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W04 – Housing Market Dynamics

Social housing provision in the Italian region of Lombardy: between market, state and community

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Draft

Abstract

This paper describes social housing developments in Lombardy, one of the most affluent regions in the Italy. Housing policy in Italy is mainly the responsibility of the Regions. We discuss the challenges of social housing provision and the interplay between market, state, community and third sector actors to provide affordable homes. However, social housing in Lombardy has changed from simply providing adequate amounts of affordable family housing into a more complex task to create cohesive local communities and provide tailored housing services for an increasingly diverse public, with new household forms and changes in lifestyles.

The paper presents initiatives in Lombardy to address these challenges by bringing together actors from very different backgrounds. Due to the limited amount of public resources available, social housing provision in Lombardy is very dependant on initiatives and resources from other sectors and on tools to organize these ventures, like public-private partnerships. This paper gives a detailed description of such a tool: the creation of *social housing property funds*. These funds are hybrid initiatives often involving civil society foundations with roots in banking, non-profit management organisations, public bodies, cooperatives and private developers.

Key words: social housing; Italy, Lombardy, governance, real estate funds, banking foundations

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1. Introduction

This paper describes developments in the Lombardy housing system, one of the most affluent regions in Italian. We discuss the challenges of social housing provision and the interplay between market, state, community and third sector actors to provide affordable homes. Social housing challenges in Lombardy have changed from simply providing adequate amounts of affordable family housing into a more complex task to create cohesive local communities and provide tailored housing services for an increasingly diverse public, with new household forms and changes in lifestyles.

The paper mainly describes initiatives in Lombardy to address these challenges by bringing together actors from very different backgrounds. Due to the limited amount of public resources available, social housing provision in Lombardy is very dependant on initiatives and resources from other sectors and on tools to organize these ventures, like public-private partnerships. This paper gives a detailed description of such a tool: the creation of *social housing property funds*. These funds are hybrid initiatives often involving civil society foundations with roots in banking, non-profit management organisations, public bodies, cooperatives and private developers.

Housing policy in Italy is mainly the responsibility of the Regions but this paper also describes developments on a national level that impact the regional level, notably the creation of national social housing property fund.

Section 2 of this paper describes the challenges facing affordable housing provision in Italy. Section 3 places this in a European perspective. In section 4 we present recent initiatives in different Italian regions to tackle social housing challenges. One of the promising initiatives are the emerging public private partnerships in affordable housing development which are discussed in section 5 with a special focus on the role of banking foundations. A new instrument supporting this development, the joint property investment fund, is discussed in section 6. A recent initiative to create a national property fund in Italy is presented in section 7. The paper concludes with a section presenting possible ways to develop this paper further and link it with recent developments in social housing finance and governance.

2. Challenges facing Italian social housing

Since the mid-90's property prices in Italy have been constantly increasing at rates higher than that of household earnings. In the period from 1993 to 2004 the growth rate for rents was on average more than 3 times the growth rate in family incomes¹. In the period 1998 – 2006 the figures for house prices increased overall by 57.9% in real terms². In 2006 the average expenditure on family rented accommodation reached 27.5% of family income (average expenditure €503 per month against an average income of €1,832), where generally the 25% threshold indicates a condition of financial hardship³. Alongside the affordability gap between the available housing and family budgets, a "qualitative" gap has also arisen between housing demand and market supply, which has not adapted to the changing needs and lifestyles of society.

¹ Source: Questioni di economia e finanza, *Occasional papers*, "L'accesso all'abitazione di residenza in Italia", Number 9 - July 2007, by Giovanni D'Alessio and Romina Gambacorta.

² Source: Nomisma, "Primo rapporto sul mercato immobiliare 2007"

³ Source: Cittalia ANCI Ricerche processing of Istat data, Survey on income and living conditions, taken from "I Comuni e la questione abitativa", October 2008.

Unlike previous times when social housing was plentiful and affordable housing was a primary need for poor families moving to towns and cities, the present situation is more fragmented: housing is the most visible element of more complex social problems, which combine challenges such as social exclusion (e.g. growing tension and alienation in cities) and adequate housing services (e.g. for the elderly and people with disabilities).

The challenge of affordable housing and housing services requirements, no longer consists only of constructing more homes but also of seeking new integrated, sustainable housing solutions. The challenge is to transform housing into a catalyst contributing to flexible, vibrant and cohesive communities. More particularly, after many years in which home ownership was generally encouraged in Italy, the idea is now being considered of the need for more rental properties with controlled rents and an increased interest in social housing intended for:

- those whose housing needs are of a temporary nature (e.g. posted workers, students, migrants who intend to return to their own country);
- average/low income families, so that they can consider alternatives to home-ownership because the cost of ownership have often reached an unsustainable portion of the family budget;
- those who are not able to take out a mortgage to purchase property (because of insufficient income or because of difficulty of access to credit, as, for example, in the case of temporary and migrant workers).

Defining social housing is complex and different definitions are used throughout Europe. In Italy, the definition of the sector refers to that of the so-called "*Alloggio Sociale*" (Social Housing) provided by the decree of the Minister for Infrastructures and Transport and the Ministers for Social Support, Family Policies, Youth Policies and Sport⁴. This definition, like that proposed by CECODHAS (the European Liaison Committee for Social Housing), emphasises the need to consider the subject of housing using a multi-dimensional approach, dealing with property aspects together with the social and "immaterial" housing services, therefore providing housing solutions that are supported by assistance and community facilitation programmes with the aim not only of meeting individuals' housing needs but also of strengthening local communities (Cecodhas, 2007).

In the Italian context "social housing" defines a wide sector, a subset of which is represented by *Edilizia Residenziale Pubblica* (public housing), which has a greater, more direct public sector input and is implemented by local councils and former *IACPs* (social housing agencies). In view of the limited availability of public subsidies, social housing projects carried out by private parties, including –as we shall discuss later- banking foundations, tend to focus on more "solvent" households who are unable to pay a full market rent but who have moderate earning capacity, a condition which generally excludes them from the public housing.

Other forms of social housing are initiatives by third sector organisations, very often supported by local civil society organisations and banking foundations, including services which facilitate renting or the construction of housing for social inclusion dedicated to specific target groups (e.g. immigrants and refugees, people in emergency situations because of eviction or a breakdown in family relations, families of sick people hospitalised away from home) or even buildings of a communal type (mini-apartments with services for socialising or domiciliary assistance for the elderly, people with disabilities or single mothers with children).

⁴ Decree by the Minister for Infrastructures and Transport and the Ministers for Social Support, Family Policies, Youth Policies and Sport dated 22nd April 2008, published in the Official Journal on 24th June 2008, no. 146. Prior to the Interministerial Decree, the 2008 Finance Act (Law 244/2007) had defined the "building of general interest intended for rent", including "non-luxury buildings located in municipal districts with high housing pressure with rents held at sustainable rates for at least 25 years" introducing the principle by which buildings intended for long-term leasing, even if privately-owned, represent an economic service of general interest and, as such, fall within the definition of social housing.

