

How to define, achieve and measure affordability in rental housing

Housing is a fundamental right as citizens cannot enjoy other rights without it. However, a “roof over people’s head” is not enough to promote social inclusion: housing assistance should be integrated with proximity to other public services at local level e.g. transport, health care, education, jobs and training opportunities. A household’s expenditure on housing is usually the one which takes the largest share of its budget. Lowering housing costs then means greater opportunities for households to spend more money on other goods and services, which contributes to the creation of new jobs. Affordable housing is a service of general interest and an important pillar for a social, sustainable and inclusive society.

One definition of affordability is: “**Housing is affordable when housing of an acceptable minimum standard can be obtained and retained leaving sufficient income to meet essential non-housing expenditure.**”¹ This definition is called the residual income concept.

Sufficient income to meet essential non-housing expenditure is often called minimum income standard.²

Affordability (and lack of affordability) is not an inherent characteristic of a housing unit (in itself) —it is a relationship between housing and people. For some people, all housing is affordable, no matter how expensive; for others, no housing is affordable unless it is free.³

That means that the conventional ratio concept, that is simple to understand and apply and has a long tradition, is logically unsound and gives a misleading picture of the ways households experience the squeeze between housing costs and incomes.⁴

The Eurostat indicator of housing cost overburden rate is defined as the percentage of the population living in a household where the total housing costs (net of housing allowances) represent more than 40% of the total disposable household income (net of housing allowances). This definition of the housing costs overburden rate is also misleading. A wealthy household will have much more left than essential non-housing expenditure, even if it pays more than 40% of the disposable income for housing. And a poor household might not have enough money to meet essential non-housing expenditure after the housing costs are paid even if these costs only take 30 % or even less of the disposable income.

An increased supply of **affordable rental housing** is a most urgent demand in every country. “The term “affordable housing” came into vogue in the 1980s as part of the retreat from public responsibility for the plight of the poor and as affordability challenges moved up the income distribution. Although it still lacks precise and consistent definition, the term has since achieved international stature, and it typically encompasses not only social housing and low-income housing, but also financially assisted housing for middle-income households that find

¹ Stephens, Mark (2017)

² The Minimum Income Standard (MIS) is a benchmark of adequate income based on what the public think people need for a minimum acceptable living standard. This amount could of course differ between countries, why it needs to be determined nationally.

³ Stone, Michael E, Burke, Terry and Ralston, Liss (2011)

⁴⁴ Stone, Michael E (2006). For different ratio concepts see e.g. Orna Rosenfeld (2017) p.p. 4, 9-11

it difficult to purchase houses in the private speculative market. It thus seems to me that a far more accurate term would be “below-market housing,” which properly denotes identifiable segments of the housing stock, without making any unjustifiable general claim of affordability.”⁵

So “affordable housing” might not be affordable for certain households. Affordability is as mentioned before a relationship between housing and people/households.

Demand affordable housing for whom?

For whom shall we demand affordable rental housing? I propose that we demand affordable rental housing for all households that cannot find housing that they can afford on the housing market, because their disposable income, after their rent and costs for heating and other housing related costs have been paid, would be under the minimum income standard in the country. Households with incomes below the median income will be relevant in this context. The housing should also have an acceptable standard and the size should be enough to avoid overcrowding for a household.

Overcrowding

An EU definition of overcrowding exists (Eurostat, 2016). A household is considered overcrowded if it does not have at its disposal a minimum number of rooms equal to:

- one room for the household;
- one room per adult couple in the household;
- one room for each single person aged 18 and over;
- one room per pair of single persons of the same sex between 12 and 17 years of age;
- one room for each single person between 12 and 17 years of age and not included in the previous category;
- one room per pair of children under 12 years of age.⁶

The overcrowding rates according to the OECD survey differs substantially. Partly it might be a result of different definitions of a room. International comparisons are always difficult because of different definitions and standards.

According to this definition a one-person household should have two rooms (one for the household and one for the adult), a single parent household or a cohabiting/married couple household with 2 children under 12 years of age should have three rooms. The kitchen and the bathroom are normally not counted as rooms.

⁵ A.a.

⁶ <http://www.oecd.org/social/affordable-housing-database.htm> HC2.1 Housing space

Housing deprivation

Eurostat defines severe housing deprivation as the coincidence of overcrowding together with at least one of the following housing deprivation measures: leaking roof, no bath/shower and no indoor toilet, or a dwelling considered too dark (Eurostat, 2016). The rate of severe housing deprivation refers to the share of households or population concerned.⁷ But the lowest acceptable standard differs very much between countries, as illustrated by an example from Sweden below.

Lowest acceptable standard in rental housing in Sweden

According to the rental law in Sweden a residential flat is deemed to have the minimum acceptable standard if it is equipped with a device in the apartment for

1. Continuous heating,
2. Continuous access to hot and cold water for household and hygiene,
3. Wastewater drainage
4. Personal hygiene, including toilet and wash basin as well as a bath or shower,
5. Power supply for normal household consumption,
6. Cooking, including a cooker, sink, refrigerator, storage spaces and rest areas.

