Home ownership

Getting in, getting from, getting out
Part III

John Doling
Marja Elsinga
Richard Ronald (eds.)

HOUSING AND URBAN POLICY STUDIES 34

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Preface

This is the third in a series of what started out in 2005 as a one-off. Then, a set of papers delivered at a workshop – run by the newly-formed ENHR working group on Home Ownership and Globalisation, and itself part of the annual ENHR Conference held in 2004 at the University of Cambridge – were revised and included in an edited volume. The chapters were organised sequentially so that they fitted with the three parts, themselves sequential, of the books subtitle.

Getting in referred to issues of access to home ownership which in European countries, and indeed elsewhere, is dominated by the high cost relative to average incomes. The chapters under this heading thus considered the financial costs facing households, the role and activities of financial institutions that lent money to the households for purposes of house purchase and the involvement of governments in facilitating access.

Getting from referred to the benefits that households may derive from their position once they have become home owners, these, including psychological well-being, social status and financial wealth, set owners apart from renters.

Finally, Getting out referred to the movement of households out of home ownership where this has been precipitated by financial difficulties, perhaps driven by unemployment or loan interest rate increases.

The Home Ownership workshop run as part of the annual ENHR conference held in Reykjavik in 2005, also contained many excellent papers. Moreover, they also seemed to fit into the same framework so that when the decision was taken to produce another edited volume the obvious course of action was to use the same title and subtitle, adding Part II to distinguish it from the first one.

In November 2008 two of the editors, Marja Elsinga and her colleague, Richard Ronald – both Research Institute for Housing, Urban and Mobiliy Studies (Delft University of Technology) – organised a conference entitled Building on Home Ownership: Housing Policies and Social Strategies. Over the course of two days a number of researchers from Europe and beyond came together to present papers discussing the results of their research. The decision, with John Doling, who is one of the Working Group co-ordinators, to edit some of the papers and include them in another volume, brings us to Part III.

The fact that the same subtitle remains appropriate as a way of organising the chapters is a testament to its generalisability, particularly given the very great changes, over the period from the first to the latest of the volumes, to the context within which home ownership is located.

At the time of the Cambridge conference there had, in most European countries, been a protracted period – up to a decade or so – marked by economic growth in which output grew, employment was generally high and house prices increased. Given this context, the general issue of getting in concerned the growing numbers of European households who, seeming to want to become home owners, being supported by higher wages and frequently being encouraged to do so – for example through tax breaks – by their governments, were together contributing to the expansion of home ownership sectors. Even so, rising prices meant for many that getting in required a larger financial commitment. But the commitment appeared to be worth it in terms of getting from, since it seemed likely to result in even higher prices and therefore positive investment returns. Apart from anything else home owners were acquiring larger financial assets and with them greater financial well being.

The same macroeconomic environment also characterised the time, 2005, of the Reykjavik conference so that the prospects for home ownership and home owners continued to be favourable. Getting from therefore continued to be an important part of the home ownership picture.

But by the time of the third conference, held in Delft in 2008, the context had changed dramatically. Although the scale and significance of the economic downturn being experienced in all countries of the world was not then apparent, the fact that it was severe and would have far-reaching impacts, not least with respect to housing markets, was clear. Moreover, it was also apparent that home ownership was at the root of the economic downturn, as well as being one of the sectors in which it was being experienced. What turned out to be the selling, on a mass scale over some years previously, of housing loans to households who, even in a benign environment would be unlikely to be able to repay them, eventually resulted in enormous losses to financial institutions. Because this affected their ability to provide further loan finance for housing fewer people have subsequently been able to enter the market, demand has fallen, followed by falling house prices. Moreover, because financial institutions have also been less able to provide finance to other sectors, economic development in general has been adversely affected with consequent falls in demand for goods and demand for labour, resulting, among other things, in more people who are unemployed and unable to meet housing loan repayments. In combination, this brings getting out into a more prominent position. What home owners are likely to get from their tenure position is now less favourable, while their statistical chances of being forced out has increased.

