

Crisis and Policy Interventions in Western European Housing Markets: do specific housing systems reduce the impact of the crisis?

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Abstract

The central question in our paper is how the crisis impacts on national housing markets: how vulnerable are specific housing systems to the crisis? We searched for the consequences of the current crisis on housing markets in five countries: Ireland, Belgium, the Netherlands, Germany and England. The results show that we must first of all make a distinction between markets with a high turnover on the owner occupied market versus housing markets with a low turnover. High turnover is found in the England, Ireland and the Netherlands, while low turnover exists in Belgium and Germany. The high turnover markets show a domination of new construction by commercial large scale (speculative) development and a relatively high level of housing transactions in the existing stock. Low turnover markets are characterized by a relatively low number of transactions in the existing stock while in the house building market, the private 'self' build model prevails. The high turnover housing markets seem more vulnerable to a crisis, especially when combined with loose planning controls like in Ireland. With these insights we have tried to make a relation with crisis stimulus packages for national housing markets. For instance, the UK has implemented a wide range of housing market measures while the German government launched two massive packages to support the wider economy that did not include any specific housing market intervention.

1. Introduction

The provision of risky mortgage products to American households and the securitisation of these products has not only led to a crisis on the American housing market and the American Financial sector. Through international trade in investment portfolio's that contained risky American mortgages, banks and investment companies outside America also experienced problems. The American credit crisis led to a worldwide financial sector crisis that also penetrated the real economy: Western European nations also went into recession. Western European housing markets have especially been influenced through the real economy. In many countries reduced consumer confidence in the housing market precipitated in house price decline, falling transactions of existing dwellings and a lower housing production output. *The question is to which extent housing markets are vulnerable to an economic recession and whether there are differences between nations and the extent to which the crisis precipitates on national housing markets. And if there are differences, which are the reasons?* These questions are central to our contribution. To answer this we have focused on two factors: the structure of national housing markets and the existence of stabilising factors. The aim of this paper is to explore these relations without having the ambition to come up with the definitive answers. Such would also be impossible as the crisis is not yet over and it is unclear of what is to come in the near future.

With regard to the structure of a housing market one could think about dynamics on the housing market, the way in which housing production is organised and the role of the different tenures on the housing market. It can be expected that a dynamic housing market, with many moves/transactions will be hit harder by falling consumer confidence than a static housing market, where households move less frequently. With regard to the organisation of dwelling production it may be expected that the impact of the crisis will be much severe in a system with speculative production. Furthermore demographics may play a role in relation to housing

production. In countries where the population hardly grows as a result of ageing, the house building sector will be much smaller than in countries with a high rate of population and household growth. In this last category the housing production sector may experience a severe temporary impact by the crisis and along with unemployment and bankruptcies, the economy in general. Because of the expected vulnerability of the owner occupied sector, the economic crisis may impact stronger on a market dominated by owner occupation than on markets with a large rental sector.

With regard to stabilising factors national government policy plays a crucial role. Such policy may support supply and demand for housing in the form of subsidies, insurances, guarantees and regulation of rents and the finance of owner occupied homes.

In this line of thought it is also relevant to gain insight in the extent of Western European government measures to limit the results of the crisis on housing markets. The question is whether there is a relation between the form and size of these measures on the one hand and the structure of the housing market and the existence of stabilising measures on the other hand.

The recent economic development and the development of the housing market of the following five nations will be compared in this contribution: Ireland, England, the Netherlands, Belgium and Germany. The choice for these nations is based on the ambition to include a good spread by housing market and the role of the tenures. The German and Belgian housing markets are examples of static markets with a strong tradition of self provided housing production. Belgium has a large owner occupied sector while in Germany the rental sector dominates with a share of 60% of the housing stock. Moreover, Germany has for a number of years had a surplus on the housing market.

The English, Irish and Dutch housing markets have a dynamic character. The housing production in these countries is dominated by commercial companies that develop dwellings at their own risk. England and especially Ireland have a large owner occupied sector while in Holland the social rental sector plays an important role. Ireland has experienced a spectacular economic growth in the decade before the economic crisis, with a large rate of housing production and extreme house price increases.

Based on Ball et al. (1988) and Martens (1990), the next section gives a further operationalisation of the concept of dynamic and static housing markets and their sensitivity to the economic crisis. In section 3 we present an overview of the existence of stabilising factors in the countries. The 4th section gives an impression of the impact of the current economic crisis on the general economy and housing markets by means of a few indicators. Section 5 will present some of the housing market crisis measures taken by national governments followed by the last section with a conclusion/discussion.

