

# State aid and housing policy

*DISCLAIMER: The views expressed are purely those of the speaker and may not in any circumstances be regarded as stating a formal position of DG COMPETITION or the European Commission*

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# Opening remarks

Affordable Housing from a European Perspective



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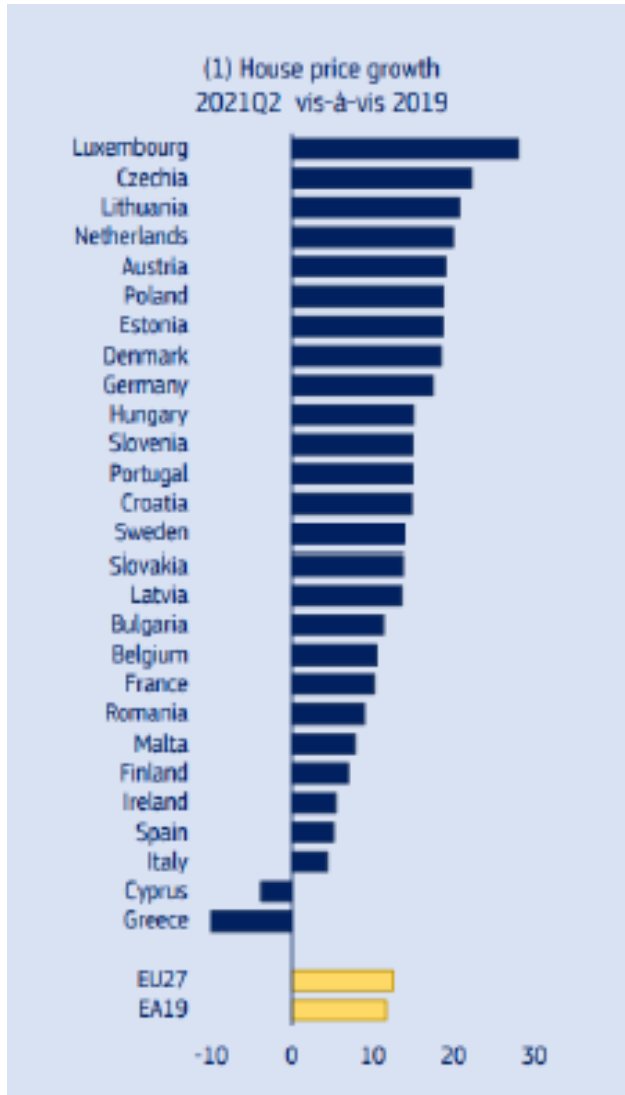
# Why is housing a priority?

- The global financial crisis highlighted the de-stabilising impact that house price booms can have on the economy
- Macro- and micro-prudential measures have reduced access to credit
- The COVID-19 pandemic did not lead to a decrease in housing prices, unlike some of the previous crisis
- What will happen to house prices as interest rate increase?
- Supply constraints (no notable shift of economic activity towards construction)

