Strategic planning to provide affordable housing. Academic view and a case study.

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Affordable Housing in 21st Century
Strategic Planning for Affordable and Sustainable Housing in Cities
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The problem

- Housing affordability is the household capacity to cover (with its income) housing costs of a particular house.
- There is a traditional association between income/purchase capacity and house/land Prices (Glaeser and Gyourko, 2003):
  - PTI ratio (Price to income)
  - DTI ratio (debt to income)
- Rental market: rising rents relative to income, reduces affordability.
The problem

• The Great Recession
  → lost Jobs and reduce wages
• Soft economic recovery with job creation are concentrated in few sectors and cities
  → Workers move towards those locations
  → Stressing rental market … increases on their prices
• As a result:
  → General increase on affordability problems
  → Social consequences, Li (2015)
  → New affordability problem dimensión, Wetzstein (2017)
Because low income?

• No at all.

• Great Recession primarily affected property financial assets
  → stigma for investors in housing sector

• Mortgage market was shown as $\Delta$ risk sector due to the financial system exposure

• → Diminishing investment and credits flows

• → Constrain housing construction … historical minimum
NUMBER OF DWELLINGS STARTED. PERMISSIONS
(Index 2015=100)

Source: Eurostat
Just because low income?

• Result: Lack on housing supply
  – Increasing prices (Aura and Davidoff, 2008)

No matter the household income, lack on supply increases prices or, simply, makes housing unaffordable because there are not units on the market.

Planning somehow would contribute

Worst for public housing supply!. 2 dimensions

Great Recession destroyed Jobs during the crisis

New households require housing assistance: public houses

Available public house stock is assigned as the housing needs rise

When recovery, public house stock at minimum level (no chance for public policy to act)

Great Recession reduce construction

Housebuilding cycle tends to the minimum

Constrains in public housing construction (finance, materials, labor)

Affordable housebuilding diminishes faster than expected: no new SUPPLY
Coming back to the problem

• Lack on housing supply $\Delta$ supply

New: Increase construction? $\Delta$ Existing units supply

• Public Budget? (framework: Budget constrains)
• Land regulation constrains? (Calder, 2017)
• Turn to private initiative: more units in supply
  – Incentives? to private rental market (Gibb, 2018)
• With private development process
  – Incentives to build public/affordable houses
Land planning role?

- The role of land planning (Cho and Linneman, 1993)
- Intervention… excess of regulation are associated to fall on new supply… Yan, et al.(2014), Pendall (2000), Glaeser and Ward (2009), Quigley and Raphael (2005)…
- Change the supply elasticity, generating affordable problems ..Chesire (2009)

- In general, negative evidence related to land planning impact on housing affordability
Role of land planning. A case
(to improve affordability from the supply perspective)

- **A case study**: Land provision to build affordable houses

- **Regulatory process**: 
  - Main Planning Law establishes a % of total urban land to be assigned the municipality
    - Compulsory
    - Implicates a transference of land ownership from landlord to municipality
  - Only can be used to build affordable/public housing
  - Very debatable in its application
Role of land planning (to improve affordability from the supply perspective)

- Spanish Constitution (art 47).
- The right to a decent house
- Allows using land regulation to guarantee the right to a decent house
- Sets the right of the Society to participate in the capital gains derived from changes in land use

Land planning Law

Participation: transference of land from private landlord to the Municipality (called cesión de suelo)

Land Planning is developed in Partial Plans in which the compulsory land to be transferred to the Municipality is identified

Agreement between public Adm. and the private developers ..affordable houses in the % of land defined by Law in the project
Role of land planning (to improve affordability from the supply perspective)

- After the Land Plan has been approved:
  - The municipalities receive, as a donation, the ownership of the assigned % of total land to develop public/affordable houses.
    - Public Land Patrimony
  - The land is used only for that purpose

- Very debated measure, because:
  - The amount and location of that land is difficult to calculate in those complex acting units/projects
  - The High Court remarks some ‘excess’ from the public power

- Some % of land cessions: 30%, 20% of total urban use .... Madrid pre-crisis: 50%
Thanks for your attention
References


References (2)

- Li, J. (2015). Recent trends on housing affordability research: where are we up to?. Available at SSRN 2555439.
- McLaughlin, R. B. (2012). Land use regulation: Where have we been, where are we going?. *Cities, 29*, S50-S55.
References