3. Italian social housing in a European perspective

In this section we will give a brief overview of Italian housing in a European context. Figures 1 and 2 show that in southern Europe rented housing stock (and even more so where this is social housing) is clearly less than that in Central and Northern Europe.

Figure 1 - % of rented housing out of total residential stock

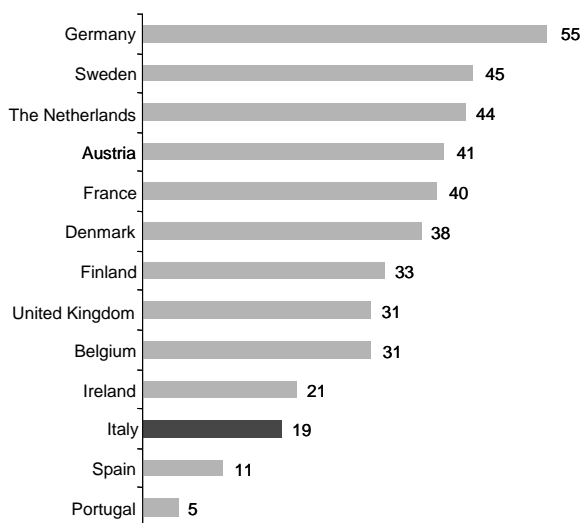
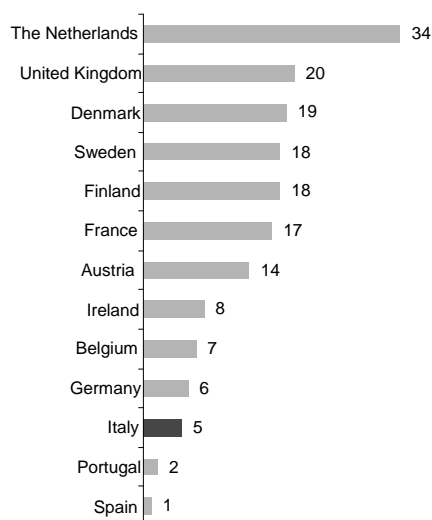


Figure 2 - % social housing out of total residential stock



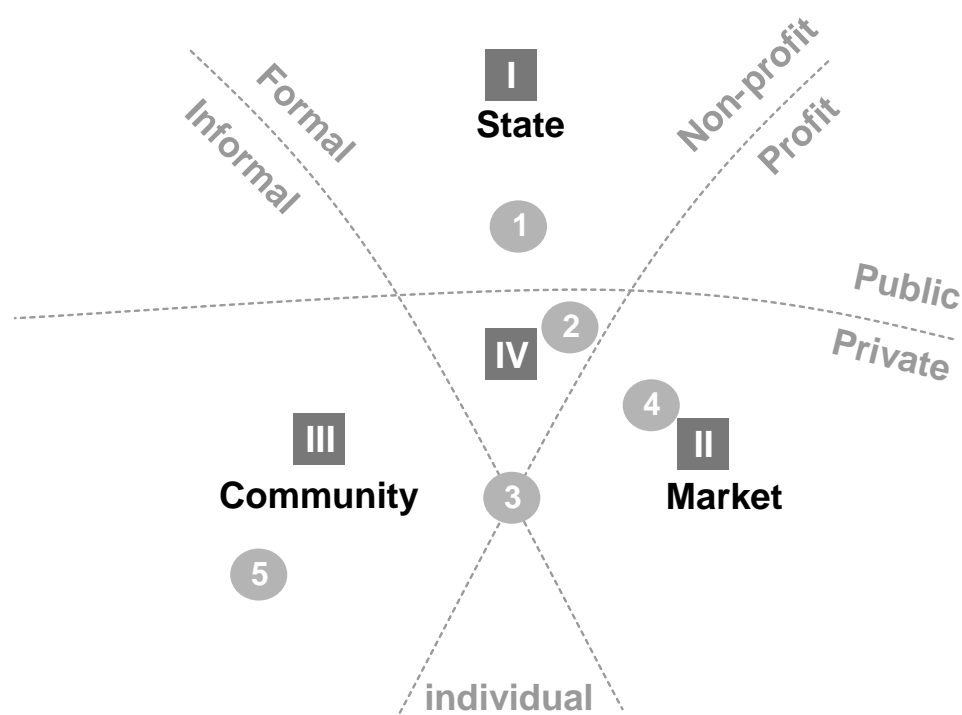
Source: *Housing Statistics in the EU, 2005-2006*

In many European countries different forms and providers of affordable housing co-exist, involving operators from the public sector to the non-profit sector (associations, foundations, social cooperatives and other so-called charities) limited profit sector organisations⁵ (mostly cooperatives) to parties operating on the free market.

We will explore this in greater detail using a framework developed by Brandsen *et al.* (2005) (see figure 3). Brandsen *et al.* argue that public services (including health, education but also affordable housing) are provided in an environment with three different and sometimes mixed coordination mechanism: **(I)** the State (which also includes regions and local authorities); **(II)** the market and **(III)** self-organisation initiatives by individuals or groups of citizens also referred to as "community" initiatives. These three major divisions combine in **(IV)** a fourth, hybrid sphere where market, community and state drivers are mixed (Brandsen *et al.* 2005) The three dimensions of this framework (state, market and community) also connect well with the three characteristics used by Esping-Andersen's welfare-state typologies: market, state and households (see Hoekstra, 2003). Hoekstra applied Esping-Andersen's typologies to housing systems. He contends that the most direct influence of the welfare state can be seen in the ways in which actors from the public, market and household sectors participate in organising the production of newly-built dwellings (Hoekstra, 2003, p: 61).

⁵ The objective of achieving the maximum economic result from an activity may come into conflict with its social content and the public interest. "Non-profit" and "limited-profit" mean that an entity has restrictions on the distribution (to members) of its economic proceeds, with the result that any management surpluses must be wholly or partially withheld and used to reinforce the housing stock, to improve the operation or to pursue non-economic ends which form part of the entity's mission.

Figure 3 – Example of affordable housing providers in some European countries



- ① State, Regions, Municipal districts, Public residential construction companies (Great Britain, Sweden, Germany, Italy)
- ② Non-profit housing associations, Foundations (Great Britain, The Netherlands)
- ③ Building cooperatives (Austria, Switzerland, Sweden, Italy)
- ④ Project finance initiatives (Germany, Great Britain)
- ⑤ Families, informal associations, social relationship networks

Framework adapted from Brandsen et al. 2005, p: 752. Data source: FHS (Social Housing Foundation) and authors

This brief overview of some of the affordable housing providers in European shows that there are various possibilities for organising the social housing sector and finding points of convergence between public and private interest, with recurring themes which have at their centre the presence of private and non-profit organisations, capable of acting autonomously, connected with local communities but also with public housing policies. Often complex accreditation and supervision systems govern the proper operation and transparency of the sector, because market rules are not always applicable and the presence of considerable subsidies renders it necessary to ensure that resources are properly used.