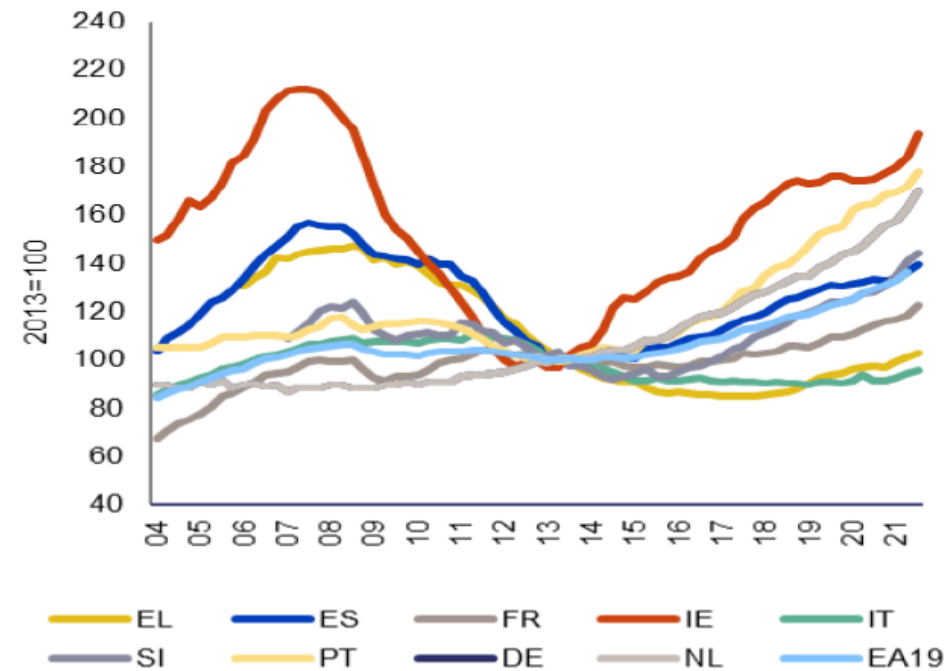
# The issue of housing affordability

- **Housing affordability** measures the relationship between households income and housing costs.
- Currently, **housing affordability** seems to be a problem in many Member States. Its deterioration over time can have wider economic consequences.
- Rising house prices can affect **housing affordability**.
- House prices in the euro area are now higher than at the outbreak of the global financial crisis in 2008 and may be overvalued in over half of the euro area countries.

# Housing market developments (I)



House prices, selected EA countries, 2004-2021



Note: 2013=100.

