

UN-Workshop “The future of social housing” The case of Switzerland

It is somewhat paradoxical. In Switzerland it is not the economic crises which triggered the new awareness of the importance of social housing. On the contrary. It is rather the soundness and partial overheating of the Swiss economy whose causes and housing related consequences contributed to making the issue of social dwellings a political priority again.

In the forefront of the significant changes in the housing market stands the rapid annual population growth of over 1 % since 2007 as a result of job seeking immigrants. At the same time, interest rates have remained at historically low levels. Incomes have generally risen, and household sizes continue to shrink. The combination of these factors has resulted in an explosion of the demand for housing, in a sharp increase of rents and housing costs in attractive locations and in a growing tendency towards social segregation. The latter is mainly detrimental to households with low and moderate incomes. They are affected by gentrification and rising prices and forced to move to the suburbs or further afield. This in turn produces greater volumes of traffic with congested roads and trains and threatens through the loss of professional key persons the functioning of once balanced communes and municipalities. The provision of affordable housing is therefore also in economically prosperous times and countries indispensable.

Who provides social housing and how big is its share?

Unlike many ECE member states, Switzerland relies also in the segment of affordable dwellings heavily on private and institutional investors, which together own roughly four fifth of the rental dwelling stock. The social housing sector as such is dominated by cooperatives, public entities, foundations and some public limited companies which provide approximately 13 % of all rental units. Together they comprise ca. 1'700 non-profit housing bodies. Fewer than two dozen of them own more than 1'000 dwellings each.

Despite its relative smallness and limited potential for further expansion the social housing sector plays an active role in the field of housing policy. A role which is characterized by a close cooperation with public authorities and which, a decade ago, was insofar enhanced as the non-profit status of a builder is now a precondition for the availability of federal housing assistance.

Is there a legal definition of social housing?

The answer is no. A by-law of the federal housing bill stipulates, however, that in order to be recognized as a social housing entity, and thus to be entitled to claim public assistance, its articles of association must contain a social purpose clause as well as provisions concerning the limitation of interests paid on equity capital, the ban of management bonuses and the reuse of eventual liquidation surpluses for non-profit housing aims. Furthermore they are obliged to apply the cost-rent principle and are beholden to the Charter of the umbrella organizations of the Swiss housing cooperatives containing the tenets of responsible governance in social housing. Among them the compliance with affordability, quality standards and sustainability, the explicit integration of socially and economically weaker households, tenant participation, provision of communal spaces and all sorts of ancillary self help activities.

Who manages social housing?

The social housing stock is managed by its owners along the lines of established procedures of sound business and within the legal framework governing the general administration of corporations and the market activities in the field of housing and real estate. Smaller entities rely often on honorary commitments of tenants in steering boards, task forces and working groups. Bigger ones are managed either by their proper professional staff or by external firms or experts on a fee for service basis.

How is social housing financed?

Finance for private and social housing alike is predominantly provided by ordinary commercial banks and to a lesser extent by insurance companies or pension funds. The lending limit for the senior and junior mortgage combined oscillates in the rental market around ca 80 % of the property value. The second mortgage carries a slightly higher interest and must be amortized within a given lapse of time. The remaining capital gap must be bridged with equity stemming from cash, shares, foundation endowments and comparable sources.

The majority of housing investors can easily put up with these conditions. Others get trapped. Especially start-up cooperatives frequently lack the required equity and/or suffer from excessive interest rates as a consequence of bad ratings. Both facts jeopardize the provision of affordable dwellings and prompted the federal lawmaker already years ago to entitle the government to support such builders with special loans and guarantees. The following two financing schemes withstood so far all budget cuts, being today the sole survivors of federal housing assistance.

a) Revolving Fund

The Revolving Fund dates from 1975 and is funded through periodic contributions by the Federal government. It is administered by the umbrella organizations of the cooperative housing sector themselves and provides "equity like" low interest loans of CHF 10 - 50'000 per dwelling for new constructions, renovations and land acquisitions at currently 1 % and for a period of 25 years at most. Proceeds from regular amortizations are constantly reused for new loans. The Fund totals at present about CHF 400 million and will be expanded gradually to roughly CHF 500 million by 2016. This limit has been fixed by the Parliament in accordance with the governing majority's wish to phase out housing subsidies altogether. However, given the new tensions on the housing market it is anticipated that new allotments will be negotiated in the years ahead.

