

# Financing Social Housing in France

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## Abstract

The paper highlights the financing of the social rental housing sector in France. Housing finance markets in France are mainly devoted to finance owner-occupation, while developments of the private rental sector are backed through tax rebates. Special financial circuits provide off-market loans for the social rental sector. Housing affordability is mainly helped through a flow of Housing Allowances, housing benefits allocated to individual households being the major form of public aid. While new construction of housing is high and purchase markets buoyant, a major task of urban renewal is being undertaken, concerning 5 to 10% of the social rental housing stock. This comprehensive program will require strong initiatives from local authorities linked with public and private partnerships for real improvement in the way of life in distressed city neighbourhoods and suburbs. The question at stake is to be more efficient regarding the supply of housing, including social housing, in a context of financial constraint for public funds.

## 1. Strong activity on housing markets

### ■ Housing stock and tenures in France:

An overview of financing social housing in France needs to be introduced by an

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outlook on French housing markets. The housing stock in France<sup>1</sup> is 24.2 million of (principal) dwellings with 57% houses and 43% flats. There are 2.9 million secondary dwellings and 1.9 million vacant units, total housing stock reaching 29.5 million dwellings. Housing tenure in France is now characterised by a growing proportion of homeowners: 56% of households, of which two thirds have full ownership and one-third hold mortgages. The private rental sector (20.5% of dwellings) is larger than the social rental sector (17.5% of the stock). The social sector is owned and managed by HLM organisations (RSL<sup>2</sup>), including HLM Offices, Companies and semi-public companies.

### ■ Construction and the housing market

The rate of new construction has been above 300,000 units per year for the last 4 years (two third houses, one-third flats) with an average of 290,000 yearly during the last ten years. The rate of construction is lower than in Spain, similar to Germany or the Netherlands and much higher than the UK, Italy or Sweden.

The market for existing housing is considered as being increasingly active, with 620,000 dwellings sold per year (as a principal home, second home or investment).

### ■ Legal framework for housing

Responsibility in the area of housing is governed by national regulations fixed by the central government, covering the targeting of various subsidies and establishing tax rebates. Regarding social

housing, responsibility is shared between local government representatives and local authorities. The local authorities are responsible for urban planning and local housing policy including the effective implementation of social housing policy, and in particular for making land available for construction. The decentralisation process initiated in the last twenty years in France is gradually increasing the powers of local authorities in the field of housing, with a finer tuning of regulations and level of subsidies to local markets. This will also mean broadening the scope of local housing policies to reach the borders of new Urban Communities, gathering together several communes or municipal areas.

General housing policy principles include as a ground rule a "right to housing", made a fundamental legal entitlement in 1989, and involving a wide set of legal and administrative measures targeted to people in need. But the general framework of housing markets is mainly free<sup>3</sup>, thus offering freedom of choice of tenure, type of housing and location. Since reforms initiated in 1977, the main financial help for housing affordability is through personal aid (Housing benefit).

These two orientations - the right to housing and freedom of choice, require a sufficient supply of housing. While levels of comfort are similar to European standards, main concerns now are about diversity of tenure with a balance between owner-occupancy, private and public rental accommodation associated with the ideal of "social mix", i.e. avoiding social segregation.

## 2. Housing finance for home-ownership, the lion's share

Housing finance systems in France for home-ownership includes free market loans, regulated loans and subsidised loans.

■ **Free market** loans are provided to households by banks and specialised financial bodies. The amount in 2001 was €60,000 million of loans financing 664,000 purchases, of which one third were new dwellings.

*First-time buyers make up approximately half of the buyers. The average buyer is 38 years old, with a yearly income of € 36,000 and financing up to 26% of the purchase with his/her own capital.*

### ■ Housing Savings Plan

An additional share of the market is provided by "Housing Savings Plan" (Plan / Compte Epargne Logement) for a yearly amount of € 4,400 million, of which € 1,000 million for new dwellings. Such Housing Savings Plans are tax-free and receive a State subsidy. As they are not subject to a ceiling of income (only to a ceiling of deposit and ceiling of subsidy), they are not classified as social subsidies.