2. The structure of the (owner occupied) housing market.

An important point of departure in this contribution is that the extent to which a housing market is sensitive to economic fluctuations, is determined by the structure of the housing market. We hereby make a distinction between dynamic and static markets. This distinction is based on work by Ball et al. (1988) and Martens (1990). In their work they distinguish between unified and fragmented markets. On unified markets both new and existing dwellings compete for would-be purchasers and the transactions of the large number of houses and households already in the tenure influence activities in new housing construction. Moreover, market sub-sectors are linked together through transactions by existing home-owners, including trading-up and down, home improvements and inter-regional moves. As a result, all parts of the national owner-occupied housing market are linked by common market forces. Fragmented owner-occupied markets are dominated by first-time buyers and consist of a variety of sub-markets, differentiated by region or housing sector. Fragmentation is encouraged by the low rate of mobility of existing home-owners. New housing meets localised demand (Ball et al. 1988:113-114).

Besides this, Ball et al (1988) and Martens (1990) distinguish between different 'forms of owner-occupied housing provision'. Forms of housing provision are defined by the relations between those who initiate and control house building and the other institutions and agencies that are part of the development process (Martens, 1990:50). Forms of owner-occupied housing provision include speculative promotion, speculative house building and self building or self commissioned house building.

In our distinction between dynamic and static housing markets we combine 'housing market structures' with 'forms of housing provision' and focus on the role of household mobility. We could alternatively speak of low turnover versus high turnover markets when we refer to static and dynamic housing markets. In the following section we will elaborate more on our views of dynamic and static housing markets and we will also state what we expect with regard to the crisis sensitivity of these housing markets.

Dynamic housing markets are based on a process of gradually moving up the property chain and consist of a market for new construction in which owner-occupied housing is primarily built by commercial market players who develop properties at their own risk. They offer newly built homes on the free market via estate agents or their own sales channels. This construction of new residential properties is often targeted at the upper end of the market. Via relatively long housing chains, the construction of a new home at the upper end of the owner-occupied housing market ultimately results in a property becoming available for a first-timer buyer at the lower end of the market.

As their housing preferences change, many home owners opt to move house rather than extend or renovate their existing property. These changing preferences may be the result of changes in the composition of the household or in income. As a consequence, these types of markets tend to have high levels of mobility and a large number of transactions of existing owner-occupied properties.

New residential development and construction by market parties in this kind of 'trading-up market' may involve varying degrees of speculation or risk. One way of reducing risk is to sell new build homes at the initial planning stage; the start of construction is delayed until a specific percentage of homes have been sold. Speculative building involves a much greater level of risk as owner-occupied properties are sold either during or after construction. If the demand for owner-occupied homes drops, developers can be left with unsold properties on their hands. When this occurs, the oversupply can also lead to a fall in the price of existing owner occupied properties.

It is likely that a dynamic market, based on a process of trading up, will be highly vulnerable to economic trends because it relies on households who already own a good home to trade up to a larger, more expensive property. In times of economic prosperity, the demand for homes increases and prices rise. In this situation, home owners will be more likely to move up the housing ladder and purchase a more expensive home, creating a chain that will ultimately enable a first-time buyer to enter the housing market. In this process, an increase in the price of owner-occupied homes further stimulates the demand for such properties. This is because investing in a home in a rising market not only offers the benefits of the house itself, but it also offers the prospect of a high return on the investment. Existing home owners find it relatively easy to climb the housing ladder onto a better property, because they can take along the increased equity from their existing home. However, it becomes increasingly difficult for first-time buyers to enter the property market and this process of trading up can ultimately stagnate because of falling demand at the lower end of the market. This can lead to a temporary reduction in the number of transactions on the market for existing owner-occupied properties, a decrease in housing production and a downward price correction.

In a period of economic recession, there is diminished confidence that incomes and house prices will rise. For this reason, many home owners delay moving house, deterred by the prospect of

investing in a more expensive home that risks losing its value. As a result, housing chains are not created and fewer homes are made available for first-time buyers at the lower end of the housing market. This can also lead to a downward price correction, depending on the trends in households' ability to meet payments and the confidence of consumers in the housing market. If this situation is combined with few spatial planning restrictions on residential construction and speculative building, a fall in demand will also trigger a stronger price response. This is because many project developers have started building houses in the previous prosperous era and now, as demand suddenly falls, are left with large numbers of unsold homes, which creates an excess of supply and subsequently puts downward pressure on house prices

Static housing markets are the second type of housing market. In static housing markets, private individuals who commission the construction of new residential properties play a major role. These are often detached properties built on a plot owned or acquired by the private individual. This individual buys a plot and, usually in consultation with an architect, arranges the required planning permission and coordinates the design, the issuing of tenders to contractors and ultimately, the construction (see for example Dol et al, 2010). In this kind of housing market, changing housing preferences are less likely to result in people moving house, but rather to their modifying their existing home. Modifications to detached homes are relatively easy to achieve. Consumers in these types of housing markets generally buy only one or at most two homes in their entire house-buying career. As a consequence, these types of markets tend to be typified by low levels of mobility in existing owner-occupied housing stocks and short housing chains.

This therefore means that the number of transactions on the market for existing owner-occupied homes is relatively limited. In a static market, the influence of economic trends on the housing market is likely to be less significant. The construction of new properties focuses less on the upper end of the market and is more driven by actual housing needs.

