



Responses of European housing systems to the GFC

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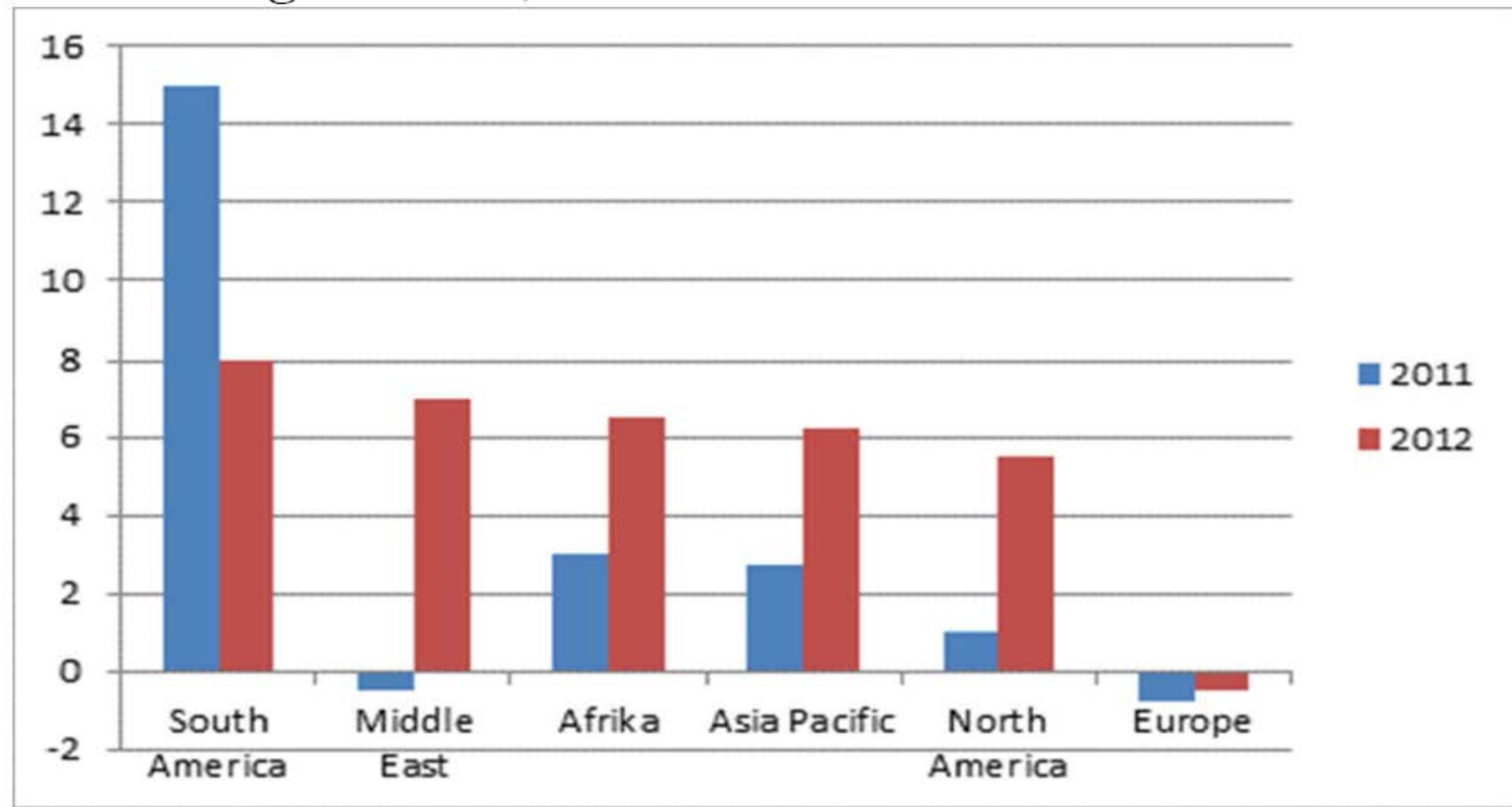


Content

1. Effects of the GFC on housing markets: a global and a European perspective
2. An explanatory framework: the construction of a tentative typology of crisis resilience
3. Testing and further explaining the tentative typology
4. Conclusions and agenda for further research

