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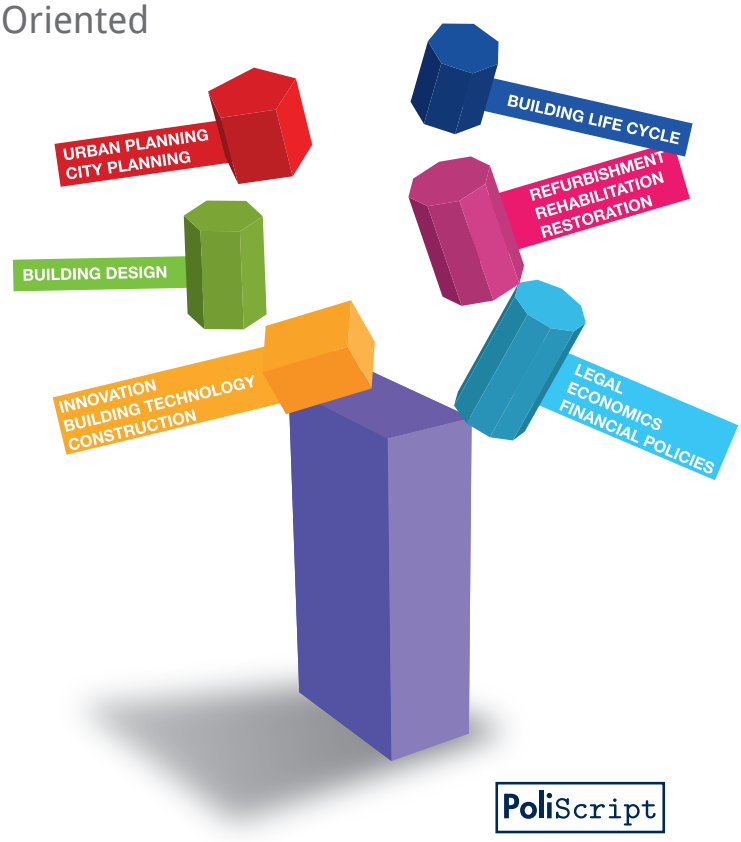
POLITECNICO DI MILANO 150°

# Changing Needs, Adaptive Buildings, Smart Cities

## Volume 1

- Analytical, Experimental Research Results.
- Building Design Analytical Behaviour Presentations.
- Critical Reviews.
- Methods, Methodologies.
- Product-Oriented, Process-Oriented Design and Applications.

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POLITECNICO DI MILANO

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# SOCIAL HOUSING IN NORTHERN ITALY: THE PUBLIC-PRIVATE-NONPROFIT COOPERATION

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**Keywords:** Social Housing; Italy; Project Finance; PPP; Third Sector.

## Abstract

After a long period of absence of the housing issue from the public agenda, Italy has introduced the National Housing Plan which places social housing concept to forefront in order to respond to the shortage of housing. The new approach deals with the problem from a different viewpoint compared to the traditional view: the integration of the real estate with the social factor is considered to offer a new service for the community.

The aim of this paper is to explore the required conditions for establishing a balance between economical, financial and social factors in social housing initiatives. In this concept, the challenges associated with the scarcity of public resources and the insufficiency of returns for investors in social housing schemes will be discussed. The case studies examined to that end will focus on the relatively new model that encourages the cooperation between the public, private and the non-profit sector for the provision of social housing. Thus, the basis of integrating the expertise and resources of these parties in the logic of project finance will be relieved. In that sense, this research is also expected to further improve our understanding of non-profit housing by a final discussion on the evolution of the role of the third sector in the provision of social housing in Italy.

## 1. The Evolution of Social Housing (SH) in Italy

Although it is difficult to give a precise definition of 'Social Housing', it is possible to say that it aims to provide solutions to the increasing housing demand that the free market is not able to respond. Over the years, two alternating models have been used in order to deal with the housing problem. The first one is the public model called the 'double track' or the 'welfare state', which is based upon a combination of the free market and the public initiative. The second one is the 'third way economics' or the 'third sector'.