In view of this limited mobility, changes in the prices of existing owner-occupied homes play a less significant role in a static market. In this kind of market, homes are not regarded so much as an investment whose value will hopefully increase, but rather as consumer goods (see also Duncan and Rower, 1993). Of course, in a static market, an economic recession will also lead to a reduction in the number of transactions in the existing stock and a decrease in the production of new homes, but its effects are relatively limited. Indeed, for households with secure employment, an economic recession can even prove attractive because it generally results in a drop in the prices of building materials, making the cost of construction relatively low (see Duncan and Rowe, 1993).

In general terms, trends in the costs of construction and land have a greater relation with house prices in a static market than they do in a dynamic market. This is because the process of trading up in a dynamic market means that the number of transactions involving existing homes is many times greater than the number of new homes and the price of existing owner-occupied homes therefore determines the price of new properties.

The countries classified by type of housing market

As we argued, the number of transactions on the market for existing owner-occupied homes is an important distinguishing factor between dynamic and static housing markets. For this reason, table 1 shows the number of transactions involving existing (owner-occupied) homes per 1000 owner-occupiers in the selected countries studied. Presenting the figures in terms of the number of transactions per 1000 households would give a distorted picture since the size of the owner-occupied sector differs for each country. The table shows a clear distinction between the number of transactions per 1000 owner-occupiers in the United Kingdom, Ireland and the Netherlands on the one hand and Germany and Belgium on the other. The effect of the economic crisis on the number of transactions is also much more evident in these first three countries than it is in Belgium and Germany.

The two countries with a static housing market differ from each other in so far as Belgian households tend to invest in their own home at an earlier age. Indeed, De Decker (2006) highlights a long-standing practice involving the private commissioning of construction whereby families often own plots of land which are passed on to children when they reach adulthood and much of the construction is done independently. This practice has been partly facilitated by the traditional *laissez-faire* attitude adopted by Belgian spatial planning policy: in Belgium, it has never been especially difficult to gain planning permission to build a home on any particular plot of land. Since the start of this millennium, there has been some tightening in Belgian spatial planning policy. Practice in Germany differs slightly from that in Belgium because people tend to enter the housing market at a later age. The fact that households in Germany delay the move to their own home until a later age is partly a consequence of the way in which ownership is financed in that country. This also encourages the construction of relatively large and high-quality homes (Tegeger and Helbrecht, 2007). Up to the age of 35, people tend to make use of the extensive and affordable rental housing market (Tegeger and Helbrecht, 2007). Most German households do not buy a home more than twice in a lifetime.

Table 1 Transactions per 1000 owner occupiers and newly built dwellings per 1000 households in the five countries studied, 2000-2008

Transactions/1000 owner occupiers	2000	2001	2002	2003	2004	2005	2006	2007	2008
UK		85.1	91.9	83.7	83.0	71.1	88.0	83.8	43.1
The Netherlands	51.8	53.1	53.5	49.1	48.5	52.0	52.7	50.8	45.7
Ireland	47.8	39.4	50.6	55.3	50.8	56.8	54.3	42.1	25.3
Germany	30.8	31.7	30.3	29.8	26.7	30.5	26.8	27.6	27.1
Belgium	36.9	37.8	39.6	40.5	40.4	40.0	40.6	41.7	39.9
Newly built dwellings/1000 households	2000	2001	2002	2003	2004	2005	2006	2007	2008
UK		6.3	6.6	6.9	7.4	7.6	7.6	8.2	6.8
The Netherlands	10.2	10.5	9.5	8.5	9.2	9.5	10.2	11.3	11.1
Ireland	39.6	41.2	42.9	50.4	55.4	57.1	64.4	52.5	34.1
Germany	9.9	7.6	6.5	6.0	6.3	5.4	5.6	4.7	3.9
Belgium	10.1	9.7	9.8	10.5	12.1	13.6	14.0	12.2	11.8

Source: All statistics in this table are OTB Research Institute calculations. Households and number of owner-occupiers are calculated on the basis of data from Housing Statistics in the EU 2006. Transactions in Germany from Hypostat 2008. All other data used for the calculations are from national statistics organisations.

