



**HOUSING
AS A TOOL
TO IMPLEMENT
OBJECTIVES AND POLICIES
OF THE UNION**

THE ADDED VALUE OF INVESTING IN AFFORDABLE HOUSING

Probably the most self-evident argument in favour of investing in adequate and affordable housing is that it allows people to fulfil a basic human need, and it enables access also by people on low incomes who would otherwise risk being excluded from the housing market. Importantly, it also provides gain in purchasing power for residents who can benefit from reduced housing costs. But providing good quality social and affordable housing can also lead to a variety of additional positive outcomes. UNECE points out that housing is 'an integrative good, it is linked to many other sectors such as: health, economic security, energy security, transportation, education, employment. Housing also influences issues such as social cohesion and neighbourhood security [...]' (UNECE, 2015).

This means that providing good quality social and affordable housing can actually help reducing other areas of public spending such as healthcare, social protection and social services, while at the same time stimulating growth and local employment. There is a growing body of evidence pointing in this direction, and we will present some of these arguments below.

Investing in good quality social and affordable housing can significantly improve health. According to a recent report covering the whole European Union (Eurofound, 2016), inadequate housing costs EU economies nearly €194 billion per year - in direct costs associated with healthcare and related medical and social services, and indirect costs such as lost productivity and reduced opportunities. To bring the standard of housing up to an acceptable level would cost about €295 billion, an investment which would be repaid within 18 months by savings in healthcare and better social outcomes.

Integrated housing support is an efficient tool to improve protection of vulnerable groups. A recent OECD study found that 'The public service cost of caring for the chronically homeless can be up to three times higher than a supported housing response, where care services are provided in the home. Models that provide housing first and then integrate health and social care support are effective treatments for chronic homelessness (OECD, 2015)'.

Positive outcomes of investment in affordable homes include a stimulation of the local economy through its multiplier effect. However, such impact varies significantly depending on location (Monk, Tang and Whitehead, 2010). As an example, the Welsh Economy Research Unit (WERU) report, prepared by Cardiff University on behalf of Community Housing Cymru (CHC), investigates the wider economic impact of Welsh housing associations. In addition to the £1,027m directly spent by housing associations, transactions between different sectors of the economy have allowed the effect of the spending to be traced through the entire Welsh economy. These indirect impacts are estimated to be £921m. The combined direct and indirect economic impacts total almost £2bn. Gross Value Added (the measure of how much actual wealth is created in an area) for 2013/14 was £267m (Welsh Economy Research Unit, 2015). In England, the National Housing Federation has produced a Local Economic Impact Calculator which allows housing associations to estimate the economic impact of their activities.

STATE OF PLAY ON EU FUNDING AND HOUSING

The financial needs in the social, cooperative and public housing sectors translate in different ways: the number of people on the waiting lists, the gap between the increase of households and the increase of new build in one specific area, the number of young persons aged 18-34 still living at their parents' home, or the over crowdedness in existing dwellings. These issues are all illustration of the housing crisis that many Member States and local authorities are facing. As this report has pointed out, the share of public spending in affordable house building has not hit its pre-crisis level and in the meantime the trend seems to be a state retreat from social, cooperative and public housing. In its mission to "encourage economic integration & promoting social cohesion"¹ the EU provides significant structural and financial support to Member States mainly via the instruments of Cohesion Policy, Strategic Investment, EIB lending.

COHESION POLICY AND HOUSING

In 2014 - 2020, the approach of Cohesion Policy has significantly improved towards housing compared to the last period: larger budget for housing, specific allocations in INTERREG and UIA, better combination of funds and more strategic focus. The New Investment Plan, called the EFSI also brings a new hybrid opportunity of financing besides only private or public support.

In the current programming period, European Structural and Investment Funds (ESIF) provide with several opportunities for housing. This is notably the case for activities related to promoting energy efficiency as well as activities related to the regeneration and social inclusion of deprived urban areas.

Some key differences between the current and the previous period include a potentially larger budget, more strategic focus, and the possibility of combination of funds.