Established in 1965, this contract savings scheme is designed to encourage private individuals to build up their savings for home-ownership. The property savings account is a deposit account where deposits and withdrawals can be made freely. After 18 months, the holder of the account may obtain a loan which includes a bonus from the State. An alternative plan comes to fruition after four years, qualifying the Savings Plan holder for a State bonus plus a loan at below-market interest rate. The below-market rate depends upon the rate of interest accrued during the period of savings. As these financial schemes have deposit and loan limits (€ 90,000), they are often used associated with other types of loans.

■ **Regulated loans** for owner-occupation are PC ("agreed/approved" loan) with a regulated cost price, giving right to housing allowances, and PAS ("social home-ownership" loan) which is secured by a

Number of home-ownerships financed in 2001

	PAS	PC	PTZ
	social home-ownership loan	approved loan	subsidised loan "zero rate"
with PTZ	28,000	11,000	62,000
without PTZ	15,000	18,000	

State guarantee covering payment defaults. This guarantee applies within the framework of the Guarantee Fund for social home ownership (FGAS). PAS is granted to households whose income is below a certain ceiling.

Approved home-ownership loans (with or without recourse to social home ownership guarantee funds), use financial resources with structured rates, resulting from an agreement between the State and the financial institutions.

The Social Home-ownership Loan (PAS) created in 1993 is a regulated loan which is secured by a State guarantee covering payment defaults by borrowers. This guarantee applies within the framework of the Guarantee Fund for Social Home-ownership (FGAS).

The PAS is targeted for people with resources similar to those giving access to social rental dwellings, that is to say approximately two third of households in France.

### ■ Subsidised loans "0% loans" Zero-rate loans (PTZ)

PTZ loans (succeeding to the former PAP home-ownership subsidised loans) are provided to households through the traditional banking circuit, banks and specialised financial institutions, linked with free market or regulated loans. The amount in 2002 was € 1,600 million of which €1,400 million was for new dwellings.

These loans are allocated to households below a ceiling of income for the construction or acquisition of a housing unit. Improvement to an existing property must represent at least 35% of the overall

cost. Such a high proportion of improvement on non-new housing means that the PTZ is mainly oriented towards new construction. The 0% loan is limited to 20% of the cost of the operation, 30% of the total debt and to a maximum of € 27,000.

*In 2001, the average "0% loans" of €16,000 provides 15% of the financing of a dwelling costing €110,000 for an average buyer aged 33 years earning € 28,000 /year.*

The 0% loan must be associated with other loans, approved, social or free market.

The 0% loan is financed by credit establishments from their ordinary resources, deposits, or through bonds issued on the financial markets. The State subsidy must equal the level of interest a lender could obtain on a given loan under normal market conditions. It is fixed for each type of reimbursement and therefore for each threshold of income, as repayment condition of the 0% loan is dependent upon the household's income. The least well-off households will be allowed longer repayment periods whilst the better off will be attributed shorter ones. Offering variable public aid allows the cost of repayment to be adjusted to suit the financial capacities of different types of households.

### ■ Home-ownership: subsidies for low-income owner-occupiers:

The PAH (Grant for Home improvement) is a grant for owner-occupiers with low incomes. It may cover 20 % of improvement work undertaken by owner-occupiers (up to a ceiling of €2,000). The ratio of subsidy can be increased for the disabled, for very low income households and in special areas of urban renewal. Total grants in 2002 were up to €122 million.

### ■ Home-ownership, tax incentives and fiscal rebates:

Various fiscal rebates have been granted for owner-occupiers, covering maintenance or improvement work, the most important being a lower VAT (5.5%)<sup>4</sup>. There are as well various tax refunds, some temporary, others long term, such as the tax refund for restoration of classified buildings or for refurbishment in specially designated national heritage sites.

Conversely tax refunds on the interest of loans used for "standard" home buying are no longer granted since 1997.