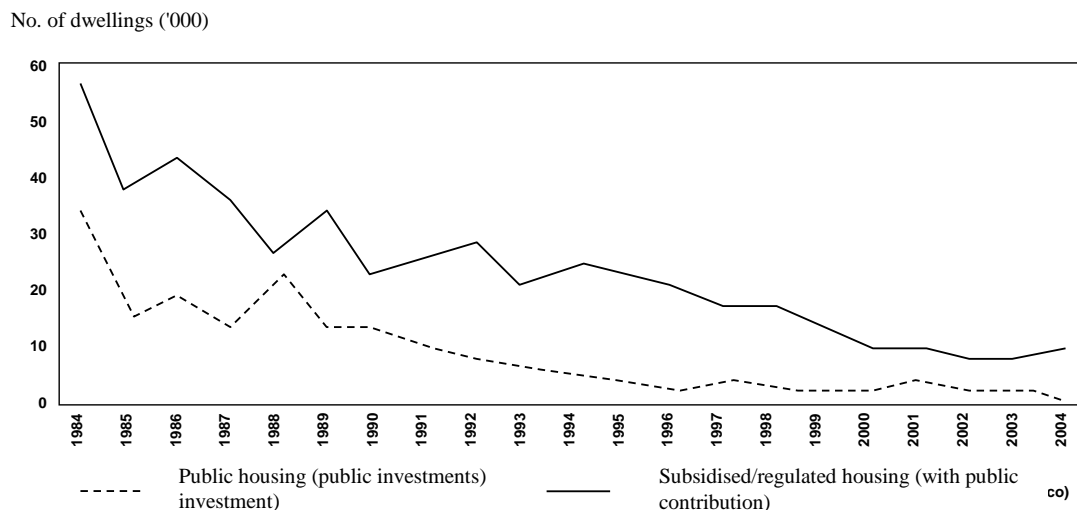
Since the 1990s the housing problem in Italy have been considered by many⁶ to be practically solved in view of the high level of home-ownership achieved (around 80% of Italian households are home owners⁷). This belief led to sharp reduction in social housing production. The production of public housing dropped from 34.000 dwelling in 1984 to only 1.900 in 2004. Subsidised or

⁶ Venice Biennale (2008) "L'Italia cerca casa", various authors, Electa November 2008.

⁷ In Italy the percentage of home owners is more than 80% (this percentage also includes usufruct and use free of charge, In particular, families who live in houses they own are 73.3% according to Istat. 14.5% of these families are paying a mortgage. The average mortgage is 471 euros per month). Source: ISTAT, "I consumi delle famiglie – Anno 2007", July 2008.

regulated housing⁸, decreased from 56,000 to 11,000 over the same period. In 1998 this resulted in cancellation of the GESCAL, i.e. the deduction of 1% from employee's salaries which had until then been the principal financial source for public housing.

Figure 4 – Dwellings constructed with public subsidies and contributions, 1984 – 2004



Source: CRESME, February 2008

The considerable increase of home-ownership has created winners and losers in the housing market. Winner is the majority group of Italians who have, through their property, accumulated capital and succeeded in bringing down their living costs⁹ and providing for themselves a significant housing-based wealth that serves as an asset to deal with difficult periods. The reduction of new affordable housing in the rental market¹⁰, on the other hand, has led to a difficult situation for people who are unable (or do not wish) to purchase a house. Property prices have grown considerably and have created a demarcation line between home-owners and tenants. This divide is also accentuated by fiscal policies that reward home ownership.

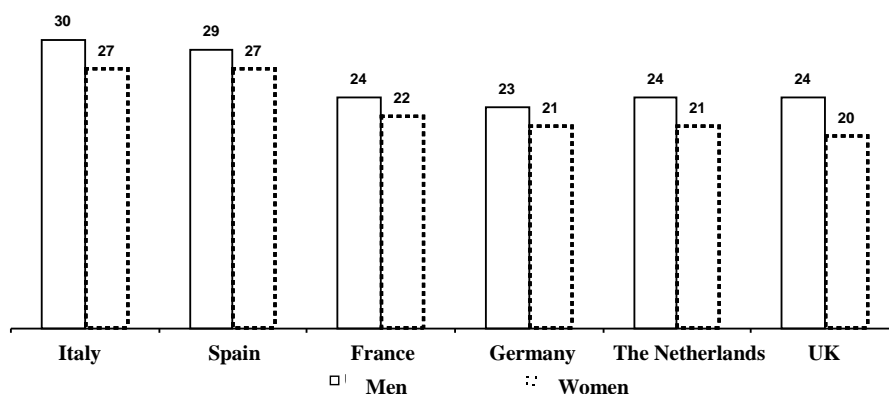
We contend that the group unable to enter into home-ownership is of strategic importance for sustainable urban development, since this group largely consists of new households, students away from home, new graduates looking for a job, key workers (such as teachers, police officers and nurses) and migrants which our communities need. The effects of an insufficient affordable housing supply are not very visible. The effects are almost "hidden" because they affect citizens with little "voice", for instance young people who are delaying forming a new family and are still living with their parents, or students and workers who commute daily for several hours to reach their place of study or work, or those who accept unfit housing, spending a large proportion of their income on housing.

⁸ "Regulated housing" ("edilizia convenzionata") means construction, by means of a contract with municipal districts, of dwellings intended for sale or rental for which the market value is set by the local authority. The builder or cooperative also generally obtains from the local council tax relief and other rebates relating to development costs. "Subsidised housing" ("edilizia agevolata") means dwellings constructed using public grants which may range from subsidised rate mortgages for individual households to non-returnable contributions granted to operators carrying out the works.

⁹ The relationship between housing costs and the budget of home-owning families in 2006 was around 11.3%. Source: Cittalia ANCI Ricerche processing of Istat data, October 2008.

¹⁰ According to the most recent Istat estimates relating to 2007, families renting are 17.2%. This number has been constantly falling over the past few years (18.8% in 2005 and 17.7% in 2006). Source: ISTAT, "I consumi delle famiglie – Anno 2007", July 2008.

Figure 5 – Latent housing demand: average age at which young people leave their family, 2005



Source: Censis [Centre for Social Studies and Policies] using Eurostat data

Insufficient affordable housing affects individual households, but accumulated also effects the wider community or society as a whole. Problems such as the abandonment of town centres, the increase in commuting, the formation of dormitory quarters in the areas around cities, the emergence of enclaves of foreign ethnic groups, with serious overcrowding problems and ghetto conditions, the concentration of social welfare recipients and deterioration of some popular quarters, or the insecurity generated by a black market in rental property and squatting.

Finally, although still relatively intuitive is that a further social effect of the lack of decent affordable housing is the loss of economic competitiveness in an area, when it is not possible to attract a workforce because there is no housing available under reasonable conditions.

