

Call for a 1,000 billion dollar Global Housing Investment Fund

*Marc Uhry (Fondation Abbé Pierre)
Freek Spinnewijn (FEANTSA)*

Next October, the UN will convene its third summit on housing and urban development in Quito (Ecuador), an event which takes place every twenty years.

This event is an opportunity to put housing on the top of the agenda of the UN. There is a need to work together on a global level to improve living conditions and to promote the role housing policies can play to foster economic growth, environmental progress and demographic stability.

Housing is the underlying cause of many societal problems and challenges, and is without any doubt one of the *most* powerful levers for personal progression.

In the global South rural-urban migration is a major issue of concern. The migrant farmers flock into huge insanitary slums which are inflating the new megacities, leading to desperation and very toxic political tensions. In countries that experience rapid demographic growth the coexistence between communities is jeopardized by acute housing shortages.

In the global North, economic prosperity is concentrated in a few big cities which continue to attract millions of individuals and families in search for jobs and welfare. This has provoked a lot of financial speculation, especially in the housing market. At the same time there are many shrinking cities which are facing the complex problem of unsustainable levels of vacant housing.

The Länder of East Germany, England's North-West and many medium-sized cities in France for instance are struggling to avoid collapse, while at the same time middle income households are unable to afford adequate housing in London or Paris. In the big cities of Europe, USA, and Japan, household consumption is being suppressed by rising house prices. The financial return of investing in land creates a concentration of wealth which distorts the economy at the expense of more productive activities. Speculation leads to housing bubbles which seem to burst every ten years causing huge damage to the global economy.

The latest financial crisis from 2007-2008 was caused by the subprime crisis which was speculation by mortgage lenders on price increases of dwellings bought by borrowers in insecure financial situations. As a result, in the USA, between 2007 and 2011, 7 million homeowners were involved in repossession procedures. Record levels of forced evictions have been counted in Ireland, Spain, and Greece following the financial crisis. The burst of the subprime bubble and other housing bubbles has brought financial markets to a halt

as mortgages and repossessed dwellings became suspect and toxic assets which have often been packaged and repackaged in seemingly safe investment products which created further insecurity amongst investors. As a result banks lost power to drive investment and interest rates started to rise. And finally also the construction sector collapsed as uncertainty about prices and profits in the housing market increased and investors fled to other markets. France was certainly not the most affected country, but the construction sector still lost 40 000 jobs between 2012 and 2014, and a further 52 000 in 2015.

It is also important to emphasise the impact of housing on the environment. Buildings (mostly housing) produce one third of CO₂ emissions (in Europe) and therefore their impact on climate change cannot be ignored.

Improper housing policies lead to growing inequalities and can cause major inefficiencies in the global economy. Proper housing policies however can be a lever of social and economic progress. It is thanks to major public investment in the mass construction of social housing that many European countries managed to recover economically after the WWII. The mass construction of social housing allowed these countries to lay the foundation of the cities to the twentieth century which adapted to new forms of land settlement, individual car-ownership, mass-market retailing, coordinated supply of water, electricity, and heating.

Housing will probably become once again the lever of economic growth, the basis for increasing welfare for the citizens and the instrument to address current-day challenges/opportunities related to environmental protection, circular economy, demographic developments, information society, etc.

Housing is the sector which creates the highest number of jobs compared with the money invested. The job creation potential of renovation is even bigger than construction. Every existing dwelling in Europe renovated creates approximately one full-time job for a year.. Current and future housing developments will boost the construction sector but targeted public involvement/investment is necessary to ensure the transition of the construction sector from a highly polluting sector into a more environmentally-friendly one.

Housing is also the place of privacy and defines to a large extent the quality of our social interactions. It needs to adapt to the ageing society, to teleworking, to new family formation, to the age of e-shopping, to the growing need for swift transport, and the growing demand for individualized energy supply. For the more than 2 billion people living in the developing world, housing will have to facilitate access to drinking water and promote healthy living as priorities.

In all countries, urban planning will become an increasingly important tool to tackle the dangerous concentration of poor people in enormous ghettos and of the rich in gated communities in the world's large cities.

