Housing Investment Taskforce Background Paper

International evidence on affordable and social housing finance innovation: synthesis, reflection and implications for Scotland

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Summary

The Scottish Government's Housing Investment Taskforce is charged to examine ways in which additional finance can be provided to augment the supply of social and affordable housing. In response, this paper has been constructed to provide a rapid review of literature, academic and 'grey', on models, innovations and good practice, nationally and internationally, in the period broadly since the structural break of the Global Financial Crisis. The paper draws on work completed mainly with colleagues by the author since 2010. It also draws on other international literature as well several evidence reviews and policy toolkits.

The paper noted five overriding themes:

- We should not expect a silver bullet solution or solutions, or that genuine innovation is at hand. Rather, this is about new ways of tweaking and repackaging a finite set of possible components or parameters belonging to existing models.
- Policy transfer and mobility is tricky and should not be assumed to be unproblematic or always wise (but good ideas may nonetheless be customizable or provide the germ of something that can work additionally).
- Path dependency, the constraining impact of previous choices and institutional arrangements, matters in housing systems and in considering finance and subsidy reform.
- We should not neglect the likely dominance of the existing stock over the flow of new supply, and always incorporate systemic interdependencies, feedback

loops and the real-world dynamics of evolving complex systems in the design and implementation of new models supporting affordable and social housing.

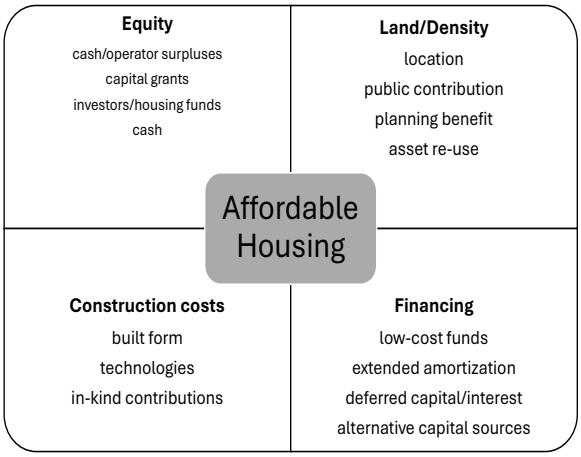
- Making progress is also about operating within the political public finance context of the time, navigating political priorities and making the public spending case, perhaps through persuasive additionality, net benefit and preventative (costs avoided) arguments. Housing has much to commend itself in terms of wider public policy gains in relation to important priorities such as child poverty, health and education outcomes (Gibb, et al, 2020).

Many of these themes taken together imply that while there may be quick wins, positive change will take time to design, implement and to feel its effects - this must be a long-term game, and one that is nourished and allowed to bed in. A stark lesson from the investigations of successful national systems in Europe is that they operated on a long-term context of stability that allowed them to build up as self-financing revolving funds. While not denying the priority of looking to find short term positive advances, the Taskforce must also look to initiating new long-term programmes and initiatives that can have these beneficial (permanent) implications.

The paper finds that:

1. We should not expect to uncover radical financial innovations but may find that some reconfigurations of the Ballantyne quadrants in figure 1 may offer one of more positive contributions to support the financing of affordable supply in Scotland.

Figure 1 Sources of Reduced Cost for Affordable Housing



Source: Gibb, K (2019) in Maclennan, et al 2019 *Shaping Future: Changing the Housing Story*. See also Gibb (2018).

2. Part of the answer may lie with the devolved application of the ideas suggested by Lloyd and Grayston (2023) in changing the fiscal rules, increasing flexibility for councils, reducing the scope for HM Treasury to intervene in and interfere with conventions like the rent settlement that are so important to private investment, and, also to adopt international accounting rules regarding public corporations' debt and borrowing with particular respect to council housing borrowing.

3. We do however need to be careful when applying English evidence to Scotland – particularly the focus on for-profit registered providers, which do not operate in Scotland. At the same time, however, there is social investment operating in Scotland to provide homes e.g. for charities who are not for profits but not registered as housing associations. Social investment has a track record but not much scale yet in the UK housing system. At the same time, debt finance and joint venture arrangements as well as different leasing models all would seem to be possible to be grown further in the Scottish environment.

4. Blended subsidies in multi-level governance systems are of considerable interest – but work better in federal systems with more well-established fiscal federalist systems of inter grant transfer, etc.

5. Guarantees and low-cost debt have a long lineage with good practice versions in countries like Finland, as well as soft loans such as those associated with Financial Transactions Capital.

6. Solidarity based approaches such as the Netherlands, and particularly Denmark (the latter is well received, much like the national wealth funds in countries like Norway) but it must be built up over time and there needs to be a ready mechanism of building surpluses and a sector acceptability to use these in a directed top-down way.

7. Many of the success stories across Europe – Finland, France, Denmark and Austria – represent long term stable and predictable successful policies which both help moderate the pro-cyclical nature of housing, insulate social housing from the market, also building up and maintain revolving funds and similar special circuits. These draw strength from the maturity of their sectors. They also indicate that moving away from 'business as usual' is unavoidably a long-term proposition, but that is not a good reason to fail to start down such a road. Equally, land reform is important but takes time; that is no reason not to proceed.

8. We should recognise the importance and complementarity of green retrofit to housing cost and wider household affordability, and that finding an efficient and incentive-compatible mechanism to co-fund the capital cost and running costs of retrofit is essential to sustain investment in new social and affordable housing. Find a solution to retrofit and investment because that will lighten the load on providers and in turn support make housing more affordable and reduce energy costs for those on lower incomes.

9. Path dependency is important e.g. the strength of the social housing responses in countries like Austria and Finland do not operate in a vacuum and are supported by a network of interlocking finance, regulation and strategic mechanisms, as well as long established partnerships, trust and verification. It is not straightforward to graft these models on to Scotland. This is one further reason why it will be immensely valuable to see how the Irish experiment with low cost or limited profitability rented housing works out in the coming years (as it will also with their different evolving long term leasing policies).

10. 'Housing 2030' establishes that developing resilient housing finance circuits specifically for affordable/social housing delivery can create durable and stable models that allow for implementation but also considerable forward planning. It also indicates that there are long established financial circuits supporting housing through state savings schemes in France, as well as interventions to encourage investment in retrofit that need not undermine new affordable /social housing supply in countries like the Netherlands and Germany. Housing 2030 also sets out a series of ways to overcome land barriers through diverse interventions like public land banking, land readjustment and taxation, as well as through measures we are more familiar within the UK concerning land value capture for social good.

Introduction

The Scottish Government launched, in the spring of 2024, a Housing Investment Taskforce (HITF). This was set against a backdrop of significant market and public funding challenges to the delivery of all elements of the Affordable Housing Supply Programme, the flagship element of 'Housing to 2040', the Government's long-term strategy to transform the housing system. The relevant Scottish Government website stated that HITF will, by March 2025, "identify actions that will unlock both existing and new commitments to investment in housing by bringing together key interests of investors and investees". The Taskforce remit is fourfold:

1. build investor confidence and attract further mobile capital investment into housing
2. unlock existing financial commitments
3. encourage and promote new delivery partnerships
4. identify ways to shift the balance of investment in affordable housing to increase private funding, including from relevant comparator markets and jurisdictions

From the initial discussions of the Taskforce, it was clear that 'nothing is off the table' and that the aim is to fully consider the range of possible ways in which both social and affordable housing can be augmented by private funding and other creative policy interventions to support more non-market supply.