4. Initiatives by the Italian Regions to increase the supply of affordable housing

Housing in Italy is largely the responsibility of the Regions. Italy is divided into 20 Regions. In spite of the scarcity of resources, most Regions have initiated policies to support new social housing initiatives and have developed the necessary regulation. Some regional planning laws (*Leggi Urbanistiche Regionali (LUR)*) specify size of the area (land or buildings) to be earmarked for social housing. This is the case with the LUR for the Lombardy region¹¹. Also on a national level new legislation has been developed to reform the planning regulations. Among other things, these new laws and regulations deal with the right to a home as a citizen's right and safeguard that social housing should be covered by planning standards as an additional standard in green field housing developments. The guidelines followed by the Regions tend to follow three lines of action:

1. to introduce, within urban transformation plans, a certain amount of new building volumes restricted to rental property;

¹¹ No. 12/2005, article 11, paragraph 5, the LUR for Veneto no. 11/2004, article 39 and also the bill to amend the Emilia Romagna LUR no. 20/2000 and the recent law no. 12/2008 in the Puglia region.

2. to bring together public and private investors for the development of rental properties, providing financial incentives for private companies, particularly in terms of the price of the development areas made available;
3. to provide for direct action by public property companies to implement new housing projects or upgrade existing buildings.

These new guidelines can be illustrated by three concrete examples implemented by local councils. The first example is Florence's new Structural Plan (*Piano Strutturale*), which obliges operators carrying out residential building works of more than 2,000 sq.m. to earmark at least 20% of the area covered for housing at regulated rents¹².

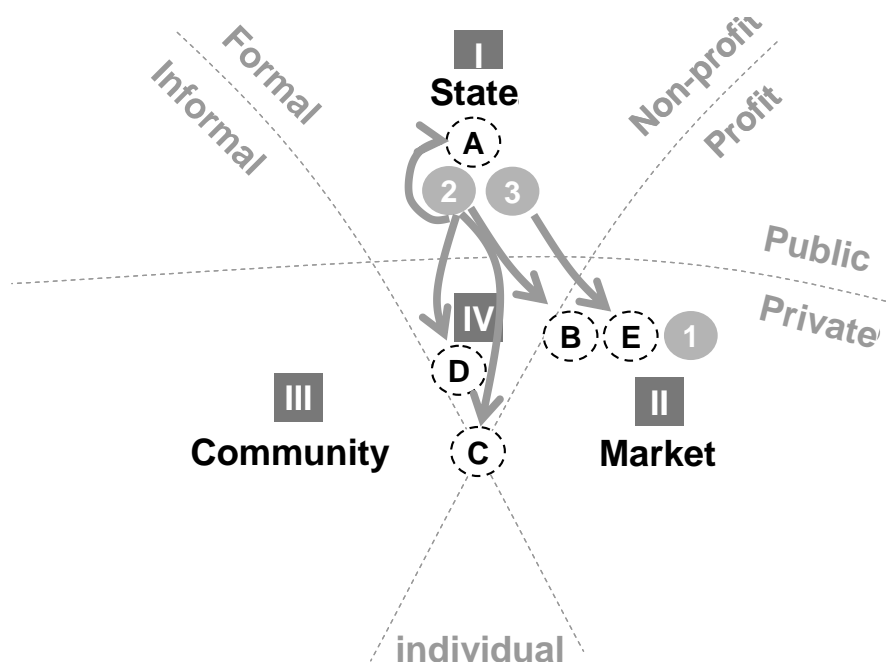
The second example is the programme set up by the Municipal district of Milan (Milan Council), which used a regional law (the so-called "*Legge Borghini*" (Borghini law) dated 2005) allowing it to waive existing planning regulations and use council-owned areas to construct new social housing. The Council identified 46 areas which it owned on which it could build around 1.2 million square metres of housing, divided into different types: housing at social rent, at affordable/regulated/special rent and university residential property.

The third example is that of "*La Immobiliare Veneziana*" (IVE), owned by the Municipal district of Venice (Venice City Council), which, in addition to purchasing various communal properties, is also charged with managing projects to restore, divide, rent or resell the dwellings obtained. In order to implement social housing projects on some of the areas it owns, IVE decided to open tender procedures in order to select private operators that could construct the greatest number of affordable apartments, this on condition that these apartments would have the same quality standards as the other properties the operator intended to put on the market.

The examples of strategies implemented by the councils of Florence, Milan and Venice are described in the following diagram placing them in the state, market and community triangle presented earlier in this paper.

¹² As an alternative to permanent rental, the operator may choose to limit rental to 12 years by paying a sum to the local council, which will then allow the latter to build elsewhere the same number of houses for rent over the next 18 years) period remaining in respect of the thirty years for normal amortisation of a building investment), or not to build the volume specified but to pay, in exchange for this, to the local council the equivalent sum to the regulated rental properties which were not built.

Figure 6 – Examples of recent social housing measures adopted by local councils



- ① **Florence** obliged actors undertaking residential building projects of significant size to include 20% social housing;
- ② **Milan** initiated a programme for standard communal areas reserving the first ones for public companies **(A)** and specifying for the others partnerships with building companies **(B)**, cooperatives **(C)** and ethical finance operators **(D)**, selected using open bid procedures in order to maximise the number of fixed rent dwellings and the building quality;
- ③ **Venice**, through its own operating company Immobiliare Veneziana (IVE), in relation to communal areas in partnership with operators **(E)** who receive the areas from IVE in exchange for providing social housing (the partner selection procedure, an open procedure, maximises the number of dwellings provided and the quality of the work).

Source: FHS

5. Public private partnerships in affordable housing development: the role of banking foundations

Faced with the growing need for new social housing initiatives and the structural scarcity of public resources, the main tendency at present is to develop public/private partnerships under which the government authorities contribute opportunities through land-use management so that investors are incentivised to develop social housing projects, for example by obtaining public owned land at low cost, volume bonuses or other planning incentives. In the remainder of this paper we will focus on public-private-partnerships in affordable housing development. We will pay special attention to the role of banking foundations.

In Italy the sector of Banking foundations¹³ consists 88 independent charitable organisations which originated from Savings banks (*Casa di Risparmio*) activities and are deeply-rooted in most Italian

¹³ For more information on Italian Banking foundations please refer to www.acri.it (Association of Italian Banking Foundations).

regions. They are institutions of a private nature that administer assets, with an aggregate value of approximately 77 billion euros as of the end of 2007, and disburse the proceeds of these assets in favour of the wider society (grants in 2007 accounted for 1,7 billion euros).

Cariplo Foundation, one of the largest of the Italian 88 banking foundations, has a field of action which encompasses the region of Lombardy plus two provinces of the region of Piedmont, with a total population of more than 10 million inhabitants.