It can be seen that from the second half of the 19th century to date (Table 1), the social housing issue has undergone various stages starting with the 'welfare state' (where the market creates wealth and the State is responsible for redistribution) model, followed by the withdrawal of the state from social housing and finally recently back to the 'third way'. Indeed, the Housing Plan which encourages the use of forms of cooperation between the public, private and the third sector enables the Third sector to effectively contribute and experience participation models that aim to increase social cohesion in local communities.





Table 1: The role of the public and private sectors in housing – Italy (1861-2010).

| Phase | Period | Public Sector | Private Sectors (Profit & Non-Profit) | Note |
|---|---|---|---|---|
| Philanthropic companies | 1861 - 1900 | - | + | Rapid urbanisation |
| Giolitti period | 1900 - 1923 | - | + | Luigi Luzzatti and TU public housing |
| 20 years of fascism | 1923 - 1943 | + | - | Emphasis on middle class |
| Economic recovery | 1946 - 1960 | + | - | INA housing plan: home for everyone |
| Increasing diversity | 1960 - 1980 | + | - | Gescal plan |
| Debt crises | 1980 - 2010 | - | + | Housing policies: from State to Regions |

Housing policy choices over the years have led Italy to become one of the countries in Europe with the highest rate of ownership (79%), which is divided into owner-occupied houses by households (71.3%) and ownership by a family member (7.7%) [1]. However, Italy at the same time is one of the countries with lowest rates of social housing for rent (about 5.3% of the national housing stock) compared to other European countries [2] such as the Netherlands (32%), UK (18%), France (17%) and Denmark (19%). However, it was recently realized that the housing crisis has in fact been growing, in particular for some segments of the population which are not able to afford market prices but at the same time cannot qualify for social housing. As a result of this increased awareness, the National Housing Plan was introduced in 2008. The Plan aims to increase the housing stock according to quality standards (energy efficiency, end the reduction of emissions) using public and private capital and to prioritize the disadvantaged groups such as young couples, students, immigrants, the elderly etc.

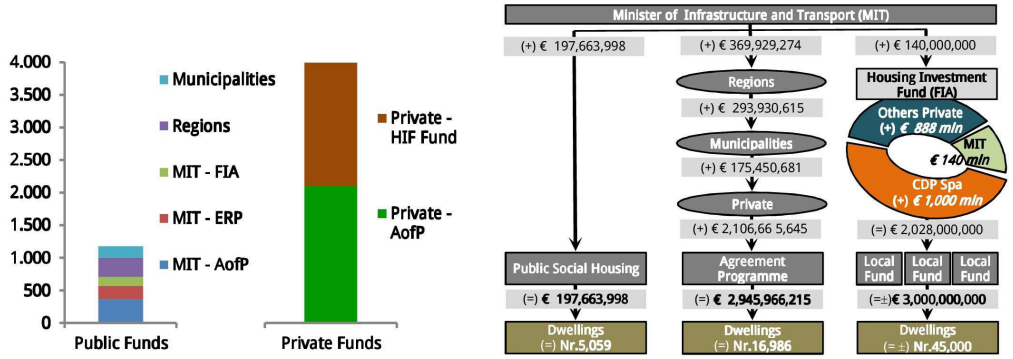


**Figure 1. The three areas of investment estimated by the Housing Plan [3].**

One of the novelties introduced by the housing plan launched in 2008 was the shift from a centralized structure that places public sector in the center of all social housing initiatives, towards a model that engages private capital (profit, non profit and limited profit) in order to respond to the growing housing needs. In this regard, three intervention areas have been identified. The first two of these groups are concerned with the most vulnerable segments of

the society, while the third one, namely 'The Integrated System of Funds', is concerned with the so called 'grey' segments of the society. Figure 1 shows the system introduced in the Housing Plan. It can be seen that while the resources put in place by State, Regions and Municipalities are limited (around € 1.2 bln), the private capital (around € 4 bln) is significantly high.