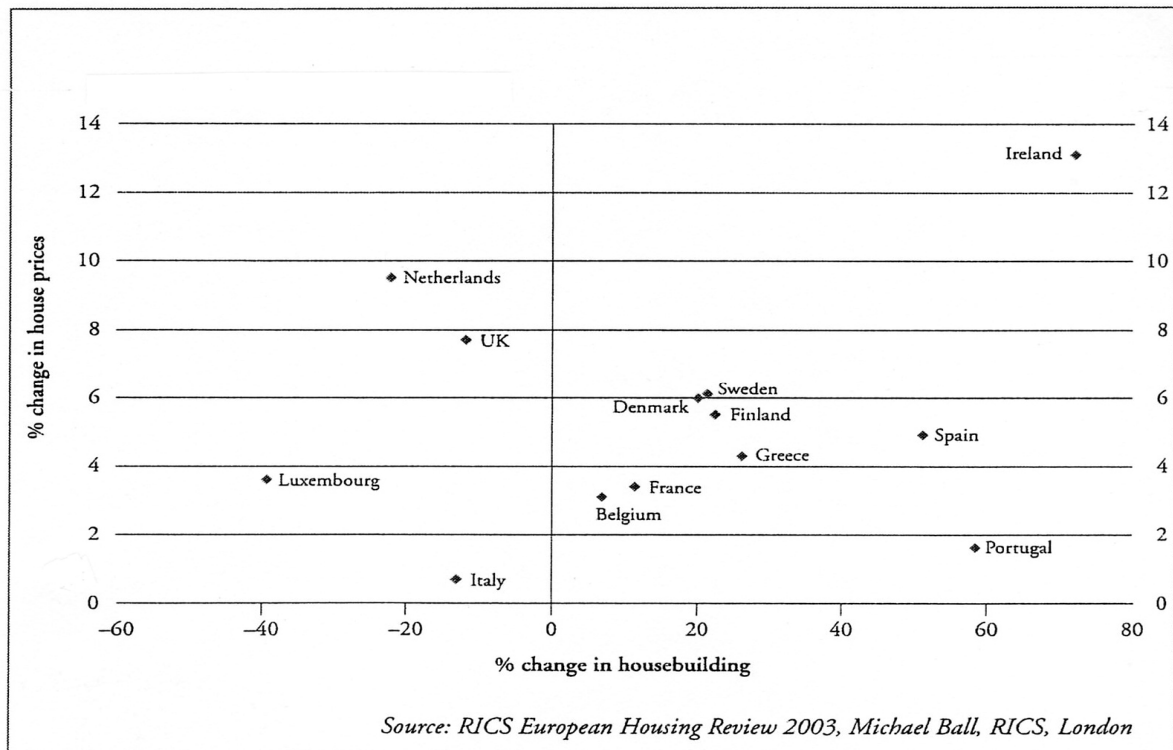
The Dutch, British and Irish housing markets are dynamic in character. In Ireland, the development of a housing market based on a process of trading up is a recent trend triggered in part by the strong economic growth experienced in this country in the last decades.

The differences between these countries are related to the extent to which there is speculative construction and the spatial planning possibilities for realising residential properties. In the Netherlands, risks are limited by selling new homes at the initial planning stage. In such cases, the start of construction is delayed until a specific percentage of homes have been sold (usually around 70%). This percentage of pre-sales is an integral part of the construction process required by funding bodies and for construction guarantees. In the UK and Ireland, there is more speculative construction and new owner-occupied homes are generally sold during or after construction (see Barker 2004; Murphy, 1995). This entails a much greater level of risk for market players. If the demand for owner-occupied homes drops, developers can be left with unsold properties on their hands.

It is important to gain a good understanding of the potential for housing production in dynamic markets. According to classic economic theory, demand for homes will lead to an increase in supply. The extent to which this occurs not only depends on the structure of the house building market, but also on the possibilities for new residential construction in terms of spatial planning. Ball (2004) has identified the relationship between price development and production for a number of countries (see figure 1).

According to this, in the period 1995-2001 there was a strong price increase combined with a drop in production. This is largely thought to be the result of factors inhibiting supply, including a restrictive spatial planning policy (Barker 2008; Ball, 2004; Vermeulen and Rouwendaal, 2007). During the same period, Ireland underwent spectacular economic growth and an increase in population accompanied a very strong price increase and a significant rise in housing production. This was facilitated by a very generous spatial planning policy. Table 1 shows that even after 2001, housing production in the Netherlands and the UK remained limited, whereas in Ireland it reached an exceptionally high level. In Belgium, where there are also few spatial planning restrictions applied to housing construction, both the price increase and the development in housing production were moderate. Unfortunately, Germany was not included in the data presented by Ball. Although Germany does not have an overly strict spatial planning policy, housing production has been modest during the recent period as a result of the excess of residential properties available in large parts of Germany.

Figure 1 The relationship between the annual change in the average house price (real) and the annual change in the level of house building in 13 European countries, during the period 1995-2001



Source: Ball, 2004 (figure 2.1, p. 11).

The difference between dynamic and static markets outlined above is of course based on an ideal type and does not always strictly apply in practice. Private individuals also commission the

construction of their own homes in the Netherlands, the UK and Ireland. Equally, there are also developers in Belgium and Germany who market new build properties at their own risk. For example, in urban areas in Belgium project developers have increasingly been building owner-occupied apartment complexes. There is also of course a market for existing homes in Germany and in Belgium, since not everyone builds or commissions their own home. In addition, housing markets also undergo development. For example, the process of trading up rapidly increased during the 1970s and 1980s in the Netherlands' housing market. This trend started much later in Ireland and, as indicated above, the role of project developers is also starting to make its mark in Belgium, primarily in the construction of apartments.