Banking foundations are private parties operating for the purposes of public and social interest, but they are not able –or willing- to fill the gaps left by the government in public service delivery. As part of its "private mission in the public interest", the initiatives of banking foundations are mainly aimed at:

- supporting land development, for example by facilitating activities aimed to respond to new social, cultural or economic needs, or to identify more effective responses to existing needs;
- encouraging the creation and consolidation of autonomous civil society organisations which can take on the community's needs with the aim of encouraging the capability of communities to self-organise and create new solutions;
- acting as "catalyst" for actors involved in solving community problems, not only by using its own economic resources but by acting as a mediator and bridge-builder between the different parties involved.

Banking foundations usually do not take the role of real-estate developer or landlord because this would lead to competition with existing providers and could possibly result in crowding out the existing operators due to the substantial financial capacity of the banking foundations (particularly in times of low liquidity and financial tensions).

Activities of Lombardy banking foundations in relation to social housing

Civil society organisations have a long history in the Lombardy region; starting even before the development of the welfare state. The first health and welfare structures were the result of the efforts of private organisations operating for the public good. More than a hundred years ago philanthropic initiatives were beginning, through legacies and various forms of union of influential private individuals: these initiatives were in the housing field, but also included *Monti di Pietà* (pawnshops) and *Casse di Risparmio* (Savings Banks) – which sought to protect the population from usury and to promote growth through saving and credit. These were the forerunners of the banking foundations.

Now that there is a renewed need for affordable housing, banking foundations are actively engaged in experiments in three main areas:

1. Developing housing financing methods (e.g. by promoting ethical finance, property funds dedicated to social housing or a variety of other instruments that will facilitate financing and enable other organisations to become involved);
2. Empowering residents by developing housing management models which are aimed at activating residents and use their capacities to organise themselves, and create sustainable, inclusive communities;
3. Setting up public/private partnership schemes, seeking to consolidate the outcomes of experiments in a manner which is coordinated with government policies, demonstrating new

methods by which the public authorities, third sector and private operators can become effective partners in dealing with housing needs.

Activities of banking foundations in the social housing sector can take various forms depending on the objectives and the various combinations of the two roles, which they typically play, 1) that of the institutional investor that can allocate to the real-estate sector a part of its own asset investment resources¹⁴ and 2) that of a philanthropic entity disbursing non-returnable contributions (see figure 7).

Activities of banking foundation can be placed on a scale, with at one extreme end of this scale pure property investment as an option for asset diversification aimed and balancing risk and yield. According to this approach, asset management is intended to sustain the organisation's mission to generate financial recourses for a social purpose while maintaining its financial viability. (*option 1*)

Another approach is to connect real-estates investment with strategic local services like education, tourism, services or "market" residential projects. In this case the foundations combine real-estate asset management with positive spin-offs for the area in mind (so-called positive externality), but without significant deterioration of its own expectations for financial yields. (*option 2*)





A further possible approach is to make strictly functional investments in specific philanthropic programmes of the foundation (so-called Program Related Investment). In this third case, the expected yield from the investment, depending on the size and characteristics of the philanthropic programme supported, may be less than market yield, provided however, that there is very limited risk to the value of the foundation's assets. (*option 3*)

The last form of involvement in the property sector, which is the extreme opposite of the first option discussed above, is to disburse contributions to support social housing initiatives, typically suggested to the foundation by non-profit or public operators, which could not otherwise be carried out (e.g. shelters for homeless people, guarantee funds). In this fourth case it does not make sense to talk of expected yields since the foundation hands over the returns on its assets without any expectation of yield. (*option 4*)

The chart below summarises the four investment strategies by a banking foundation in the real-estate sector. Note that the four strategies may be combined within the same project while following different logics and require specific organisational aids and professional skills. These hybrid strategies can create positive synergies, both in terms of social impact and of asset investment quality.

¹⁴ Italian regulation (Legislative Degree 143/2003) allows banking foundations to make property investments other than capital investments for an amount not greater than 10% of assets.

Figure 7 – Real-estate Investment Strategies of Italian Banking foundations

Type of project in the property sector	1. Normal property investments	2. Strategic investments for the territory	3. Program Related Investments	4. Disbursement of contributions
Relationship between philanthropic mission and asset management	Philanthropic mission Asset management 	Philanthropic mission Asset management 	Philanthropic mission Asset management 	Philanthropic mission Asset management 
Rationale for the banking foundation	Diversifying investment of the assets by allocating a portion of them to the property sector	Obtaining a suitable yield from investments which create spin-offs for the territory	Financing functional actions in specific philanthropic programmes	Providing a subsidy for the realization of actions (by non-profit or public entities) which would not be sustainable without a non-returnable contribution
Expected Yield	Market yield	Yield close to market level	Yield compatible with that of supported philanthropic projects (must at least ensure that value of assets is maintained)	Not significant

Source: "Fondazioni, politiche immobiliari e investimenti nello sviluppo locale", Fondazione di Venezia, various authors, Marsilio November 2007

In the past few years a number of banking foundations have set up initiatives in the social real-estate sector, first mostly disbursing non-returnable contributions, for example to non-profit organisations which purchased and renovated apartments acquired on the market or from former IACPs (social housing agencies). The apartments were intended exclusively for disadvantaged persons who, in addition to having the possibility of access to a home, were also supported by personalised action plans underpinned by (public and private) social services networks¹⁵.

From these original initiatives more formalised bids and social housing programmes emerged, which made it possible to assist very significant work in the areas where housing tension had greatly increased¹⁶.

Banking foundations are increasingly specialising their interventions. Calls for bids continue, but are intended principally to finance temporary residential structures for those who are homeless or have experienced difficult personal circumstances and need support before they can manage their living conditions independently.

Alongside the non-returnable disbursements banking foundations are increasingly getting involved social housing aimed at "solvent" families who are too well-off to have access to public housing but too poor to meet their own housing needs on the market.

The initiatives of Banking Foundations are coordinated and supported by a Services Committee of the ACRI (Association of Italian Banking Foundations and Savings Banks). The ACRI wants to develop an approach shared by all foundations involved in social housing by capturing learning experiences and best-practises and disseminate these in order to make the activity of member organisations more effective and better-known in its own area.

¹⁵ "Fondazioni, politiche immobiliari e investimenti nello sviluppo locale", Fondazione di Venezia, various authors, Marsilio November 2007.

¹⁶ "Tredicesimo rapporto sulle Fondazioni bancarie", ACRI, various authors, april 2009.

6. A new instrument for social housing development: joint property investment funds

An important element in the social housing initiatives mentioned above is the *joint property investment fund*. This is an instrument which appears particularly suited to social housing initiatives since, as these initiatives overlap both public and private interest, they derive great benefit from a robust management structure which is flexible in defining investment and governance policies.

A property fund is autonomous capital divided into shares of the same value having the same rights, belonging to several participants (investors), managed by a *Società di Gestione del Risparmio* (SGR - asset management company), which invests it exclusively, or predominantly in real estate or holdings in real estate companies.