Source: Eurostat

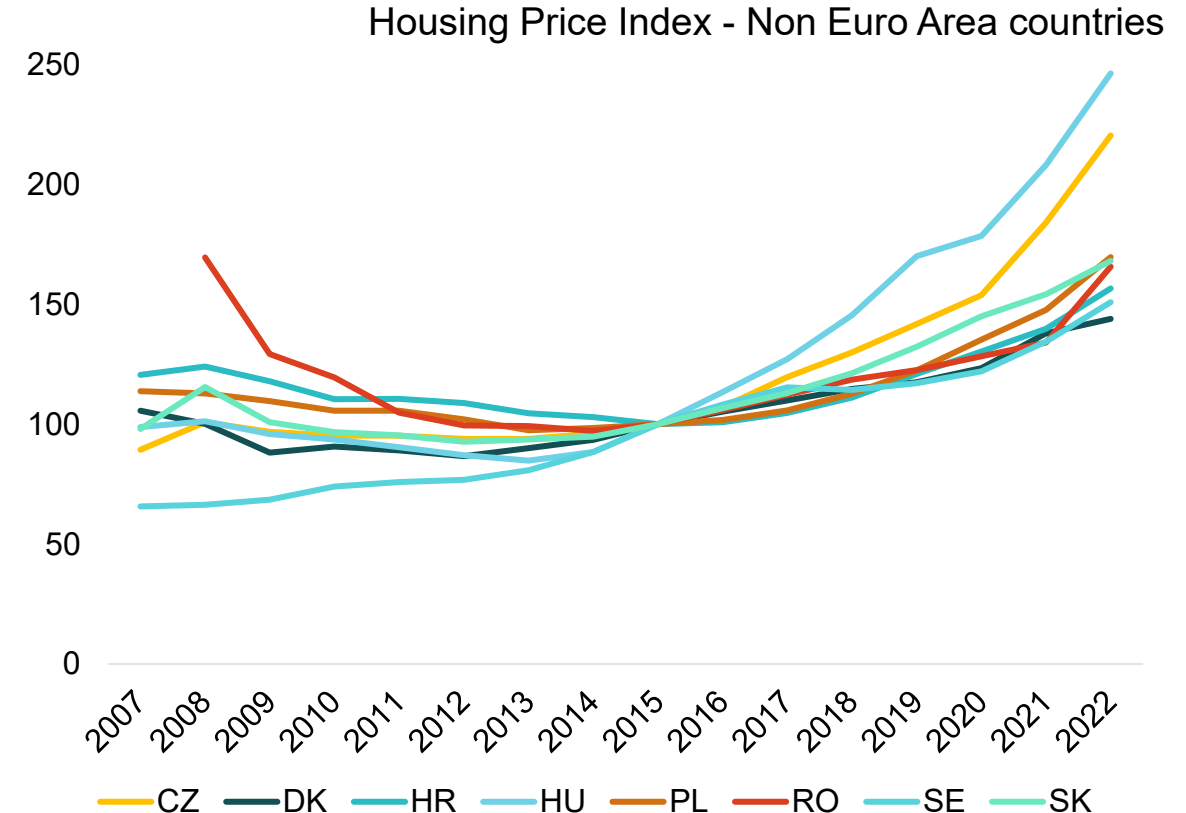


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# Housing market developments (II)

- House prices registered an increase of 45 % between 2010 and Q1 2022, the highest rate of growth ever recorded.



# Housing policy in the Commission, other than State aid

- Urban agenda of the EU – Partnership on housing (REGIO, EMPL, ENER)
- Renovation wave (ENER), which includes the Affordable Housing Initiative (GROW)
- Housing market monitoring (ECFIN)
- Housing policy evaluated in the framework of the European Semester

# Housing policy in DG COMP

- DG COMP is currently exploring possible options for the review of the SGEI Decision as regards social and affordable housing



# State aid and housing policy

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# Social and affordable housing

- Social housing is to be understood as aimed at disadvantaged persons or socially less advantaged groups, who due to solvency constraints live in severe housing deprivation or are unable to obtain housing at market conditions
- Affordability is a broader concept

# Social housing

- Member States have considerable discretion
- Core common features of social housing in Europe: 1) Affordability / 2) Dwellings available subject to allocation rules / 3) Use of public funding (to different extents)

# Social housing (cont'd)

- Open systems (all providers can in principle benefit from public funding) vs. Closed systems (only certain companies are publicly supported)
- Many different systems across the EU in terms of:
  - Size of the sector
  - Type of providers
  - Criteria to access (income ceiling, needs/target groups, priority criteria, etc)
  - Financing and type of support
  - Rules regarding rental prices and the sale of social dwellings