As far as the strategic approach is concerned, in 2014-2020 the key sectors are those which allow long-term, smart and sustainable development such as research, innovation, technology, and low-carbon economy. As mentioned above, the support to the low-carbon economy is the most significant (20% of ESIF is dedicated to support low carbon economy). Amongst others like smart distribution, renewable energy, research and innovation, energy efficiency receives the largest share of funding for low carbon economy. The contribution of the Cohesion Policy to low carbon economy through ERDF and Cohesion Fund is clearly more ambitious than in the previous period.

Talking about the total allocation, in 2007-2013, the total expenditure for housing related projects was around 2 billion € and this was focused on the energy refurbishment of housing for low-income families. During the current period, we can already see a significant improvement in terms of planned expenditure: the foreseen total expenditure only under energy efficiency is at least € 5,5 billion which can be - among others - explained by the EU target of 20% increase in energy efficiency until 2020². Besides energy efficiency, the EU-13 has the possibility to invest in social infrastructures (urban regeneration, promoting social inclusion through improved access to social, cultural and recreational

¹ According to the Treaty of Maastricht

² https://ec.europa.eu/clima/policies/strategies/2020_en

services etc.) as well. For example, Slovakia, Belgium, Portugal and Estonia rely more on the social inclusion, while Italy, Lithuania, Sweden and Luxembourg are more focused on energy efficiency. Slovakia, Portugal and Estonia also set social inclusion related aims: Slovakia sets 'Social inclusion and technical facilities with marginalised Roma communities' and 'Facilitation of the transition of social services' as ones of the main priorities. The Czech Republic, Bulgaria, Hungary and Romania have a similar approach by including measures targeting the integration of marginalized groups, including Roma in their programmes. Overall, our previous report "Structural Funds and Housing 2014-2020" showed that 77% of Operational Programmes allow investment in housing.

Regarding the possibility to combine funds and use funds with more flexibility, Member States may use financial instruments³ (i.e. EU funds in the form of repayable loans, guarantee or equity) in relation to all thematic objectives at regional level. This normally leads to a better combination of financial instruments with other forms of support. To give an example of the combination, the European Social Fund (ESF) and European Regional Development Fund (ERDF) can be combined to achieve *low-carbon and resource-efficient economy, through the improvement of education and training systems necessary for the adaptation of skills and qualifications, the up-skilling of the labour force, as well as the creation of new jobs in sectors related to the environment and energy*⁴. This could be also used for instance to train unemployed tenants.

In the current period, 88 % of ESIF consists of grants; the remaining 12% is financial instruments (loan, equity, and guarantee). This latter represents an increased proportion compared to the previous programming period and the European Commission is likely to push for bigger share of financial instruments in the years to come.

All in all, the Cohesion Policy is making an increasingly important contribution towards EU challenges and although these funds offer significant opportunities, their implementation represent an important challenge in terms of the readiness in the Member States. The challenge include financial barriers (especially in the case of financial instruments), administrative obstacles due to capacity and lack of understanding and expertise of the applicable rules (combination of Cohesion Policy funds with other financing). These are differently present in member countries, depending on their governance, type of their housing stock, and regulatory framework.

EIB SUPPORT

The European Investment Bank (EIB) has been supporting the construction and renovation of social housing for many years. The housing sector is one of the EIB target areas and between 2011 and 2015, around €6 billion has been granted in loans for the development of social housing by the bank. Recent loans for housing include a € 200 million loan the Dutch Portaal Housing Corporation for energy efficient refurbishment; a € 120 million loan to Germany for the construction of refugee accommodation; a 1 billion GBP loan to the Housing Finance Corporation in the UK to build 20000 new homes in the frame of the Affordable Housing Finance Programme. EIB loans are not only provided for "normal"

³ http://ec.europa.eu/regional_policy/en/funding/financial-instruments/2007-2013-changes/

⁴ State of Housing in the EU, 2015, page 96

social housing. Recently, a 120 € million loan has been granted to Investitionsbank des Landes Brandenburg (ILB) for the refurbishment and construction of refugee accommodation in different parts of the Federal State. Overall, the project is expected to deliver housing for many of the asylum seekers arriving in Brandenburg until 2018.