b) Guarantee in favor of the bond issuing co-operative (BIC)

The BIC has been founded in 1991 jointly by the federal office of housing and the umbrella organizations of Swiss housing cooperatives. It pools continuously the financial demands of its members and meets them by issuing 5 – 15 year fixed bonds covered by mortgages on the title of the financed property and additionally secured by a state guarantee. Thanks to this backing, the interest rate is on average one percentage point below that for fixed mortgages with comparable terms. There are about 400 individual cooperative members of the BIC of which ca. 300 have benefited from its loans. Funding as a rule is limited to a maximum of 70 % of the capitalized value of yields. A higher limit can be offered if the

exceeding amount is amortized on another bank mortgage during the term of the BIC loan or if other conventional securities can be provided as collateral. Since its establishment the BIC has issued CHF 4.5 billion in a series of 65 public and private placements. Roughly half of this amount has since been redeemed. Thanks to a careful credit assessment and ongoing monitoring the default rate is nowadays close to zero.

The BIC is an important pillar of the federal housing policy. It is well established, enjoys political support, relies on cooperative voluntarism, reduces the cost of fixed mortgages, helps to stabilize rent levels, gives also small housing providers access to the capital market, offers risk-free assets for investors and is run professionally and cost-effectively by external staff and experts.

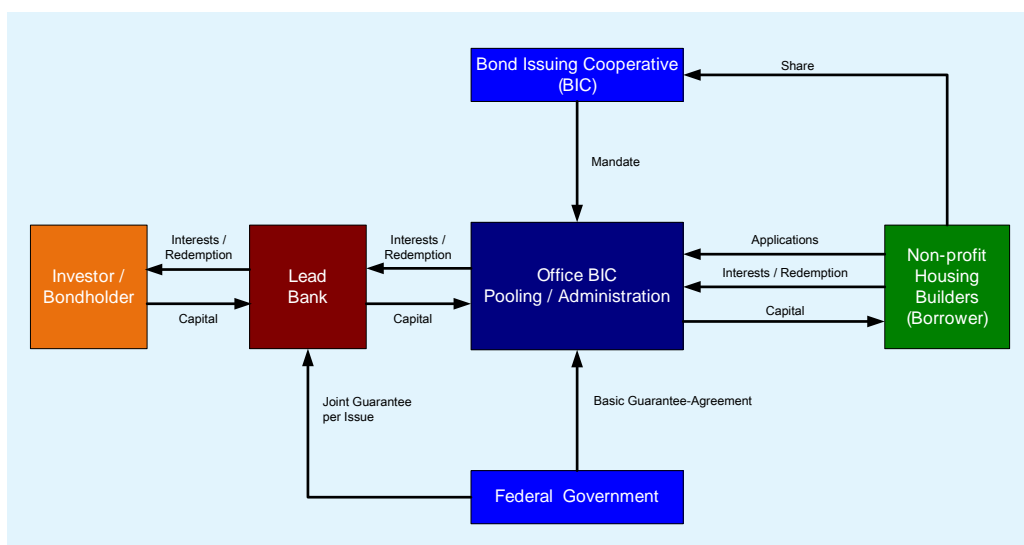
The functioning and institutional framework of the BIC is illustrated below. For further information consult the following websites:

Revolving Fund: <http://www.wbgschweiz.ch/finanzierung/darlehenb.html>

BIC:

<http://www.egw.ccl.ch>

BIC: Institutional framework



How is the rent established?

As mentioned above the providers of social housing are beholden, either legally (in the case of subsidies) or morally (non profit clause), to apply the cost-rent principle which implies the rent to be calculated on the basis of the effective outlays and provisions for capital costs (loans and equity), amortization, renovation, maintenance and management.

Apart from the rent regulations governing the subsidized sector both the not for profit and the private housing market are subject to the general provisions of the tenant law.

What kind of public support is provided?

Alongside the loans and guarantees, the federal housing bill supports in the context of housing research the development and promotion of conceptual, technical, architectural and organizational innovations in social housing. It allows the dissemination of best practices, the elaboration of training material and publications as well as the granting of an annual lump sum to support the activities of the sector's umbrella organizations.

Another kind of assistance are the leftovers of a former but soon to be phased out subsidy scheme under which some 45'000 households who live in conventionally subsidized flats still receive a personal housing allowance. As these payments end after 25 years, the stock of these apartments will fall sharply after 2016. From thence no federal housing tool will anymore entail noticeable rent reductions. Given the generally low interest level on the Swiss capital market, the spread between ordinary mortgage and BIC- and RF-loans is too small to have a tangible influence. The merit of the latter lies elsewhere. They give access to long term low cost finance and require, partially at least, less equity.