*Altogether, tax refunds and tax rebates for housing are estimated at € 2,600 million for owner-occupiers.*

### 3. The private rental sector, an increasing share of the rental market

#### ■ Incentives for investors: tax rebates for new private rental housing:

For the last fifteen years, various mechanisms of tax rebates have been developed for increasing the supply of new rental dwellings by private investors. Incentives included certain conditions for the final rent and income ceilings for eligible tenants. Thus, without being classified as social housing, such policies aimed at increasing the supply of private rental accommodation at controlled prices.

Since 1999, a new fiscal status described as the "private landlord" has been introduced. This concerns investments made in new or old properties.

The most recent policies are oriented towards softer regulation, with rent ceilings rather close to market rents (especially in the most expensive areas), and no income ceiling for tenants. The tax incentives comprise a deduction of 8% of the price from total taxable income during the first five years and 2.5% over the following 4 years, with an optional extension to 6 years. The duration of compulsory rental is 9 years minimum. These benefits are reserved for principal homes (it is not possible to rent this type of property as a secondary

residence). Taxation of rental income is lower than usual.

For the last ten years, under various schemes<sup>5</sup>, 20,000 to 40,000 new dwellings yearly (flats or houses) have been sold by developers to private investors. Corresponding fiscal rebates were estimated at € 518 million in 2002.

#### Non-new property

The status of private landlord also applies to the rental of non-new properties: the fiscal incentive comes in the form of a supplementary one-off deduction against income from property. This measure applies to private individuals renting a primary residence. Tenants' rent and resources must

not exceed certain ceilings. The owners of non-new properties can enjoy an increase in the one-off tax deduction rate for a period of six years (25% instead of 14%).

#### ■ Grants for private landlords : upgrading of existing rental dwellings

Grants for private landlords are provided through a State body (ANAH National Agency for Housing Improvement). Designed to improve the comfort of homes over 15 years old, subsidies vary between 25% and 70% depending on the nature of the work being carried out and the rent commitment made by the owner. This can give tenants the right to housing allowances. Total grants in 2002 were up to € 264 million.

## 4. The social rental housing sector, still alive and active

### ■ Organisation of the social rented housing sector

Like in other continental European countries (the Dutch Woningcorporaties or German GdW Wohnungsunternehmen), the social rental housing sector (HLM) is managed through a network of local bodies (of which 300 Public Offices<sup>6</sup> answerable to local authorities and 340 privately-run Housing Companies<sup>7</sup> managing 4 million dwellings and building 30/40,000 new units annually). This sector comes under "public interest" principles of management.

- ✓ HLMs are designed to maintain a sound financial balance.
- ✓ They receive "aid in bricks and mortar" for building new dwellings or buying and refurbishing existing ones, but no grants to cover their operating costs.
- ✓ Their long-term loans are guaranteed by local authorities or by a special financial body (CGLLS Mutual Fund for Guarantees of Rental Social Housing).
- ✓ Rents are regulated through State decree.
- ✓ Allocations of housing units are made to households whose income is below fixed ceilings.
- ✓ Rental contracts have no time limits, as long as the tenants pay the rent. A supplement to the rent may be added when a tenant's income exceeds the fixed ceiling of income.
- ✓ HLM Offices are managed according to the rules of accountancy applicable to public authorities. HLM Companies are bound by private company ("Société anonyme") rules, with profit limited to 4% of their capital<sup>8</sup> and they are not subject to company taxes.
- ✓ They are financially and legally controlled by the Ministries of Housing and Finance. Offices or companies in financial distress (bankruptcy is theoretically possible for these Companies) can merge with better-off RSLs.
- ✓ Their area of operation is limited to local authority frontiers for Offices, and regional areas for Companies. They might have subsidiaries (for building and selling houses), and some are organised as a network of companies. They have the right to sell dwellings, to tenants or other customers, with State approval. Financial cash flow is important, with € 12,000 million of rent per year, and a long term debt of € 63,000 million.

Another class of social landlords are SEMs (semi-public companies) which are basically PPPs, but under the control of local authorities. They own and manage 500,000 dwellings, under the same rules as Offices. Other HLM organisations include some foundations and co-operatives (dealing mainly with home-ownership). All these categories of social housing bodies (HLM organisations) could be referred to as RSLs, following British terminology.