## 2. The Integrated Funds System (IFS) and Short Presentation of Some SH Interventions in Northern Italy

After years of a deep crisis in the residential building sector, the Housing Plan has introduced several innovations that not only is expected to deal with the housing emergency, but also with the economic crisis which is affecting Italy, thanks to the start up of a Keynesian virtuous circle (+ investments, + employment, + social housing and services, + tax revenues and – debt) (Figure 2).

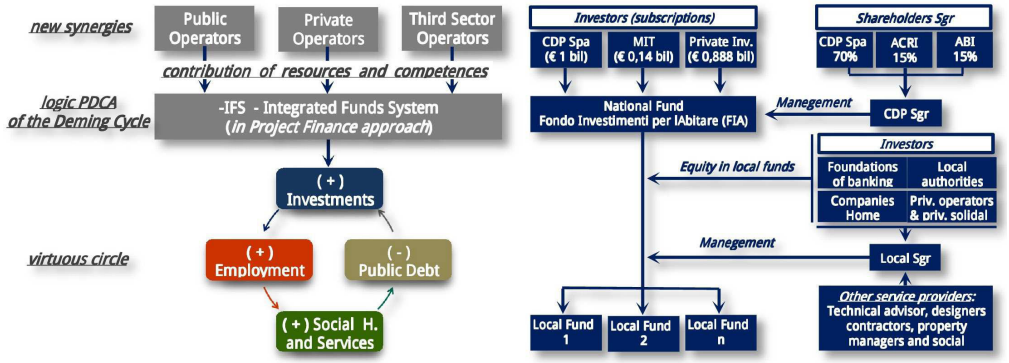


Figure 2. The Integrated Funds System and the virtuous circle.

In this context, strong emphasis was placed on partnerships between public-private and non profits. On the other hand, the definition of social housing was introduced in the Italian jurisdiction. Developed in accordance with the definition of social housing provided by Cecodhas in Europe, social housing was defined as 'the properties in permanent lease used for residential purposes that act for the public interest, for the preservation of social cohesion and for the reduction of housing disadvantage of the underprivileged individuals and households, which are not able to access the lease in the free market'. Thanks to these two previsions, today, the private supply for social housing is also possible, which is more adequate in facing the housing shortage from a new and diversified perspective. The Integrated Fund System (IFS), provided by the Housing Plan, is a tool that lays the foundation for the creation of a network of closed real estate funds. It aims at increasing the housing supply of social dwellings and their related services throughout the territory. The involvement of the operators in the area, both public (Regions, Municipalities, Provinces and Housing Companies) and private (Builders, developers, advisors, Banks, etc.) has made the realization of this model possible.

This network, also called the 'fund of funds', is developed on two levels (Figure 1). In the 'national' level the CDPI Sgr is responsible for promoting, establishing and managing the Housing Investment Fund (which is reserved to qualified investors) that invests in local funds destined to Social Housing. The estate investment funds in the 'local' level are promoted and managed by other Investment Management Companies (IMCO) and aim to increase the supply of social dwellings to be leased under controlled criteria and to be sold at agreed prices. The FIA national fund, which is in operation since 2010, has since then activated (throughout February 2013) 17 local funds managed by 10 IMCOs (Table 2).





Looking at the geographical distribution of FIA investments, it was observed that the northern regions (€ 350.74 mln) appear more dynamic compared to the central regions (€ 149 mln), while the southern regions present only a few initiatives in progress. Geographical distribution of resources and dwellings could in fact be explained by the spatial distribution of the third sector organizations in Italy. Given the strong social component [5] of the social housing initiatives, it is possible to see that the number of non profit organisations per inhabitant is relatively higher in northern regions compared to the other areas of Italy (North: 44 non-profit organizations per 10,000 inhabitants, Centre: 42 and South: 29) [6]. Among them, the ones that play a crucial role in economically and socially sustainable initiatives are:

1. The *bank foundations*, which operate both during the fund raising and the social management stage through the outright disbursements destined to the involved non-profit entities.
2. The *cooperatives of inhabitants*, which operate in the several phases of the housing cycle, including also the social management stage.