3. Stabilising factors in the housing market

Owner-occupied housing sector

The impact of economic development on the owner-occupied housing market is reflected by housing market confidence of households and in changes in their ability to meet mortgage payment commitments. The confidence of households in the housing market is based on their expectations of economic development, developments in their own income and price trends on the owner-occupied housing market in particular. As indicated above, the extent to which these expectations filter through into the housing market is greater if the market is based on a process of trading up than it is in a more static housing market.

The ability of households to meet their payment commitments is primarily influenced by trends in interest rates and income. The extent to which changes in interest rates and income are reflected in this is determined in part by government and financial institutions who can intervene by providing subsidies, tax incentives or funding. Table 2 includes an overview of types of financing for home ownership and the government measures applied in the five countries studied.

Compared to the other countries studied, home ownership enjoys significant government support in the Netherlands and it is the only country of the five with full mortgage interest tax relief. In Belgium and Ireland, limited forms of mortgage interest tax relief do exist. Mortgage interest tax relief has a dual effect on house prices. On the one hand, it has an upward influence on the price levels of owner-occupied homes because it increases the maximum loan that people can get ie part of the interest is subsidised. On the other hand, the existence of mortgage interest tax relief also means that changes in the level of the mortgage interest rate are only partially reflected in households' net financial liabilities. In addition, the impact of trends in interest rates on the financial liabilities of owner-occupiers not only depends on the availability of (full) mortgage tax relief but also on the level of the mortgage loan and the type of mortgage, in particular the type of interest rate. In the case of a variable interest rate, interest rate changes are directly reflected in housing expenditure whereas this process is delayed in the case of fixed-rate mortgages. In the Netherlands, Germany and Belgium fixed interest rates are generally applied for the long periods while in Ireland and the UK many mortgages have a variable interest rate (or short-term fixed rate).

Table 2 Stabilising factors on the housing market in the five countries studied

	The Netherlands	Belgium	Germany	Ireland	UK
Mortgage interest tax relief	Complete on marginal rates	Limited	No	Limited	No
Object subsidy (based on the property)	No	No	No	No	No
Subject subsidy (based on the individual)	BEW (temporary government subsidy to promote home ownership)	No	Yes (<i>Wohngeld</i> for rental and owner-occupied sectors)	Exemption from stamp duty for first-time buyers	No
Mortgage guarantee	Yes, (temporary up to € 350,000)	No	No	No	No
Housing costs insurance	National Mortgage Guarantee (NHG) housing costs allowance	Flemish housing costs insurance subject to income limit	No	No	ISMI for low incomes
Building savings (<i>Bauspar</i>) systems	No	No	Yes	No	No
Main type of interest rate	Fixed for 5-10 years	Fixed for more than 10 years	Fixed for 5-10 years	Variable	Variable/short-term fixed rates
Percentage of new loans with (partially) variable interest	18%	10%	15%	67%	40%
Maximum LTV (1)	125%	80%	80%	80%, can increase to 100% if house prices are rising rapidly (pro-cyclical)	80%, can increase to 100% if house prices are rising rapidly (pro-cyclical)
Standard LTV for a first-time buyer	100%	80%	70%	83%	

1 = in countries with a comprehensive mortgage guarantee, such as the Netherlands, 100% and higher are possible. In Germany, where capital is sourced from the *Pfandbriefmarkt*, 60% is customary but can be supplemented with 'secure' *Bauspar* loans. In other countries, more than 75 to 80% is possible, but banks report that they then apply a significant interest rate supplement of 0.2% to 0.4%. As this approaches 100%, it can accumulate rapidly. **Source: ECB, 2009.**

In addition to mortgage interest tax relief, the Netherlands also has a type of subsidy (BEW). Ireland and Germany also apply a form of subsidy in the owner-occupied sector. In Ireland, this is exemption from stamp duty for first-time buyers on the housing market, while in Germany there is an individual housing allowance that can be used in the rental and owner-occupied sector. Both the Dutch and Irish subsidies aim to make it easier for first-time buyers to enter the housing market. This also contributes to maintaining the system of trading up. If demand drops at the lower end of the owner-occupied housing market, this will ultimately have an impact on demand at the upper end of the market. The German *Wohngeld* allowance focuses more on supporting low-income groups in both the rental and private sector. In addition, since 2005 it has been primarily aimed at households not in receipt of any other government income allowances and may therefore, according to Kofner (2007), be seen as a substitute for many of the government's social housing programmes. The majority of *Wohngeld* claimants are retired or members of low-income groups in employment. For the unemployed, the housing subsidies are integrated into unemployment benefits. Only if unemployment is short-term will people be eligible for *Wohngeld*.

As well as in the Netherlands, there are also types of housing cost allowances or insurance in Flanders and in the UK. These provide temporary assistance to households no longer able to meet their housing costs as a result of a drop in income. The German *Wohngeld* may also be

considered to be a similar provision since households facing short-term unemployment are also eligible for this. There are no such allowances in Ireland.