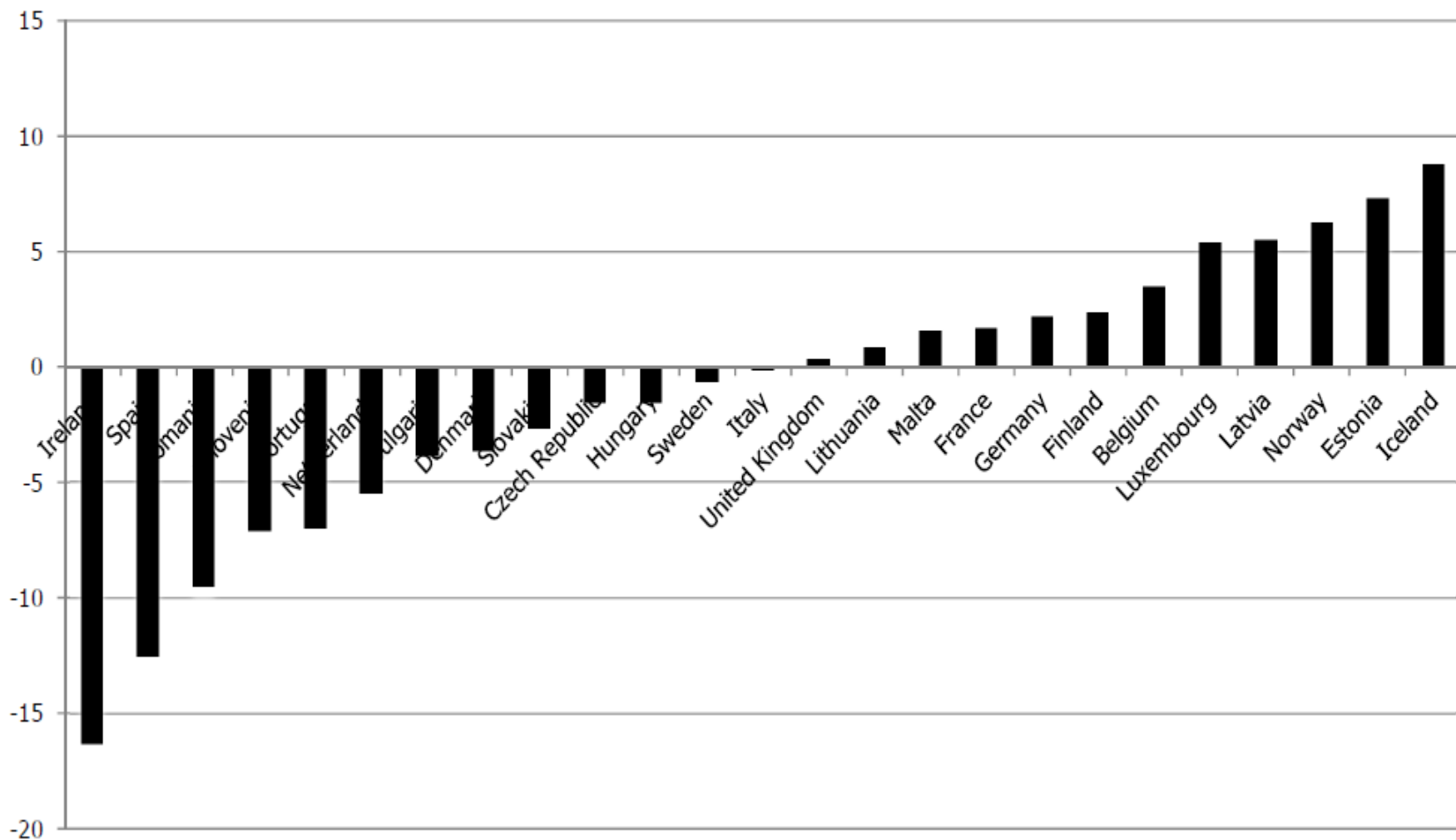
Global house price development

Average house price change 2011-2012,
Knight Frank, 2012



House price change, 2012,

Source: Eurostat, 2012



Some first conclusions

Europe is not doing well, but huge variance within Europe.

Countries outside Europe:

- were less affected by the GFC (Africa, Asia)
- were affected by the GFC but recovered more quickly (USA)
- developed safeguards following previous bubbles (Hong Kong, Korea).

=> How can we explain the large variation within Europe?

Housing in Europe



How to measure the impact of the crisis

Crisis effects on the housing market are most visible on homeownership market.

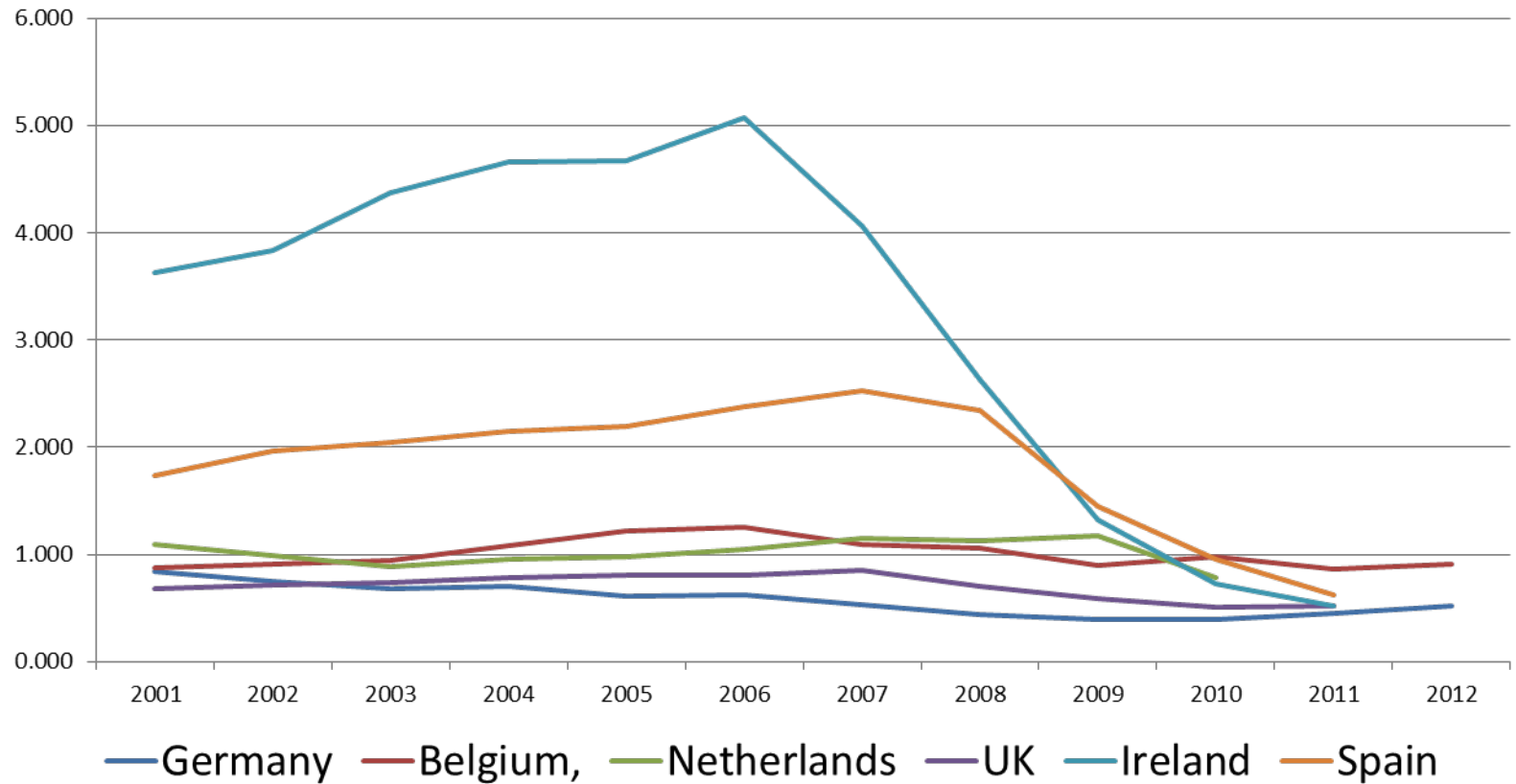
Indicators:

- Housing production
- Transactions in existing housing stock
- House price development

Selected countries:

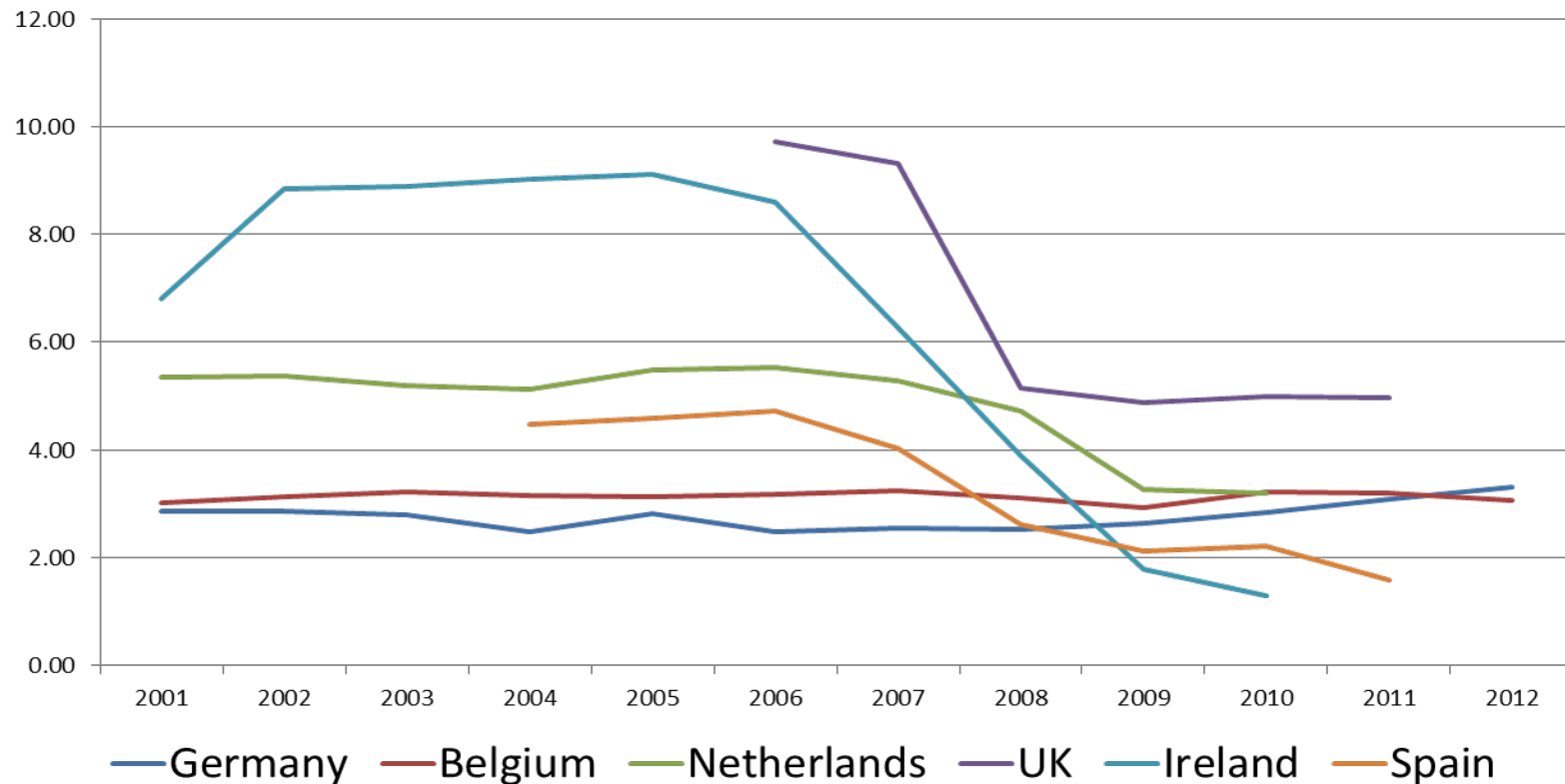
- Germany, Belgium (static housing markets)
- UK and Netherlands (dynamic housing markets)
- Spain and Italy (speculative housing markets)

Housing production (% of dwelling stock)