Compared to possible alternative organisational or financial vehicles the property fund is distinguished by the fact that it is subject to supervision by the Bank of Italy and that it has well-constructed governance arrangements through the SGR which manages the real estate, Advisory Committees which enable investors to express their views on the activities of the SGR, a depositary bank, independent experts and auditors who provide further levels of control and guarantee. Part of the flexibility is provided by the possibility of including in the property fund regulatory constraints on selecting investments based on ethical and sustainability criteria. These criteria safeguard the public interest requirements of the initiatives. Stakeholders in the Advisory Committees can supervise the observance of these constraints.

Throughout its life the property fund, from creation until liquidation, is governed by management regulations. The regulations state the total size of the fund, the period of time during which the investors may subscribe to shares, the investment strategy, the yield objectives, the governance and all other aspects relating to its operation.

After obtaining authorisation for the regulations from the Bank of Italy, which checks their content against the provisions in the Consolidated Finance Act¹⁷, the rules issued by the Ministry for the Economy and Finance and by the Bank of Italy itself, together with subscription by the participants, the SGR can start the fund's activities.

The management regulations may specify that the SGR should set up administrative systems for the purpose of sharing some aspects of management with investors or even with other stakeholders, and in particular through the following governance arrangements:

- a Meeting of the participants, which expresses their views on far-reaching decisions (e.g. replacement of the SGR, amendment of the regulations, winding up the fund, amendment of management policies) and on identifying members of the advisory committee (see below);
- an Advisory Committee which may be called on to express opinions on many of the decisions concerning management of the fund, in some cases also with veto power.

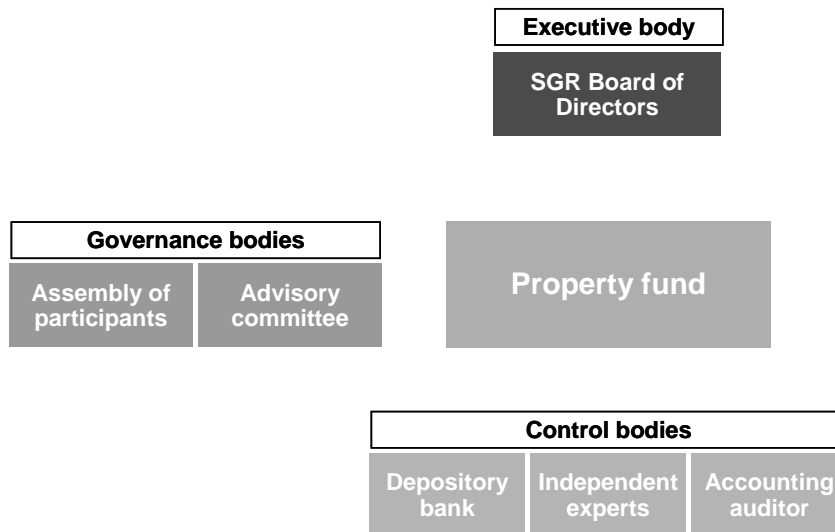
Additional governance arrangements can be incorporated for property funds in the social housing sector, for example by:

- supervisors who monitor whether public or social objectives expressed by the fund management regulations are being pursued in the proper manner (so-called "ethical principles");
- control provided by the involvement of participants in discussing investment opportunities and major management decisions. This is one of the requirements typically requested by institutional investors;

¹⁷ Legislative Decree 24 February 1998, n. 58: "Testo unico delle disposizioni in materia di intermediazione finanziaria, ai sensi degli articoli 8 e 21 della legge 6 febbraio 1996, n. 52".

- consultation with stakeholders who play a strategic role in starting up and achieving fund projects and in coordinating these projects with public housing policies.

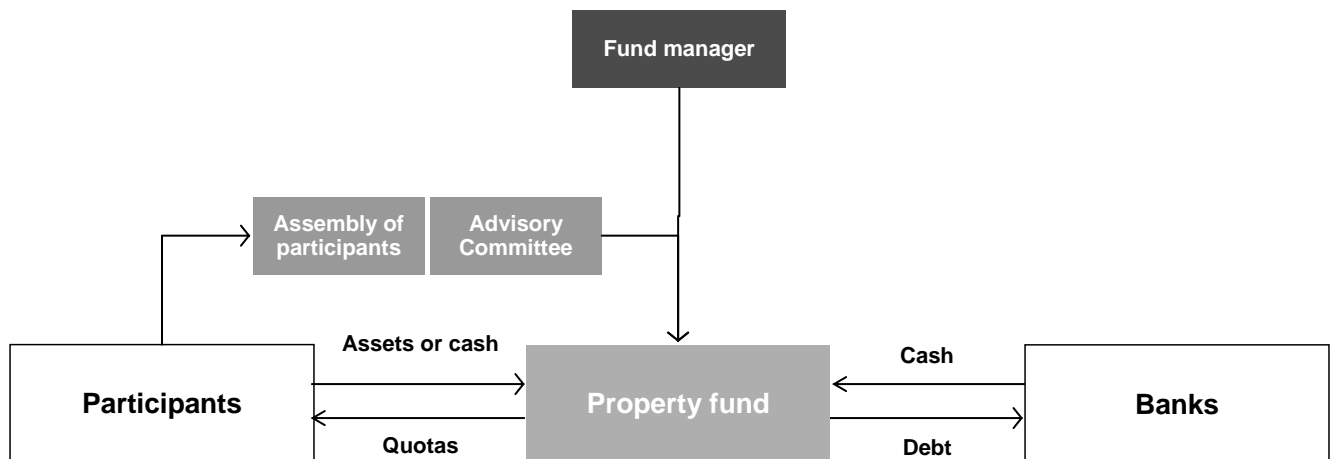
Figure 8, Example of Executive, governance and control structure of a property fund



The fund has autonomy regarding the selection of the SGR but has no autonomous legal personality, and therefore the relevant decisions are always taken by the SGR (in the name of and on behalf of the fund).

Property funds may be subscribed by means of cash contributions (cash fund) or property (contribution fund). In return for the contribution, the subscriber receives shares in the fund for a value equal to that of the property contributed. Social housing funds may be of both types.

Figure 9 Setting up a property fund and financial reserve



Source: FHS

Property funds may be reserved for qualified investors (reserved funds), who have the professional capability that enables them to evaluate investment risks. Funds may also be open to participation by small savers (retail funds), for whom special protective measures are provided. The social housing discussed in this paper are all set up as "reserved" because do not have to comply with the

protective measures required for small savers and they are leaner and more flexible at the development and subsequent management stage of the project. In addition, social housing property funds are a relatively new product; the SGRs have preferred professional investors who are capable of participating in the governance of the fund and assessing the risks and potentials of individual investments.

Property funds under Italian law are typically "closed", this means that participants cannot enter or leave freely and the right to reimbursement for the shares is recognised only at pre-determined time. Participants who wish to leave before this time may only assign their shares to a new investor, but the price obtained generally offers rather large discounts¹⁸ compared to the book value of the shares.