In addition, the EIB recently started investing in new countries as well, such as Malta, Poland, Spain, Portugal and Ireland, and noted that other countries should follow⁵.

Investing in housing is not only beneficial because of the stable return on investment or the generation of multiple socio-economic benefits, but also because of the stability it gives to the governance structures in the housing sector. As whether the financing is provided for renovation or new construction, the assurance of management and ongoing maintenance of the properties along with community outreach is ensured. All those elements contribute that the allocated money will be channelled to high quality projects.

STRATEGIC INVESTMENT

As a decreasing commitment to supply-side measures can be observed on national level⁶ and non-repayable grants tend to decrease in favour of other forms of support, access to private funding is gaining importance in the sector. Innovative ways to finance the economy are also taken into account by the EU. The relatively new, hybrid system, called the Juncker Plan (full name is European Fund for Strategic Investment - EFSI) which was launched in 2015 is a good example.

As EFSI provides funding for economically viable projects where it adds value and contribute to EU priorities, therefore, it fits the need of filling the market failure gap in the case of high risk profile projects that would not have the chance to get financing under EIB traditional lending. EFSI is a tool to guarantee and mobilise private investment in line with Europe 2020 objectives.

The social housing sector's experience with EFSI so far include projects such the construction of 12,000 energy efficient housing (intermediate units) in France, the renovation of several hundreds of housing units as part of the urban regeneration of Lisbon or the construction of 1300 affordable residential units in Poland⁷. However, the 4% uptake of the overall EFSI budget on social infrastructures⁸ signals some obstacles for the use of EFSI in the social housing sector, such as:

- The deficit rules in the Stability and Growth Pact and the lack of the systematic use of investment clause to encourage more social investment.
- The Eurostat classification (which leads some Member States

⁵ *Intervention of Gerry Muscat, Head of Division Regional and Urban Development, EIB, Half-day EIB seminar organized by Housing Europe, Brussels, 13rd June 2016, Brussels*

⁶ *Public spending on 'Housing and community amenities' as % GDP decreased in 15 countries since its pre-crisis levels. It remained stable in 9 countries and even slightly increased in 4 countries, but in all these cases it was starting from very low levels. Eurostat, February 2017*

http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_expenditure_on_housing_and_community_amenities

⁷ See more on EFSI project list:

www.eib.org/efsi/efsi-projects/index.htm

⁸ *Investment Plan brochure, 21 June 2017, page 5*

https://ec.europa.eu/commission/sites/beta-political/files/brochure-investment-plan-17x17-june17_en.pdf

to choose to put social housing in the perimeter of public administration when calculating the public deficit).

- Basel III rules on risk-weighted assessment and liquidity ratios (higher risk weighting and increased capital requirements would have a potential negative impact on lending to housing associations).

Furthermore, distribution of EFSI support shows that investments are concentrated in wealthier countries. The small size of the projects as well as the general economic conditions in some EU countries (especially in Southern Europe) are still obstacles to bigger involvement of the EIB (and EFSI as a guarantee for EIB loans). As the EIB works to maintain its AAA rating, the EFSI should be an opportunity to invest in activities and areas where access to capital through existing channels face limits.

In terms of the extension of the programme, the negotiations between the EU institutions is on-going, however we can already note their high support⁹ for an extended financial capacity, enhanced geographic coverage; earmarking for COP21 commitments; more targeted technical assistance to regions that face difficulties; closer cooperation between EIB and financial intermediaries; setting up new intermediary platforms; and new instruments for social services. For the social housing sector, other features would be also crucial in the future EFSI, such as:

- Technical assistance for developing sector based intermediaries which could cluster smaller projects
- Integrated approach with other social infrastructure investments (e.g. housing, healthcare)
- Involvement of social investment experts in the Advisory Hub which would facilitate the faster take-up of the sector.