The Netherlands is the only country with a mortgage guarantee secured by government. It removes risks for banks and makes higher mortgages possible at specific incomes. The mortgage guarantee (applicable to homes up to a value of €350,000 since 2009) therefore goes some way towards explaining the high LTVs in the Netherlands. In the other countries studied, the maximum LTV and the customary LTVs for first-time buyers on the housing market are generally lower than in the Netherlands, although LTVs approaching 100% also occur during times of economic prosperity in the owner-occupied housing market in the UK and Ireland. In Belgium and Germany, the maximum LTVs of around 70 to 80% are considerably lower than in the Netherlands. This means that home buyers need to have considerable capital at their disposal in order to move to a owner occupied house. Households moving up the property ladder can make use of the equity accumulated in their own home as a result of repayment or an increase in value. For first-time buyers, this means that they need to save before embarking on the purchase of a home. In Germany, this is facilitated and subsidised by government by means of the *Bauspar* system. The need to invest capital in the purchase of a first home means that the first step into the owner-occupied property sector is generally delayed to a later age.

Based on the above description of government policy and funding for home ownership, it is now possible to provide a more cohesive impression of the influence of stabilising or destabilising factors on the housing market in the five countries included in the study.

In the UK and Ireland, two of the countries in which the housing market is based on a process of trading up, there are hardly any stabilising factors in the housing market. If available at all, mortgage interest tax relief is only limited and variable interest rates are often applied, which means that changes in interest rates have a direct impact on households' housing expenditure. In addition, there are relatively high LTVs (80–100%) and LTIs, which means that households who have recently purchased a home in particular can face immediate affordability problems through an increase of interest rates.

During an economic recession, when households face a drop in income or have low expectations with regard to potential improvements in income, the process of trading up tends to stagnate and the price of owner-occupied housing is increasingly determined by sales that have become necessary because households are no longer able to meet their housing commitments as a result of an increase in interest rates or a drop in income. In Ireland, this impact will be felt more intensely than in the UK as there is no insurance to cover housing costs. In addition, because much of the residential construction both in the UK and Ireland is speculative in a nature, an economic downturn can lead to new residential properties becoming unsaleable and remaining vacant. In Ireland, where there are relatively few spatial planning restrictions on the construction of new residential properties, this impact could be felt more keenly than in the UK where spatial planning policy is more restrictive.

In the Netherlands, the third country with an owner-occupied housing market based on a process of trading up, there are more stabilising factors to support the private housing market. Mortgage interest tax relief and the often extended periods of fixed interest rates create a buffer that protects against fluctuations in interest rates or in owner-occupiers' ability to keep up payments. On the other hand, the LTVs for first-time buyers on the housing market are very high. Despite the existence of both the national mortgage guarantee, which covers the risks of funding bodies, and (limited) housing costs insurance, the high LTVs and LTIs still present a risk, primarily for recent buyers who face a drop in income. This is especially the case if this coincides with a drop in house prices. The risk of unsaleable, vacant new residential properties is limited in the Netherlands, because of the process of pre-selling generally applied. Construction of new residential properties is delayed until around 70% of homes have been sold, based on architects' drawings.

In Belgium and Germany, which have a static housing market where the role played by private individuals who commission the construction of their own homes is greater, the way in which home ownership is financed represents a significant stabilising factor in the owner-occupied housing market. In these cases, the maximum LTVs are lower than in the other three countries and long periods at fixed interest rates are more common. Facilities are also available for households unable to meet their housing expenditure as a result of a drop in income, in the form of an individual subsidy (*Wohngeld* in Germany) or housing costs insurance funded by local government (Flanders).

Rental sector

The main focus so far has been on the influence of stabilising or destabilising factors on the owner-occupied housing market. However, it is also interesting to examine the extent to which the rental sector can affect the stability of the housing market.

Seen from the perspective of residents, trends in the market value of residential properties and changes in the ability of households to meet payments have an indirect effect on large parts of the rental property market in most countries¹. There is however no direct relationship between the market value and the rental price. The ability to meet payment commitments depends on the relationship between the rent and income. Because rents (for existing contracts) are regulated in many countries (at least in the social rental sector) and/or there are subject subsidies or income-related rents available, the influence of the economy on renters ability to meet their payment commitments is relatively limited (see table 3).

Because the rental sector is less vulnerable to economic trends than the owner-occupied sector, the stability of the total housing market depends on the size of the rental sector. If it is large, this means that any economic effects on the owner-occupied housing market affect only a limited number of households. In this respect, the rental sector in Germany and the Netherlands is a much more significant stabilising factor on the housing market than it is in Ireland, Belgium and the UK.

Table 3 Stabilising/destabilising factors in the rental sector in the five countries studied

	The Netherlands	Belgium	Germany	Ireland	UK
Rental adjustments for social rentals	Regulated	Regulated	Regulated	Regulated	Regulated
Subject subsidies for social rentals	Yes	Income-related rents	Yes (via <i>Wohngeld</i> or social insurance)	Yes	Yes
Rental adjustments for private rentals	Regulated (up to a limit)	Regulated	Market-related (<i>Mietspiegel</i>)	Not regulated	Not regulated
Subject subsidy for private rentals	Yes	No	Yes	Yes	Yes
Size of rental sector	49%	25%	57%	18%	30%

Finally, as a result of anti-cyclical housing production, the rental sector can play a more direct role in mitigating the effects of a recession. This may involve the construction of rental properties or the buying up of unsaleable new build homes. This is primarily the role of the social rental sector and is supported by a government subsidy in four of the five countries studied. It is only in

¹ For landlords, the effect of developments in the market value of homes may be reasonably compared with that for owner-occupiers: changes in value primarily play a role in sales and the decision on whether or not to sell.

the Netherlands that the social rental sector can fulfil such a role without additional government support.