The maximum life of a property fund is 30 years. However, commercial property funds generally have a much shorter life of around 7 years; "valorisation" or "splitting" funds, whose strategy consists of selling the assets received as contributions, may even last less than 3 years. Social housing funds, on the other hand, tend to have longer lives. This in order to make the fund life coincide with that of the controlled rent restriction to which social housing is typically subject, and to enable tenants to complete savings plans which will facilitate future purchase of the dwellings from the fund.

A property fund may have different sections, each with financial autonomy, its own characteristics and its own advisory bodies. Each section requires separate administrative and management activities to be performed as if it were an autonomous fund. In addition, the amount of the fund may be divided into different categories of shares, specifying that the shares in each category have the same value and the same rights and that different categories have differentiated financial and administrative rights. This option adds more flexibility in participation and governance within a property fund, this in addition to what is achievable by means of ethical management policies and the setting up of an Advisory Committee, as previously mentioned.

Under Italian law the tax burden of a property fund is generally considered moderate. The taxation level of distributed profits (or carried out at winding-up of the fund) is 20%. The tax system for property funds is in line with that for managed savings. Both public and private persons may participate in subscription to a property fund. Additional tax benefits can be acquired if the subscribers are public organisations and their participation means that more than 51% of their contribution to the fund is composed of property of the state, welfare institutions, the regions or local authorities.

Setting up a social housing property fund

Organising and launching a property fund involves various parties, including: the Bank of Italy for approval of the regulations, the SGR for management of the process and establishment of the regulations, the depositary bank to hold the securities/shares, the participants for subscription of the shares and contribution of property, the financing bank to finance the debt and the independent experts for evaluation of the properties which may be contributed to the fund. This complexity and the related organisational costs generally justify the start-up of a property fund only if the operation has a total value of at least 100 million euros¹⁹.

Normally, promotion of a property fund is done by an SGR, which identifies an opportunity, develops a plan, proposes it to investors (participators) and sets up the fund. Nevertheless, it is also possible that participants themselves, who identify or possess opportunities such as land, property

¹⁸ The discount may vary approximately from 15 to 45% according to the market situation, the remaining duration of the fund and the characteristics of the assets. When there are extraordinary transactions (possible for funds in much the same way as for companies) the discount may be reduced or even set at zero.

¹⁹ "Capital market e real estate", EGEA, various authors, april 2009.

or financial resources, develop a plan with the aid of a financial adviser, and then select an SGR which sets up and promotes their dedicated property fund.

In this second case selection of the SGR, which may be by means of a public tender procedure, is a delicate process but essential for the achievement of objectives and purposes of the fund, since the SGR will be responsible for implementing the plan which the sponsors wish to develop. For greater efficiency, the sponsors may select the SGR after having arranged the governance schemes (which act as an outline for the SGR to prepare the regulations) and, above all, a business plan which illustrates the expected development and content of the plan, setting out the management which the SGR will be required to put into practice.

Throughout its life the fund owns, rents and manages the properties (directly or through third parties); on maturity it arranges to divest itself of the properties as part of its winding-up²⁰, returning to participants the amounts originally contributed together with any returns which have not yet been distributed.

Case: Investment in a property fund in a social housing initiative, the experience of "Fondo Abitare Sociale 1" in Milan

The ethical property fund "*Abitare Sociale 1*" was set up in 2006: this gathered 85 million euros (with a potential investment of a maximum of 170 million euros). *Fondo Abitare Sociale 1* is managed by *Polaris SGR*, a management company in which *Fondazione Cariplo*, *Fondazione Cassa di Risparmio di Forlì*, *Cassa Italiana dei Geometri*, *Congregazione di Don Bosco* and *Congregazione di Don Orione* (two religious orders) hold shares, while promotion of the initiatives and the social benefit content is entrusted to *Fondazione Housing Sociale*²¹, set up by *Fondazione Cariplo* in 2004 together with the Lombardy Region and *ANCI Lombardia* (Lombardy branch of the national association of Italian local councils) to promote social housing.

Fondo Abitare Sociale 1 was awarded 3 locations in Milan on which it plans to construct around 700 dwellings, in addition to services and other public benefit structures. The investors in the Fund have accepted an objective yield of 2% above inflation, with an investment horizon of 20 years and a restriction on maximum yield to 4% above inflation, arranging to allocate any yield above this threshold as a non-returnable contribution for further social housing initiatives.

The experimental "practice" developed by *Fondo Abitare Sociale 1* provides for the Social Housing Foundation to draw up a *protocol of agreement* setting up a working party together with the municipal authority and the other sponsors of the initiative, assigning to this combined working party the role of promoter of the social housing project.

The development of the *Fondo Abitare Sociale 1* social housing initiative from its conception to when the fund divests itself of it, may be summarised as follows:

- scouting initiatives; meetings with various authorities (or with other parties who own suitable land areas) to analyse the preliminary feasibility and the benefit of developing a social housing project;
- preliminary agreements; drawing up agreements which illustrate the objectives, purpose and possible course of the social housing project (e.g. protocol of agreement) setting up a combined working party which will promote its content;

²⁰ Where some properties are assigned before the expiry date, the fund may, in addition to distributing the surpluses achieved, arrange to return a part of the original investment made by subscribers through partial pro quota reimbursements.

²¹ *Fondazione Housing Sociale* has recently extended its field of activity from the Lombardy region to the whole of Italy. For more information on *Fondazione Housing Sociale* www.fhs.it.

- promotion of the initiative; joint activity within the combined working party to promote the initiative (preliminary planning of the property, economic and social aspects);
- allocation of the land areas; public procedure in which the fund participates as a candidate to implement the projects examined by the combined working party;
- agreement; drawing up of an agreement between the municipal authority and the fund (if it is awarded the contract), conferring on the latter the long-term leasehold²² (for example, 90 years in Milan) and sets the duration and terms of the social lease and works of public benefit which must be carried out;
- final planning; completion of planning, using professionals selected by the fund (or by means of planning competitions);
- planning implementation; subdivision plans; integrated project programmes or other procedures necessary to complete the authorised planning process;
- property development/renovation; with methods which ensure adequate competition between potential suppliers of the work;
- leasing and management²³; making the property a source of income for the life of the fund;
- sale of the properties; divestment of the properties on the basis of criteria set in the agreement drawn up with the municipal authority.

In this social housing project the building and financial aspects are closely linked to the social set-up of the initiative and the partnership with the Milan local authority. In organising the initiatives for *Fondo Abitare Sociale 1* a proposal for the resident target group and supporting services were laid down in a Social Plan. Some of the fund's investment capacity was reserved for implementation of this plan. When preparing the Social Plan, *Fondo Abitare Sociale 1* and *Fondazione Housing Sociale* worked through the following stages:

- defining a reference profile for the community to be housed, with the assistance of the Polytechnic University of *Milan*;
- establishing methods for forming new communities;
- presenting the social housing initiative to non-profit and limited profit operators who were active in the area and to other local stakeholders, in order to gather recommendations and proposals about the possible services to be introduced;
- feeding the recommendations into planning proposals which were coordinated with the disbursement activity of *Fondazione Cariplo* (both in respect of services for people and environmental performance), evaluating their overall sustainability;
- gathering planning ideas into three proposals which were submitted to the Milan city council to comply with the public notice published for award of the land areas.

