



# Poverty and social exclusion: Review of affordable housing supply

## Background

The Wales Centre for Public Policy (WCPP) was commissioned by the Welsh Government to conduct a review of international poverty and social exclusion strategies, programmes and interventions. As part of this work, the Centre for Analysis of Social Exclusion (CASE) at the LSE was commissioned to conduct a review of the international evidence on promising policies and programmes designed to reduce poverty and social exclusion across twelve key policy areas. This briefing summarises the findings on affordable housing supply.

## Introduction

Housing can play an important role in preventing and ameliorating the impacts of poverty and social exclusion, but it can also reproduce and exacerbate existing disadvantage. Its impact depends on how the housing system shapes availability, cost, quality, location and security of accommodation.

The UK system has long prioritised homeownership and demand-side public investment, while the shrinking of the social rented sector, undermining what once was a particularly effective element of the welfare state. The system also increases spatial segregation, affecting social exclusion.

The provision of genuinely affordable housing has been protected in Wales more than in England, but there are opportunities for improvement.

## Evidence of policy effectiveness

This review focuses on policies promoting housing affordability in the private and social rented sector and, in particular, on supply-side policies. The review contrasts policies supporting a 'dualistic model' (where priority is given to boosting homeownership and access to social housing is restricted) and policies supporting a 'social market model' (where the private rental sector is regulated and subsidised and access to social housing is widened).

In the UK, the 'dualist' approach is dominant. However, lessons can be learnt from other European countries, where the social rented sector competes with the private rented sector, creating a 'wider affordability' system that encourages higher standards and curbs excessive housing costs. Increasing affordable housing supply may thus not only deliver short-term gains, but improve long-term housing affordability and reduce housing market volatility.

**Promoting regulation, quality standards and tenant protection in the private rented sector can promote greater affordability in the private rented sector and contribute to a wider affordability system.**

## Policies supporting 'dualistic' housing systems

In the UK, **private rental housing** is not treated favourably in terms of taxes and subsidies in comparison to other countries. This is largely because of the greater policy focus on promoting homeownership. Housing precariousness is shown to be consistently higher among private renters than owners in all European countries, however evidence shows that renting can be a less precarious type of tenure than it currently is in the UK depending on the policies that regulate and support it.

**Homeownership** is not a panacea for precariousness and poverty. Policy approaches prioritising homeownership can be problematic for addressing poverty and social exclusion. This is not just because most schemes are poorly targeted, but because they can in fact exacerbate issues with housing affordability. They can also boost demand and contribute to higher house prices and volatility, while possibly crowding out support for other forms of housing, by accounting for a significant share of government spending.

**The social rented sector** has shrunk in the last few decades in many countries with few exceptions. In a dualist system such as the UK's there is evidence that the social rented sector was a particularly effective element of the welfare state, providing a 'safety net' function and mitigating the impacts of high levels of income poverty. Recent years, however, have witnessed divergence across UK nations as England in particular has shifted from a safety-net to an 'ambulance model' of housing, where social housing is seen as a 'temporary refuge' in emergencies.

While devolved administrations including Wales have acted to retain a safety net model and Scotland has taken steps to strengthen it, this trend is common to other dualist systems, such as the US, Canada, New Zealand or Australia, where for instance reforms have led to ending tenure security and increased the concentration of disadvantaged households within the sector.

Overall, this suggests that in 'dualist' systems **social rented housing can play a vital role in providing stable, safe and affordable accommodation. However, for the sector to do this, trends towards the retrenchment of social housing should be countered. Priority should be given to boosting social housing provision and ensuring security of tenure and improving quality across the private rented and social housing sectors.** Many 'dualist' countries have seen increasing support for supply-side interventions, for instance with schemes aimed at improving supply of affordable housing through non-profit providers.

**Priority should be given to boosting a social housing provision which is genuinely affordable, secure and high-quality.**



## 'Social market' models of housing

A different approach to housing provision can be found in countries that historically have been subsumed under a 'unitary regime', which are characterised by competition between the rental sector and homeownership. The Netherlands for instance is characterised by a particularly large social housing sector where providers are largely housing associations, while Germany has a large, but also atypical, private rented sector. Some countries with a strong

'universalist' approach to provision, like Sweden, see the distinction between social housing and other tenures as especially blurred. What is of great interest in these countries is the extent to which their housing system facilitates what has been defined a 'social market'.

In social markets, the interaction between social and private rented housing decreases housing costs and segregation, showing the key role those supply-side interventions can play in facilitating wider housing affordability. Analysis of these systems highlights some key elements supporting them, for instance in relation to policies that govern land release. As an example, German local authorities are allowed to cap land values at pre-permission prices at the time planning permission is granted, and have the right to acquire land at reasonable costs and to capture part of the 'planning gain'.

This contrasts with the UK system which overwhelmingly benefits the landowner and envisages more complex procedures to secure part of the planning gain to help fund social housing and infrastructure. In this direction, recent calls to reform the 1961 Land Compensation Act are important as they would allow this balance to change and make funds available to boost infrastructure and affordable housing building.

Comparative evidence has indicated the way in which unitary regimes characterised by a 'wider affordability' model have played a protective role during the global financial crisis. For example, Austria has a unitary regime characterised by a large social rented sector, with 80% of households qualifying for entry, while Ireland, like the UK, has a dualist regime. In Austria, increased social sector housebuilding helped to mitigate the impact of falling private housing output during the global financial crisis.

Competition between the social and private rented sector in Austria contributes to depressing rents and raising standards.

In contrast, Ireland's comparatively small social housing sector drove volatility within the private housing market. Here, low levels of social housing provision necessitated extensive public spending on housing allowances for private renting households which further fuelled demand and inflated rents and house prices.

## Promising actions

The review concludes with promising actions to consider in the Welsh context as emerging from the analysis of the international literature:

1. Priority should be given to boosting a social housing provision which is genuinely affordable, secure and high-quality.
  - Scarcity of social housing leads to forms of rationing, increases competition for homes and increases costs in the private sector.
  - Short-term solutions focusing on increasing the supply of social housing may lead to long-term systemic change – creating the conditions necessary for the system to increase 'wider affordability'.
    - There is evidence that systems that promote wider affordability across the housing system reduce costs and volatility, increase quality standards and reduce segregation.
2. Promoting regulation, quality standards and tenant protection in the private rented sector can both promote greater affordability in the private rented sector and contribute to a wider affordability system.



## Find out more

For the full report see Bucelli, I., and McKnight, A. (2022). *Poverty and social exclusion: review of international evidence on affordable housing supply*. Cardiff: WCPP.

## About the Wales Centre for Public Policy

Here at the Centre, we collaborate with leading policy experts to provide ministers, the civil service and Welsh public services with high quality evidence and independent advice that helps them to improve policy decisions and outcomes.

Funded by the Economic and Social Research Council and Welsh Government, the Centre is

based at Cardiff University and a member of the UK's What Works Network.

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