Is Affordable Housing still viable in metropolitan urban development?

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Outline

- Housing: State vs. Market Responsibility
- Policy for affordable housing (European perspective)
  - Traditional approaches
  - New approaches
    - (Switzerland)
    - Germany
- Conclusions
Public responsibility vs. Market

The right to adequate housing:

- "...The human right to adequate housing, which is thus derived from the right to an adequate standard of living, is of central importance for the enjoyment of all economic, social and cultural rights."


Responsibility vs. Market

1. State responsibility to care for people in unadequate living/housing conditions
   → e.g. UN (Human rights), Council of EU, National Constitution in many countries

2. Market: Housing is important part of property market, but ...
   → Free market forces (without rules and strategies concerning affordable housing) are unable to provide sufficient affordable housing supply
Affordable housing

House cost burden (EU 2010)

Fig. 4: Share of housing costs as a percentage of disposable income in the EU 27 by poverty status (2010)

Source: Pettini, A. 2012: CECODHAS Housing Europe: Housing Europe Review 2012, p. 3

*Population at risk of poverty*: Income below 60% of median national income

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Necessity of affordable housing in Europe

- Households considered as ‘overburdened’ if housing cost occupy more than 40% of disposable income
  - In 10.1% of European households,
  - In 37% of the population at risk of poverty (Pettini 2012)

- In metropolitan cities the number of overburdened households and the need for affordable housing will be much higher (e.g. City of Cologne → 40% overburdened households)

- Average social housing construction rate in Germany: 6 – 9% of total construction units (last decade)

- Additional problem: increasing house prices
Remark: It is worth mentioning that house prices are calculated according to different methodologies at the national level.


Source: European Mortgage Federation, Report Q3/2013, p. 3.


Fig. 3: Nominal House Price Indices 1996 - 2010 (1996 = 100)

Source: European Mortgage Federation
Offered rents in German metropolitan cities

Source: Waltersbacher, BBSR, Vortrag 24.03.2014, Bonn

Germany: Condominium price development

Necessity of affordable housing in Germany

Affordable housing is a top agenda issue
esp. in big cities in Germany and other European countries.

Which approach is successful?

Affordable housing – Traditional approach
In Germany: State-dominated approach (1960 – 2000)

a) Social housing – separate market sector
b) Special stakeholders (limited-profit-companies)
c) Land banking by public or semi-public bodies
d) Strong tax incentives (e. g. declining depreciation)
e) Financial aid (ca. 1 Bill. € p. a.)
   (subject-based subsidies)

Rules and ceilings for
- disposable income
- size of flat, number of rooms

Rules cancelled in 1990s

Bild: Berlin Kottbuser Tor, Soziale Stadt
Traditional approach - results

- Big volume of new social housing stock (+)
- Expensive for the public budgets (-)
- Many side-effects (undesired) (-)
- Unilateral urban and social structures (--) → today’s urban renewal areas

Example Germany
Urban Land Strategy

New Approaches in German Metropolitan Cities

- „Baulandmodelle“ (Urban land strategies)
- Local framework to implement urban development projects
- Cooperative models
  → Aim: Transparent cooperation between local authority and each investor
- Details fixed in „urban development contracts“ before detailed development plan is passed
Example Germany
Urban Land Strategy

Example: Redevelopment Hospital Area Stuttgart

Balance in Stuttgart Land Strategy

Fields of action of Urban Land Strategy (Stuttgart)

I
Affordable Housing
20 % quota
(flexible implementation)

II
Re-Financing
Public Services
Land + Costs

III
Urban Qualities
Planning + Implementing Standards

Source: Stadt Stuttgart, Stuttgarter Innenentwicklungsmodel, www.stuttgart.de

XXV. FIG Congress Kuala Lumpur – 18. June 2014
Prof. Dr.-Ing. Winrich Völl
Example Munich

New residential development (Bebauungsplan)