The HLM organisations include financial bodies created for supporting home-ownership on a non-commercial basis, historically similar to British Building Societies. The SACI (Sociétés de Crédit Immobilier) are a network of banking institutions providing market loans at cost price for homebuyers. Their loans in 2002 amounted to €2,600 million, included in the market loans section. Such loans are provided regardless of whether the dwelling is new or not, and of whether it is sold by an HLM subsidiary or a private builder.

#### ■ Financing the social rental housing sector with off-market loans

The social rental housing supply is financed mainly through off-market long-term loans, with the aid of State subsidies, local authorities, employers' grants and a small contribution of capital equity from the RSLs. For the last fifty years, current loans to finance social rental housing ("PLUS" loans) are

- very long term (now 35 years for building and 50 years for land buying)
- guaranteed by local authorities or a mutual fund (CGLLS)
- provided at below-market rate (4.2% in 2003) by a State financial institution, the Caisse des dépôts et consignations (CDC), only to HLM organisations or other approved bodies (RSLs).

The financing of these loans is made possible by CDC's centralisation of the Savings Funds gathered by Savings Banks (Caisses d'Épargne) and the Post Office on short-term savings book deposits ("Livret A" Savings Books). There are 47 million "Livret A" Savings Books currently in circulation, each with a deposit ceiling of €15,000. They receive a regulated yield (3% in 2002), are guaranteed by the State (through CDC) and interest is tax-free.

Deposits, with some other savings accounts (including Housings Savings Plan), reach a total of € 220 billions, enabling CDC to lend each year € 4,000 million in long term loans for social housing. These loans are provided at cost price (4.2%, 3% of which is paid to savers in interest and 1.2% margin for banking/ management costs). The whole

process is a conversion of short term deposit into long term loans. To ensure the equilibrium, liquidity and security of this mechanism, CDC retains a large part of the funds in the form of liquid assets and investments in the financial markets. Its portfolio of money-market securities, shares and bonds are worth € 107,000 million. Such prudent asset-management policy has, at all times, enabled CDC to remunerate deposits and to honour requests for withdrawals over a period of almost two centuries.

The European authorities have agreed to tax-free savings deposits precisely because they are used for financing public interest programmes. A change in the interest rate of "livret A" savings plans produces a corresponding change of rate in loans to the social housing sector. An increase in the interest rate of "livret As" is considered as a bonus for "small savers", but a problem for social housing bodies whose financial debt increases. And vice versa. The question at stake now is to develop a new procedure for calculating an "optimal" rate, somewhere between inflation and financial market rates with built-in "shock absorbers", or keeping it a political decision and therefore the responsibility of the Prime Minister.

#### A range of social housing loans, € 4,000 million granted yearly according to specific rules

Loans are provided for definite programmes, either new constructions or the buying and renovation of existing dwellings. Long term financial profiles of revenues and expenses for each housing project are estimated according to well-trying hypotheses (increase of rent and tenants' rates, property taxes, maintenance and management expenses, vacancy and turnover). Building and land cost should not exceed reference value. New developments could provide "block loans" to RSLs, after review of their investment programme. Nevertheless, each building programme should be checked and provide a financial return (discounted cash flow) consistent with standards approved by the Ministry of Housing.

There is a whole range of loans provided under schemes similar to PLUS, covering various aspects of social rental housing, from cheaper loans (loans "PLA-I"<sup>10</sup> at a rate of 3.7%) granted to for dwellings destined for people with very low incomes, to housing stock renewal (PALULOS), urban renewal (loans "PPU", "PRU"), homes for the elderly or handicapped, apprentice or student hostels, equipped campsites for gypsies or travellers and housing projects germane to social policies (loans "PEX", "PHARE").

Loans are provided to RSLs or other non-profit bodies provided that each programme receives public approval (entitling applicants at the same time to State subsidies) and local authority guarantees.