Of course there is always a time lag between the reality of the present and research outputs. Many of the things that housing researchers decide to research will be guided by what they see around them in terms of trends and phenomena. But, translating that into research action will depend first on available time and opportunity, both of which may be dependent on funding. For its part, the research action, the theorisation and the empirical study, will also take time. One consequence is that many of the papers delivered in Delft reflected the former, pre-2007, world of growth and optimism, rather than the post-2007 world of decline and pessimism. Getting in, getting from and getting out are thus all represented here.

John Doling, Marja Elsinga and Richard Ronald

1 Getting in, getting from, getting out
An introduction

John Doling, Marja Elsinga and Richard Ronald

1.1 Introduction

In the European Union more households, as many as two-thirds of the total, are home owners. Befitting this numerical significance as well as its social, political and economic importance, this is the third in a series of books, dating back to 2005, that have had as their central theme developments in home ownership markets. The chapters in each of them have been the revised versions of papers originally given at conferences held under the auspices of the European Network for Housing Researchers. In addition, in each of them the chapters have been organised under three headings provided by the subtitle – getting in, getting from, and getting out – themselves reflecting the stages of household engagement with the tenure: the problems of gaining access to home ownership, the benefits that many have derived from their tenure position, and the transfer out of the tenure. Taken together these have provided a useful frame for mapping experiences of home ownership that have differed between countries and over time.

This chapter briefly sets out the structure and content of the book. Firstly, it provides a context in its identification of some of the key developments that have recently influenced the development of housing markets and housing policy. Secondly, it provides a summary of each of the main chapters indicating how they fit into the overall structure of the book, as set by the three parts of the subtitle. Finally, it provides an indication of the themes that are brought together in the final chapter.

1.2 The recent context for home ownership

Given the three parts of the subtitle of this volume, then, what have been the main developments in home ownership – what might be broadly termed the context – that constitute the setting of the recent research included? Except at a fairly high level of generalisation and with a recognition of variations around the average, it is difficult enough to map these developments even for the older EU member states, l*et al*one to incorporate the more recent additions to the EU25 and then the EU27. This is not to mention the challenge of considering a pan European setting. The difficulties lie not just in the absence of data that, in terms of definitions and date of collection, is harmonised and available over a time period that enables the identification of trends and developments. The reality is also that there is a very great diversity of individual country situations with respect to their housing systems and financial markets as well as their broader social and economic situations and histories. To what follows as a response to the challenge of providing context, therefore, must be attached a fair level of caution about its inclusivity.

The main and obvious starting point lies in the developments in the size of home ownership sectors in European countries, which themselves are central to the getting in theme. Here, the general picture is of increase: while the stock of housing in most countries has increased in absolute size over recent decades, home ownership has accounted for a larger and larger proportion (Doling and Ford, 2007). The trajectories, however, have been different. In the older member states the general pattern has been of long term growth over the post war decades, whereas in at least some of the newer member states significant growth has only occurred post 1990. Notwithstanding this, there is currently only a small difference between the averages for the older and newer member states, and overall about two thirds of European households are home owners. Moreover, given the tendency, pronounced in some countries, much less so in others, for people, often for life cycle reasons, to move between tenures suggests that the benefits (and dis-benefits) of home ownership are experienced, at some stage, by the great majority of Europeans. At least in a statistical sense, therefore, it seems appropriate to talk of a "Union of home owners" (Doling and Ford, 2007).

Yet, once the field of vision moves from Europe as a whole to individual countries, it is also important to recognise the large differences. For some, Hungary with over 90 percent, for example, home ownership is clearly dominant. At the other end of the scale, within the EU, its largest member state, Germany, has a housing system that remains persistently dominated by rental housing with home ownership accounting for about 40 percent of the stock, while, without the EU, Switzerland has an even smaller home ownership sector. So, whatever the assessment of tenure in the Union, or even Europe as a whole, this does not translate uniformly to all the constituent countries.

