



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones
July 2020 ♦ Volume XI ♦ Issue VII

Published by Novogradac

Affordable Housing Insights from Around the Globe

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It is a universal truth that decent, affordable housing is fundamental to the health and well-being of a nation's people.

Housing instability leads to challenges in raising children, caring for seniors, providing proper education, extensive commuting times, increases in unhealthy eating options and, more broadly, poverty, depression and crime.

Those in the housing industry understand how lives cannot only stabilize, but also improve when safe, clean affordable housing is an option. In this article, we will explore and analyze how various countries address the growing concern of providing safe and affordable housing. We will explore how some countries use innovation and creativity in their approaches to affordable housing and how the American model is used by other countries.

The purpose of this analysis is not to prescribe or critique approaches, but rather to learn and consider

how certain components and best practices can be adopted into existing approaches across the globe.

Currently, 330 million global urban dwellers (any global city with a population of 200,000 or more) live in some form of substandard housing or pay financially unsustainable housing costs. Forecasts estimate that this figure will grow to approximately 440 million households or 1.6 billion people by 2025. Furthermore, while the full economic and social impact from COVID-19 will take time to analyze, it is safe to assume that it will only increase this amount. As the need for global affordable housing continues to grow, so too does the need for a global approach to creating and administering housing.

Housing in the United States is “affordable” if it costs no more than 30 percent of the monthly household income for rent and utilities. While the definition of

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affordable housing is generally agreed-upon across the nation, as we expand the scope of our analysis abroad, we find varying definitions. Perhaps more importantly, we find varying approaches to the way subsidized housing is offered. While nuanced in execution, the pricing or rent for housing is set in five major ways:

- **Market-based:** Rent levels are set in reference to the market-rent levels for similar properties.
- **Cost-based:** To allow for long-term recovery of the building cost, rent levels are based off the buildings cost as to stabilize and lock-in the financial returns of the building.
- **Income-based:** As seen in the United States, rent levels are determined by the household income levels of the tenants.
- **Utility-based:** Rent levels are determined, at least in part, by considering the product offering (location, building amenities and size of the unit).
- **Fixed rent ceilings:** Typically applied to one of the housing strategies below, fixed rent ceilings cap the overall rent per dwelling.

Hong Kong

Hong Kong is one of the least affordable cities in the world. Its population is 7.4 million and while the median income is \$38,709, the median home price is \$696,000 U.S. dollars. Additionally, there is a large, lower-working class population where minimum wage equates to \$4.83 per hour in the U.S., with a median income of under \$9,000 for this demographic. According to a 2017 census, 20.1 percent of Hong Kong residents live below the poverty line and, according to a recent University of Hong Kong study, nonsubsidized units often house up to six times the number of people they are meant to house.

There are many subsidy programs in Hong Kong. Some programs assist homebuyers (Tenants Purchase Scheme, Home Ownership Scheme, etc.) and some

assist renters. The primary rental program is the Public Rental Housing Estates program, which is monitored by the Hong Kong Housing Authority. This rental program, in which the units are owned by the authority, houses more than 30 percent of the city's population and 16 percent of homeowners own subsidized homes. Only 53 percent of homeowners own their home without a subsidy. There is a five-year waitlist for rental housing, but the government often provides interim affordable housing until a formal housing allocation is made to the low-income renter.

Combined with other subsidies, more than 46 percent of households live in some form of subsidized, affordable housing. While competition is fierce, the affordable rental units are sometimes sold to long-term tenants under a for-sale, subsidy program that requires future sales of the units to low-income owners. This is akin to a land use restrictive agreement on a for-sale unit.

The challenge in Hong Kong is that the government, which owns a large amount of the undeveloped land, has traditionally sold such land to private developers at prices that make it financially infeasible to build affordable housing. Land costs are often more than 50 percent of the total project costs. The government has set a policy to add 450,000 homes in the private and public sector over the next decade, but there are land shortage and environmental concerns that are inhibitors to such development. There is also a private sector, which develops some affordable housing and there has been recent discussion about land reclamation of agricultural areas and increasing mixed-income housing within a public-private partnership structure.