#### ■ How to make ends meet?

RSLs are not obliged by law nor regulation to apply for loans from CDC. If they are able to borrow money at a lower rate for the same term (35 or 50 years), they are free to do it. Could an increasing competition in banking loans open a new market for private bankers? The question of a European tender for providing loans to RSLs might possibly be suggested by the European authorities. But a such question could not be separated from the general balance of a financial system which grants loans equally to all RSLs and manages a debt of € 92,000 million for 300,000 loans. A recent survey<sup>11</sup> on the financial balance of the present system indicates that private bankers are not really eager to manage RSL finance systems.

The share of equity capital contributed by each RSL depends upon its own financial situation. There are some relatively prosperous social housing companies, with old buildings in urban areas and all their debts paid, while others are not in such an advantageous position and still have high debts to pay off. Some Offices or Companies with either large amounts of equity capital at their disposal or larger subsidies from local partners, may be able to finance expensive projects, above reference cost. The sales of dwellings to tenants enable RSLs to increase their equity capital, and help the financing of new

Standard financing scheme for 20 rental dwellings PLUS (area 58m <sup>2</sup> each) & 2 PLA-I (area 65 m <sup>2</sup> )			
State subsidy	8%		
Local Authority subsidy	5%		
1% (Employers fund) loans	17%		
CDC loans	63%		
Equity capital	6%		
Total budget	1,600 k € incl. tax covering the following cost:		
Land & infrastructure	320 k €	15 k €/ dwelling	
Fees & insurance	180 k €	9 k €/ dwelling	
Building	1,000 k €	48 k € /dwelling	

programs. Nearly 4,000 social housing units are sold per year (1% of the social housing stock).

**■ A shrinking “Brick and mortar aid”**

The social rental housing sector receives subsidies from the State budget for new construction, buying and refurbishment of existing dwellings and rehabilitation of its own properties. The subsidy system is changed from time to time, combining direct subsidies and a lower VAT rate on construction or rehabilitation work. At the moment, grants vary from 5 to 13 % depending on the type of operation, while the VAT rate is currently at 5.5%.

Local authorities can also contribute to housing operations, often by providing land free or on lease. Other grants or below-market loans are provided by the so called “1%”, i.e. PEEC “Employers Funds for Housing” detailed above.

**5. The “Intermediate” rental housing sector, filling a gap ...**

The financing of “intermediate” rental housing provides an example of loans

financed through centralised funds but distributed through various banks.

The “intermediate” sector is intended to increase supply of “intermediate” rental housing, halfway between social rents and market rents. It provides housing at rent levels and for incomes higher than ordinary social rental housing (PLUS). During the last thirty years, such products have been developed both by individual and corporate developers with subsidised loans.

The PLS (Social rental Loan) is a 30 year loan at an interest rate between 4.6% and 4.75%, distributed either directly by CDC, or by banking establishments selected by tender. RSLs or private investors (corporate or individual) may apply for this loan. The rent ceiling is 1,5 times the ceiling of PLUS, while the ceiling of the tenant’s income is 1,3 times that of PLUS.

The PLI (Intermediate rental loans) is similar, with a higher rate of interest (5.4%), and focuses on buoyant markets where private rental housing is scarce or expensive. The rent ceiling is 1,8 times the ceiling of PLUS, while that of the tenant’s income is 1,5 times the ceiling of PLUS.

These two types of loan are both refinanced from centralised savings funds from CDC. In 2002 approval was given for the building of 10,500 PLSs, while 4,000 PLIs are built annually.

**6. Personal aid, Housing benefit**

Housing benefit allocated to tenants or to owner-occupiers is the major means of making housing affordable, with a yearly flow of €12,600 million. AL (“allocation logement” or Housing allowances) and APL (“Allocation Personnalisée Logement” or Personal Housing Allowances) are provided to households below a certain income threshold, in order to reduce their rent-to-income ratio. These benefits are granted to households, either families or individual tenants in either the social or private rental housing sector, under certain conditions of rent and income. Housing allowances are given to 5.4 million tenants (€ 10,700 million) and 0.9 million owner-occupiers (€1,600 million), the average monthly housing benefit being € 165 for tenants and € 150 for owner-occupiers.