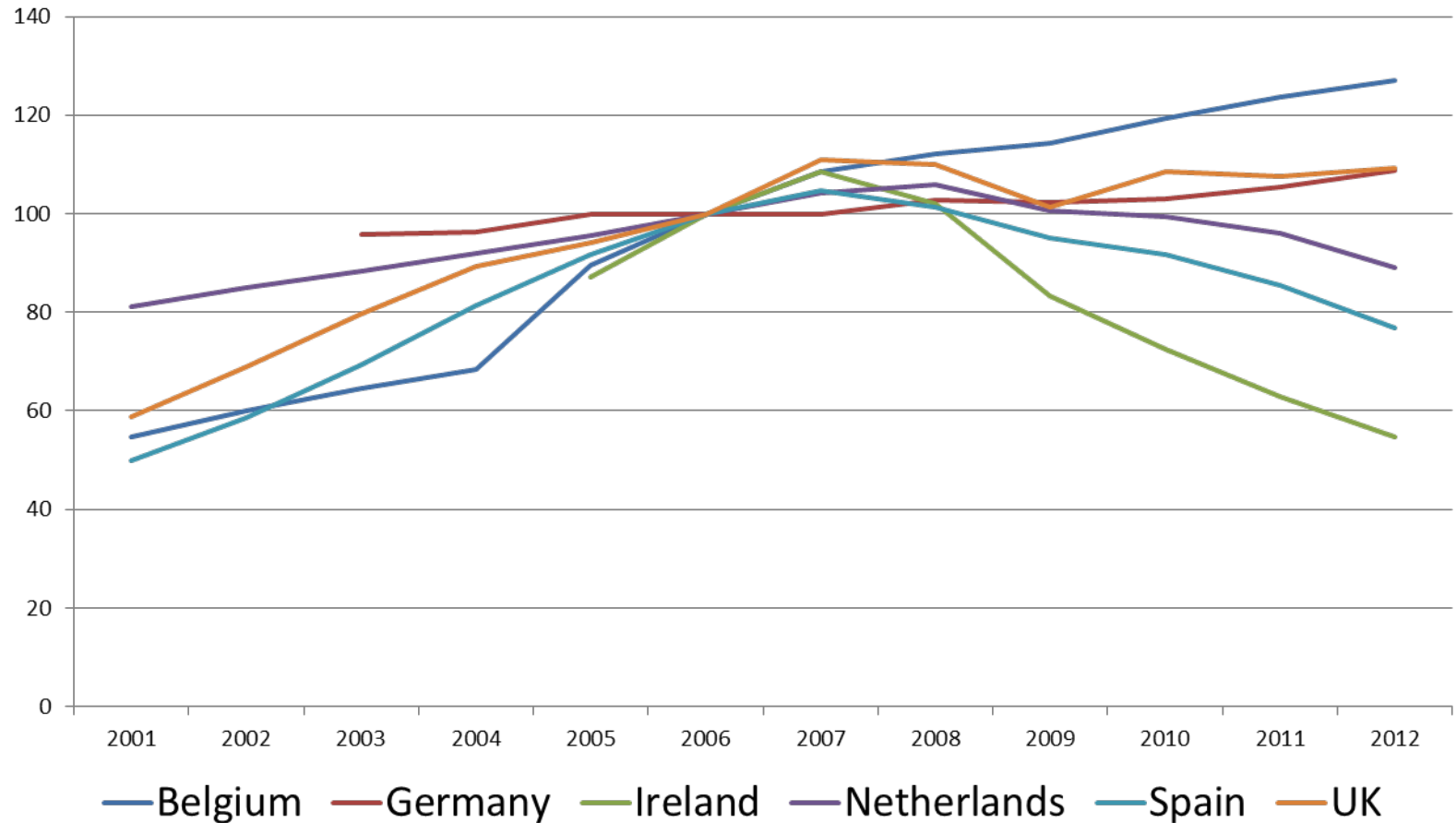
Source: EMF Hypostat 2013

Transactions (% of owner-occupied stock)



Source: EMF Hypostat 2013

House price development (2006=100)



Source: EMF Hypostat 2013

Summary table

	Belgium / Germany	Netherlands / UK	Spain / Ireland
Housing production	Relatively low and stable	Relatively low and stable	Very high before crisis, Sharp drop afterwards
Transactions owner- occupancy stock	Relatively low and stable	High before crisis, sharp drop afterwards	High before crisis, sharp drop afterwards
House price development	Stable or increasing	Mixed pattern after crisis	Sharp drop after crisis
Overall impact GFC	Low	Moderate	High

Explanatory factors

1. Mobility on the housing market /attitude towards moving
2. Organization of the housing provision
3. Organization and regulation of the mortgage market
4. Spatial planning/supply elasticity

Based on these factors, three types of housing markets may be distinguished:

- static
- dynamic
- Speculative

Typology is based on work of Van der Heijden et al., Duncan and Barlow, Martens etc..

Static housing markets

Transactions on the housing market (owner-occupied sector)	Relatively low
Attitude towards moving	You only move once in your life
Organization housing provision	Many self-provided housing
Organization and regulation mortgage market	Relatively strict regulation
Supply responsiveness	Relatively low
Resilience to crisis	Strong
Typical countries	Belgium and Germany

Dynamic housing markets

Transactions on the housing market (owner-occupied sector)	Relatively high
Attitude towards moving	Concept of housing career
Organization housing provision	Many project developers
Organization and regulation mortgage market	Relatively little regulation
Supply responsiveness	Relatively low
Resilience to crisis	Moderate
Typical countries	UK and Netherlands

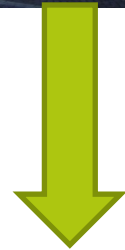
Speculative housing markets

Transactions on the housing market (owner-occupied sector)	Strongly dependent on market situation
Attitude towards moving	You only move once in your life
Organization housing provision	Many project developers
Organization and regulation mortgage market	Relatively little regulation
Supply responsiveness	Moderate to high
Resilience to crisis	Low
Typical countries	Spain and Ireland

Transactions (as % of owner-occupied stock)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	2.86	2.85	2.79	2.49	2.83	2.47	2.54	2.53	2.64	2.83	3.08	3.32
Belgium	3.02	3.14	3.22	3.16	3.13	3.17	3.25	3.12	2.92	3.23	3.21	3.06
Netherlands	5.35	5.38	5.20	5.12	5.48	5.52	5.28	4.72	3.26	3.20		
UK						9.72	9.31	5.15	4.87	5.00	4.97	
Ireland	6.81	8.83	8.88	9.02	9.11	8.60	6.27	3.89	1.80	1.30		
Spain				4.46	4.60	4.73	4.02	2.62	2.11	2.22	1.58	

Dynamic housing career



Static housing career









Organisation housing provision

Two main types:

1. Housing development by real estate developers
2. Self-provided housing



Housing production by real estate developers

Process:

- Developers owns or buys land
- In consultation with the local authorities, a building programme is established
- The financial risks are run by the developers.

Speculative development: dwellings are built before they are sold:
Spain, Ireland, United Kingdom.