In this context, I offered to undertake a rapid review of relevant national and international literature (both peer-reviewed and 'grey' and associated reports) from the period broadly post 2010 (or certainly post-GFC) building on a series of papers and reports I had already contributed (Hall and Gibb, 2010; Gibb, Maclennan and Stephens, 2013; Gibb and Hayton, 2017; Gibb, 2018; and Gibb, 2019, in Maclennan, Pawson, Gibb, Chisholm and Hulchanski, 2019). This led to an initial inclusion of more than 50 publications (see references). This paper is the revised draft of said review. I am grateful to feedback from HITF members and the Scottish Government secretariat.

This paper is an academic contribution but hopefully one in tune with policy and market sectors. As is discussed more below, it is premised on the idea that there is no silver bullet or indeed anything radically new or innovative that is 'out there'. Rather, there are examples of good practice and different ways of assembling financial/subsidy components and responding to familiar challenges filtered by historical, institutional, local and national contexts that make some things possible in one setting but less so in ours. For instance, Sweden employs collective bargaining to negotiate over rents between federations of landlords and tenant unions. That is completely different to our

rent setting mechanisms. Nonetheless, there are many ideas that should be considered and maybe perfectly deliverable here in a customised way or indeed if certain aspects of our national arrangements were amended.

Path dependency is also highly important with housing stock reflecting long lived assets premised on earlier policy decisions – most clearly this is true of the massive housing benefit bill and the underlying reliance that private rented, social and affordable housing have for DWP to make low-income payments to renter households. There are, as we will see, innovative ideas to move the dial on the balance between supply and demand subsidies but it is not at all straightforward.

The dominance of the stock over the flow of new supply is a critical factor, one implication of it is that we will certainly have to look at developing ideas that will take time to bring forth new supply – long term policies are inevitable given the complexity of development and the sound introduction of policy innovation. Some aspects of work can be more quickly piloted and introduced to have more time-sensitive outcomes, but the reality of the housing system is that policy needs to be consistent, sustained and tested – it will take time.

A final theme that runs through this paper is that of political priorities. There are trade-offs and many of the ideas suggested in the sections to follow have costs that will need to be met in a scarce resource context. At times the acuity of this trade-off will be reduced by deferring cost, sharing risk or by identifying cashable savings via prevention. But it will still require trade-offs between Scottish Government priorities and the championing of the holistic system-wide importance of housing to the Scottish economy, social coherence, child poverty, human rights, net zero, etc. – and that continuing with *business as usu*al will only serve to damage all of these and other societal goals (see: Bowman, et al, 2021 and Marsh, Gibb and Earley, 2024).

An evidence review draws on systematic search methods as well as the prior experience of the author to pull together a unified literature subject to certain specific exclusions (e.g. a time frame, English language only and peer-reviewed materials, etc.). It is often used to identify themes and conclusions that we can have confidence in, highlighting priorities and gaps in the evidence base. There are many different approaches to undertaking such a task, usually shaped by time and resource constraints, disciplinary practice and the like. In my research centre (CaCHE - the UK Collaborative Centre for Housing Evidence) we undertake focused digital searches of peer reviewed literature around key words and exclusion criteria. We also often distinguish useful grey literature which, while not peer reviewed (though sometimes it

is), still may have a contribution to make in terms of quality analysis[1]. It is important to stress that this review has been closer to a more traditional academic literature review, primarily based on my own previous work and snowballing to other references as well as more rapid searches online for academic and policy research. I note that amongst the included materials are more than a dozen extant international evidence reviews on affordable finance and related topics. So, given resource and time constraints, this is not a purist's scientific digital evidence search approach, but I would contend that it remains useful and is able to synthesise much relevant work from the last 15 or so years (broadly since the aftermath of the global financial crisis).

The rest of the paper is structured as follows. We start by briefly outlining the difficult context that has led to the establishing of the Taskforce building on the key themes identified above. Next, the paper sets out a simple but useful generic framework for analysis of affordable finance and subsidy, drawing on the thinking of Derek Ballantyne who worked with me in the 2019 Maclennan et al research on housing systems and strategies in Canada, Australia and the UK (see also Gibb, 2019). We then move on to two substantive sections of evidence findings from the literature: a review of my own previous work on national and international affordable finance (titled the 'Glasgow' research) and a synthesis of other international evidence reviews in this area. The final section tries to summarise, identify the key messages arising and reflect on their implications for Scotland.

A Difficult Context

The context that the Taskforce begins from is uniquely challenging. Short run market, political and public finance challenges adversely impact on affordable and social housing supply, much of which originate with the reset after the GFC structural break and subsequent austere policy responses to the crisis, alongside longer term structural housing system problems, difficulties made worse by Brexit, Covid-19 and the cost of living crisis. Arguably, the response now needs to overcome both sets of difficulties. In other words, we need to find a way to generate more resources for affordable housing quickly that overcome market failures rapidly, but we also need to begin addressing the larger long term and often wicked causes of the housing system dysfunction. The reality is that the electoral cycle throughout the UK is too short for those long-term solutions and the multi-parliamentary terms required to really address the fundamental problems we confront (Marsh, et al, 2024). Below we summarise both the recent

[1] There is arguably no foolproof way to undertake grey literature searches on a par with peer reviewed digital searches based on exclusions and quality assessment – it remains pragmatic, experience-led and driven by specific search engines and websites. Different universities provide guidance for students undertaking such searches but they are all inevitably constrained and less than optimal.

catalogue of problems that have beset the housing sector as well as those broader structural problems that we need to address and set about rectifying.

Recent Difficulties

Today, we confront several immediate problems:

- A growth in unmet affordable housing need in a context where there is relatively little turnover in the existing social and affordable stock, nor sufficient new supply to meet this level of need
- Unusually high levels of unaffordability in the form of high private rents and house price to income ratios (let along regulatory constraints on high loan to value loans and stress tests)
- The record increase in homelessness applications, the unsustainable rise of temporary accommodation and the inability of several councils to meet statutory duties particularly over suitable accommodation – the most direct form of the housing *emergency*
- A decline in market and affordable new supply, a result of a combination of market weakness, supplies inflation, labour shortages, grant rates not keeping up with rising development costs, deep programme budget cuts, and the cost-of-living crisis
- UK-led Housing Benefit restrictions, freezes and limits, which are linked to further homelessness, particularly from the PRS
- Ongoing budgetary pressures which have led to two years of significant affordable housing supply cuts in spending (though followed by the welcome restoration of 2025-26 supply spending to pre-cut levels in the new budget)[2]
- A consequent reduction in the willingness of providers to take the risk of development in these circumstances.

Structural Challenges

As argued elsewhere (Gibb, et al, 2020; Bowerman et al, 2021; Marsh, et al, 2024), there is, alongside these more immediate drivers, a combination of long-term unaddressed weaknesses, imbalances and failure in the wider housing system which further undermine both short term and longer-term reforms. For instance, short term unaffordability can be viewed as the outcome of the cumulative effects of the following structural problems:

- The underlying supply inelasticity of the development and construction industries (Kiberd and O'Connor, 2024)

[2] Though there is less capacity in the provider sector to deliver new affordable supply, e.g. cut backs in development teams, etc. which will reduce the ability to fully benefit from the restoration of funding in the coming financial year – capacity has to be rebuild alongside greater confidence to develop.