After the award of the development locations, made in December 2008 by the Milan City Council, the initiative is planned to proceed in close collaboration between *Polaris SGR* and *FHS*, in which the former will focus mainly on the property and financial components of the projects and the latter will supervise the social set-up and the experimental content of the initiatives.

²² The agreement may also be drawn up at a time later than that indicated. The leasehold must be paid for: in general the price of the leasehold is set as equal to the standard value of the land areas.

²³ One of the innovative elements of the Social Housing Project provides for management to be entrusted to the tenants themselves, as a cooperative.

7. Going National: *Piano Casa* and the integrated property fund system

Recent legislation in Italy²⁴ (December 2008) introduced a framework for a new national plan for housing construction (*Piano Casa*). This framework includes provisions for an integrated property fund system (*Sistema Integrato di Fondi: SIF*)²⁵ dedicated to the construction of social housing.

The proposed scheme –a fund of funds- provides for the setting up of a national investment fund which will facilitate the start-up of a series of local funds, in which the national fund will take minority holdings of no more than 40%, on condition that the local funds satisfy the requirements of public and social interest specified in the *Piano Casa* and that they adopt the management regulations of the national fund.

The national fund's initial assets will be set at 1 billion euros (which at maturity should have increased to 3 billion euros), with the objective of constructing around 20,000 dwellings. The natural candidate to launch and manage the national fund is *Cassa Depositi e Prestiti SpA*, a public financial institution which, in addition to having considerable financial assets, has recently decided to focus its own development strategies on two principal deficiencies in Italy: 1) *infrastructure* and 2) *housing*.

The National Property Fund (SIF) differs substantially from traditional instruments in the social housing sector, since the SIF offers resources that are in essence an investment and not a subsidy. This creates new implementation challenges. One of the main innovations announced concerns the methods of interaction between the national and local actors.

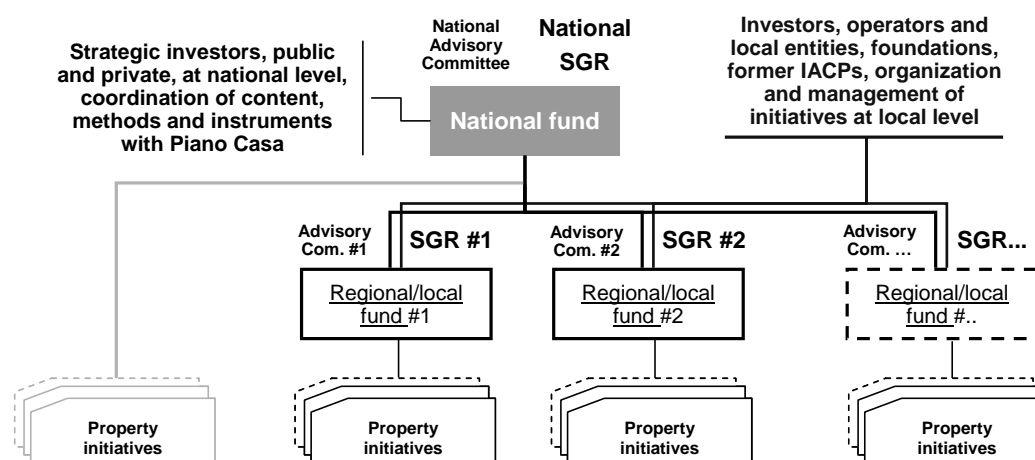
The structure of the SIF makes it possible to make use of national synergies, such as the resources of the national fund itself and also the possibility of transferring good practice or making use of shared instruments which will support the development of the sector (e.g. guarantee funds, saving for a home), at the same time maintaining maximum flexibility in setting up local initiatives.

The SIF scheme provides for governance of the local investment funds to be supported by the role of SGRs, Advisory Committees and local investors. These actors will have to reach agreement with the municipal and regional authorities on new social housing initiatives. This fund of funds may not, as we have said, exceed the 40% threshold and must therefore remain a significant –but minority- participant with as a primary role to safeguard that local initiatives are consistent with the *Piano Casa* and to protect its own investment.

²⁴ A DPCM (Prime Ministerial Decree) is required in order to implement the content of the *Piano Casa*, subject to a decision of the CIPE (interministerial committee for economic planning) and the proposal from the Minister for Infrastructures and Transport.

²⁵ Decree Law 112/2008, Art. 11, paragraph 3, letter a): "*the setting up of property funds intended to make use of and increase the housing supply, i.e. to promote innovative property financial instruments and with the participation of other public or private parties, divided into an integrated national and local system, for the acquisition and construction of properties for residential use.*"

Figure 10 – Relationships between national fund and local operational investment funds



Advisory Com. #1: Advisory Committee specific to the Regional/local fund #1
 SGR #1: Fund manager of the Regional/local fund #1

Source: *Fondazione Housing Sociale – Sinloc S.p.A.*

For local initiatives, the national fund could lead to better conditions for:

- starting up initiatives, providing assistance either to local and regional authorities or to operators to facilitate negotiation and meeting the respective public and private interests;
- finance rigour, subjecting the initiatives to its scrutiny as an investor and implicitly providing recommendations in relation to the validity of projects once co-investment up to 40% has been decided;
- transferring good practices, implementation methods and the promotion of instruments which will support the development of the sector.

The national fund can also intervene directly in geographical areas -if it is not possible to identify local promoters- by setting up one or more "operational" local funds both in specific geographical areas and by combining local initiatives that are not actually adjacent to one another. This type of intervention is limited to a total amount of no more than 10% of the national fund's investments.

The national fund does not present itself as an instrument centralising social housing initiatives to a national level, but as an instrument with the purpose of facilitating and increasing the spread of local initiatives by coordinating them with national, regional and local housing policies, setting minimum standards and offering financial resources as a leverage for local initiatives involving banking foundations, SGRs, public entities, cooperatives and private developers.

8. Conclusions and discussion

This paper described the challenges facing social housing in Italy and more specifically the Lombardy Region. The lack of decent affordable housing could lead to loss of economic competitiveness of areas when it is not possible to attract a workforce because there is no housing available under reasonable conditions.

Banking foundations, being long established civil society organisations, are increasingly involved in social housing initiatives. Social housing property funds are seen as delivery vehicles of new social housing.

This paper presents work in progress. It is our ambition to develop our findings further by linking them with more rigour to housing finance and housing governance theory and explore possible critical perspectives on developments described in this paper. To do this we very much welcome critical feedback on this paper.

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