Other aids are provided for temporary shelter and for special support programmes for the homeless, including avoiding home eviction and rental debt reductions. These are channelled through the social security network, local authorities or non-profit associations (€ 256 million). Ministry of Internal Affairs advance to landlords the rent of tenants whose eviction, decided by a judge, was not implemented by police officers.

*Housing benefit is financed 48% by social security, 40% by the State budget (Ministry of Housing budget) and 12% by the Employers Fund (1%).*

**Number of agreements (=dwellings) delivered for social rental housing in France**

	category	Rate of loan	Average 1995-2001	2002
PLUS	social rental loan	4.2%	40,000	39,000
PLA I	(very) social loan	3.7%	10,000	5,200
PLS	Intermediate loan	4.7%	5,400	

*Agreements include new construction or renovation of existing building*

*Rate of loan into force in April 2003*

**7. PEEC, 1%: a “private” (compulsory) source of finance for housing**

Since 1953, the employers’ contribution (the so-called “1 % housing contribution”) (PEEC) was designed to ease affordability of housing for company employees. These funds are used for loans and for grants, to promote rental accommodation and home ownership. Management of funds are organised on a joint basis between employers and the employees’ Union.

The rate is 0.9 % of the total wage bill for companies employing over ten people. Funds are used on the one hand for financing housing allowances, and on the other for granting cheap loans and subsidies for housing (€ 2,300 million).

- €1,600 million of loans or grants to households and €500 million of loans to HLM organisations.

- The financing of social housing units by Employers’ Funds give them the right to allocate social dwellings to their employees.
- Loans for households include €710 million for owner-occupiers and €32 million for financing the guarantee scheme for first-time buyers. Funds are provided for security for tenants, helping 250,000 households to rent in the private or social housing sector in 2001.

This contribution could be considered as a tax. Up to now, it has not been questioned by European Authorities and is still advocated by French Employers Union (MEDEF) as long as funds are managed through mutual agreements.

**8. Affordability**

The thresholds for social housing are fairly open to most households, with PTZs open to 80% of households, and PLUS to 65%.

This fact may, at first sight, lead one to believe that social housing in France is oriented towards the middle class. However, an analysis of tenants’ occupations reveal that HLMs are mostly inhabited by low-income households, and that the proportion of very low income tenants is on the increase. Households above the income ceiling (and choosing to remain in social housing in spite of an increase in their income) are estimated at less than 15% of the housing stock. The situation might be different in some areas with a very expensive rental market, where turnover of tenants is very low (below 4% in Paris, versus 12% on national average). A social rent is the third of market rent in the Paris region, and half in other areas. The gap might be narrower on slack markets. An old private rental dwelling might be cheaper than a brand new social dwelling. The so-called intermediate market between social and market level exist only on very active markets.

**Allocation of subsidised housing**

Ceiling of monthly income for couple with two children

Category	Landlord	Tenure		Agglo PARIS	Ile de France	Other regions
very social	social	rental	PLA I = 0,55 PLUS	2 300 €	2 200 €	1 700 €
social	social	rental	PLUS	4 300 €	3 900 €	3 100 €
social	social & private	rental	PLS= 1,3 PLUS	5 600 €	5 100 €	4 000 €
intermediate	social & private	rental	PLI = 1,5 PLUS	6 400 €	5 900 €	4 600 €
					Ile de France	Other regions
intermediate	private	rental	Conventionnement “Besson”		5 500 €	4 300 €
social	private	rental	Dispositif “Lienemann”		2 800 €	2 200 €
					Ile de France	Other regions
social		homeownership	PTZ		4 100 €	3 800 €
social		homeownership	PAS		3 800 €	3 000 €

Rules of allocation of subsidised dwellings in social rental sector	
PLA-I (I for Integration)	income below 60% of PLUS ceiling
PLUS social cocktail	60% of households with income below PLUS ceiling
	30% of households with income below 60% of PLUS ceiling
	10% of households with income below 120% of PLUS ceiling
PLS	income below 150% of PLUS ceiling
PLI	income below 130% of PLUS ceiling