- The relatively light asset taxation of housing alongside poorly designed (archaic?) taxes like Council Tax and Land and Building Transaction Tax[3]
- Multiple land market failures and housing finance imperfections (MacFarlane, 2017; Aubrey, 2018a and b; Bentley 2018 a and b; Crook, 2018; Jones, et al, 2018)
- The anti-investment bias arising from the combination of fiscal rules, public finance accounting rules, subsidy control measures and Treasury short termism (Lloyd and Grayston, 2023)
- The neglect over time that has created the conditions that support a rentier speculation around housing either as owner or investor while insufficient cheaper housing exists for those seeking to simply consume adequate shelter
- At the same time, wider macro trends reinforce the negative housing outcomes: stagnant wage growth, low productivity growth, rising income and wealth inequality

Marsh, et al (2024) and Bowerman et al (2021) emphasise that *not* addressing these housing and related problems, allowing 'business as usual' to continue, will allow these negative outcomes to compound. Bowerman et al stress evidence that this will: worsen affordability problems and housing shortages (and hence homelessness), as well as restricting productivity growth, generating poorer regional economic performance, exacerbating physical and mental health problems, possible weakened social cohesion, and poorer carbon reductions. Housing advocates are familiar with making the preventative arguments about social housing improving health, education and employment benefits, as well as savings on various public budgets (Gibb, et al, 2020; Boyle and Husbands, 2020). Failure to invest unfortunately has (potentially disproportionate) negative consequences across these different dimensions i.e. it will continue to cost society over time not to address the housing sector's many challenges[4].

We have a new UK Government and, while initial signs suggest a stance of fiscal conservatism, this is nonetheless a window of opportunity to redress specific issues which have dogged housing resources and interventions for many decades. Lloyd and Grayston (2023) have stressed that social housing investment has long been stymied by

[3] See: https://fairershare.org.uk/manifesto-reports/ referring to the English case

[4] Recently, encouraging innovations within an early intervention investment framework, in Victoria, Australia, demonstrate a capacity to set long term budgets based on credible preventative outcomes within cost benefit analysis modelling to reward prevention through booking future spending in the form of savings projected from avoided costs – see: https://www.dtf.vic.gov.au/early-intervention-investment-framework

the way UK public finances operate[5]. Clearly, this has implications for devolved Scotland. They identify:

- Fiscal rules that are biased to anti-investment and excessively short term focused
- Incoherent debt rules which are not consistent with good international practice
- Anachronistic practice in the classification of borrowing for council housing as public expenditure
- HM Treasury further worsening the anti-investment bias by pursuing short term policy interventions that undermine the need for long term stability.

Lloyd and Grayston advocate returning to the Gordon Brown 'golden' rule. As they say (p.9): "the accompanying Golden Rule was explicitly designed to allow for borrowing to invest. This was achieved by distinguishing between borrowing to fund investment as opposed to current spending. Subsequent fiscal rules have failed to make this distinction, as each has focused on the total debt and/or deficit in cash terms, making the under-investment bias pervasive".

Second, they argue that the UK needs to follow international practice and factor-in the *value* of public assets and not just debt in their debt rule such that rather the measure the nation's net worth not net debt (and seek net worth rising over time). Third, they argue that housing investment e.g., council housing should not be treated as public expenditure but rather follow the international accounting standard that does not count public corporations as adding to state borrowing (and this would include council undertaking council housing investment). The argument is simply that council housing is a form of investment infrastructure wherein rental income literally pays for all the borrowing. Under those circumstances a properly working prudential regime should be sufficient for control purposes. Finally, a number of controls should be placed on HM Treasury so that they are not able to undermine settled financial relationships e.g. regarding rent increases or housing-related benefits. In this respect it is noteworthy that the Chancellor is believed to be proposing a ten-year rent settlement for English social housing in the Autumn Budget (Guardian, August 23 2024). Recent incremental progress on these fronts are encouraging. They are the sorts of proposals that can transform the wider public finance context in the UK but also would change the Scottish dispensation too.

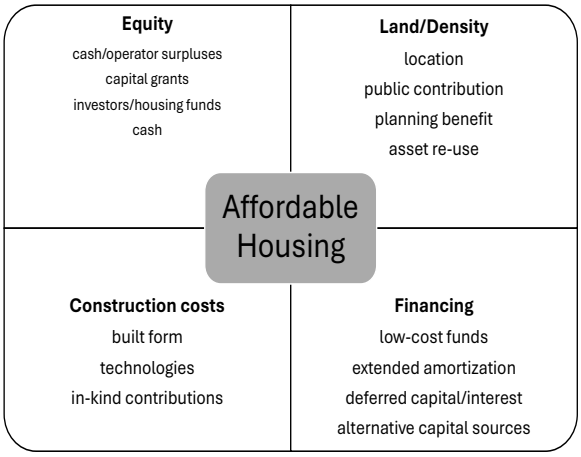
Framework for Analysis

A useful starting point for the evidence review is to recognise that affordable housing means low cost housing in the sense of construction and delivery, that is, at a below

[5] Similar points have been made by others: e.g. the committee report by the DLUHC Parliamentary committee (DLUHC Committee, 2024).

market price point, and if quality or service is not compromised (i.e. supplier cost expenditure is reduced) to achieve this and retain a normal rate of return, then somewhere in the housing supply system the difference between market and actual rent (in the case of rented housing) must be met by some form of state subsidy (directly or indirectly), alongside genuine cost or technology efficiencies, so that private interests can achieve a market return for the risk being borne. Working with Derek Ballantyne, Maclennan, et al (2019) recognised that there is a finite number and combinations of ways in which this can be achieved. What we term financial innovation is just a different way of assembling these possible fundamental options, as set out in Figure 1.

Figure 1 Sources of Reduced Cost for Affordable Housing



Source: Gibb, K (2019) in Maclennan, et al 2019 'Shaping Future: Changing the Housing Story'. See also Gibb (2018).

Each quadrant in Figure1 suggests one of the key building blocks: the injection of **equity** such as capital grants, but also provider surpluses (and which could be pooled as in the Netherlands or Denmark), or cash or investor funds; **land/density** relating to site amenity, public contributions of land, planning gain and asset re-use; **construction cost**s can in principle be reduced by choices regarding built form and archetype, technologies such as MMC and off-site approaches (especially at scale e.g. standardisation increasing the speed of on-site works), as well as in-kind contributions reducing cost; and, **financing** through utilising low cost funds (perhaps linked to state guarantees), extended amortisation or deferred payments and alternative capital sources. This is far from an exhaustive list. Important additional specific elements include the potential use of revenue subsidy e.g. as historically was the case with council housing, balancing the Housing Revenue Account; subsidy in the form of tax

concessions or tax credits; as well as demand-side subsidies to increase affordability for the consumer (the latter much debated: see Gibb and Stephens, 2024).