In terms of the desired financial intermediaries, the lead organization needs to pass through lending rate to developer (+operating expenses) unlike commercial bank, providing long term financing at fixed rate (commercial bank requires refinancing), and acting in the public interest (which is reducing programme risks). The Housing Finance Corporation in the UK is a type of an entity which illustrates the sectorial approach.

Finally, the commitments of the European Commission in the context of the EU Pillar of social rights which strongly express the need for social investment should be also reflected in the EFSI. With the appropriate improvement, in long term, EFSI can finance high risk projects without project partners losing their triple A rating.

STATE OF PLAY ON POST-2020 AND THE FUTURE OF EU FUNDING

The negotiations on the 2021-2027 period have already started. The European Parliament, in its report on the 'post-2020 Cohesion policy'¹⁰ recommends to keep ex-ante conditionalities and partnership principle due to their high contribution to results. In addition, the Parliament also highlights that long-term objectives should remain the core function of cohesion policy and that there must be a balanced link

⁹ Press release of the EP of 15 May 2017
www.europarl.europa.eu/news/en/news-room/20170515IPR74885/meps-want-future-oriented-investments-in-neediest-eu-economies

¹⁰ Report details
[http://www.europarl.europa.eu/oeil/popups/ticheprocedure.do?lang=&reference=2016/2326\(INI\)](http://www.europarl.europa.eu/oeil/popups/ticheprocedure.do?lang=&reference=2016/2326(INI))

between cohesion policy and economic governance processes. Furthermore, the European Parliament expresses its concern about the suspension process of ESIF which it calls 'very counter-productive' linking the sanctions to deficits. Therefore, it advocates for not taking national co-funding into account in Stability and Growth Pact.

Some dialogue between the European Parliament and European Commission already started concerning the future indicators, acknowledging that the GDP indicator only is not enough to measure performance, thus alternative indicators should be studied.

The reflection paper on 'the future of EU financing'¹¹, prepared by the European Commission gives some inputs in the debate on how big the EU budget should be and how it should be financed. The report puts forward an idea of reducing economic and social divergences between and within Member States and providing incentives to support structural reform in line with the Semester process. Moreover, the Commission recognises that the financial instruments are only appropriate for revenue-generating projects and the existence of grants are crucial for projects with social impact, however it can be observed that it proposes the increased share of financial instruments as a general principle. Finally, the Commission is also looking at possibilities to set a single set of rules for existing funds to increase coherent investment and to ensure consistency between cohesion policy and competition policy (in particular state aid rules).

Overall, the reflection paper serves as a basis for a discussion between Member States and Institutions and contributes to the legislative proposal for the next programming period. It will be key in the years to come that the EU Cohesion Policy further supports these positive experiences and helps Europe house responsibly so that all citizens can benefit. For this, simplicity in accessing funds for those engaged on the ground will be key. The possibility to blend grants and loans (Structural Funds, EIB loans, European Fund for Strategic Investments etc.) is vital.

HOUSING, MIGRATION AND INTEGRATION

2015, the year with the highest number of displaced persons worldwide since World War II (EMF, 2016), marked an extraordinary influx of immigrants to Europe. However, the issue goes far beyond the refugee crisis and changes the social dynamics of the continent.

As large-scale migration towards and within Europe is becoming a norm, cities, local government and relevant stakeholders like providers of affordable housing in many countries are already offering solutions to the integration of refugees. Part of the daily job of social housing providers is to understand residents' needs and provide early support, which could take various forms: from employment and skills training to advice on welfare support and direct care provision - as highlighted by the examples below.

¹¹ Paper published on 28 June 2017
https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

Horton Housing Association in Bradford, UK

Horton Housing Association in Bradford works closely with partners including Bradford Council, private landlords, schools, its own training centre and other training providers and the Job Centre to make sure people coming to the city are given a warm welcome. Horton Housing Association provides accommodation, housing, healthcare and wrap-around support for 12 months to enable refugee families to settle into their new life in the UK. They are encouraged to engage in community activities and events, attend training, voluntary work and employment. Intensive support tapers off towards the end of 12 months as independence increases, but Horton Housing continues to keep in touch and offers support through a drop-in service twice a week should it be needed.