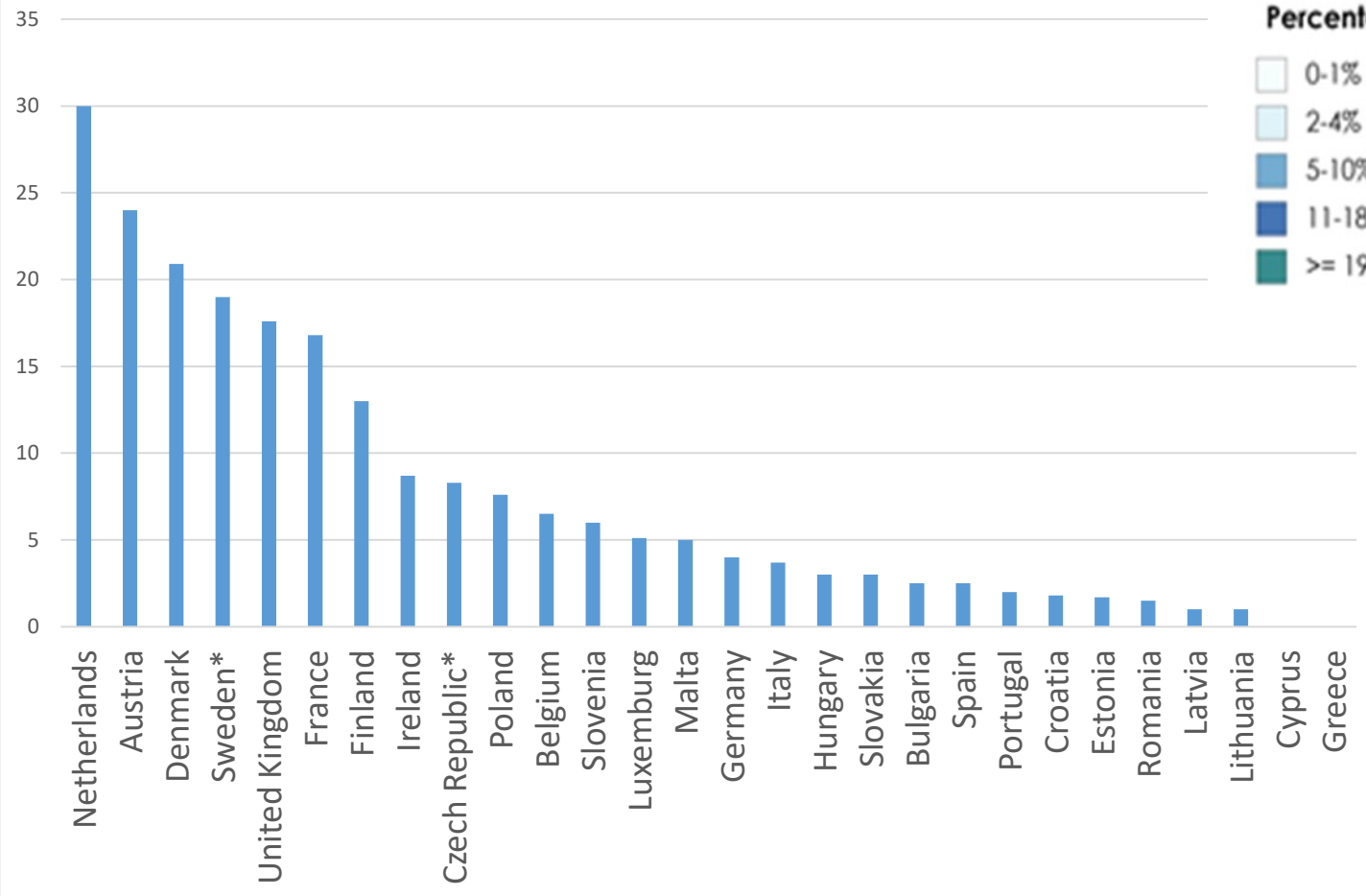


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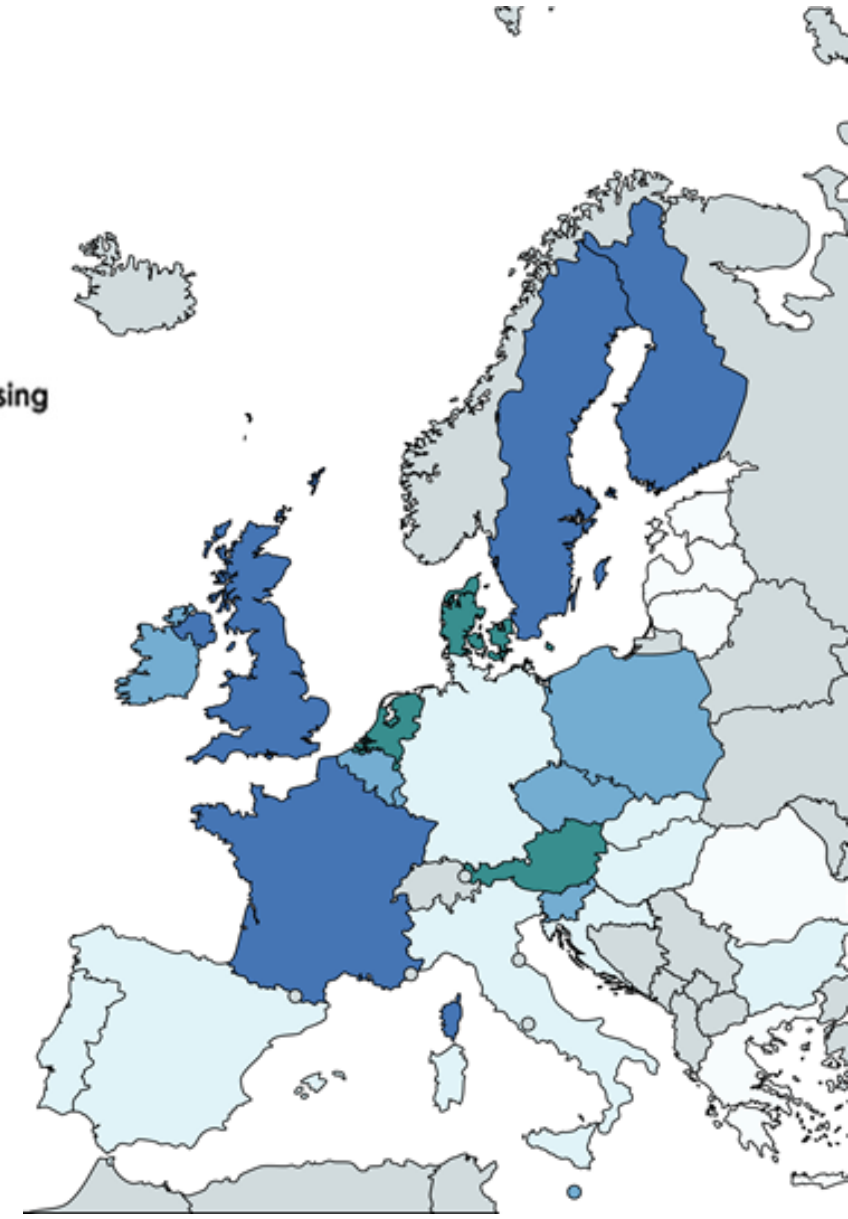
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# Social housing across the EU

Share of social rental housing, EU 28 (2017)



Percentage of social housing



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# What can Member States do regarding social housing?

- **Directly pay households**

- MS can give financial support to households to help with the cost of housing
- EU State aid rules do not come into play since the rules only apply to undertakings.

- **Finance companies**

- MS can finance companies which provide social housing
- Doing so in a selective manner could distort competition on the market
- EU State aid rules guarantee a level playing field between economic providers.

# Purpose of State aid control in the social housing sector

- Avoiding **distortions of competition** between companies that operate on the housing market
- Reducing the **risk of cross subsidisation**, when social housing companies are also involved in commercial activities
- Ensuring that public service compensation does not exceed what is **necessary** for the provision of the public service

# Social housing in the SGEI Decision (1)

| Recital 16 of the 2005 SGEI Decision   | Recital 11 of the 2012 SGEI Decision   |
|--|--|
| <i>“[...] undertakings in charge of social housing providing housing for disadvantaged citizens or socially less advantaged groups, which due to solvability constraints are unable to obtain housing at market conditions, should benefit from the exemption from notification [...]”</i> | <i>“[...] undertakings in charge of social services, including the provision of social housing for disadvantaged citizens or socially less advantaged groups, who due to solvency constraints are unable to obtain housing at market conditions, should also benefit from the exemption from notification [...]”</i> |



# Social housing in the SGEI Decision (2)

- Block exemption for certain Services of General Economic Interest
- **Social housing** can be financed regardless of the amount of aid, without a prior authorization from, or notification to the Commission if the compatibility conditions of the SGEI Decision are fulfilled:
  - Definition of the SGEI (correspondence with the above definition) (Articles 2 and 4)
  - Quality and duration of the entrustment (Article 4)
  - Absence of over-compensation (Articles 5 and 6)
  - Transparency requirements (Article 7)

# What about affordable housing?

- In some Member States there is a wish to support not only the **social housing** sector but also the housing sector in the wider sense
- **Affordable housing** for target groups that are not necessarily falling with the category disadvantaged citizen.
- There are several possibilities in which a Member State could support **affordable housing**, which would not qualify as **social housing**, in conformity with State aid rules.