Ballantyne argues two further points (developed in Maclennan et al 2019, p.72): “First, he argues that the search for financial innovation… is probably not going to uncover radical new untapped opportunities. We know what is possible and that fundamentally the different stakeholders must co-operate around the irreducible fact that private sector participation, including construction interests, requires a given rate of return for the risk confronted…Inevitably, politics and current priorities determine the resources available but thereafter those resources need to be used effectively in whatever way they are co-ordinated… The second point is related - [all subsidy] elements …have public financing implications directly or indirectly. Scarce public resources must be well used where their impact is greatest. While governments may not always recognise the very existence of tax concessions, we can hardly support redistributive and progressive reforms to the housing sector that purport to increase efficiency if we do not at the same time recognise the continuing need to maximise public value for money.”

In an earlier paper, Hall and Gibb (2010, p.4) note:

“If we accept that, typically, new social housing will require an element of borrowing…., subsequent development, one way or another, will require borrowing capital and servicing the subsequent debt. This can operate through a series of models involving mortgage and other collateral debt (e.g. a charge on unencumbered assets), public sector loans and bond finance, but also, potentially, private equity and other partnership arrangements (e.g. Public Private Partnership arrangements with council housing or housing associations with private developers or local government, and this may but need not include planning agreements).

They continue:

Essentially, any funding package has to both allow development to take place and ensure that the repayment profile is affordable to the occupier and landlord in such a way that other related housing goals are met (e.g. provision for management, maintenance and major repairs as well as the servicing of debt). … One can think of the different generic models as alternative ways of matching the needs of the social housing provider with the financial interests of the ultimate lenders of funds”.

We see these fundamental diagnostic points nuanced in different but related ways elsewhere in the more recent grey literature e.g. Baum and Xiong (2019), Century and Parmer (2023), Octopus (2023) and Lloyds Banking Group (2024).

Baum and Xiong (2019) note that building sufficient homes, affordable and market sectors, will need skills, land and finance. They focus on the latter. Looking at affordable homes, specifically, they identify opportunities for institutional investment and within that for social investment and SEG possibilities. They note the low vacancy risk, strong regulation that lowers default risk, the supportive role of HB and the scope for long term index linked returns for debt-funding depending on rent settlements, etc. However, the main investor risk is 'government interference' (p.24). A key element for government will be to secure or guarantee the rent income stream.

Baum and Xiong also note that the Irish government set up in 2018 long term leaseholding agreements for social and affordable housing from the private sector (e.g. institutional investors). They argue that if the UK government[s] were willing to make these long-term affordable leases index linked and with suitable management and maintenance arrangements, this would be attractive to private capital as investor in new housing assets for this purpose (p.42).

Century and Parmar (2022) – identify the challenge as seen by investors and point to existing or imminent models possible to overcome such barriers. They stress the high levels of housing need but also the presence of important funding gaps for RSLs if they are to develop and meet this need. They note a lack of development capacity, urgent needs and political pressure to repair and make properties safe and also the requirement for long run decarbonisation investments. How might the gap be filled? Numerically, they identify a large increase in capital funding required i.e. £43bn a year equating to an affordable need of 145,000 affordable homes. They argue that capital funding for affordable homes can only come from three sources: *debt* (many HAs are at or close to existing borrowing limits); *equity* – not for profit HAs do not have the power to raise equity on their own balance sheets (and must be traded-off for other asset management objectives across the existing stock); and, *subsidy* – capital grant is at historic low levels and has been diluted into affordable products like LCHO [and search for cross subsidy e.g. from sales].

Going forward, Century and Parmar contend that the set of subsidy options available consist of: expanding the use of S106/S75; direct capital grant; tax concessions; debt guarantees; revenue subsidy; and, as discussed above, rent certainty. They conclude that institutional investment needs to be linked to for profit providers which could unlock affordable supply through the following models: Direct investment by institutionally owned For-Profit Registered Providers into new stock; development Joint Ventures with registered for-profit Housing Associations; existing stock acquisition partnerships between institutionally funded for profit Associations and non-profit

Associations i.e. purchase of existing assets creates capital for investment by the housing association.

Octopus (2023) discuss English affordable housing need and finance possibilities in similar vein (though here focusing on not for profits working with institutional investment and government). Registered providers' finances are under pressure: bond yields have risen increasing the cost of debt to registered providers while at the same time there has been a deterioration of interest cover, as well as rising interest rates and reduced credit quality. To solve this, the government, the HA registered providers and the investment sector have to work together, they need a stable rent settlement, new sources of debt such as equity partnerships, improved planning partnerships, new ways to fund decarbonisation and unfreezing LHA.

Finally, Lloyds Banking Group's (2024) diagnosis stresses long term challenge and, critically, the imbalance between demand and supply subsidies in the UK (i.e. nearly 90% of housing subsidy is demand-side personal income related subsidy). They argue, like Octopus, that what is needed are new funding partnership models. They propose a specific solution: their social housing contract model, one which "would provide a payment to housing providers, additional to the rental payment, linked to homes being made available for social rent. This mechanism would increase the guaranteed revenue being paid providers of social housing, and, in so doing, increase the upfront private capital that can be raised to finance the development of new housing for social rent". The idea is that payments under the Social Housing Contract are spread through time enabling a transition in subsidy from (demand) housing benefits to (supply) supporting the delivery of new housing while reducing upfront government borrowing.

Lloyds banking group further argue that, as the cost in HB for a social renting household is lower than for a household living in the private rented sector and if payments are set equivalent to average savings in housing benefits, then there would be no net additional cost to government for homes financed through the partnership. In effect, the rent differential would fund the building of more homes for social rent.

This is in a sense a return to revenue subsidy that effectively enhances the payment to debt finance based at the unit level on the average difference between HB payments in social and private renting (presumably the LHA for the PRS case) and is on the face of it, a clever way to start to modestly rebalance the supply subsidy-demand subsidy imbalance measured earlier. It is important to stress that these averages will vary hugely regionally, depending on the absolute level of LHA per property/size and also by average social rents; HB take up rates also vary considerably across tenure, and there is further pressure to establish a long term determination of rent change but now for both sectors – and there is considerable countervailing pressure to up the level of LHA

support beyond the 30th percentile (and to permanently end its freezing). So, it is not a simple comparison but something that is surely worth further investigation.

Implications for Scotland

- We should not expect to uncover radical financial innovations but may find that some reconfigurations of the Ballantyne quadrants in figure 1 are still on the table and may offer one of more positive contributions to support the financing of affordable supply in Scotland.
- Part of the answer may lie with the devolved application of the ideas suggested by Lloyd and Grayston in changing the fiscal rules, increasing flexibility for councils, reducing the scope for HM Treasury to intervene in and interfere with conventions like the rent settlement that are so important to private investment, and, also to adopt international accounting rules regarding public corporations' debt and borrowing with particular respect to council housing borrowing. A political decision (for that is what it is) applied at the UK level would also operate in the devolved administrations as well.
- We do however need to be careful when applying English evidence to Scotland – in particular the focus on for-profit registered providers, which do not operate in Scotland. The Scottish Housing Regulator would need to take on this additional role and there would be considerable resistance from within the housing sector, and politically too, if such a development were to proceed[6]. At the same time, however, there is social investment operating in Scotland to provide homes e.g. for charities who are not for profits but not registered as housing associations. Social investment has a track record but not much scale yet in the UK housing system (though the UK is in general a major player in social investment). At the same time, debt finance and joint venture arrangements as well as different leasing models either already are present or could readily be possible in the Scottish environment.