Startblok Riekerhaven in Amsterdam, the Netherlands

Startblok Riekerhaven is an innovative example. Startblok offers apartments built on former sports-grounds to refugees who have recently received their residence permit (status-holders) and to young persons from the Netherlands. The two groups are not only encouraged to mix socially but to think of themselves as building a new community together. They organize joint activities, like movie nights and football matches. Through a buddy system, they learn about each other's cultures. They also share responsibility for maintaining the buildings and grounds, a "self-management" structure intended to unite all the residents in the common cause of caring for their living space. Startblok offers 565 housing units consisting of 463 studios and 102 rooms in shared flats. Since July 2016, more than 550 young adults under the age of 28 have been living here. Half of them are Dutch, including students and others without the means to afford Amsterdam's high rents.

Gewobag in Berlin, Germany

In 2015 alone, 80,000 refugees arrived in Berlin. The Federal State of Berlin has identified integration as an important task. The public housing company Gewobag Wohnungsbau Aktiengesellschaft in Berlin recently launched a project for integration of refugees through the individual development of their vocational and professional qualifications as well as language skills, to help them enter the local labour market. This project was among the winners of the 2016 European Responsible Housing Awards.

THE EU PILLAR OF SOCIAL RIGHTS FROM THE SOCIAL HOUSING PERSPECTIVE

In spring 2017, the European Commission officially presented the long awaited European Pillar of Social Rights. The Pillar sets out 20 key principles and rights to support fair and well-functioning labour markets and welfare systems. What is very crucial for the housing sector is that the European Commission considers access to social housing as part of the Pillar. This suggests that it considers that a good social policy should promote access to social housing. More in detail, the Commission recognises the importance of:

- Access to social housing or housing assistance of good quality shall be provided for those in need.
- Vulnerable people having the right to appropriate assist-

ance and protection against forced eviction.

- Adequate shelter and services shall be provided to the homeless in order to promote their social inclusion

SOURCES OF CONCERN

In terms of the legal nature of the Pillar, these principles and rights are not directly enforceable which means - as the European Commission explains - that 'they require a translation into dedicated action or separate legislation, at the appropriate level'. Important question is that how we can make sure that these rights and principles will be implemented. As is primary the responsibility of the Member States level, the EU can act according to the Treaty of Maastricht:

- Enforcement of the already existing acquis
- Social dialogue
- Policy guidance and recommendation through the European Semester
- Financial support
- New social scoreboard allowing for a monitoring of progress in terms of performances

The already existing acquis indeed needs to be better enforced, notably the Art 34 of The Charter of Fundamental Rights of the European Union which affirms recognition and respect of the right, inter alia, to housing assistance. As for the recent measures of the European Union towards the right to housing include:

- A Commission Recommendation of 2008/867/EC laying down that Member States should provide services that are essential for supporting social inclusion policies, such as housing support and social housing.
- A Commission Recommendation of 2013/112/EU which addresses the housing and living conditions of poor children.
- The Union Framework for National Roma Integration Strategies which recognises housing as a key area of intervention for the inclusion of disadvantaged Roma people.
- The Directive of 2012/29/EU of the European Parliament and of the Council establishing minimum standards on the rights, support and protection of victims of crime provides for the provision of shelter or any other appropriate interim accommodation.
- Finally, the UN Convention on the Rights of Persons with Disabilities also recognises the right to an adequate standard of living for people with disabilities and their families, including adequate housing, and to access to public housing programmes.

There is no doubt that the EU Pillar of social rights is the first clear attempt of the European Union to cover the different aspects of the right to housing in a comprehensive way. However it is mostly the Member States which have a major role to play here. The European Commission can only invite the Member States to adopt measures - according to the 3 principles - on national, regional or local level for more effective housing policies and to support universal and rapid access to shelter.

Another concerning aspect is that as a first try the European Commission plans to apply these principles in the EMU area and the Pillar will stay open to other Member States who are willing to join. This can definitely widen the gap in the efficiency of housing policies between South-North and East-West.