Israel

Israel has one of the highest levels of home-ownership in the Western world, which creates wealth gaps based upon residential real estate, often passed down through generations. Nearly 70 percent of apartments are

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owner-occupied, as compared to 50 percent in Germany. Additionally, only 2 percent of Israelis live in public housing while in Western Europe, 17 percent to 32 percent live in public housing although there is a very small, but private affordable market as well.

Israel has no national program for the creation of affordable housing. Per Sebastian Wallerstein, director of the Israel Affordable Housing Center at Tel Aviv University, Israel differentiates affordable housing into two categories: state-owned and privately owned housing developments. The former refers to housing stock that is owned by the state and managed by public companies. The land is typically zoned for public purposes and owned by a local municipality. Analogous to a public-private partnership in the United States, these developments must remain at a price point at least 20 percent below market pricing for an indefinite period. In addition, there is privately owned affordable housing, in which housing developments are constructed and managed by private developers and often integrated into market-rate developments. Unlike publicly owned housing developments, privately owned developments are typically only required to remain affordable for 20 years.

Because of the housing shortage and real estate wealth gap, there are many affordable housing initiatives in progress in Israel. One development is in the Ramat Eshkol neighborhood in Lod. The 8,000-resident neighborhood is one of the poorest in Israel, scoring the lowest on the nation's socioeconomic ranking. It is a mixed Arab/Jewish population with 33 percent of the households having no working adult.

The new development is based upon a mixed-income, mixed-use concept with counsel and partnership from Richard Baron, chairman of St. Louis-based developer McCormack Baron Salazar. The public-private partnership will include a comprehensive and holistic

approach, including both for-sale and rental housing, a community center, an arts and cultural center, and a public greenway. The intended rental mix will be 60 percent market-rate and 40 percent affordable. The city of Lod will provide needed infrastructure, perform site preparation, install utilities and provide gap funds for the affordable units. The private developers will be a partnership between the NGO/nonprofit Jindas and Azorim. Jindas focuses on urban regeneration through housing, economic development, health and education. Azorim is one of Israel's top private apartment developers.

Brazil

Housing for low-income populations has long been a widespread problem throughout Latin America, where subsidized housing programs have traditionally been nonexistent. While economic growth in Brazil has enabled the country to grow to one of the largest economies in the world, subsequent population growth has led Brazil into a housing deficit affecting 28.5 million people, mainly in low-income markets. Sao Paulo State has the greatest housing deficit, approximately 1.48 million homes. However, new public-private partnerships are representing the first legitimized attempts for large-scale solutions to Brazil's housing affordability crisis.

Created in 2009 by the federal government, Minha Casa Minha Vida (MCMV) is the largest affordable housing initiative in Brazil's history. Since 2009, the MCMV program is responsible for creating more than 4.5 million units of affordable housing.

A key consideration and critical success factor of the MCMV program is the interplay between housing, employment and transit. A key constraint with large-scale affordable housing developments is the ability to find developable land that is both near a city's urban core and has the ability to be integrated with public

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transit in way that is economically viable for all major stakeholders. While a daunting proposition, MCMV has been able to achieve this to varying levels of success.

In the city of Rio Grande, land located adjacent to the city center and already equipped with public transportation infrastructure was contributed by the federal government for the creation of a community that will feature 1,300 affordable homes for low-income families. The community will focus on maintaining and creating access to education, health and transportation to ensure the stability of its residents. While the efficacy and quality of this program has been debated, the ability to successfully cultivate an affordable housing program near a large transit center has largely been considered a step in the right direction.

Lessons

Examining affordable housing and highlighting innovative developments across the globe can help us analyze the problems faced in America's housing crisis. In all developments and countries highlighted above, the use of public-private partnerships proved pivotal in creating more affordable housing than otherwise would have been created. While public-private partnerships are not a new or even controversial affordable housing mechanism in the United States, the enormity of scale, evaluation of site location criteria and implementation tactics are all topic worth further exploring. ❖

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This article first appeared in the July 2020 issue of the Novogradac Journal of Tax Credits.

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