The time to invest in social housing sector is right because the initial investment can be written off easily on the long term even if rents and house prices are relatively low at the time. As social housing rents are below market prices they are not that influenced by the volatility of the housing markets. But they need to find *patient investors* which want their return only in the long run.

In France and the Netherlands for instance social housing production is financed mainly through *long time mortgages*. Despite relatively low rents and the maintenance costs, social housing providers in these countries have the reputation to be profitable and to be hiding *treasurers* made up of rent surpluses. This is to a large extent an urban legend but it proves that investment in social housing is considered to make for a good business case.

In the current context where public money is wasted on long overdue quantitative easing and overly risky investments, such as in heavily polluting industries or speculation on agricultural products, redirecting the money available into the housing sector seems to bring only benefits. A targeted global housing investment fund could be a kick-starter for global mobilization of money that would promote better housing policies of national and local authorities.

The time has come to create such a global investment fund to finance housing interventions, to address some of the world's most urgent problem. Such fund should have a budget of at least 1.000 billion dollars to have the desired effect and should focus on the following actions

- 1/ The eradication of slums and/or improving living conditions of its inhabitants.
- 2/ The reconstruction of cities in post-war and post-natural disaster zones.
- 3/ Energy efficient housing and *green* construction.
- 4/ The construction of social housing and housing solutions for homeless people, especially in cities under pressure
- 5/ Support the housing strategies of shrinking territories and cities to attract/retain jobs and inhabitants.

This would require on average the construction or renovation of about 2,8 million dwellings each year or approximately 30 million dwellings over a ten year period. This in turn would improve the living conditions of about 100 million people and create about 45 million jobs¹.

This investment fund would complement the long-term loans and the capital held by social housing providers, community land trusts, co-operatives. The budgets of the investment fund would be allocated by regional agencies – some kind of *social housing banks*.

¹ Indicative data, depending on the cost per dwelling, initial capital necessary to lever mortgage, time for return. Here, arbitrary : average investment of 70 000\$ (expensive at a worldwide scale), 30% of initial capital and return on 15 years.

The governance of the fund could be organized as a *Russian doll* with operational structures at regional, continental and global level, and would be co-led at all these levels by the social housing sector, (venture) philanthropy associations, NGOs working on housing exclusion under the control of the World Bank.

The money for the fund should be provided by national central banks, sovereign wealth funds, free cash flow from actors of the social economy, and savings from the general population.

A fund of \$1.000 billion might appear overly ambitious, but as the current sovereign debt crisis is also a *savings crisis* the goal is certainly within reach. An example to put this into perspective: in France, social housing providers owe € 120 billion to *social housing banks* which collected that money from the French population through a special savings account with guaranteed return (Livret A).

The Norwegian sovereign wealth fund is the biggest in the world (investment pool worth approximately \$745 billion). The total amount of money in sovereign funds is estimated at \$7.000 billion. The five biggest sovereign welfare funds are worth a staggering - \$2.200 billion².

At a time when investment is limited because commercial banks tend to *store* part of their resources safely in central banks, the latter and sovereign wealth funds should be the ones to invest in the real economy according to their mandate and for the benefit of the society as a whole.

Such a fund would be a means for the UN to reconnect with its citizens and contribute in a visible and collective way to the improvement of the lives of the world's poor and excluded. In times of rapidly vanishing international solidarity such initiative is urgently needed. It would give the necessary impetus to the UN sustainable development goals - especially the ones related to housing and urban development.

It is clear that UN-Habitat will not be able to launch a 1.000 billion \$ housing investment fund, but the Habitat3 event in Quito could build the political support for such a fund and help to kick-start it.

We live in a chaotic world. We are confronted with very worrying political developments and increasingly regressive political narratives which don't bring solutions to the urgent problems facing the globe any closer. What we need is a *practical utopia* which can bring hope and inspiration. We are convinced that a global housing fund can help to deliver impact for the community, the environment and the economy and make cities livable again. This is a beautiful aim and it is within reach.