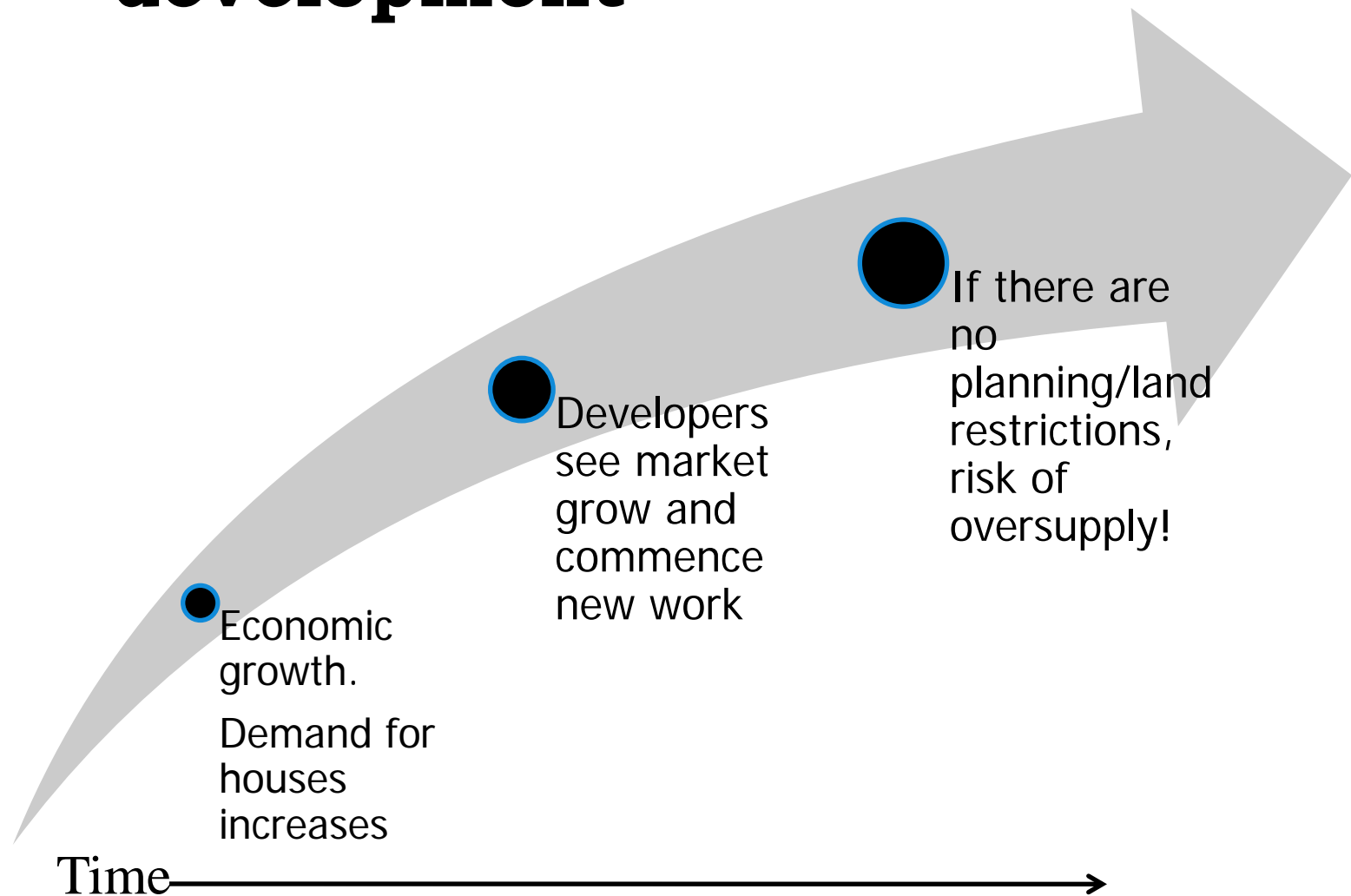
Non-speculative development: construction only starts once a substantial share of the project is sold (70%): Netherlands

In Belgium and Germany, developers only provide a limited part of the housing production.



