: none"> <li>• May not be available in all countries and to small or start up social landlords.</li> <li>• Interest rates are probably higher than public loans.</li> <li>• Brings repayment risk and interest rate risk</li> </ul>
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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).



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



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



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



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
<p><b>Savings Schemes</b></p>	
<ul style="list-style-type: none"> <li>• May provide finance when finance from other sources is not available or supplement other sources of finance.</li> <li>• Cheap source of loans, because it does not need to pay a return to shareholders and may require only shallow subsidies from government.</li> <li>• Encourages household savings and self-reliance.</li> <li>• Very useful where commercial finance markets are underdeveloped.</li> <li>• May not be on the government balance sheet*</li> </ul>	<ul style="list-style-type: none"> <li>• No longer was widely available as was the case during the twentieth century as a result of the development of commercial financial market alternatives.</li> <li>• Lack of transparency of subsidy</li> <li>• High admin costs? (dealing with loads of small accounts)?</li> <li>• May not provide lower interest rate debt finance than government loans</li> </ul>

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).



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

Strengths	Weaknesses
<b>Guarantee Funds</b>	
<ul style="list-style-type: none"> <li>• Widens social landlords' access to market finance.</li> <li>• Can reduce the cost of interest on private finance for social housing and thereby enable dwellings to be rented for below market rents.</li> <li>• Well-managed guarantees have little or no impact on the government balance sheet, so they can be cost effective for governments.</li> <li>• Particularly useful when public investment is limited.</li> <li>• Can bolster the credibility of new initiatives, help establish new pathways of investment and ensure market stability during economic crises.</li> </ul>	<ul style="list-style-type: none"> <li>• Social landlords need to set aside revenue to capitalise the fund which they may not have the capacity to do,</li> <li>• Moral hazard of supporting risky but desired investments.</li> <li>• Measuring the effect of a guarantee on loan interest is challenging.</li> <li>• May oversupply market finance to a particular market and create unfair competition with other investments.</li> <li>• May lead to inefficient practices because credit costs don't reflect credit risk.</li> <li>• Complex to manage, may need a special purpose financial intermediary to do so.</li> </ul>
<b>Revolving Funds</b>	
<ul style="list-style-type: none"> <li>• May provide a reliable source of internal finance that can enable social housing landlords to raise and service debt finance.</li> <li>• Not on the government balance sheet*</li> <li>• Reduces the need for government subsidies.</li> <li>• May be more politically acceptable than relying on primarily on government subsidies</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Will be undermined by privatisation, particularly if dwellings are sold for below replacement value.</li> <li>• Requires landlords' debt profile to be relatively mature.</li> </ul>
<b>Tenants' Equity Contributions</b>	
<ul style="list-style-type: none"> <li>• Reduces the up-front costs of providing social housing, thereby allowing dwellings to be rented below market rents.</li> <li>• Reduces the debt finance required and the associated risks and costs.</li> <li>• Can provide finance when no alternative sources are available.</li> <li>• Can be used to lever additional private or nonprofit finance.</li> <li>• Helps to ensure tenants are commitment to a long-term social housing tenancy and to maintaining their home.</li> </ul>	<ul style="list-style-type: none"> <li>• May impede access to social housing among very low-income households and those who have not had sufficient time to save a downpayment.</li> </ul>

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



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

Therefore, this Table categorises 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.



**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



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



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



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 Woningstichting 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



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



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



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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