**Affordability of rental housing**

Ceiling of rent per month per square metre

Category	Landlord	Tenure		Agglo PARIS	Paris	Main cities	Other areas
very social	social	rental	PLA I	4,4 €/m2	4,6 €/m2	3,8 €/m2	3,5 €/m2
social	social	rental	PLUS	4,9 €/m2	5,2 €/m2	4,3 €/m2	4,0 €/m2
social	social & private	rental	PLS= 1,5 PLUS	7,4 €/m2	7,8 €/m2	6,5 €/m2	6,0 €/m2
intermediate	social & private	rental	PLI = 1,9 PLUS	9,3 €/m2		7,7 €/m2	7,2 €/m2
tax relief	private investor	rental		11,4 €/m2	12,9 €/m2	8,8 €/m2	8,3 €/m2

average market rent for new tenants per month per square metre

free market	private	rental		11,8 €/m2	14,9 €/m2	7,0 €/m2	
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**Qualifying Households for social ownership ("PTZ") or social rental dwelling ("PLUS")**

Subsidised loans for owner-occupiers are accessible to households whose incomes do not exceed a certain ceiling, defined according to the structure of the household and the geographical zone, three times the legal minimum wage (SMIC) for a household with two children. The households with the lowest incomes will also receive the APL (Personalised housing aid).

In order to enhance the social mix, Allocation of PLUS dwellings follow the following rules: while the PLUS ceiling give access to two third of households, at least 30% of dwellings must be occupied by households whose resources do not exceed 60% of the ceilings and a maximum of 10 % of dwellings can be rented to households whose resources do not exceed ceilings by more than 120%. Each two years, a social survey enquires about the income of the tenants. An additional rent has to be paid by tenants whose incomes are 40% above the ceiling. But this increase of rent is not conceived as a deterrent for preventing middle class to stay in social housing. Therefore it is not applied in suburbs with a low demand.

**9. Financing urban renewal**

Urban renewal is now considered as a major issue and one of the main tasks for all partners involved in town planning and housing. The general category of urban

renewal subsumes several different actions involving the urban redevelopment of large or medium-sized traditional towns, improvement of urban living standards and slowing down urban sprawl. Another task consists in redesigning social neighbourhoods, which suffer from poor quality of construction, low appeal and social segregation.

A general scheme for urban regeneration has been sketched out by the Ministry of Town, covering 1300 neighbourhoods sheltering 2 million of households. The demolition scheme for the following years may concern 200,000 dwellings (5% of the social rental stock).

To help renew the urban fabric, there is a need to increase services and economic activities, improving public and private services including trade, shops and accessibility from other parts of the town. The diversification of tenure and style of housing can facilitate the sale of flats to tenants or investors, the demolition of older buildings with a high number of vacancies, and, making land available for new projects.

Redevelopment requires six steps:

- ✓ analysis of the neighbourhood from the housing and land market point of view, assessment of the quality of technical infrastructures,
- ✓ analysis of the economic potential and local economic growth
- ✓ choice of land suitable for new projects in a global framework of a real urban project

✓ restructuring land property between various public owners. Such areas often don't have a high density, with oversized roads and open spaces without real use and poorly maintained.

✓ Marketing of land, according to a "enhanced" market value

✓ Agreement to share responsibility between partners for management of land.

In such action, the development of public and private partnership is necessary. It is precisely because of the lack of private initiative in this neighbourhood that it lacks assets enjoyed by other parts of the town, with more diversified functions and occupations.

Among methods for improving such neighbourhoods, the active participation of private partners is accelerated thanks to

✓ Subsidised loans provided (with public approval) by CDC for housing and public space renewal.

✓ Share of equity contributed by CDC, securing the setting up of the project and acting as a lever to encourage further financing by other bankers.

The renewal of the Montchovet sector in Saint Etienne has involved the building of a private hospital on the site of a large demolished HLM building. A private company (with €6 million equity capital of which € 2.3 million was provided by CDC) received loans from banks (€ 15 million) and an off-market loan (€ 14 million) to build and

operate a new medical centre. The project received approval from local authorities. In such an example, investment was provided partly by CDC and partly by private bankers.