In Italy there are 88 bank foundations which, relying on their significant assets (€ 43,032 bln in 2011) [7], are able to substantially contribute to the social housing sector. Due to their double role as philanthropic institutions and investors, their strong territorial presence and idealistic missions, the bank foundations have significantly contributed to the promotion and development of several local Funds within the IFS.

In the remaining part of this section, we will briefly examine some initiatives undertaken in three different areas of northern Italy, which by their nature could be replicated elsewhere:

1. *Verona, Viale dell'Industria – Fondo Veneto Casa, managed by Beni Stabili Sgr.* This is a *brownfield* Social Housing operation (with an area of about 12,000 sq., dwellings – 60 social and 20 for free market – and 16 accommodations among offices and shops). It aims to increase the supply of social dwellings immediately available, thus avoiding the use of further land. At the same time it has an anti-crisis function as the initiative enabled the reactivation of a suspended operation due to the real estate crisis.
2. *Milan, Via Cenni – Fondo Immobiliare Lombardia 1 – managed by Polaris Investimenti Sgr.* This is a *greenfield* Social Housing operation (124 energy class social dwellings, 6 business units, 250 sq. of additional services to living, 1,800 sq. of local and urban facilities which will be provided by non-profit organizations), which includes urban, social, economical and financial planning, the use of innovative building techniques and land. It is innovative as it uses the wood building technology but also because it offers a housing solution which is based on the culture of collaborative and sustainable living. Furthermore, in order to better serve the purposes of the project, a new figure called the social manager was introduced whose duties were entrusted to a cooperative of inhabitants with a culture oriented to social cohesion.
3. *Turin, Sharing Ivrea24 – Fondo Piemonte C.A.S.E., managed by Ream Sgr.* This is a *brownfield* Social Housing operation (183 dwellings, for a total of 470 beds), but in this particular case it aims at satisfying temporary housing needs with controlled rents. The intervention includes the recovery of an old property which was converted from House-Hotel for Post Offices employees into temporary residence. With this project, the manager also enhances the aspects of solidarity, economic development and social security, by providing ancillary services for the residents, as well as commercial services.

Table 2: Fia investments in local funds (throughout February 2013) [3, 4].

| Location | | The Real Estate Local Fund | Fund Manager | Subscripitions [mln €] | | Social Housing Dwellings | | Social Housing Beds | | Initiatives |
|---|---|---|---|---|---|---|---|---|---|---|
| | no. | Name | Name | Binding Resolution | Non-Binding Resolution | nr. | % | no. | % | no. |
| North | 1 | Abitare Sostenibile Piemonte | Polaris Inv. Sgr | 40 | | 762 | 80% | 300 | 55% | 11 |
| | 2 | Affordable Housing Piemonte | Prelios Sgr | 12.4 | | | | | | |
| | 3 | Piemonte Case | REAM Sgr | 17 | 23 | 189 | | 470 | | 3 |
| | 4 | Immobiliare Lombardia 1 | Polaris Inv. Sgr | 106 | | 1940 | | 1000 | | 26 |
| | 5 | Immobiliare Lombardia 2 | Beni Stabili Sgr | 8.8 | | 191 | | | | 2 |
| | 6 | SH Cascina Merlata | Beni Stabili Sgr | 25.04 | | 684 | | | | 1 |
| | 7 | Veneto Casa | Beni Stabili Sgr | 21.2 | 8.8 | 316 | | | | 6 |
| | 8 | Polaris Parma Social House | Polaris Inv. Sgr | 25 | | 852 | | | | 7 |
| | 9 | Emilia Romagna SH | Polaris Inv. Sgr | 20.5 | | 398 | | 29 | | 6 |
| | 10 | HS Friuli Venezia Giulia | Finit Sgr | | 22 | | | | | |
| | 11 | Residenze Social Housing | Torre Sgr | 21 | | 319 | | | | 1 |
| Central | 12 | Housing Cooperativo Roma | Polaris Inv. Sgr | | 30 | | 20% | | 45% | |
| | 13 | Housing Toscano | Polaris Inv. Sgr | 14.6 | 9.4 | 487 | | | | 11 |
| | 14 | HS Italia Centrale | Investire Imm. Sgr | 14.4 | 25.6 | 169 | | | | 3 |
| | 15 | Focus E.S.T. | Focus-Gestioni Sgr | 11.2 | 12.8 | 316 | | | | 8 |
| | 16 | Real Quercia HS | EstCapital Sgr | 14.3 | 15.7 | 436 | | | | 2 |
| National | 17 | Erasmo | Fabbrica Imm. Sgr | 23.5 | 36.5 | | | 1500 | | 3 |
| **Total** | | | | **374.94** | **183.8** | **7059** | **100%** | **3299** | **100%** | **90** |