But the fact still remains that over recent decades there has been growth in the absolute and relative amount of home ownership and this general development begs a question about the underlying causes. In the case of the eastern European countries that were formally subjected to the Soviet Union, the answer seems relatively clear-cut: the privatisation policies pursued since 1990 by their democratically elected governments have enabled large numbers of tenants to purchase their tenancies (Clapham *et al.*, 1996). In western European countries, however, the answer appears to be a complex interaction of economic and political factors (Atterhog, 2006). It may be attributed, in part, to growing prosperity: as economies have expanded and more and more people have had incomes at a level that has allowed then to achieve higher levels of consumption and investment, more have bought themselves into home ownership. In that way, home ownership and the benefits associated with it – the getting from – can be seen as the tenure of choice for increasing numbers of Europeans who have gained from the expansion of European economies.

It is clear, however, that the economic foundations of home ownership growth have been supplemented by government support. To varying degrees, the governments of member states have instituted a range of pro-home owning policies. These include the deregulation of housing finance markets, leading to an increase in accessibility to housing loans, the availability of tax subsidies set against mortgage payments, and the sale of social housing. As Atterhog (2006: 31) concludes from his statistical analysis covering a number of western countries, "government incentives may affect home ownership rates, and this appears to be particularly the case in non-Anglophone countries".

This being the case, a further set of questions concerns the reasons why governments have chosen to pursue pro-home ownership policies. This is clearly not a modern phenomenon being a feature of housing policy in a number of western countries developing a century ago (see Pooley, 1992). That does not mean, however, that the reasons or motivations have remained constant throughout that period. Indeed, over the last decade or so there appears to have been a growing emphasis on the importance, to national economies as well as to individual households, on the potential role of home ownership as asset-based welfare.

This motivation appears to have its origins in a number of developments, but two in particular are important (see Doling and Ronald, 2010). The first arises from the challenges of ageing populations. The changing balance between workers and retired people and the reliance in European countries on pay-as-you-go pension systems, has led many governments to search for alternative approaches to meeting the income needs of older people. The equity in people's homes appears to provide one potential solution (European Commission, 2006).

The second is grounded in debates about the future of welfare systems and a shift away from social insurance and social income transfers of traditional systems toward the development of assets or wealth that can be used by individuals to provide them with choices: so-called asset-based welfare (Sherraden, 2003).

The developments in policy orientation may be viewed, in turn, as a recognition by governments of the getting from feature of home ownership, a recognition that forms of housing should be promoted not because (or only because) of the quality of housing they provide to individuals and households, but rather because they are financial assets that can be converted back into income, and not just to individuals but to society as a whole.

Another important feature to consider in understanding the growth of home ownership, and associated with the increasing focus of governments on home purchase orientated policies, has been the global rise of neoliberal logic in recent decades. This logic involves the extension of 'market discipline competition and commodification throughout all sectors of society' (Theodore and Brenner, 2002, p. 3), and has arguably restructured governance across societies vis-à-vis the role of housing sectors. In developing and transition societies the privatisation of housing, via mass stock transfer in the case of the latter, has been considered a prerequisite for establishing conditions for a market economy. In western European societies, alternatively, the argument has been that larger owner-occupied sectors enhance opportunities for households to participate in markets and accumulate wealth, which has corollaries in terms of improvements in the housing market and the housing stock as well as the economic autonomy of home owners and the capacity of asset-based welfare as an alternative to large and expensive welfare states.

Both the growth of home ownership and the pro-home owning policies of many governments may also be related to another trend, that of rising house prices. In the decade or so prior to the present credit crunch house prices in many countries increased at rates faster than inflation and wages (Girouard *et al.*, 2006). This had significant consequences for all three parts of our subtitle. As the ratio of house prices to incomes rose, as did loan to value and loan to income ratios, getting in became more difficult. But, the more prices rose there was more to be gained – more getting from - for existing owners - while the higher access costs meant that the chances of getting out were also greater.

In the following sections of this chapter, we consider how the constituent chapters of the book relate to the three parts of the sub title and to the context we have sketched out.