A similar method is being employed for a commercial project in Kremlin Bicêtre, a suburban town on the outskirts of Paris, where a shopping centre (cost € 114 million) will be built on an urban vacant lot. Investment was decided by private partners following agreement of local authorities to improve public spaces. The financing involves € 26 million of equity capital (of which € 15 million was contributed by CDC) and € 88 million of loans (of which € 24 million are off-market loans).

In these two examples, the PPP for urban renewal links private partners, bankers and a financial institution providing a limited part of subsidised loans. The fact that the financial institution takes part in the operation is a persuasive guarantee for other banking institutions.

*Urban renewal is backed through the above mentioned off-market loans PPU and PRU (up to € 800 million in 2002) granted to local authorities and RSLs. Besides, since 1985, the financing of local authorities has been deregulated and they can obtain loans from all banks at market rates.*

## Conclusion

Today's housing finance system in France is oriented towards owner-occupation, but nevertheless maintains a strong rental sector. The social rental sector is financed through subsidies and off-market loans. Large-scale public financing is possible without having recourse to the State budget. CDC converts deposits at call into long-term loans at off-market rates to benefit State designated priority sectors.

The efficiency of these mechanisms is continually under assessment through the various stakeholders, from local authorities to NGOs advocating the right to housing for people in need<sup>12</sup>.

In spite of a rather high level of production (in comparison to other European countries), the need for affordable housing can still be

felt in large urban centres, while uncomfortable (and cheap) housing stock is disappearing. Urban renewal is progressing in distressed neighbourhoods, involving demolition or refurbishment of dwellings, either social or private sector. It will require massive investments from the State, local authorities, RSLs and all categories of private partners, including the inhabitants. Off-market loans are a small part of housing finance, but they nevertheless occupy an essential place in the range of financial tools for housing.

Active housing markets induce a strong competition between developers to get available plots. Public developers have a limited means, except if they receive special grants from local authorities. Private developers may raise their bids, up to the limit of their profitability. Urban land has been increasingly more expensive in recent years. For private partner areas of urban renewal might be a good opportunity especially as sites are sometimes not isolated, and closer from urban centre than brand new developments. Urban renewal is not a process of breaking down old fashioned buildings for a more trendy architecture. It is not going to change low-income inhabitants into affluent upper middle class mortgagers. Private financing and private developers might bring housing products suited to middle class groups. Therefore they will increase the chance of building a town with diversified housing products.

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## Abbreviations used

English RSL, NGO, VAT

French : HLM, PC, PAS, FGAS, ONG, PTZ, CGLLS, PAH, ANAH, SEM, PPP, PLS, PLI, PEEC, AL, APL, PLUS, PLA-I, CDC, PPU, PRU, PEX, PHARE, PALULOS,

<sup>1</sup> All data refer to France without overseas territories, according to 1999 Census, 2002 National Housing Survey and 2000 Housing Financial Account

<sup>2</sup> Registered Social Landlords in British terminology

<sup>3</sup> including rent which are free since 1948, after a thirty years of freezing. Only market level may set the rent of a new dwelling. Afterwards, increase of the rent is regulated by contract between landlord and tenant

<sup>4</sup> Granted after agreement by European authorities in charge of checking consistency of tax policy

<sup>5</sup> Each tax incentive scheme bears the name of a Minister of Housing (Méhaignerie, Quilès, Périssol, Besson, Lienemann), as a memorial of each scheme considered as a victory against the Ministry of Finance

<sup>6</sup> named "Offices pour l'Habitat"

<sup>7</sup> named "Entreprise Sociales pour l'Habitat"

<sup>8</sup> Such companies have very low capital compared with their assets. Thus the profit is symbolical and they could be called (nearly) "no-profit companies"

<sup>9</sup> average deposit is € 2,200, 33 million of "livret A" have less than € 1,500 and 2.3 million reach the maximum ceiling € 17,000

<sup>10</sup> I stand for "insertion"

<sup>11</sup> report Noyer-Nasse for the French Ministry of Finance

<sup>12</sup> report about homelessness is published yearly by Fondation Abbé Pierre, and by the "Haut comité pour le logement des personnes défavorisées"