EU FUNDING GOING SOCIAL

It is positive that beyond the usual EU funding instruments such as ERDF for housing infrastructure and ESF for social services, the European Commission also mentions the EFSI for social housing investments. However, the affordable housing sector needs a greater push as according to the data of EIB, only 4 % of the Fund has been used for investments in social infrastructure. Finally, even though 95 % of FEAD is currently used for food assistance to homeless persons, the 5 % accompanying measures represent an important tool that need to be enhanced.

EUROPEAN SEMESTER AND THE NEW SOCIAL SCOREBOARD

The initiative of the European Commission to link the European Pillar to the European Semester is very much welcomed by Housing Europe. As the European Commission explains in the Pillar documents, 'the reform of social housing, the accessibility and affordability of housing, as well as the effectiveness of housing allowances' will be monitored and assessed in the Semester process and the Social Protection Committee will be following the progress.

However, it is rather disappointing that no indicator in the Social Pillar Scoreboard refers to housing. We can only find indicators such as

- People at risk of poverty or social exclusion (% of total population)
 - Severe housing deprivation rate (% of total population living in overcrowded dwellings and exhibiting housing deprivation, by tenure status)
- which will not give a clear picture either on housing affordability, access to housing or on the effectiveness of housing allowances. Thus, there is no way for the Commission to follow whether Member States are making progress on the right to housing. Additional indicators (such as housing cost overburden by Eurostat) need to be taken into consideration as soon as possible by the European Commission and Social Protection Committee. Harmonizing the scoreboard with the housing related indicators of the Agenda 2030 (SDGs) such as
- Overcrowding rate
 - Housing cost overburden
 - % of population affected by fuel poverty (unable to keep homes adequately warm)
- would save energy of the institutions and can ensure a hands-on follow-up in long term.

HOUSING AND THE EUROPEAN SEMESTER

The European Commission published its annual country specific recommendations to the member states on 22 May 2017. Despite the fact that the country analysis published earlier in the year (which constitute the basis for recommendations) included detailed analysis of the housing markets in each country, only four countries have received recommendations related to housing in 2017.

- **Netherlands:** Use fiscal policy to support domestic demand, including investment in research and development. Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility.
- **Ireland:** Enhance social infrastructure, including social housing and quality childcare; deliver an integrated package of activation policies to increase employment prospects of low-skilled people and to address low work intensity of

households. Encourage a more durable reduction in non-performing loans through resolution strategies that involve write-offs for viable businesses and households, with a special emphasis on resolving long-term arrears.

- **Sweden:** Address risks related to household debt, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, while constraining lending at excessive debt-to-income levels. Foster investment in housing and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and revising the design of the capital gains tax.
- **United Kingdom:** Take further steps to boost housing supply, including through reforms to planning rules and their implementation.



Find out more:

- *2017 European Semester: Country Specific Recommendations / Commission Recommendations*

https://ec.europa.eu/info/publications/2017-european-semester-country-specific-recommendations-commission-recommendations_en

HOUSING AND THE EUROPEAN ENERGY POLICIES

INTRODUCTION

There is a clear consensus about the important role of housing retrofitting in meeting the climate objectives that have been collectively agreed in order to halt global warming. However there is a lack of detailed understanding about the drivers for energy renovation, despite a vast number of recent EU projects and reports¹². The EU policies in the field of energy have therefore a role to play in order to shape the adequate framework for more and affordable renovated homes. The social housing segment is particularly relevant for policy makers: although social housing, cooperative and public housing make on average only 11% of the housing stock of the EU countries, their energy performance is on average better than the private rental or the homeowners sectors, the expertise of social housing providers in renovation activities is getting increasingly strong and it is the segment who by definition caters for low-income families, people with special housing needs and more generally people who can't find a decent and affordable accommodation on the private rental market nor through access homeownership. Making renovation affordable for low-income social housing residents is the key question for social housing providers.