1.3 Getting in

Home ownership, as we have seen, has been growing for many decades, but it is declining now in a number of countries – for example, Finland, Canada the USA, and Australia. One possibility is that some countries have reached the limits of growth of this tenure, which might be taken to mean to what extent is it possible to further increase home ownership rates among lower income households. This being so, what is the specific income limit, and which incomes can be helped with programmes and policies? For which group is the affordability of home ownership, even with financial support, beyond reach? It is also possible that it is it not affordability but the risk of price decreases that defines the limits. Yet, public rental dwellings can be sold with reduction, or even given away, as appeared a very effective way to increase home ownership in a number of East European countries. But is this a sustainable policy and how do these low income home owners cope with risk?

Risk can be reduced and housing made more affordable by new housing tenures, by which is meant tenures that are different from home ownership and renting. Subsidised home ownership is not a new tenure, but shared ownership or shared equity is. Such tenures are emerging in many countries under different names but the common feature is a reduction in the price that goes together with property rights that differ from those of full ownership, for example not being able to sell in the open market or share profit in case of sale.

Such 'intermediate housing' has become an important concept in housing policy approaches. While it is seen as a means to support living conditions and reduce risks for households, it reflects a particular perception in which home ownership is considered a more suitable means to house low income people than rental housing. Moreover, intermediate sectors usually come into being when home ownership markets in a sense have failed, in that housing stops being affordable to a significant segment of the population who require government assistance in order to 'get in'. It thus constitutes a government subsidy for market provision and often sustains the inability of a market to operate effectively. Direct subsidisation of home ownership itself has largely proved problematic as the increased purchasing power of marginal households facilitated by subsidy is often translated straight into house price increases, undermining the point of the exercise. Governments in countries like Australia, for various political and economic reasons, have continued with such strategies. Intermediate housing policies recognise the need to assist people in the market without reinforcing volatility in market prices. Different approaches have, however, had different outcomes in different socio-economic contexts.

Two contributions in this book deal with such intermediate housing tenures as an affordable way into home ownership. These intermediate tenures are often considered as a first step on the housing ladder and, as described by Wallace (Chapter 2), home ownership marketed in a commercial way and provided in a social way. Alison Wallace's chapter, along with the chapter of Barlindhaug and Astrup (Chapter 3) deal with the attractiveness of these tenure and their place on the housing ladder.

Wallace considers the question of whether such tenures are, in fact, a first step on the housing ladder and the start of a housing career or whether they are also a final step on the ladder. Do households feel trapped in their status as something less than full owners, often without the opportunity to build full equity? Wallace's study into the mobility of shared owners shows that for certain groups mobility is indeed restricted since a move to full ownership is not possible in the location they want. In principle, they might move to another area, or to the private rental sector, or to another shared ownership dwelling, but the first two options are often not considered to be attractive, while the latter one is often not possible. This poses the question whether shared ownership should be discouraged or whether attempts should be made to enable more mobility within the shared ownership sector.

Barlindhaug and Astrup (Chapter 3), for their part, consider the situation in

Norway, a country with 80% home owners. The Norwegian government aims to achieve yet further growth of home ownership among lower income groups by the use of loans, grants and housing allowances. They developed a model to evaluate the effectiveness of the different schemes and concluded that recent changes in the allowance scheme that were meant to increase access to home ownership for lower income groups will not, in fact, improve access significantly to home ownership. Barlindhaug and Astrup explore the concept of shared home ownership and conclude that this could be an interesting policy option for Norway both to increase access and to reduce risk.

A main criticism of these intermediate tenures, then, is that they do not provide the advantages of full ownership: people do not build as much equity and might get stuck in the housing market. But intermediate tenures can also be considered as alternatives to renting. They may contribute to building some equity and so provide an alternative to social renting, and a way in which a housing career is possible as Wallace suggests. They can also be considered as an alternative to the subprime market in that they may enable low income people to build equity with less risk (Caplin and Cooley, 2009).

