Housing for all in social need through commercial rental housing and temporary personal social housing allowances

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Abstract
Most present day social housing schemes in Europe have proved to be insufficient, costly, ineffective, subject to misuse, escalating the problem and converting more and more applicants from seeking jobs to primarily depend on social subsidies instead of concentrating on their own hard work. At the same time they lead to social and racial segregation in ghettos of social housing units, limiting their mobility in search for jobs. The relatively high living standard of most European countries and their social services are attracting more and more desperate people from other countries and continents to search for social help in Europe. The social care in housing should be designed in all countries in such a way that it helps the needy citizens and does not constitute an unbearable burden for the governments.
The good side effect of the recent recession was the search of certain governments for revisions of their social policy so as to limit its cost while still serving all those who should be protected as requested by the constitutional law and to motivate them to mobilize their efforts in order to become self-supporting.
The Ministry of social affairs of the Czech Republic has recently received a well prepared proposal for a modern concept of social housing, based on the use of standard commercial rental housing in combination with regularly means tested temporary social housing allowances offered to all in uncaused (non self-inflicted) social need. Those whose social need resulted from negligence should be left in the custody of local authorities and provided with only basic help.

Introduction
Social housing is therefore defined as housing people in social need with temporary financial help from the government offering commercial rental housing of reasonable size

The main principles of social housing allowances are that all members of the household have to declare regularly all their income as well as their assets. From the assets above a certain value an additional effectual income of the household is calculated and they have to contribute to the usual market rent in the location where the household is earning its living 25% of this income while the remaining part of the usual market rent in reasonably large apartment is covered by a social housing voucher. This social safety trampoline is offered only for a limited number of years during the lifetime, during which the household has to adjust their income to their cost of housing or vice versa.

The principal laws of economy are always valid though some less educated “experts” still do not believe it. One of these laws says that every commodity that is offered for below market price must be a deficiency one, or must be of correspondingly low quality. This is just as valid for rent regulated housing (sometimes called “social”), which is offered as a solution to those in social need as well as to
those looking for a bargain as a long term solution for their desire for cheap housing. Quite often those looking for a bargain are more successful in their competition for the privileged cheap housing than those in real social need. At the same time there is a surplus of low quality “social” housing that has suffered from devastation due to lack of maintenance because of insufficient financing and negligence of the users/residents in locations that are not in great demand. Should the provision of this type of housing be offered only to those in social need, it would need very low security of tenure and frequent relocating of those in better financial situation to the market rental housing and replacing them with others, regularly means tested for eligibility.

The free rental market is on the other hand, also because of the principal law of economy, automatically adjusting the price (rent) in such a way that approximately only some 5% of the available housing stock of all sizes and quality standards is vacant and available for prospective tenants. Because the rental housing market is always exposed to the competition of home-ownership with mortgage financing it must be always cheaper than the home-ownership with 100% mortgage financing and 30 years repayment of the mortgage. This is an automatic market rent regulation guaranteed by the principal economy law of mutual competition. This principal market optimization may be temporarily out of perfect balance because of the longer time constant of achieving this equilibrium in the real estate markets. These deviations are caused by the increase or decrease of capital gain, increasing or falling prices of real estate, or sudden increase or loss of demand as compared to the offer of housing. The price signals resulting from these deviations are the necessary incentives for the market to regain equilibrium and optimise the lowest but still sustainable rents. This level of rent is usually lower than the full cost of running the rent regulated (“social”) housing with all the advantages of market rent housing and its permanent and automatically adjusted availability. It is of course understandable that reaching equilibrium of the rental housing market is a longer process, than the establishment of a similar balance of other markets. The speed of achieving this equilibrium is mainly dependent on the administrative obstacles and on the gradient of prices (and rents), which are representing the (demand and offer) incentives for the players on the market. All these principal economic laws request of course the stability of the legal system and strict observation of the property rights as protected by the convention on fundamental human rights and freedoms. The worse the protection of property rights the higher must be the return on investment to attract investors and keep the market balanced.

Now I would like to describe the model situation of solving the housing situation in the Czech Republic. After a massive application of a large number of property owners (6000 applicants) of the Czech Republic to the European Court on Human Rights (ECHR), asking for compensation of the damage caused by rent regulation, the Czech government recognized that it would be very costly to compensate the damage because there was absolutely no social differentiation in providing this privilege and no compensation of the losses as it was ruled by ECHR in a similar case of Mrs. Hutten Czapska against Poland. Based on this, the Czech government, after several decisions of the Czech Constitutional Court, has finally prepared in 2006 a rent deregulation law, that was slowly adjusting the rents to a level of 5% of the market price of the rented dwellings per annum. Because the ministerial „experts“ have forgotten to subtract the cost of simple reproduction from the rent before introducing the concept of reasonable profit from renting, this deregulation nearly reached the market value of rents in the most expensive locations but was still far below market values in cheaper locations. Therefore from the first January of this year landlords can ask for the usual (market) rent and if the tenant does not agree, the courts are bound to set the rent at the usual market level. The provision of affordable housing for those in social need is therefore achieved by a much wiser and at least five times cheaper instrument of temporary housing allowances, making the housing for market rents affordable to all in resonably large apartments without forcing them to wait until some new rent regulated (“social”) housing units will be built in numbers not exceeding 1000 units per year for some 150 000 households on the waiting list.
Because of the stringent state budget, the Ministry of Social Affairs started to think of the optimisation of the existing housing allowances so that they may serve all those eligible but should avoid misuse as effectively as possible. One opened issue nevertheless remains and that is the group of people whose social situation is caused by their own negligence. It is clear that these people cannot be served by anonymous financial help, but must
- be supervised individually
- offered in agreement with the Czech constitutional individual care and
- only reasonable acceptable standard of help guaranteeing their survival.

The care of this groups must therefore be left to the municipalities with special focus on social work, offering them definitely lower standard of housing to force them to start to earn their own living and qualify for housing allowances.

I will now concentrate on the improvements of the housing allowances rules that are now considered for adoption. The first of them that has already been introduced is the limitation of the maximum term for which these allowances are available to those eligible during their lifetime. This forces them to try harder to solve their financial problems themselves leaving the possibility to ask again for the same type of help later. There is of course an exception for the old age pensioners, where the time limit is not applied when their age is above a certain level, but their rent is calculated as the average rent in the whole country. The second is regular means testing not only of the income of all members of the household, but also of their assets and converting the assets above a certain level into a fictive additional income. The third is setting a reasonable size of apartment for which they will contribute about 25% of their disposable income while the allowance will cover the rest up to the level of usual average market rent in the location where they can find jobs. The fourth is the provision of this allowance in a form of a voucher for the landlord, so that it cannot be used for other purposes but does not limit the mobility of the workforce. The fifth is the strict distinction between those in uncaused social need and those who caused their problems through their own negligence. The second group being left for the care of the corresponding municipalities and offered only the minimum help needed for survival.

One relatively large group of present day recipients of usually much lower housing allowances are home-owners. Their property is usually higher than the limit for eligibility for the above mentioned allowances but they cannot convert their assets easily into cash without loosing their housing. EU has recently initiated a study how to promote Equity Release Schemes, that may solve even this problem through the so called reverse mortgages.