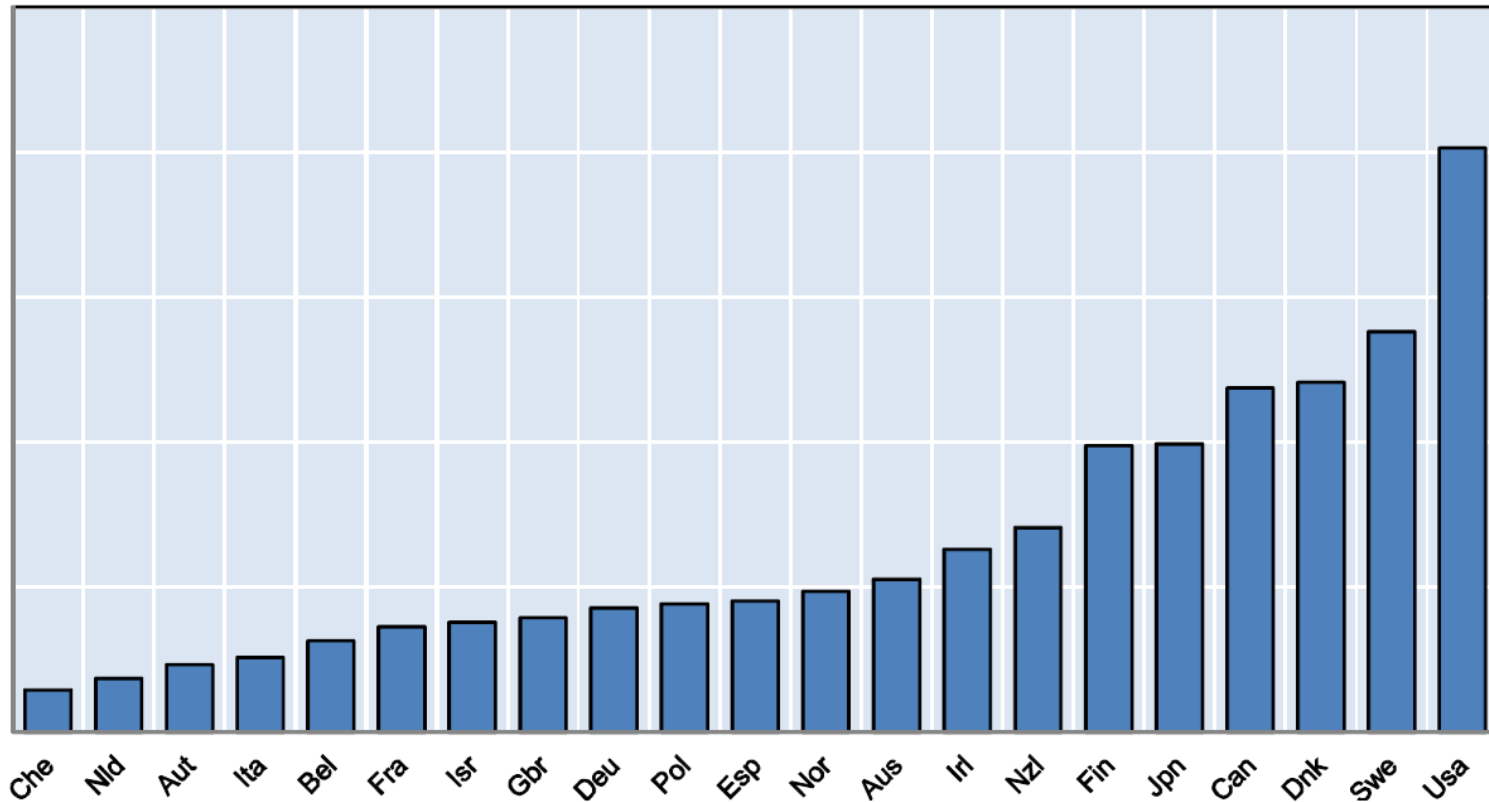


The risk in speculative housing development



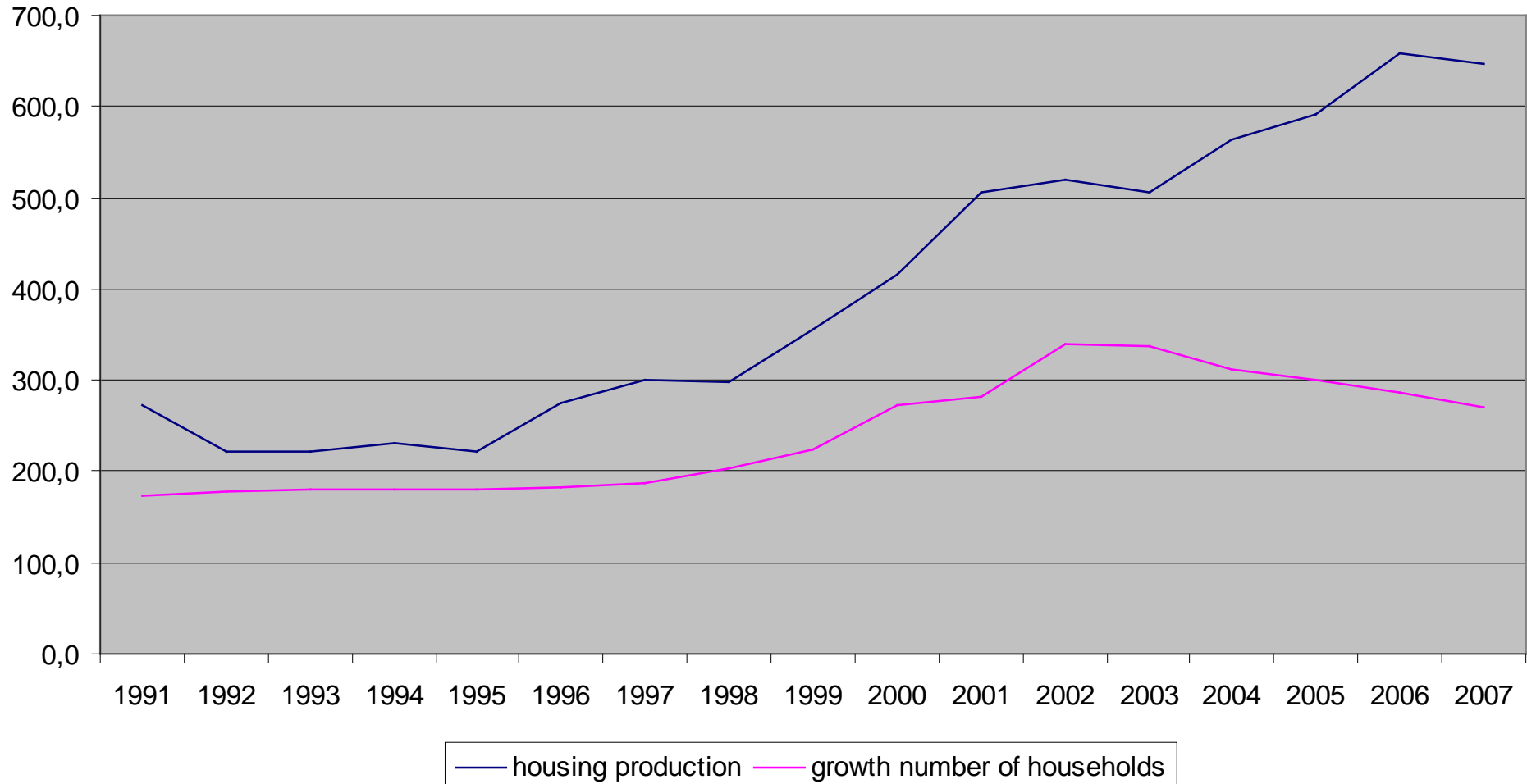
Supply elasticity

Estimates of the long-run price-elasticity of new housing supply¹



Bron: national statistical bureaus

Speculative housing production in Spain



Newly Built Ghost Towns Haunt Banks in Spain



Lourdes Segade for The New York Times



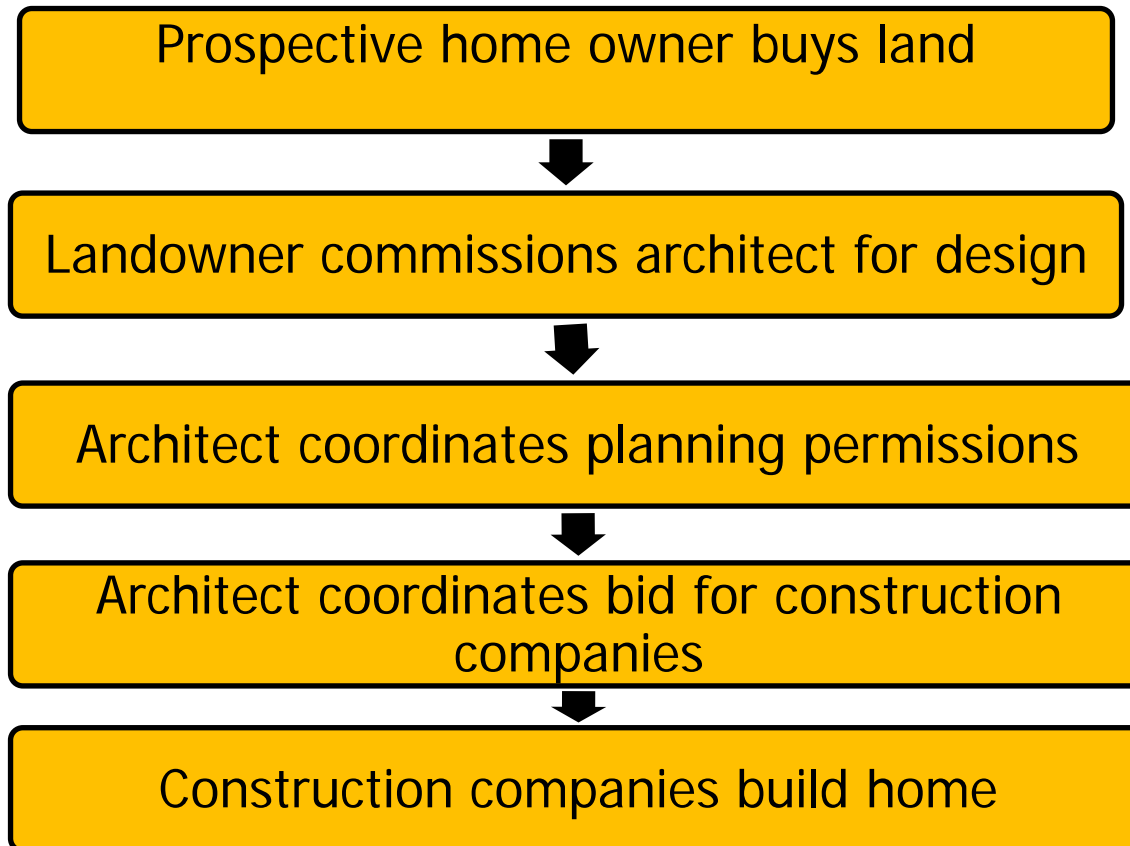
Ireland



Self-provided housing



Self provided housing: the process

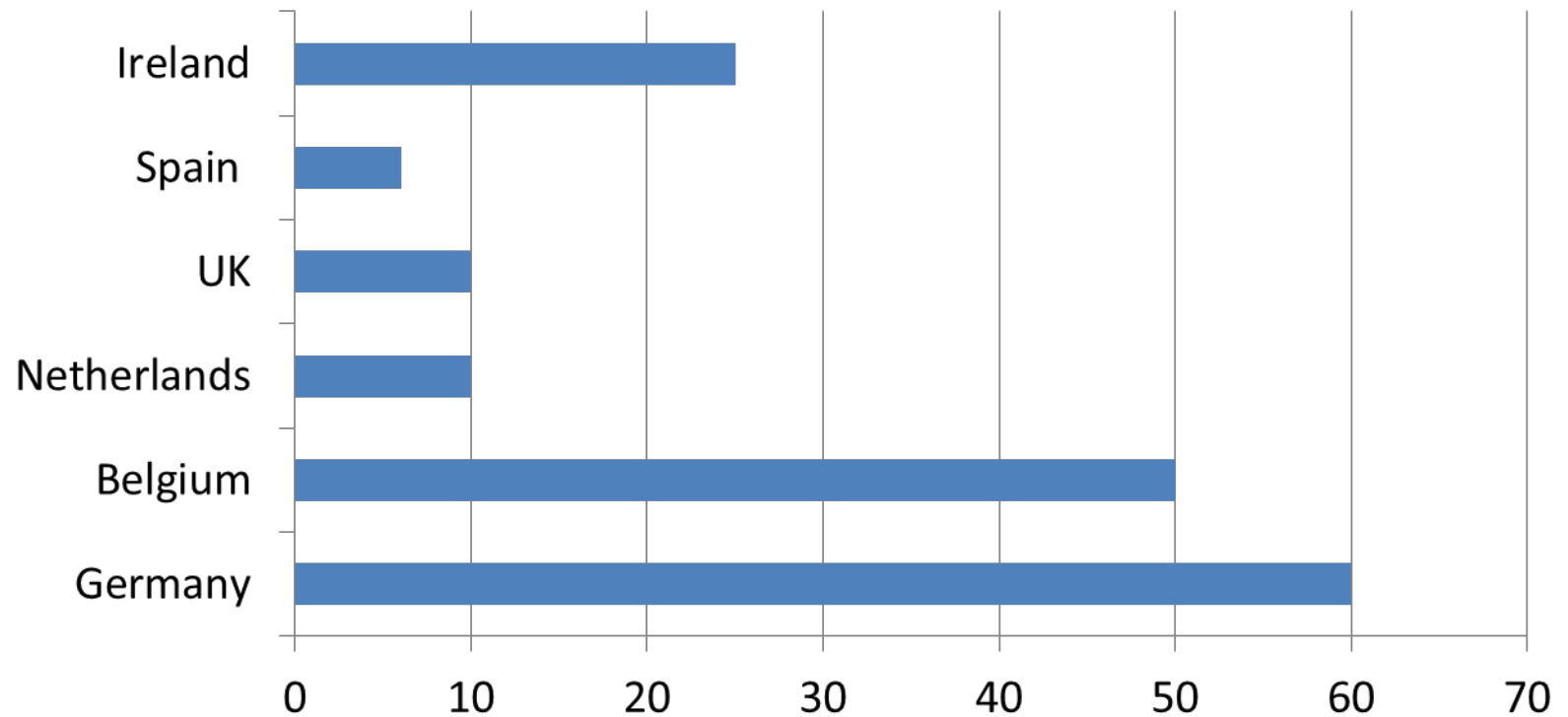








Share of self-provided housing