1.4 Getting from

Getting from housing and using housing wealth as a mean of asset-based welfare is a discourse observed in a number of European countries, particular in the UK. But, not all countries consider housing wealth as a vehicle in an asset-based welfare strategy. Gulbrandsen (Chapter 4) shows that the majority of Norwegian home owners, particularly older ones, do not intend to release equity from the house, but rather want to leave housing equity for the next generation, more specifically their children. Although the welfare state has taken over responsibilities from households this appears not to have weakened family ties. Gulbrandsen argues that the Norwegian government does not have the intention to move towards an asset-based welfare strategy. He raises an alternative option of using housing wealth for the ageing burden by way of a tax on housing wealth, but this option is politically difficult because of the large, home owning majority. Moreover, Norway has its natural resources that supplement income for the government which relieves the pressure on state pensions.

Joseph (Chapter 5) also examines housing equity as a basis of income in old age as well as the importance of home ownership as an incentive for economic development. His study is of people who had migrated from the Caribbean to the UK where they had purchased homes and consequently built up housing equity. Many of them, and often their children, have subsequently used their UK housing equity in order to fund their return to the Caribbean. Thus, home ownership in the UK has created powerful financial leverage into housing markets in the Caribbean. This case also highlights the increasingly global salience of home ownership, where house price increases in one part of the world can impact housing markets in another. The influx of wealth built up in a foreign housing market may not only be a destabilising effect in the local market, but may also influence spatial distributions of housing and populations as well as impact the local economy more broadly.

In addition to the asset-based welfare dimension, home ownership can also play a role in other policy arenas as for example urban renewal policy. Van Gent (Chapter 6) describes the neighbourhood effects of home ownership in the Netherlands. He distinguishes asset effects – home ownership breeds responsibility and autonomy among households – and neighbourhood effects – home owners help to regenerate the neighbourhood –. Moreover, and this is a typical Dutch phenomena, housing associations, as organisations with a large market share, have appeared to have built considerable equity as property prices have increased, meaning that they have both a vested interest in, and considerable resources to, invest in neighbourhood renewal. A significant debate has emerged concerning the wealth accumulated by independent housing associations, and there has been growing pressure to tax this equity wealth and invest it in improving the liveability of neighbourhoods.

One of the interesting dimensions of this chapter is that it extends the notion of getting from beyond the individual to the larger society. What is often seen as a private benefit being considered a public benefit. In this vein, facilitating home ownership can be part of the economic policy discourse. Encouraging the mortgage market has become an approved model to catalyse the economy in the recent decades, especially in Eastern Europe and across developing economies. Enabling home ownership via mortgage finance provides an incentive for the house building sector and therefore for the economy as a whole. Bal (Chapter 7) elaborates on the role of housing as a catalyst for the economy in the case of Turkey. She concludes that the mortgage market is bringing in money to invest but without taking into account the aims of urban or welfare policy. This leads to a further spatial mismatch. Moreover, it appears that large parts of the population have no access to mortgages and housing. Bal therefore argues for a housing policy that takes into account those who are not able to acquire a mortgage. The Turkish case also illustrates how national policies and urban processes have been increasingly impacted by neo-liberal pressures. In societies that have sought rapid economic development, in particular, intensified housing commodification has often been considered a panacea to both housing problems and as an stimulator of economic development more broadly, providing more scope for the market and opportunities to invest.

1.5 Getting out

Of course, however people enter home ownership and whatever benefits they receive while they are home owners, the cycle is completed with their leaving home ownership. One way this may happen is by forced repossession arising because of some unplanned event such as unemployment. Another way is by a voluntary move to another form of housing tenure, perhaps taking some of the benefits of ownership, be they social or economic, with them.

Like a number of chapters in this volume, that by Rouwendal and Thomese straddles more than one of the three parts of the subtitle. Their Chapter (8) considers the empirical question of why, in comparison with renters, home owners appear to have a lower statistical probability of leaving their home to enter institutional care. The issue of getting out is related to getting from in that housing equity provides a way to buy luxury care facilities in old age. As Rouwendal and Thomese research indicates, higher income groups prefer to spend more on care and this could lead to more demand for health care services among home owners than among tenants. However, this effect is compensated by the better health of home owners one consequence of which is that they live longer, and so home owners make longer use of long term care.