The EU policies in the field of energy have tried to cope with the main challenges of quality of supply (for both renovation and new build), low cost finance, regulation (such as the split incentives) and the aggregation of demand.

I. Quality of supply: towards nearly zero energy homes in the social, cooperative and public Housing sector and cost optimal refurbishment

The European Union (EU) sets a series of requirements for newly built homes. Existing requirements from Energy Performance of Buildings Directive are about making sure that

¹² For instance: www.powerhouseeurope.eu

all new buildings will be nearly zero-energy by the end of 2020. As the Directive states 'nearly zero-energy building' means a building that has a very high energy performance, as determined in accordance to national standards using commonly agreed principles. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby. To achieve nearly zero energy homes in the new build by 2020 would require an improvement if not transformation of the supply chain, chiefly in the construction sector. There is indeed a growing consensus about the importance of the construction industry in achieving a fair energy transition but also about the need to boost innovation and productivity in the sector to build and renovate more buildings in a cost efficient way.

To address innovation and productivity, part of the industry is moving toward a manufacturing-inspired mass-production system, in which the bulk of a construction project is built from prefabricated standardized components off-site in a factory. In countries like the Netherlands¹³, France, UK, Germany, agreements between housing providers and construction/renovation companies have been struck and might give rise to a new wave of renovation of social housing in the years to come.

II. Low cost finance for energy efficient social, cooperative and public housing

The question of the financing of renovation of social housing remains an important one in the debate about the energy transition. The volume of investment needed for the renovation of one apartment is still an obstacle for many owners (be they homeowners, private or social landlords). It is therefore crucial that the cost of financing is brought down. The right mix between private finance, public support and own capital needs to be found by social housing providers in various national legislative contexts.

How does the EU address this? The draft revised Energy Performance of Buildings Directive states in its article 2¹⁴ that "To guide investment decisions[...], Member States shall consider the introduction of mechanisms for: (a) the aggregation of projects, to make it easier for investors to fund the renovations; (b) reducing the perceived risk of energy efficiency operations for investors and the private sector; and (c) the use of public funding to leverage additional private-sector investment or address specific market failures". This calls for mechanisms that will help housing providers get access to low cost capital. However the implementation phase of the revised Directive might be too long to create a significant boost in the market. Other currently existing initiatives have to be mobilised. The European Fund for Strategic Investment (EFSI) could be used in that sense since it combined a guarantee from the European Commission and loans from the EIB in order to attract match funding from public or private entities. The use of the European Structural and Investment Funds in particular in the form of financial instruments (revolving funds) and project development assistance (PDA) have also to be considered.

¹³ See for instance the *EnergieSprong* approach of retrofitting: <http://energiesprong.eu/> and the "serielles Bauen" concept for new construction in Germany: <http://web.gdw.de/wohnen-und-stadt/serielles-bauen/3570-seriellesbauen>
¹⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1490877208700&uri=CELEX:52016PC0765>

III. Regulation on split incentives and the use of energy savings to cover cost of investment

One important aspect of successful business models in the field of renovation is the fact that tenants contribute financially to the cost of renovation. For instance, the possibility to use "energy plan" paid by the tenants to the renovation companies (instead of paying energy bills paid to energy providers) is related to the national legislation. Indeed some countries like France, UK, Belgium considerably limit the possibility for housing providers to use energy savings to pay for the investment (part of the energy savings should directly benefit tenants) or to increase the rents after renovation¹⁵. This is typically a case of split incentives.