## 3. SH Initiatives: Economic, Financial and Social Sustainability

As the structuring of real estate funds follows the economical, financial and social sustainability guidelines intended by IFS, it is important to highlight that Social Housing initiatives, whether *greenfield* and *brownfield*, are complex operations that require the adoption of a different approach compared to the traditional public model. The first difference is that the focus in estate funds is directed to whole project life cycle (Finance, Planning, Build, Management and Disposal), while the planning and construction stages come into prominence in the





traditional approach. Secondly, the emphasis placed upon social factors in the new model necessitates the improvement of project quality (architectural, social and financial) as a better built-up area in terms of quality is a fundamental requirement to protect the community from social deterioration.

Therefore, it can be seen that the Housing Plan encourages the increase of social dwelling stock throughout the domestic territory without sacrificing quality and social integration. Unfortunately, the limited public resources and budgetary constraints experienced in Europe substantially reduce intervention opportunities. However, the possibility of involving private parties (profit, non-profit and limited profit) in ethical investment models such as IFS, where participating institutions are willing to accept lower and less risky returns compared to the market, could be a good opportunity.

The aspects that characterize the ethical funds[5] are indeed fundamental in the planning of social housing operations. In the *fund raising* stage, the flexibility of ethical funds helps to align the medium and long term interests of different parties involved, through the use of three types of shares:

1. *Ordinary shares* (A), usually reserved for promoters, characterized by market expected yield (between 6% and 10%).
2. *Preferred shares* (B), reserved for FIA and bank foundations, with the guaranteed minimum return (around 3% + inflation + earn-out).
3. *Special shares* (C), especially reserved for local entities (for the contributions by sharing or cash, sometimes in place of the outright contribution), characterized by guaranteed minimum return at low levels (around 1% + earn-out).

However, it is equally important to take into account the economic (Costs>Revenues, negative NPV, etc), financial (time shift between Sources and Uses and neg. Cash Flows) and social (arrearage risk, social exclusion risk, etc) asymmetries that are typical of an imperfect market where the feasible rent levels are incompatible with proper returns which could ensure economical, financial and social sustainability of the intervention.

In order to deal with the profitability issue, it is necessary to take the appropriate compensatory measures which can be external and internal to the individual investment. As far as external measures are concerned, the public entities may contribute to restore profitability to compatible levels with the investors' expectations, by using regulative, fiscal, urban and financial leverage. For example, the municipalities, by making available free or under controlled costs building areas or real estates to be redeveloped, by granting subsidies in order to reduce the burden associated with building and urbanization costs and by exemptions of property tax, but also by allocating outright contributions, by signing insurance policies to cover vacancy and arrearage risk; the regions, by providing housing requirements, sometimes by providing outright contributions, by constituting revolving funds which guarantee the non-payment of the rent, by identifying the access criteria for the dwellings addressees and also by defining the rent and the selling prices levels.