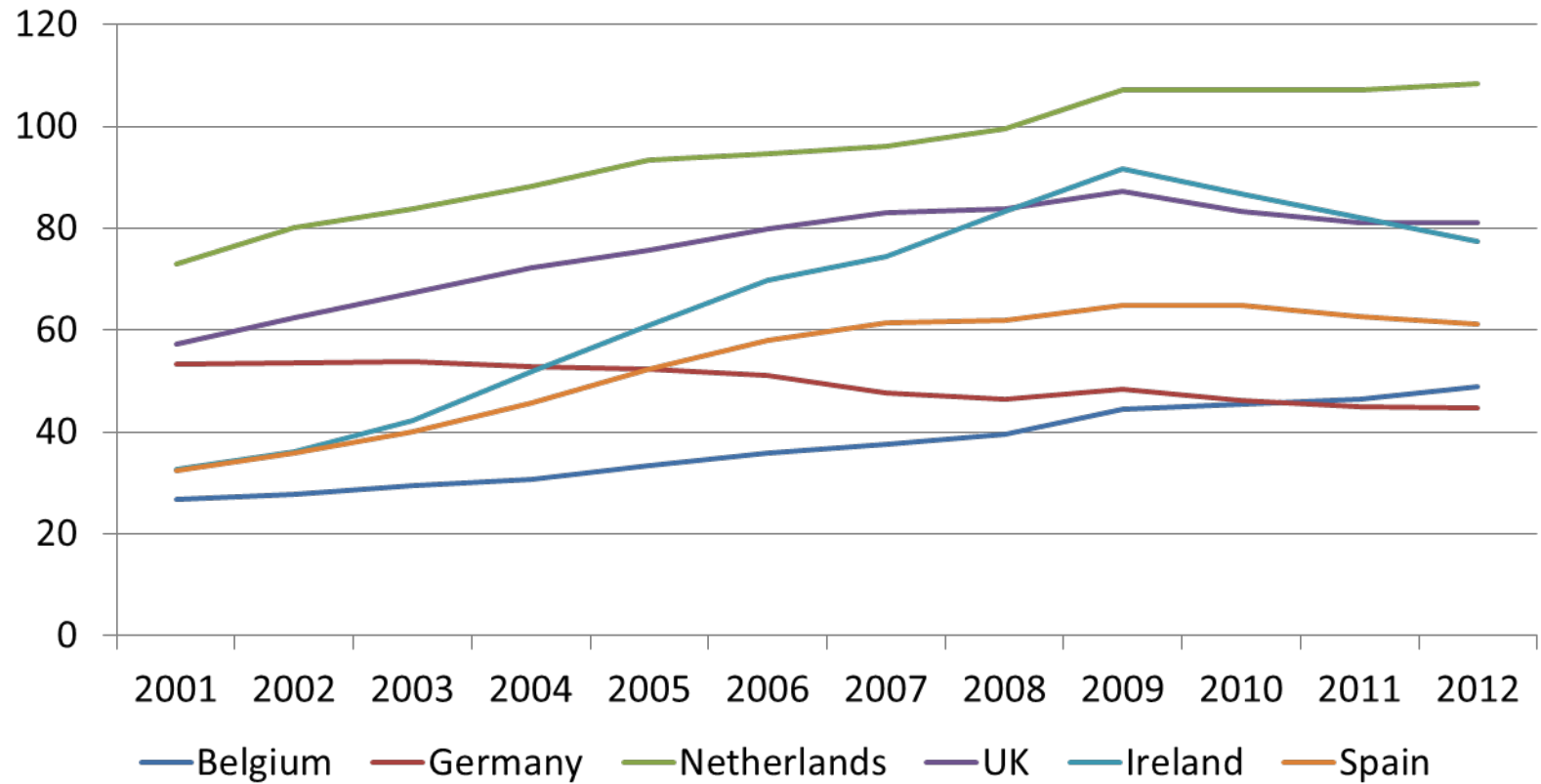
Source: national statistical bureaus



Lending practices

Country	Most common interest type	Maximum loan-to-value ratio	Subprime lending?
Germany	Fixed 5 -10 years	80%	No
Belgium	Fixed 10 years	80%	No
Netherlands	Fixed 5 -10 years	115%	Some
United Kingdom	Variable	110%	Yes
Spain	Variable	100%	Yes?
Ireland	Variable	90%	Yes

Residential loans to GDP ratio



Source: EMF, Hypostat 2013

Conclusions

Impact of the crisis depends on:

1. Mobility on the housing market /attitude towards moving
2. Organization of the housing provision
3. Organization and regulation of the mortgage market
4. Spatial planning/supply elasticity

Based on these factors, three types of housing systems can be distinguished:

1. Static housing markets (low crisis impact)
2. Dynamic housing markets (moderate crisis impact)
3. Speculative housing markets (high crisis impact)



Agenda for further research

- What about the other European countries? How do they fit into this tentative typology?
- What about the rental sector?
- To what extent can we lay a relationship with the welfare regime state typology?

Thank you

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