Evidence Review

The findings in the central part of this paper are grouped into two main parts. First, we examine the central learning points from four national and international cognate studies between 2010 and 2019 that I co-authored or authored solely. The second strand looks at a small number of international evidence reviews relating to affordable supply and finance, again seeking to draw key messages, including across a series of

[6] Inside Housing March 19 2019 Scottish housing regulator opposition to registering for profit housing associations - https://www.insidehousing.co.uk/news/regulator-bars-for-profit-housing-associations-from-entering-scottish-sector-60683

discrete interventions around land, guarantees, private sector participation and other specific national instruments.

A. Glasgow Research

Hall and Gibb (2010) focused on social housing supply and its financing. It was written for a housing market taskforce undertaken by the Joseph Rowntree Foundation (JRF) in the immediate aftermath of the 2007-08 GFC. A brief review of international evidence (Whitehead and Scanlon, 2007) found evidence of discernible broad trends being played out across Europe:

- As mentioned earlier, a trend away from supply-side to income-related demand-side subsidies, from the use of subsidy to that of debt finance, and from subsidy to 3rd party (planning gain) contributions such as developers, landowners, and from employers.
- Growing appetite for private equity created from various public-private partnership arrangements or direct purchase.
- Special housing finance circuits that combine public borrowing or subsidies, and in the case of Finland, Holland, France and Sweden, state backed or indeed mutual funds borrowing through loan guarantees (e.g. Gibb and O'Sullivan, 2009).
- Regarding equity finance, Whitehead and Scanlon note the recycling of assets through sales to sitting tenants, leveraging unencumbered assets (including land), the directed use of accumulated reserves and cross subsidy (affordable homes programme in England).
- A general search for alternatives to traditional public subsidy. One is land – either offered by public landowners at below market prices or through various forms of through contributions made by developers or landowners. Several countries continue to use cheap public sector land because it need not be identified in public accounts. This is also important in regeneration projects in countries like Holland, Denmark, France, Germany but was evidenced in England too.

Gibb, Maclennan and Stephens (2013) was also a JRF project examining good practice and innovation in affordable housing finance internationally, in what was then an increasingly challenging context for the supply of social and affordable housing. The report's key messages (p.1) were:

- in a challenging fiscal context, innovation is needed to stretch limited public subsidy and increase private contributions to help deliver additional affordable housing.
- the evidence review indicates that to encourage new investment, supply is likely to be at the affordable rather than the social housing end of the spectrum. this is

despite the pressures on Housing Benefit and high and increased levels of housing need
- While interesting ideas that are worth exploration and possible transfer are evident, financial measures such as those discussed here need to be understood in a wider policy context of housing system failure and the continuing need to support new housing for those on low incomes.

These three points have a resonance for today – the paradox of pursuing affordable rather than social housing even though need is apparently increasing[7], and HB costs will be stretched by higher rents and less tenancy security. Second, we must always be wary of the contextual, institutional and path dependency pitfalls cross national policy transfer.

The authors also argue that there are ways forward we are likely to see (p.3): "on the one hand, there is a desire to use more state-backed guarantees, encourage competition among providers, sweat existing assets and encourage alternative sources of provider income. On the other hand, opportunities also exist to 'blend' different subsidies creatively and encourage solidarity-based co-operation among providers". The authors, however, also argue that the evident longer term market failures in both credit and land markets, alongside inelastic supply and increasing income poverty requires social housing to be prioritised rather than affordable rents.

The research examined interesting and potentially valuable approaches to affordable housing finance and subsidy routes across the UK, in the Anglosphere and across Europe. Broad themes of continuing resonance included:

- Cautious enthusiasm for guarantees but concern about design and governance implications. Nonetheless, positive examples include Finland, the Netherlands, the National Housing Trust in Scotland model (counter-cyclical, additional, sensible exit routes)[8].
- An interest in contestability – finding ways to compete or contest access to subsidy both for non-profit and for-profit providers linked to outcomes and performance (and perhaps funding routes such as social investment and social impact bonds).
- Lessons from federal political systems where subsidy is blended between higher level jurisdictions, applied to local levels where creative use of, for instance, land can help deliver targeted customised affordable solutions. Greater

[7] CaCHE is currently undertaking a Scottish national affordable need study for the next 5 years for Shelter, SFHA and the Chartered Institute for Housing.
[8] Though the NHT model critically depends on how exit routes are formulated i.e. it can be expensive to the public purse if retained rather than disposed of after the qualifying period (but there would be no necessary reason for a similar policy to be so designed to allow that option or eventuality).

discretion with in regulated systems focused on VFM could provide for more flexibility and greater experimentation on a bottom-up basis augmented by national government supports. The case can still be made for assisting here by revising UK accounting rules over borrowing to bring them closer to European norms (Lloyd and Grayston, 2023).

- While there is much interest internationally among policymakers in complicated schemes such as affordable REITs, sale and leaseback models and tax credits – there is much to be said for simple transparent and accountable programmes.
- Affordable rents imply a thinner programme where shallow subsidy can be spread further and as the Affordable Homes programme illustrated – this can be combined with sweating equity by in that case reverting vacant social tenancies into affordable ones to cross subsidise lower grant contributions. These are challenging trade-offs.

The authors also identify specific models that have a wider currency for possible application and customisation in a UK context. Two examples not mentioned already are, first, the Irish model that developed private tenanted stock being given long leases so that the properties could be let to low-income tenants and where the public provider would take the risk of voids in return for a discounted rent. More recently, the Irish government has also piloted Austrian cost rental in Dublin – a model we discuss further below in the box[9]. Second, as we also discuss below, the Danish housing association national surplus fund is a collaborative, solidarity-based revolving model which can reinvest rental surpluses for different national housing policy objectives.

[9] We note the extensive use of long term leasing in Scotland by councils to support temporary accommodation

Inset 1: Austrian Limited Profit Cost Rental Model

'Austrian limited profit housing comprises mainly medium density multi-family apartments, managed on the basis of a cost rent, limited profit business model and are financed in part by conditional public loans, tenant and association equity and private loans (often financed by (until recently) tax privileged housing bonds). [There are around 900,000 limited profit cost rent housing in Austria – about 17% of all housing]. Associations operate under Limited Profit Legislation and Rent Laws and are generally financially stable, well-regulated providers. Limited profit housing providers tend to be the primary deliverers of subsidised housing. They also play a trendsetting role in real estate development and planning standards, promoting innovations in socially and environmentally progressive standards, designs, materials and construction and in some cases social inclusion' (Gibb and Hayton, 2017, p.37).

The key principles of limited profit cost renting in Austria (selected from Lawson, et al, 2021, table 7) involve (1) cost rent based on debt servicing, management and maintenance; debt free homes operate with rent control; (2) limitation of profit clearly specified legal limits on surpluses; (3) revolving funds – surpluses are continuously reinvested and equity in the business is strictly controlled; (4) independence from the construction sector (5) limited diversification form core business, and (6) independent auditing/regulation.