As regards the compensatory measures internal to the project, there are instead several components which may improve investment profitability. In this concept, a balanced mix between the housing sector to be destined to the free market and to social dwellings is essential. Within the latter, a mix between different types of sell/lease (social and balanced rent, lease with right of repurchase, permanent lease in the medium and long term and treaty sale); the complementary aims of social housing (schools, nursing homes, public utilities), the innovative procedures, building and maintenance techniques; the existence of a social manager are important factors.





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Table 3: A financial economic plan of a IFS investment [8].

| TECHNICAL ECONOMIC FRAMEWORK (TEF) | | | | INCOME ACCOUNT | Unitary Cost of Project | Unitary Costs Bench-mark SIF | Total |
|---|---|---|---|---|---|---|---|
| | Unitary Cost | | Totale | Years from 2013 to 2035 | | | (€/000) |
| *Mix of intervention %* | | | 100% | **Gross Lease Rentals** | | | ***4.673*** |
| Number of accommodation | | | 99 | Registration tax | 1,00% c.lordi | | -47 |
| Consistency interven-tion–mq SV | | | 6.500 | Vacancy and arrears | 5,00% c.lordi | | -234 |
| Ratio mq SV/mq SLP | | | 1,30 | **Lease Rentals Net** | | | **4.393** |
| Saleable surface (SV) | | € /mq | 8.450 | Other revenues | | | 0 |
| Size medium accom-modation | | €/mq SV | 85 | Grants | | | 0 |
| Cost urbanized area / property | | €/mq SV | 2.112.500 | **Total revenues** | | | **4.393** |
| Cost of construction / renovation | 1000 | €/mq SV | (a) 8.450.000 | IMU 'real estae tax' | 700 €/a/ apt. | | -725 |
| Design costs | 7,0% | % | (b) 1.500 | Property e Facility Mngt | 400 €/a/ apt. | €150 - €400 | -413 |
| Connections | 1,5% | % | 126.750 | Insurance | 0,15% cost constr. | | -305 |
| Unexpected | 5,0% | % | 422.500 | Extraordinary maintenance | 500 €/a/ apt. | 500€ | -516 |
| Insurance policies , guaranties | 1,5% | % | 126.750 | Agency su lease | 10,00% su rotaz. | | -23 |
| Development management SGR | 2,5% | % | 232.375 | **Real Estate Costs** | | | **-1.983** |
| Costs of the start-up community | 3,0% | % | (c) 253.500 | Financial Management | | | 0 |
| **TOTAL INVESTMENT** | | **€** | **10.203.375** | Management fee SGR | 0,50% GAV n.r. | 0,40 % - 0,60% | -674 |
| **Unit values of Book** | | **€/mq SV** | **1.208** | Fee Advisor Tecn. Social | 0,10% GAV n.r. | 0,10% | -115 |
| *(*) n.b. i valori in % sono calcolati su (a)* | | | | Depository Bank | 0,035% GAV | 0,03% - 0,04% | -62 |
| *(**) n.b. valore in % di develop. Mngt SGR calcolati su (a+b+c)* | | | | Independent Experts | 0,040% GAV | 0,03% - 0,04% | -74 |
| | | | | Other expenses fund | 0,10% GAV n.r. | 0,05% - 0,10% | -122 |
| **Benchmark SIF (Unitary Cost – TEF)** | | | | Structuring Costs | 1,00% val. rif. | 0,80% – 1,00% | -123 |
| Cost of construction / renovation | €/mq SV | 900-1.100 | | **Overheads** | | | **-1.171** |
| Design costs | % | 6% - 8% | | Operating results | | | **1.239** |
| Unexpected | % | 3% - 10% | | Capital Gains of sales | | | 7.046 |
| Development management SGR | % | 2% - 3% | | Agency of sales | 2,00% (sales) | 1,00% - 3,00% | -387 |
| Costs of the start-up community | % | 1% - 3% | | **Distributable Result** | | | **7.898** |