4. The impact of the crisis on the general economy and housing markets

In the second half of 2008, the US credit crisis began to trigger a global crisis in the financial system that also spread to the real economy. It is primarily this real economy that affects the housing market. In order to assess the impact of the economic crisis on the housing market, it is necessary to understand the degree to which the real economy has been affected. It should also be noted that the economic recession has not yet passed and its effects on the housing market and in particular on the housing construction market will continue to be felt for a long time. It is therefore currently only possible to assess the interim situation.

Table 4 includes a range of economic indicators for the various countries included in the study. All five countries appear to be undergoing an economic downturn both in 2009 and, on balance, in the period 2008-2010 (according to forecasts). This downturn is by far the most significant in Ireland and the least in Belgium. In terms of unemployment, Ireland is also clearly the worst hit by the economic crisis so far. Unemployment has also seen a strong increase in the UK since the start of 2007, while in the other three countries, unemployment actually fell on balance in the period 2007 – mid-2009. The Netherlands clearly has the lowest unemployment levels. The interest and mortgage interest rates are lowest in Ireland and highest in the Netherlands and Belgium.

Table 4 Recent economic developments and recent developments on the owner-occupied housing market in the five countries studied

	The Netherlands	Belgium	Germany	Ireland	UK
Economic indicators					
GDP, trend in 2009	-4.5%	-2.9%	-5.0%	-7.5%	-4.8%
GDP, trend 2009-2010 (total over three years)	-2.2%	-1.3%	-2.5%	-11.9%	-3.3%
Unemployment mid-2009	3.3%	7.5%	7.5%	12.0%	7.6%
Unemployment trend early 2007 – mid-2009	-13.2%	-6.3%	-17.6%	179.1%	38.2%
Mortgage interest rate	5.44%	5.52%	4.40%	3.23%	4.39%
Consumer confidence					
Housing market indicators					
Existing house prices, trend early 2008 – mid-2009	-7.1%	0.2%	-11.6%	-13.7%	-16.6%
Sales of existing houses, trend early 2007 – mid-2009	-33.1%	-Stable*	Stable (based on volume of new loans)	-64.9%	-53.1%
Existing new build house prices, trend early 2008 – mid-2009	-10.7%	No data	-0.2%	-21.4%	-15.3%
Sales of new build house prices, trend early 2007 – mid-2009	-62.0%	Virtually unchanged	Virtually unchanged	-71.6%	Not known

* OTB estimate based on summary data

**Belgium and Germany based on planning permission granted; UK based on construction started

Source: National statistical Institutes in DoI, van der Heijden and Oxley, 2010

As far as the impact of the economic crisis on the owner-occupied housing markets in the five countries is concerned, the drop in prices and number of sales in both existing housing stocks and new build have been the greatest in Ireland, followed by the UK. Unfortunately, a number of indicators on recent trends in the owner-occupied housing market are unavailable for Germany and Belgium. For new build homes in the owner-occupied sector, this is because of the large proportion of private individuals commissioning their own homes in these countries which means that there are no sales or sales prices for much of the new construction in the owner-occupied sector. Of the three continental markets, it appears that the market for new build homes in the Netherlands has been badly hit and the market for existing owner-occupied homes in Germany has seen the most significant fall in price. The latter is partly a consequence of the large number of excess properties available in the housing market in Germany. The Belgian owner-occupied housing market appears to have been the least affected by the economic crisis.

5. Crisis measures for the housing market

We conclude with a comparison of the crisis measures taken by government in the five countries in relation to the housing market (see table 5). We then try to identify a link between the structure of the various housing markets and the nature and size of the problems they face.

In all the countries included in the study, governments intervened significantly in the financial market in order to restore confidence in the banking system and prevent the collapse of financial institutions on which the economy depended. Of course, these measures also have an indirect effect on the housing market, in the form of financing for housing construction and the provision of mortgage loans.

In terms of measures focusing directly on the housing market, the most noticeable aspect is that the German government has so far taken no direct measures with regard to the housing market, although incentives are available to encourage energy-saving renovations in large-scale apartment blocks. This is again due to the large numbers of excess homes available in large parts of Germany since the start of this century.

In Belgium, limited crisis measures have been taken focusing directly on the housing market. These include providing incentives for construction (by means of a temporary reduction in VAT) and more especially ensuring the provision of social rental properties. The income limits for the housing costs insurance funded by the local authorities have also been relaxed.