In Vienna, the limited profit model has been supplemented by, the 'Wohnbauinitiative' (Housing Construction Initiative), which encourages multi-apartment housing construction and addresses unmet housing need in Vienna (van Bortel et al, 2019)..

Other Sources/further reading: Amann et al 2009); Deutsch and Lawson (2012); Lawson et al (2021)

Pump primed or organic revolving funds (in this case, generated by retaining the same level of rent after debt is paid off and recycling the accrued surpluses in a national fund) can be large or small but in both cases make a real difference. The Netherlands have developed a mutual assurance system where associations pay in and build a fund to protect each of the members financially as a form of insurance; the Scottish Highlands have operated revolving land funds; and, English Partnerships used pump priming to help then initially fund land development and infrastructure elements (site and

services) before selling the serviced land on to developers and social providers, reinvesting the income they made to carry on future land purchases.

Gibb (2018) is a position paper on affordable finance and subsidy, part of a working group considering the future of social housing in England. Three sets of ways forward were articulated to support and extend social housing:

1. Land has several market failures (Gibb and Hayton, 2017; Gibb, 2019). Overcoming land barriers: pricing public land for sale; land value capture; land value taxation; regional and national development agencies; the role of CLTs

2. Financing innovations: local housing companies (in the absence of public accounting change); affordable REITs; new aggregators and state owned or backed investment banks

3. Subsidy: redesigning personal subsidy (better recognising the trade-off between shallower subsidy, higher rents and the benefit bill/or in work poverty; revolving funds; revenue subsidy including guarantees or state-backed contingencies or outcome-based social impact bonds and other forms of social investment

Gibb (2018) concluded with support for blended subsidy systems, intelligent use of guarantees, land value capture mechanisms, and agreed that it was also worth looking also at revenue instruments such as profit-sharing and ground rents to equity partners providing land or infrastructure.

Gibb (2019) is a chapter on financing housing within *Shaping Housing Futures* (Maclennan et al, 2019), a tri-country study of housing strategy and policy in Australian, Britian and Canada.

In this paper, possible ways forward to fund affordable supply were identified across the three nations studied:

- Does the sector need to restructure or (at least) consolidate the developing not for profit sector?
- Sweated equity e.g. stock transfer and using unencumbered stock as security for loans though this skews development to bigger operators
- In the UK, remove HRA borrowing from public sector borrowing
- Introduce national or regional land delivery vehicles (revolving fund funding)
- Fiscal incentives to encourage re-use of empty homes
- Compulsory sales orders applied

- Applying 'soft' repayable loan (e.g. financial transactions capital) and equity stakes from government to pump prime affordable investment (i.e. grant-free mid-market rent in Scotland)
- Guarantee rental payments initially in new developments (as was proposed with BTR in Scotland).

In conclusion, Gibb (2019) argued that housing systems were experiencing less of a crisis, more a set of overlapping chronic problems: path dependency operating in a complex system, the importance of unaffordability and lack of choice. Moreover, there was no silver bullet financing solution; but rather smart ways required to use for example private equity in a social housing context. Fundamentally, governments also need to follow Ballantyne and must make the best case for bigger smarter programmes: prevention: building that argument around the costs of inequality; macroeconomic benefits; cost benefit analysis and preventative benefits/budget savings[10], and better framing and communications.

Key messages:

- A complex system and, post GFC, a changed world trending away from the traditional model for social housing and not re-establishing a new model thereafter other than searching for other ways to fund affordable (less now traditional social housing).
- Is the shift towards affordable supply appropriate given the mounting evidence of unmet housing need and unaffordability?
- Blended subsidies in multi-level governance systems of considerable interest – but works better in federal systems with more well-established fiscal federalist systems of inter grant transfer, etc.
- Guarantees and low-cost debt have a long lineage with good practice versions in countries like Finland (see below), as well as earlier examples e.g. National Housing Trust in Scotland, as well as soft loans such as those associated with Financial Transactions Capital.
- Solidarity based approaches such as the Netherlands, and particularly Denmark (the latter is well received, much like the national wealth funds in countries like Norway) but it must be bult up and there needs to be a ready mechanism of building surpluses and a sector acceptability to use these in a directed top-down way.
- The importance of overcoming land barriers: discounting best value sale prices for public sector land to social housing providers, exploring land value uplift measures to help fund development related infrastructure, the use of both local

[10] And also the argument developed by Denham et al (2019) and by Lawson et al (2024) that social housing should be seen and framed as (and provided my mission-oriented) infrastructure.

and national revolving funds, tax reform e.g. council tax on land with planning permission, CPO/CSOs, development agencies and revolving funds.

B. International Evidence Reviews

Here we look at cross national studies, including a book by van Bortel and colleagues (2019), a highly useful UN/ECE study (Lawson, et al, 2021) and we provide an overview of several relevant Australian AHURI reports and the themes that flow from them.

Del Pero, et al (2016) provides an OECD-wide examination of the need for affordable housing and a sense of the different high-level approaches open to national governments. This is a good high-level analysis with which to diagnose unaffordability and to consider how different national contexts among OECD members impact on the interventions pursued, but we need more analytical evidence of those interventions to proceed further. The van Bortel et al volume focuses on national case studies of both governance collaboration and financial partnership between the state, market and community. Alongside a growing role for the market sector, the state is still seen to need to play a role involving regulation, guarantees, incentives and subsidies – to make partnership finance for housing work. The authors summarise finance for affordable housing in NW Europe thus (p.6):

"Social housing is traditionally financed by mixing various resources. Most dominant combinations in North-Western Europe are:

- state guarantees, grants and/or loans combined with bank loans, attracted by the social housing provider and paid from rental income, in the case of social rent (public or third sector);
- state grants and institutional investments, in the case of market actors providing social housing;
- state grants combined with mortgages, attracted by the household, in the case of home-ownership;
- state grants combined with cooperative funding mechanisms, in which households buy shares in a cooperative (funded by specific mortgage schemes and/or own resources) and/or paying a rent to the cooperative;
- bond finance (corporate bonds; national, regional or local bonds)."

Regarding affordable housing supply innovation, the UN/ECE research 'Housing2030' by Julie Lawson and colleagues is a broad based and comprehensive tool box of strategies, policies and analysis open to governments wishing to develop a more coherent mixed tenure housing system that is affordable and high quality. For our

purposes it is valuable because it both draws analytically on general approaches to e.g. financing affordable housing but also digs deep into country case study good practice e.g. the insert examples used here of Austria, Finland and Denmark[11]. Housing2030 establishes a number of important principles of tools for successful affordable housing finance supply systems (Table 9, pp.52-53). These are a useful checklist to consider when looking at specific proposals in certain places or jurisdictions[12]:

1. Regulating financial institutions and housing institutions within that wider frame, thereby creating a stable and predictable framework, robust social housing regulation, but also a less volatile housing system and credit market.
2. Non-profit provision characterised by reinvestment of surpluses. This can also be applied to reducing long term cost rents or growing revolving funds for use in social housing.
3. Rent subsidies – government assistance to meet housing costs though design and interaction with choices and other economic decisions is critical and (highly variable).
4. Rent setting, indexation and regulation. The process of setting and then raising rents varies by tenure and may also various across groups of tenants and places.
5. Microfinance – non mortgage backed and can help occupiers make small investments in their homes often on the borders of formal and informal housing.
6. Circuits of household savings schemes – several examples where the flow of such savings in dedicated state schemes, are a vital source of funds for affordable housing e.g. France. Generous savings returns provide resources for social housing and to aspirant owner-occupiers (with lending rates a little higher than savings rates), as well as a form of solidarity that helps build stability and resilience.
7. Public loans, grants and public investment in housing – important support e.g. grants reduce requirements for further borrowing, access to state loans spread costs and may be more favourable than equivalent market terms; such interventions may also help pursue wider social, economic and spatial policies.
8. Interest rate subsidies, guarantees and insurance. Reducing debt costs by insuring or guaranteeing mortgages can protect lenders and hence reduce interest required.
9. Special purpose financial intermediaries channel funds form state, market and the personal sector to affordable housing provision – they can operate across a mixed economy spectrum and can be just as effective as a not for profit as private sector or indeed a state entity.