<table>
<thead>
<tr>
<th>Size in m²</th>
<th>Density Index (GFZ)</th>
<th>Gross floor space (in m²)</th>
<th>Eurom² GF</th>
<th>Value in Mio. €</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public green</td>
<td>2.500</td>
<td>100,–</td>
<td>–</td>
<td>0,25</td>
</tr>
<tr>
<td>Ecological compensation</td>
<td>1.000</td>
<td>100,–</td>
<td>–</td>
<td>0,1</td>
</tr>
<tr>
<td>New road</td>
<td>1.000</td>
<td>100,–</td>
<td>–</td>
<td>0,1</td>
</tr>
<tr>
<td>Infrastructure facility</td>
<td>1.500</td>
<td>100,–</td>
<td>–</td>
<td>0,15</td>
</tr>
<tr>
<td>New residential area</td>
<td>14.000</td>
<td>857,–</td>
<td>15.000</td>
<td>800,– 12,0</td>
</tr>
<tr>
<td>Summa</td>
<td>20.000</td>
<td>15.000</td>
<td></td>
<td>12,0</td>
</tr>
</tbody>
</table>

Example Germany
Urban Land Strategy

Calculation example – details of costs

- Land development cost:
  - Land for public services (100 %) 0,60 Mio. €
  - Provision of services (100 %) 0,33 Mio. €
  - Infrastructure facility (66 €/m² GF) 0,90 Mio. €
- Affordable housing 30% GF:
  - Loss in land value 1,76 Mio. €

Calculation: 30% affordable housing quota - loss in land value

<table>
<thead>
<tr>
<th>Type of housing</th>
<th>Free market housing</th>
<th>Social housing by rent</th>
<th>Afford. housing Owner occup.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accepted price (€/m² floor space)</td>
<td>800,–</td>
<td>281,20</td>
<td>536,65</td>
</tr>
<tr>
<td>Proportion in %</td>
<td>70</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Floor space (in m²)</td>
<td>9.450</td>
<td>2.700</td>
<td>1.350</td>
</tr>
<tr>
<td>Loss in land value per m²</td>
<td>–</td>
<td>518,80</td>
<td>263,15</td>
</tr>
<tr>
<td>Loss in land value (€)</td>
<td>–</td>
<td>1.400.760</td>
<td>355.253</td>
</tr>
</tbody>
</table>
Urban Land Strategy: Calculation example

Valuation I (undeveloped):
- Size project area: 20,000 m²
- Value undeveloped land: 100 €/m²
- Investment undeveloped land: 2,000,000 €

Valuation II (developed):
- Size of developed land: 14,000 m²
- Value of developed residential land: 857 €/m²
- Value developed land: 12,000,000 €
- Value public space (6,000 m²): 600,000 €

Calculation (developer & municipality):
- Gross land value increase: 10,60 Mio. €
- Land development cost: 1,83 Mio. €
- 30% affordable housing (loss in value): 1,76 Mio. €
- Net value increase: 7,01 Mio. €
- (Minimum 1/3 net value increase): 3,53 Mio. €

Example Germany
Urban Land Strategy

Economic impact of the Munich Land Strategy

- Value undeveloped land
- Value developed land
- Value developed land (net)
- Gross value increase
- Net value increase
- Property value in Mio. Euro
- Land for public services
- Provision of services
- Social infrastructure
- Affordable housing
- Net value increase
- Gross value increase
- Value undeveloped
Many successful example. Here: Arabellapark Project Munich

Premises with 30% affordable and 70% free market housing in favorable location!

Essentials of urban land strategies

- Distribution of powers:
  - Planning law must be used progressively
  - Planning administration must be (made) strong

- Agreement in local politics (about land question)

- Willingness to make project transparent (calculation)

- Property valuation is most important

- Surveying departments are coordinaters
Conclusions – Support affordable housing

• Traditional approaches ↔ More-market-approaches

• Switzerland:
  • Using scarce urban land more efficient
  • Improve markets by strengthen rent transparency

• Germany:
  • Urban land strategy for metropolitan regions
  • Min. 1/3 net value increase
  • Transparency necessary (project costs, land values)
  • Basis to negotiate win-win-situation

• Assignable to other countries? → Yes!

Thank you for your attention!

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