The United Kingdom and Ireland have seen by far the greatest intervention and it is these countries which have been worst hit by the impact of the economic crisis on the housing market. In Ireland, the measures relate primarily to support for first-time buyers, the removal from the market of unsold private homes (in order to be leased by social landlords) and also to a lesser extent in order to prevent the eviction of households in payment arrears. The Irish measures for first-time buyers are intended to sustain the system of trading up and promote home ownership. This reflects the structure of the Irish housing market, which has a very limited rental sector. The measures to remove unsaleable new homes from the market are part of an attempt by the Irish government to lessen the impact of speculative house building. The support offered to households facing problems with payment appears to be limited to the signing of a code of conduct with the Irish Federation of Banks.

In the UK, a significant proportion of the measures taken by government are intended to support households unable to meet their payment commitments as a result of the crisis. The British government hopes that these measures will prevent evictions and inhibit further downward pressure on house prices. The British government has also taken measures to remove unsold new homes from the market. It has also provided incentives for the sale of existing affordable homes and the construction of new homes in the same category. These new homes include both private and rental properties and a new hybrid form of purchase/rental known as shared equity. The measures taken in the Netherlands are less comprehensive than those in the UK, but comparable in terms of substance. As in the UK, they aim to support households facing payment

problems, ensure the continuation of new construction projects jeopardised by the crisis and enable housing corporations to buy up new private homes that remain unsold.

Table 5 Crisis measures in the five countries studied

	The Netherlands	Belgium	Germany	Ireland	UK
Modification/introduction of measures designed to reduce risk					
Mortgage guarantee	Temporary increase in maximum level	No regulation applied	No regulation applied	No regulation applied	No regulation applied
Housing costs insurance	Simplification of NHG housing costs facility	Income limit relaxed	N	No housing costs insurance	New Home Owners Mortgage support and improvements to ISMI safety net
Maximum LTV	No formal regulation applied	No formal regulation applied	No formal regulation applied	No formal regulation applied	No formal regulation applied
Building savings systems	No building saving system applied	No building saving system applied	No modification to system in place	No building saving system applied	No building saving system applied
New assistance programmes for home owners	N	N	N	Code of conduct for handling payment arrears intended to prevent evictions	Mortgage Rescue Scheme + Home Owners Mortgage Support
Demand incentives					
Increasing the limit of the mortgage guarantee	Yes	No regulation applied	No regulation applied	No regulation applied	No regulation applied
Fiscal measures	N	Temporary reduction in VAT for new build	N	More generous interest tax relief and stamp duty trade-in	Temporary reduction in stamp duty for cheaper existing homes
Discounts, premiums, loans for new build homes	Van der Laan scheme offering up to €10,000 per new build home	N	N	Home Choice Loan is government loan to first-time buyers to fund new build or self construction	HomeBuy Direct with 30% equity loan (type of mortgage)
Construction market incentives					
Ensuring the continuation of construction projects	Van der Laan € 500 mln.	N	N	N	Kick start £ 1,06 billion
Incentives for social housing construction or removal of private projects from the market	Increase in Social Housing Guarantee Fund (WSW) to enable corporations to buy up projects	Additional incentive of €85 million to speed up construction of social homes (Flanders)		Long Term Lease Scheme enabling housing corporations to lease new build homes	National Clearing House

Source: Dol, van der Heijden and Oxley, 2010

6. Conclusion/discussion

In this contribution we examined the sensitivity of housing markets to the economic climate in five Western European countries. We assumed that the structure of the housing market and the existence of stabilizing factors are of utmost importance for the vulnerability of a housing market to an economic crisis.

On the whole, the extent to which the housing market is affected appears to be in line with our assumptions about the sensitivity of the different housing systems: dynamic markets are more sensitive than static markets. The effects of the crisis on the owner occupied market are strongest in Ireland, followed by England. In these countries the fall of house prices and transactions of existing and new dwellings was largest. These countries have limited stabilizing factors through government policy or via the financing industry. Moreover, new dwellings are built speculatively and in Ireland this is combined with few planning restrictions.

With regard to the three other countries it seems that the Dutch market for new houses has been hardest hit, while in Germany the prices of existing dwellings show a strong decline. This house price decline in Germany is partly a result of the already existing housing surpluses in many parts of the country. The fact that the Dutch housing market has been less hit than the English and Irish housing market may be attributed to the many stabilizing factors on the Dutch housing market. Belgium, a fine example of a static owner occupied market, seems to experience the least trouble from the economic crisis.

The extent to which the general economies of the five nations have been affected by the crisis seem to follow the same pattern. Countries that have been severely affected are also confronted with the largest problems on the housing market. It is not always possible to establish to what extent developments on the housing market are influenced by structures of the housing market and what the effect of stabilizing factors is. The question remains whether the large problems on the Irish and English housing markets are a result of the structure of the housing market or whether these are a result of the stronger impact of the economic crisis in general. Possibly there is a relation between the general economic structure and the housing market structure which would result in a process where a nation that is highly sensitive to the general economic climate also has a housing market structure that is sensitive to the economic climate.

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