[11] The report is probably the single most useful international reference for the HITF's work identified in this literature search

[12] Not all elements necessarily relevant to Scotland

10. Sharing housing equity and costs can be particularly relevant to the marginal home ownership sector and may also extend equity shares and deferred payments to other areas such as potentially retrofit.
11. Revolving funds which repeatedly reinvest in housing. These are closed or ring-fenced circuits of housing investment that recycle loans, rent surpluses, land funds etc into new investment. They can operate at the local or national scale and often use initial pump-priming funding to get started.
12. Taxation to guide investment in housing incentivising provision, consumption, occupation, mobility, investment and maintenance, as well as, for instance, encouraging the use of land or bringing empty homes back into use or discouraging specific uses.

Below Insets 2-5 draw on the 'Housing2030' evidence to look more closely at, respectively, models in Finland, Denmark, generic land market interventions and savings instruments to fund housing in France.

Inset 2 Finland and financing its affordable housing

Finland has a long-established, well-regarded model for funding social and affordable housing. It is centred around their national Housing Finance and Development centre (ARA) – an agency of government. Non-profits seek funding from ARA for social housing construction and renovation and ARA also provides financial support to home ownership. do social and affordable renting, ARA uses a mix of grants, subsidies and guarantees. Lawson et al (2021, p.80) note:

"Critically, ARA loan guarantees and other supports are only made available following detailed assessment of the financial sustainability of housing projects and sponsoring organizations. Furthermore, certificates are only provided for loans with the most competitive terms, driving down the costs further. ARA also controls and monitors use of the housing stock it has funded and monitors and directs non-profit housing corporations to ensure good financial management and appropriate use of government subsidies'.

'Since the global financial crisis, ARA guarantees have been extensively used to source low-cost private-loan finance via the special purpose financial intermediary called Munifin, which is owned by the Finnish municipalities. This arrangement has reduced the cost of financing and hence the cost of interest subsidies considerably".

Source: Lawson, et al, 2021; also see Lawson, 2013.

Inset 3 Denmark: Landsbyggefonden (National fund for non-profit housing associations)

Denmark has 600,000 social housing units – housing more than 15% of all households. Its national building fund established in 1967 and financed from tenant rent surpluses is a central part of what is a durable and resilient system. Lawson, et al (p.62) argue that: "When mortgage loans for dwelling construction have been repaid, tenants pay rents at the same level, with the extra going into the LBF as a saving. This fund finances the expansion of new affordable and social housing and renovation of existing properties. This includes improvements of both inside and outdoor areas, modernization of buildings to include access for elderly and disabled people, and energy improvements. The fund is also able to finance the demolition cost in vulnerable social housing areas, and to support infrastructural changes". They go on:

[The LBF is] "a useful mechanism to ensure self-financing in the social and affordable housing sector. Savings are recycled to help maintain and improve dwellings and provide additional housing. It thereby provides a sealed finance circuit, reducing government need to reinvest in new social housing, and facilitates long-term planning for social housing funding. It also helps to even out variations in the financial strength of different social housing providers, in the costs of developing different estates, and thereby in rents charged which reflect development costs".

Its advantages are the long-standing nature of the fund, one where HA maturity and debt repayment brings forth more surpluses for reinvestment and the model grows over time not unlike a sovereign wealth fund. It is stabilising and indicates the benefits of long-term policy continuity. Its governance is vital however because it is a national funder and needs to retain the buy-in of housing associations. Clearly such a model could work at more specialised or regional levels too.

Source: Lawson, et al, 2021

Inset 4 Land interventions to overcome land market failures

Looking at the elements that determine the efficacy of social and affordable housing supply, both a reason for needing affordable housing and a barrier to it- emanates from failures in the land market. Developing a battery of policy levers and good practice intervention mechanisms in the land market can make considerable difference. In Scotland the run-up to NPF4 included considerable debate and consultation over land market reform, not least via the Scottish Land Commission. These issues are somewhat stalled but there are unsurprisingly important lessons internationally that can contribute to helping relax what are often critical constraints to development.

Lawson et al (2021, chapter 3) identify several key barriers and corresponding policy instruments. These include: (1) Public land banking – where government develop a portfolio of land for housing and larger development opportunities through open market purchases, compulsion (purchase or sale) where required and in the public interest, and through unlocking public land as well. This also raises the question of reducing the cost of land sold between public sector bodies or where it is for social housing and not requiring best value commercial maximisation of the receipt. (2) public land leasing – which can reduce upfront project costs and improve affordability. (3) Land readjustment – a process of consolidation and land assembly wherein reduced purchase costs can be traded off for equity shares in the development; (4) land value capture instruments – familiar to the UK but important ways to pay for infrastructure and to make land more affordable in the first place e.g. through social housing use classes and removing or mitigating hope value; (5) taxation instruments such as creative use of local and transaction taxes to incentivise development of sites with planning permission, bring back empty homes into use, and adopting land value taxation principles.

Source: Lawson et la, 2021; see, also Macfarlane, 2017; Crook, 2018, Aubrey, 2018a & 2018b; Bentley 2018 &, 2018b, Jones et al, 2018

Inset 5 France savings funding mechanism for affordable and social housing

Since 1816, the French have mobilised government-backed personal savings accounts (Livret A) through a national scheme, the CDC (Caisse des Dépôts et Consignations). This long-lived scheme (starting in the first half of the 19th century) is a key, at scale, contributor to the funding of social and affordable housing (and home ownership). Currently there are circa 50 million Livret A accounts, which in 2020 held more than 400 billion euros in savings. According to Lawson, et al, 2021 (p.73):

"Livret A savings accounts are available in all French banks; they are popular because they offer an attractive interest rate, tax-free, and state guaranteed."

"Some 65 per cent of deposits from Livret A savings accounts are centralized in CDC and used to fund social housing construction and refurbishment loans. These loans are provided at slightly above cost, that is, above the Livret A interest rate, the average of the previous year's consumer price index (CPI) inflation and the Euribor & Eonia… The result is that interest rates are generally below those available from commercial lenders. Critically CDC social housing loans are also provided for long durations, which helps spread the costs of social housing provision over time. Loans for social housing refurbishment and modernization are available for 15-30 years, loans for social housing construction available for 40 years, and for 50 years in 20 per cent of cases."