# What can Member States do to promote affordable housing?

- There are several options that allow Member States to finance housing without a notification to the Commission:
  - **Direct aid to citizens:** support to entities that are not involved in economic activities falls outside the scope of the State aid rules
  - **De minimis Regulation:** compensation which does not exceed EUR 200 000 over any period of three fiscal years does not fall under State aid scrutiny
  - **SGEI de minimis Regulation:** compensation which does not exceed EUR 500 000 over any period of three fiscal years does not fall under State aid scrutiny
  - **SGEI Decision:** exempts Member States from the obligation to notify public service compensation to the Commission if the compatibility conditions laid down in the decision are fulfilled (next slide)
  - **Other legal provisions (Article 16 GBER, Article 107(3)(c) TFEU)**

# SGEI Decision – Affordable housing

- **Affordable housing** could be financed up to the threshold of 15 million euro , without a prior authorization from, or notification to the Commission if the compatibility conditions of the SGEI Decision are fulfilled
  - Definition of the SGEI → need for a genuine SGEI (and thus a real market failure) (Articles 2 and 4)
  - Quality and duration of the entrustment (Article 4)
  - Absence of over-compensation (Articles 5 and 6)
  - Transparency requirements (Article 7)

# Housing policy in DG COMP

## Policy review

- DG COMP is currently exploring possible options for the review of the SGEI Decision as regards social and affordable housing.

# Housing policy in DG COMP

## The case of Sweden

- Significant **housing shortage** in Sweden → insufficient market response especially for more vulnerable individuals
- 4 **main drivers**: population growth, low construction rates, income developments and developments on rental market
- Scheme to finance a share of **construction costs** → **funding gap** analysis
- Housing to be made available at **lower rental levels** than market rates
- Decisions published under SA.56305 and SA.100169

# Housing policy in DG COMP

## The case of Ireland

- Ireland will need an average of 33,000 new homes to be provided each year from 2021 to 2030 → this appears difficult to achieve on market terms
- Croí Cónaithe (Cities) Scheme → a fund to support the building of apartments for **sale** to owner-occupiers
- Main issue → **Viability Gap** between the cost of building apartments and the market price
- DG COMP currently working on pre-notification

# Ongoing housing and energy crisis

- Increasing **housing costs** since the COVID-19 pandemic
  - Housing markets being already under pressure with rising prices + phenomena such as gentrification, “touristification”, etc
- Russia’s war of aggression in Ukraine leading to:
  - Rising energy prices
  - Influx of refugees which could access affordable housing



# Topical issue - Energy poverty

- It affects **vulnerable households** whose energy expenditure represents a significant proportion of **disposable income**, particularly due to **poor housing quality**, utility bill **arrears** due to financial difficulties or **limited access** to essential and affordable energy services
- Energy poverty results from a combination of low income, high expenditure of disposable income on energy and poor energy efficiency, especially as regards the performance of buildings
- **Complex phenomenon** (hard to measure and monitor, vulnerable consumers, social inclusion, energy prices, effects of climate change, split incentives of renovation, etc)

# Topical issue - Energy efficiency

- **Renovation Wave & Recovery plan for Europe (NGEU)**
  - Need to double annual energy renovation rate of residential and non-residential buildings by 2030 and to foster deep energy renovations - 800 000 social homes require renovation each year - **Affordable Housing Initiative (AHI)**
  - **European Commission objective** → Ensuring that renovated units remain **affordable**

# Conclusion

# Thank you



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