In addition to what is stated in the sixth paragraph, to achieve the minimum acceptable standard, it is necessary that:

- A. There is access both to storage facilities within the property and appliance for domestic laundry within the property or within reasonable distance from the property, and
- B. The house does not have shortcomings in terms of durability, fire safety or sanitation that cannot reasonably be accepted.⁸

If the apartment doesn't achieve the lowest acceptable standard the tenant may apply to the Rent Tribunal to order the landlord to take the necessary measures for the property to achieve such standard (commissioning order).

The rent law in Sweden differs from the rent laws in other countries. Countries have their own definitions of lowest acceptable standard in housing.

Achieving affordability

Housing is affordable when housing of an acceptable standard can be obtained and retained leaving sufficient income for the household to meet essential non-housing expenditure or in other words to maintain a minimum income standard, as mentioned above.⁹

Even if social housing (public & non-profit) does not or cannot generate profit for its owners, it nonetheless needs to generate sufficient income from residents and other sources to be able to cover adequately much or all the costs of operations, repayment of capital costs for construction, costs for land and any subsequent modernisation. That means that social housing might not be affordable to certain low-income households. In many countries is the social housing stock very small and doesn't cover the needs of low and low to medium income

⁷ <http://www.oecd.org/social/affordable-housing-database.htm> HC2-3-Severe-housing-deprivation.pdf

⁸ Jordabalk 12 kap. Hyra (Hyreslagen), §18 a.

⁹ Stephens, Mark (2017)

households, which is why it is necessary to study affordability in public and private rental housing that is not social housing.

To provide affordable housing for all we need an effective, competitive construction industry with low construction prices, reasonable prices for land, different kind of subsidies, social housing and rent regulation. This paper will not elaborate on all policy measures needed to achieve affordable housing, which also may differ very much from country to country. Here are just some principal remarks.

The market alone cannot solve the housing problems for many e.g.

- Young households
- Low and low to medium income households
- Migrants and refugees
- Those with disabilities and those in need of care

Subsidies are necessary to achieve the goal that every household should have good and safe housing. They could have different forms: tax deductions, support to social housing, housing allowances to households, subsidized loans, and investment grants, special housing for certain groups and so on.

Every subsidy should be subject to conditions to keep down prices and rents, i.e. it should not be possible to capitalize the subsidies. The aim of the subsidy is to lower the housing costs and not to make it possible for different actors on the market to charge higher prices. Subsidies without conditions, e.g. mortgage interest deduction, on a “free” market, stimulate speculation, contribute to increased prices on homes and construction, push up rents and decrease housing affordability especially in regions with high migration. The aim should be that prices and rents are reduced by an amount that corresponds to the value of the subsidies. An example is the rules for investment grants for rental dwellings that existed earlier in Sweden. To get a grant, the housing company/the landlord was obliged to guarantee a capped rent for a longer period. The County Administrative Board decided if the conditions were met. An evaluation of the effects concludes that the rent levels were significantly lower than they would have been without these grants.¹⁰ These investment grants have now been reinstated in Sweden for small rental apartments. Other examples are the subsidies to social housing in many countries that lower the rents substantially.

Affordability is also a question of time. For how long is an apartment affordable for the household? What happens after one or two years? Long term affordability is necessary to guarantee security of tenure for the households.

Measuring affordability

We need five different kinds of definitions/data from the country or different parts of the country:

1. Definitions of minimum income standard for different households. These kinds of definitions exist already often as part of work of the social agencies in supporting households in need.
2. Definitions of lowest acceptable standard of housing.
3. Definitions of overcrowding – maybe use the definition of Eurostat?

¹⁰ Boverket (2005) pp. 12-13

4. The rents and other costs of housing for the dwellings that are of sufficient size for different households to avoid overcrowding.
5. The disposable incomes of the households with housing allowances and other forms of economic/welfare benefits included.

Do households have disposable incomes that are enough to meet essential non-housing costs after the rents and other housing cost are paid? How many of these households have not sufficient money to live on? All homeless households/households living in temporary shelters have of course not.

Measuring the development of affordable housing for low income households

There are four different types of households that often have problems in finding suitable housing that they can afford. There are of course other kinds of households that have difficulties on the housing market, but these four types of households are mentioned in this context in many studies.

- 1) One-person households 20 – 30 years old
- 2) Single parent households with children
- 3) Cohabiting/married couples with 3 or more children
- 4) One-person households consisting of a retired person

For at least one of these four types of households try to find the

- median household income and the disposable income after tax including allowances and welfare benefits for the chosen type of household,
- median rent with all housing costs included for a dwelling with acceptable standard and of enough size to avoid overcrowding.
- Calculate what the households has left when the housing costs are paid. Is this enough to meet essential non-housing costs? This could be presented as a ratio: The part of these households that could not maintain a minimum income standard after their housing costs are paid.

This could be done every year to show the development of affordability for rental housing for a certain type of household in the whole country, in different regions and/or in parts of the rental market (social, public, private rental housing).

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