"CDC provided around EUR 10 billion in new financing for development or acquisition of new social housing units in 2019, which helped add 78,740 dwellings to the French social stock. It also provided EUR 1.9 billion to help finance renovation of social housing units. For 2020-2022, the objective of CDC is to finance the delivery of 110,000 new social housing units per year plus renovation of a further 125,000 social dwellings".

Source: Lawson, et al, 2021.

Key Messages & Implications

- Many of the success stories across Europe – Finland, France, Denmark, Austria – represent long term stable and predictable successful policies which both help moderate the pro-cyclical nature of housing, insulate social housing from the market, also building up and maintain revolving funds and similar special circuits. These draw strength from the maturity of their sectors. They also

indicate that moving to this path and away from 'business as usual is unavoidably a long-term proposition, but that does not mean one should avoid starting down such a road. Land reform is important but takes time but that is no reason not to proceed.

- We should recognise the importance and complementarity of green retrofit to housing cost and wider household affordability, and that finding efficient and incentive-compatible mechanism to co-fund the capital cost and running costs of retrofit is essential to sustain investment in new social and affordable housing. Finding a solution to retrofit and investment will lighten the load on providers and in turn support making housing more affordable and reduce energy costs for those on lower incomes. This should be seen as a joint and complementary endeavour not an either/or option. Work is urgently needed to come up with smart ideas and learn from the ideas found internationally such as those above in Germany and the Netherlands. Note that in Scotland under EESSH1, social housing providers made great strides to achieve targets making the tenure the most energy efficient part of the housing system but more than 85% of these investments were paid for by tenants through higher rents[13].
- Path dependency is important e.g. the strength of the social housing responses in countries like Austria and Finland do not operate in a vacuum and are supported by a network of interlocking finance, regulation and strategic mechanisms, as well as long established partnerships, trust and verification. It is not straightforward to graft these models on to Scotland. This is one further reason why it will be immensely valuable to see how the Irish experiment with low cost for limited profitability rented housing works out in the coming years (as it will with their different evolving long term leasing policies)[14].
- *Housing2030* establishes that developing resilient housing finance circuits specifically for affordable/social housing delivery can create durable and stable models that allow for implementation but also considerable forward planning.
- *Housing2030* indicates that there are long established financial circuits supporting housing through state savings schemes in France, as well as interventions to encourage investment in retrofit that need not undermine new affordable /social housing supply in countries like the Netherlands and Germany.
- *Housing2030* also sets out a series of ways to overcome land barriers through diverse interventions like public land banking, land readjustment and taxation,

[13] See ZEST working group final 2021 report: https://www.gov.scot/publications/achieving-net-zero-social-housing-zero-emissions-social-housing-taskforce-report/pages/1/

[14] See the recent Housing Agency report: https://www.housingagency.ie/sites/default/files/The%20Impact%20of%20Cost%20Rental%20Housing.pdf

as well as through measures we are more familiar within the UK concerning land value capture for social good.

Australian Housing Research

Since the 2000s, much of the best policy-oriented housing research has emerged from Australia through their **Australian Housing and Urban Research Institute (AHURI).** They have promoted housing-related comparative studies and international evidence reviews, many of which consider finance and subsidy innovation for affordable housing. Here we have reviewed relevant evidence from eight studies written between 2004 and 2018 (Berry et al (2004); Milligan et al (2009); Pawson, H, Lawson, J and Milligan, V (2011); Lawson, J. (2013; Lawson, J Berry, M, H Pawson (2015); Milligan, V, Pawson, H, Williams, P and Yates, J (2015); Newell, G., Lee, C. and Kupke, V. (2015); Rowley et al (2016); and, Randolph, et al (2018). We have drawn on this body of research throughout the paper but here just focus on two pieces of work on guarantees and REITs.

Guarantees (Lawson, 2013; Lawson, et al, 2015, see also Gibb and O'Sullivan, 2009). Lawson (p.2) argues that the expanded use of guarantees for affordable housing is a balanced one and they need to be well defined and clearly address their objective. "Guarantees are used by many governments to reduce reliance on public funds, build market confidence amongst new investor segments and accelerate investment in required social and economic infrastructure such as social housing. They aim to bolster the credibility of new initiatives and can be used to establish new pathways of investment. Ultimately, they aim to attract suitable long-term investment and reduce the cost of finance…. Arguments against the use of guarantees include the moral hazard of supporting risky but desired investments. Also, the difficulty in measuring the effect of a guarantee on loan interest and terms has been raised. Further, the danger of oversupplying investment to a particular market and creating unfair competition with other forms of investment has led to the refinement of some schemes. Some opponents argue that guarantees can promote inefficient practices as recipients receive lower cost credit without 'market discipline'."

Residential REITs. In a review of residential REITs internationally, Newell, et al, 2015, p.16) identified two relevant conclusions:

1. "Residential investment vehicles emerge as an innovative approach to encourage institutional investment in the residential sector. US residential REITs have successfully attracted large-scale institutional investment and enhanced the supply of dwellings (primarily apartments). However, affordable rental housing has largely been ignored by US REITs[15]".

[15] This backs up international research evidence a PhD student of mine did in the last decade on the considerable challenges for developing affordable housing REITs in China: Jie Huang (2018*)* 'Chinese housing affordability and REITs' (University of Glasgow)

2. “There is mixed evidence on the effectiveness of housing as an investment vehicle. Although the majority of studies referenced in this chapter support the potential of residential property in hedging the long-run inflation risk, no similar evidence is documented in the mixed-asset portfolio management context. Mixed-results have been found in relation to the role of housing in a mixed-asset portfolio”

Discussion, Reflections and Implications

Returning to themes set out in the introduction: we should not expect a silver bullet. Policy transfer and mobility is tricky and should not be assumed to be unproblematic or wise (but good ideas may nonetheless be customizable). Path dependency matters in housing systems. We should not neglect the likely dominance of the existing stock over the flow of new supply, as should the systemic interdependencies, feedback loops and the real-world dynamics of evolving complex systems. Making progress is also about political priorities and making the public spending case. Many of these themes taken together imply that while there may be quick wins, positive change will take time to design, implement and to feel its effects - this has to be a long-term game and one that is nourished and allow to bed in.

If we finally reconsider the fourfold remit of the HITF centred on unlocking housing investment through partnerships where ‘nothing is off the table’, what does the review suggest? The four remit points and further reflections are highlighted below:

- **Build investor confidence and attract further mobile capital investment into housing** – stabilise the financial environment through rent determination and certainty, as well by reducing residual anti-investment bias.
- **Unlock existing financial commitments** – tackle land market failures, guarantees and insurance to reduce debt finance costs, build revolving funds, explore sustainable ways to sweat equity.
- **Encourage and promote new delivery partnerships** – worth exploring a range of existing and possible approaches: joint ventures; long term leasing; land readjustment; social investment.
- **Identify ways to shift the balance of investment in affordable housing to private finance** – explore the Lloyds revenue subsidy proposal which could increase private investment and shift public spending over time from demand to supply subsidy (if it can be further detailed and possible challenges overcome).

This has been a rather scatter gun analysis of what has been covered in material from the last 15 years or so. It has been filtered through a Scottish context and reflects no doubt some of my own views. I strongly encourage those interested to look more closely at the Housing 2030 report and to pursue the starred references below.

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