How can the EU address this? Article 19 of the Energy efficiency directive (EED) provides: "Member States shall evaluate and if necessary take appropriate measures to remove regulatory and non-regulatory barriers to energy efficiency in particular as regards the split of incentives between the owner and the tenant of a building or among owners, with a view to ensuring that these parties are not deterred from making efficiency improving investments that they would otherwise have made by the fact that they will not individually obtain the full benefits or by the absence of rules for dividing the costs and benefits between them, including national rules and measures regulating decision-making processes in multi-owner properties"

The European Commission's role should be to facilitate the exchange of experience between Member States in order to allow a greater use of energy savings. The Concerted Action¹⁶ on the Energy Performance of Buildings Directive (EPBD) is a relevant forum where those regulatory aspects can be discussed

IV. Demand for renovation of social housing

One of the key drivers for an increased demand for renovation of social housing is the existence of a guarantee of performance and a clear division of the roles between the renovation companies and the housing organisations. The concept of energy performance guarantee is linked (although not similar to) the concept of energy performance contracting. Energy performance contracting (or EPC), is recognized as a guaranteed, cost effective and scalable procurement method for reducing the operating costs and environmental impacts of buildings. Under a performance contract, an Energy Services Company (ESCO) with technical know-how provides a comprehensive building retrofit, which can include the replacement of boilers, insulation, cooling systems, and lighting and temperature automation controls, as well as the integration of energy data management software and on-site renewable energy systems. How can the EU address this? The Energy efficiency directive¹⁷ provides in its article 4 paragraph 7c: "Member States shall encourage public bodies, including at regional and local level, and social housing bodies governed by public law, with due

¹⁵ For an overview of the different mechanisms to overcome split incentives: http://publications.jrc.ec.europa.eu/repository/bitstream/JRC90407/2014_jrc_sci_pol_rep_cov_template_online_final.pdf

¹⁶ www.epbd-ca.eu/

¹⁷ For an overview of the different mechanisms to overcome split incentives: http://publications.jrc.ec.europa.eu/repository/bitstream/JRC90407/2014_jrc_sci_pol_rep_cov_template_online_final.pdf

regard for their respective competences and administrative set-up, to use, where appropriate, energy service companies, and energy performance contracting to finance renovations and implement plans to maintain or improve energy efficiency in the long term".

However the lack of awareness and expertise in setting up EPCs and the model of energy performance guarantees in particular for housing providers subject to public procurement rules is a current limit. The European Commission can issue guidance documents for public authorities to incentivise the use the guarantee of performance thus referring to article 4 of the EED. For housing providers subject to public procurement rules, specific guidance on how to use the different form of procurements (for instance competitive dialogue) will be needed.

UNION LAW RECOGNISING THE GENERAL INTEREST MISSIONS OF SOCIAL HOUSING

The general interest missions entrusted by the Member States to social housing providers are recognised by the EU (arts.14 and 106.2 TFUE, art. 36 of the Charter of Fundamental Rights of the Union) as making a contribution towards the Union social and territorial cohesion.

The right to access to social housing is thus recognised, as so is the access to all services of general economic interest (SGEI). The public service obligations related to the conditions of occupation of social housing as a SGEI involves the Member States capping their rents and prices, setting conditions for the allocation of these affordable housing units to households whose requirements in terms of housing are not met by the market, and in general providing security of occupation of social housing via long leases or a right to remain. The recognition of the importance of social housing to meet the Union objectives was bolstered by a Decision taken by the European Commission exempting State subsidies granted to social housing from the obligation of notification. The logic behind this decision is clear: the social objective and the local nature of the activities of the social housing operators led the Commission to consider that they did not affect cross-border trade within the EU in a way that might run counter to the interest of the Union. Therefore, an exemption from notification was granted regardless of the amount of subsidy provided, including for the investments needed to provide social housing on the market.

In an answer to a parliamentary question, Margrethe Vestager, the European Commissioner for Competition, recognised that the Member States had considerable discretionary competence when defining social housing as a SGEI. Indeed, the scope and the organisation of social housing as a SGEI vary considerably from one Member State to another, depending on the history and culture of public intervention and the economic and social conditions that are prevalent in each Member State.

Commissioner Vestager stated that in order to be recognised as a SGEI, social housing must however meet a public need: the provision of housing to economically deprived citizens or to socially disadvantaged groups that, owing to constraints of solvency, cannot access housing under normal market conditions.

Under these circumstances, the Commission thus explicitly acknowledged that social mix and social cohesion were public policy objectives that were in keeping with the objectives of the Union and for which State subsidies may be granted in keeping with the SGEI Decision.