**FINANCIAL STATEMENTS**

| | INVESTMENT PERIOD | | | MANAGEMENT PERIOD | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CASH FLOW (€/000)** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** | **2034** | **2035** | **Total** |
| **Total revenues** | **0** | **0** | **226** | **230** | **233** | **237** | **240** | **244** | **248** | **251** | **174** | **177** | **206** | **209** | **4393** |
| Real es-tate costs | -14 | -51 | -166 | -138 | -109 | -100 | -102 | -105 | -107 | -81 | -67 | -69 | -87 | -89 | -1983 |
| Over-heads | -147 | -63 | -86 | -80 | -64 | -53 | -53 | -54 | -54 | -50 | -34 | -34 | -38 | -36 | -1171 |
| Cash Flow operations | -161 | -114 | -26 | 11 | 60 | 84 | 85 | 85 | 87 | 121 | 73 | 74 | 81 | 84 | 1239 |
| Changes in VAT credits | -726 | -515 | 562 | 679 | 0 | **0** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buying and sup-ply areas | -2113 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2113 |
| Devel-opment CAPEX | -2551 | -5102 | -2551 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -10203 |
| Variation debt vs customers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Earnings sales (net fees) | 0 | 0 | 2622 | 2728 | 2783 | 0 | 0 | 0 | 0 | 3687 | 0 | 0 | 0 | 7154 | 18975 |
| Cash Flows unlevered | -5551 | -5730 | 607 | 3419 | 2843 | 84 | 85 | 85 | 87 | 3807 | 73 | 74 | 81 | 7238 | 7898 |
| **IRR = 5,50%** | **purchase area + CAPEX** | | | **revenue from initial sales** | | **revenues from redemption accommodation** | | | | | | | **revenues sale final** | | |

Table 3 shows a financial economic plan of an IFS investment. Particular focus is given to the compensatory measures internal to the project, developed taking into account some elements of cost and revenue as a result of the benchmarking carried out on the basis of the first investments made by some local funds belonging to IFS. The plan is about a peculiar investment where the realization of 100 social dwellings is planned (around 8,450 sq. SV) according to the following mix: 50%, treaty sale; 20%, 8-years leased with surrender value; 30%, 20-years permanent location with final disposal.
The investment shows a positive yield with an IRR equal to 5.5% before debt which could represent in some cases, a rate sufficient to satisfy investors (especially those investing in ethic assets), without a need for other outright compensatory measures (Municipality, Re-gion, Bank Foundations and other non-profit entities). However, this level of yield does not allow the activation of debt leverage, due to its higher cost. Adding a component to allocate to the free market to the social dwellings combination is a solution for increasing the overall return of the investment and its attractiveness for investors (Figure 3).





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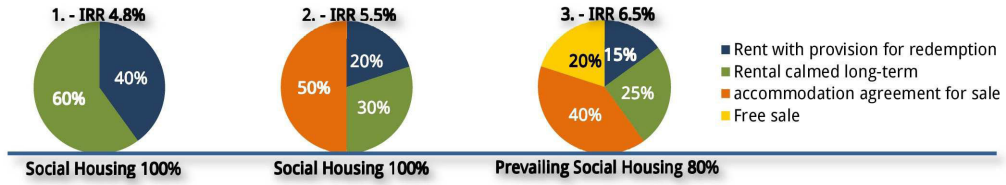


Figure 3. Project yield model (IRR before the debt) in three different scenarios [8].

