Housing regimes and residualization of the subsidized rental sector in Europe 2005-2016

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Defining which groups in society should have access to government-subsidized social housing is a crucial policy question. Residualization refers to the process whereby publicly subsidized rental housing moves towards a position in which it provides only a safety net for low-income households. Empirically, residualization is investigated at two levels (a) eligibility rules and b) tenant characteristics (e.g. income).

Concerning a) eligibility rules, various scholars have argued that a general trend towards refocusing social housing on the most economically vulnerable populations can be observed over the last decades.

In our paper, we quantify residualization based on b) tenant characteristics. The EU SILC UDB is used to address our research questions. More concretely, we analyse five different indicators that relate the household income of tenants paying a subsidized reduced rate below the market rent (BMR) (as defined in SILC hh021/hh020) to other tenure groups' incomes. Our analysis includes the following 12 countries: UK, Finland, France, Ireland, Iceland, Austria, Belgium, Germany, Switzerland, Portugal, Spain, Italy.

We address two research questions. First, we explore the effect of the size of the BMR sector and the cost of alternative tenure types on residualization. Second, we complement the literature on policy rules and check how the trends in narrowing eligibility are reflected in changes of the BMR income structure. In other words, we investigate how residualized (in terms of income) the BMR sector currently is across housing systems in Europe and if countries have become more similar in that respect from 2005 to 2016.

We contribute to the small cross-country empirical literature on residualization of subsidized-rental housing in Europe based on tenant characteristics (Hoekstra, 2009) and focus on a broader range of countries and a more recent period. The bulk of the existing literature are single-country studies, among them the majority for the UK

In the first part of our analysis, we test three hypotheses. H1) When the publicly subsidized rental sector is shrinking, it is likely that relatively more well-off households move to either home-ownership or to the market rate rental sector (e.g. to avoid long waiting lists) and thus the less well-off tenants who need it the most are left in the below market rate rental sector. We thus expect a negative correlation between the size of the social housing sector and residualization. H2) Cheaper and easier access to mortgages due to the liberalization of mortgage finance since the 1980s – one particular dimension of housing market financialization (Aalbers, 2008; Fernandez *et al.*, 2016) – was often argued to have allowed more low-income households to become home-owners (Andrews *et al.*, 2011; OECD, 2011; Scanlon *et al.*, 2008; Schwartz, 2009). In principle, a negative correlation between cost of/access to mortgages and residualization can thus be expected as relatively more well-off households move to home-ownership and thus the less well-off tenants are left in the BMR rental sector. H3) Many countries face an increasing demand from less well-off households (among them new immigrants) who

find it more difficult to obtain affordable homes in the private (rental) sector (Scanlon *et al.*, 2014). Excess demand and high rent prices in the private rental sector can make this a less attractive option for low-income households who will thus resort to the BMR sector and increase residualization.

To test these hypotheses, we estimate 2-way fixed effects (country, time) panel regression models at the country-year level with various residualization indicators as dependent variable and social expenditure and GDP as control variables. We find that decreases in the share of the BMR sector are associated with significant increases in residualization. Increases in rent differences between the BMR and market rate rental sector are related to larger degrees of residualization.

The second part of our analysis contains a description of time trends and cross-country convergence for four different residualization indicators. Moreover, we estimate separate bivariate logistic regression models by country and year. Here, we are interested in the probability of BMR rental housing conditional on income and how this changes during our observation period. In general, we observe a rising level of residualization for most countries. However, countries with allocation systems that aim at broader income groups ("unitary") still display the lowest degree of residualization.