

HOUSING POLICIES FOR SUSTAINABLE AND INCLUSIVE CITIES: HOW NATIONAL GOVERNMENTS CAN DELIVER AFFORDABLE HOUSING AND COMPACT URBAN DEVELOPMENT

Executive summary

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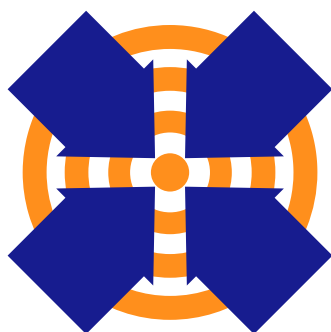
Housing is an essential human need that affects the well-being of all citizens and has profound social and economic impacts on people's lives in every country. Providing adequate and affordable housing is a core national policy objective, and has also risen to the fore in international frameworks through the 2030 Agenda for Sustainable Development and the New Urban Agenda.

Cities face particularly strong demand for housing, partly due to the global trend of urbanisation. Urban areas are already home to more than half of the world's population, and by 2050 are expected to house 6.7 billion people – nearly 70% of the global population. Housing demand outpaces supply in most cities around the world, leading to rising house and rental prices. Currently, one in three low-income private renters in countries that are part of the Organisation for Economic Co-operation and Development (OECD) spends more than 40% of their budget on rent costs alone.

National housing policies must achieve two objectives at the same time:



Boost affordable housing supply



Deliver compact urban development

At the same time, physical urban space is growing faster than the population: the overall built-up area around the globe has increased 2.5 times over the last 40 years, while the population has increased 1.8 times. Sprawl is partially driven by lower land prices around the urban periphery, but it means that urban residents need to travel longer distances, at greater personal and environmental expense. Urban sprawl has numerous other social, economic and environmental repercussions, from lower productivity to rising greenhouse gas emissions and encroachment on fertile agricultural land.

Although most housing policies are implemented at the local level, national governments have a key role to play in shaping housing markets, whether in financing sustainable urban infrastructure, designing regulations that influence citizens' decisions to either rent or buy, or in creating incentives that encourage developers to construct particular types of homes.

National governments thus have to address two urgent needs that can be at odds with one another: providing adequate, resilient and affordable housing in cities, and delivering compact, connected urban development. However, political pressure can lead the ministries responsible for housing to pursue large housing programmes to address affordability, without always considering how these policy instruments can affect urban spatial form and without coordinating with other sectors and levels of governments. National governments should instead consider how to boost affordable housing supply and use urban land more efficiently at the same time.

This paper identifies policy interventions that can achieve the dual objectives of housing affordability and urban compactness. It presents a new framework for understanding the housing market and provides an in-depth analysis of selected policy options available to national governments, illustrated with examples from around the world. This paper is one of the first attempts to consider the intersection of physical urban form and housing affordability from a national policy perspective.

SELECTING NATIONAL HOUSING POLICY INSTRUMENTS

The impacts of national housing policy instruments on urban form and housing affordability are diverse and complex, and there is not a direct relationship between compact urban development and house prices. There may even be trade-offs

between the two that need to be carefully managed. Recognising this complexity, national governments should select policy instruments according to individual contexts and consider their impacts on the entire housing market as well as its submarkets and market segments. Key insights based on the analysis conducted in this paper include:

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- Fiscal policies, such as impact fees and split-rate taxes, can ensure that new housing developments meet objectives for affordability and compactness, and reflect the true costs of sprawl.
- Incentivising home ownership through preferential tax treatment on home sales and mortgage interest deductions is costly, socially regressive and can make it more difficult for

people to move. Moreover, such policies may contribute to sprawl and spatial segregation, by spurring demand from higher-income households for single-family detached housing in suburban areas. They must be very well targeted to minimise potential inequalities.

- To ensure that a certain share of housing units are sold or rented at below-market prices, multiple instruments should be used in both the owner-occupied and rental markets, such as inclusionary zoning and tax breaks for developers. In particular, there is a need for more policies to promote the private rental housing market, from rent subsidies to better protections for tenants.
- Providing urban public space and enhancing connectivity is key to ensuring that new housing projects will support compact urban development. The transversal nature of housing policy requires a strong integrated approach, through frameworks such as national urban policies.

Based on these key insights, this paper offers three main policy recommendations for national governments looking to provide affordable housing at scale while ensuring compact urban development.

RECOMMENDATIONS

1. Design fiscal incentives to foster compact and inclusive cities:



- Redesign land and property taxes to incentivise more efficient land use through higher-density housing development.
- Discourage low-density housing construction at the periphery by adopting a development tax or impact fees that internalise the real cost of sprawl for property developers.

2. Unlock the potential of the rental market:



- Establish clear and balanced tenant–landlord regulations to enhance transparency and ensure that both parties have equal access to information and legal recourse.
- Develop measures to support social rental housing and ensure adequate tenure protection without hampering residential mobility.

3. Strengthen institutional capacity and build coherent policy frameworks:



- Craft national urban policies that align the efforts of different ministries and levels of government behind a shared vision for cities, and design policy frameworks that enable subnational governments to implement inclusionary zoning and minimum requirements for public space and access to infrastructure.
- Introduce mechanisms for better inter-municipal collaboration for both demand-side and supply-side housing policies.
- Increase local capacity to collect property taxes by reviewing tax exemptions and strengthening national systems to identify taxable properties and assess property values.



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ABOUT THIS PAPER

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