Housing supply is not only a concern at the federal level, but also a responsibility of the cantons and communes. Several of them have their own but often modest programs applying predominantly loans and guarantees. Very few cantons provide limited housing allowances, and in two or three of them rents are deductible from income for tax purposes. Others support non-profit housing developers by granting them "rights to build" on public ground, participate in their equity or experiment with less conventional measures such as reserving parts of building zones for social housing or allowing promoters higher coefficients of utilization if a certain percentage of the planned estate is reserved for affordable dwellings.

Last but not least the task of assuring a decent space for living is not confined to housing policy alone. Welfare payments often contain a component related to housing costs, and also in the context of the Swiss "Old Age, Survivors' and Disability Insurance" the calculation of supplementary benefits for low income pensioners makes allowance of individual rents.

Who are the target groups and how are they identified?

In the largest sense, all people and households are targeted who lack the means to pay a dwelling at prevailing rents and/or who, for various reasons, have only limited market access (prolific families, immigrants, handicapped, students, apprentices, people with penal records etc.), but how many people in the different clusters are really lacking an adequate dwelling is difficult to assess. With a mere 15 % of the total stock, the share of social housing in Switzerland is likely to be too small to satisfy the needs. On the other hand homelessness is, if at all, a rare phenomenon and housing surveys confirm times and again that a vast majority of the population is content with its present situation. No wonder, therefore, that the content and intensity of state assisted housing programs as well as the question of its beneficiaries happens to be a matter of perennial political debate.

Public housing estates are owned by municipalities or affiliated foundations and are primarily targeted at households most in need of inexpensive lodgings who in addition run often a risk of being discriminated against in other market segments. Though being of considerable importance in a variety of towns, public housing on the whole plays a marginal role in Switzerland.

Social or non-profit housing, as we call it in our country, is predominantly the sphere of cooperatives. The inmates of their housing stock tend to represent a more diversified mix featuring a wide array of income levels, cultural tastes, different attitudes towards participation and self help activities. Housing cooperatives are statutorily obliged to create affordable housing and are according to their "Charter" beholden to consider the needs of families as well as of the elderly and disadvantaged groups when allocating the flats. As long as they use public rent subsidies, their dwellers must obey mandatory income and wealth limits and respect restrictions regarding the number of allotted rooms. But also after termination of public support or even without ever having resorted to it the great majority of these entities retain and apply those principles.

Which are the major challenges of the social housing sector?

Given the frantic pace of the private building activities, just to maintain the modest market share already requires a tremendous effort of social housing developers. The biggest impediment to achieving this lies in the lack of suitable land. Its price exceeds in the hot spots of housing demand by far the affordable level. As a consequence enlarging the stock of social housing requires policy measures to give non-profit builders a better stance on the property market. Some of the instruments have been mentioned above. However, because of pending legislation or downright political opposition, their application is not widespread as yet. An important challenge of the social housing sector, therefore, is to get a voice in public debate and to gain political support by knitting networks, establishing partnerships with municipalities and by generally creating a public awareness of the societal merits of a sustainable and affordable housing provision for all.

Another field of action ensues from the necessity to adapt the aging housing stock to higher quality requirements, new energy standards, changing lifestyles and household patterns. Desirable and necessary as many of such improvements are, they generally induce a rent increase, meaning that affordable housing suppliers are particularly challenged to find a balance between conflicting goals.

Finally, maintaining the social housing sector viable over the long haul might also require a couple of structural changes and a willingness to take new initiatives. Here and there a certain self-sufficiency has developed causing cooperatives to relax on what they have achieved instead of investing their potentials in promising projects be it through making better use of land reserves in existing settlements, hidden capital or joint ventures with entities looking for support. Others of mostly smaller and medium size gave too little attention to the lack of the younger generation in steering boards and similar bodies whose superannuated members groan under the burden of duties und responsibilities. In order to enhance the attractiveness and effectiveness of the social housing sector, emphasis should be laid on the improvement of managerial skills, on mergers and innovative forms of cooperation, on the sharing of experience, the dissemination of successful business models and best practices and on activities that reinvigorate the idea of cooperative voluntarism and make the social housing movement in general still more appealing.