Apart from planning, local fund structuring (Figure 4) and the disposal stages, the social manager is a key factor for success in social housing. The social manager is responsible for the social and property aspects, thus it is a different figure from the traditional manager. The social manager usually takes on the non-profit or limited profit legal form and it is primarily established by parties that have a strong experience in social housing: inhabitants cooperatives, associations, religious organizations, foundations and sometimes by the public sector. With the aim of building a solid and lasting community, the social manager adopts democratic organizational models, where the involvement and participation of the residents is possible. By taking over the responsibility for the integration of the social and property dimension (facility and property management), the entities having social and non-profit (or limited profit) goals may obtain better results in economic, financial and social terms. Furthermore, their experience in the social sector enables the reduction of risks associated with user selection, arrearage, insolvency and the conflicts between social manager, users and the community.

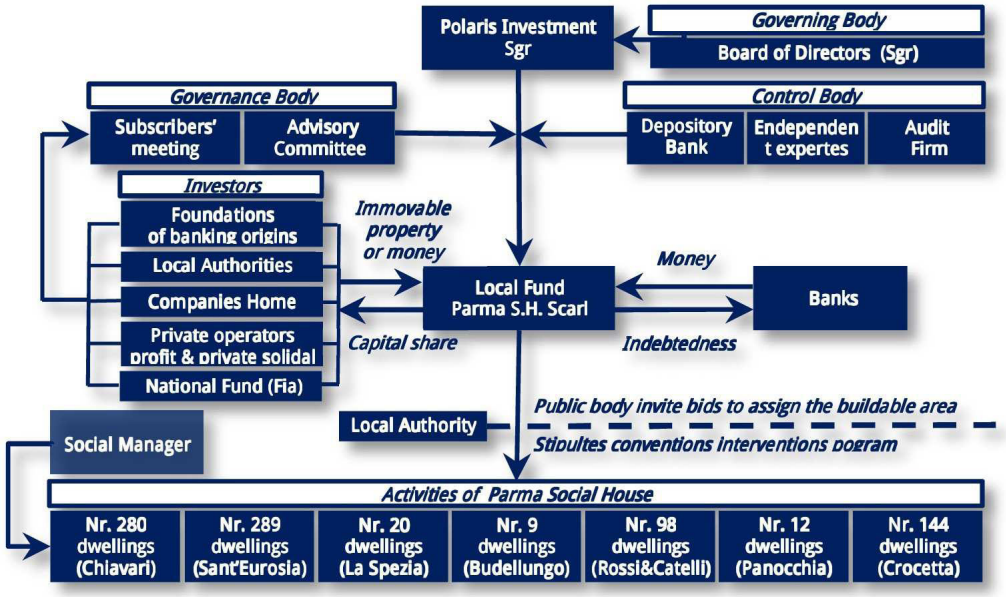


Figure 4. Organizational Structure of a local fund (Parma Social House).





## 4. Conclusion

With the introduction of the Housing Plan, a new path which integrates the mere quantitative approach with qualitative one is created. Owing to the public-private partnership, a synergistic process of privatization (off-balance sheet investments of the public sector), financialization (ethical estate funds) and socialization (social and technical management and planning) is triggered. This three dimensional process is functional in overcoming the imperfections of market which is characterized by the inability to meet the housing requirements of new disadvantaged segments of the society due to the insufficiency of public resources and the low level of profitability for private parties. Therefore, the only viable way to respond to the growing housing demand is to involve the public sector, the private sector, and also the third sector which is characterized by the conduct of an idealistic and non-profit institutional aim.

The IFS, together with the public-private partnership model (profit, non-profit and limited profit), the project finance logic and an innovative approach in solving the social housing problem (not only housing supply but also services management aimed at strengthening social cohesion), maximizes the functions carried out by the public, private and non-profit operators by taking advantage of their complementary characteristics.

It is precisely this complementarity that makes the start up of social housing operations by investors willing to accept less risk and lower returns possible. Moreover, by combining privatization, financialization and socialization processes, the alternative model is able to produce value added in economic, social and cultural dimensions.

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