The issue of getting out has acquired, if not a new dimension, then an enhanced dimension as a consequence of the present credit crunch. Aalbers (Chapter 9) makes it clear that housing markets and financial markets are intertwined leading to what he refers to as the financialisation of housing. Financial markets expanded by providing subprime loans to low income households wanting to get into home ownership. Deregulation and increasing flows of investment from big capital market players further helped embed housing markets, and in particular the circulation of Mortgaged Backed Securities, in circuits of global finance. Pools of cash pumped into, and expected capital returns from house price increases, drove the inflation of a remarkable housing price bubble. Before the crisis getting into home ownership seemed to be a guarantee for getting from, however this changed since the crisis and recession produced by it, has had a number of consequences including pushing prices down, reducing turnover and sometimes trapping people in a house from which they are not able to move. In the worse cases economic turbulence has undermined the financial capacities of home owning households who have been forced to default on their loans and subsequently lose their homes.

1.6 Conclusions

It is possible to consider the chapters in this volume as reflecting an instalment in the unfolding home ownership story, a story that has become increasingly central to contemporary socio-economic issues and political debates. Likewise, it is possible to view the present economic recession as marking a new instalment, one which is characteristically global such that housing markets have intersected far more with other economic dimensions, eroding economic conditions overall. In recent decades the links between micro household consumption and macrointernational flows of capital have become more fundamentally intertwined. Housing prices, it appears, have become far more related to national and global economic conditions. Ironically, as home ownership has become so embedded in life-courses and investment strategies, in some (certainly not all) countries, at the same time as rental housing has been increasingly stigmatised, volatility in the housing market may have little effect on owner-occupation aspirations as an evaluation of the early nineties crisis in UK pointed out (Forrest *et al.*, 1999).

What, then, of home ownership beyond the present recession? One possibility is of a fundamental restructuring. As earlier recessions, for example in the UK in the early nineties, showed, a recession may not fundamentally change the ideal of home ownership: people took their loss and kept on considering home ownership as something you can get from rather than loose from. But, Aalbers argues that the current downturn in the housing market is different from the early nineties housing crisis in the UK.

Another possibility is of a future where the logic of the neo-liberal, although tainted, reacts to new realities concerning the nature of markets, the role of governance and the importance of housing may increasingly become a micro and macrofeature of society and social life. Housing, for good or for bad, may become as much a concern of investment/asset as for household shelter, and, as much an issue for welfare policy as one of shelter. It may come, even more, to redefine patterns of inequality and opportunity. Individual situations in the housing market and access to owner-occupied housing or the nature of alternatives may become even more fundamental to social life, to identities and aspirations, to the risks of poverty and of losing your home, to strategies to forming a partnership, starting a family, dissolving a household or surviving retirement.

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2 Moving on from shared ownership in the UK

Alison Wallace

2.1 Introduction

Successive UK governments have supported the expansion of home ownership markets, but in recent years, access to the home ownership has been problematic. In the period up to 2007, housing market affordability was a major barrier to low to middle income households purchasing a home, and now during the housing market downturn – although affordability has slightly improved – mortgage market constraints continue to frustrate would-be first time buyers. Low-cost home ownership (LCHO) schemes remain a small proportion of the housing stock but are widely promoted to overcome the problems associated with access and affordability, and have also been used to create mixed communities in formerly mono-tenure neighbourhoods. LCHO has become central to Government housing policies (ODPM, 2005) and the continued expansion of these schemes is widely advocated. Therefore, despite the financial crisis exerting a shock on the UK housing and mortgage markets, low cost home ownership is firmly embedded in UK housing policy discourse.

LCHO schemes offer subsidised access to home ownership in often complex ways, but are largely publicly funded through two main models: shared ownership, a part rent, part buy option, and shared equity, where a property is bought using an equity loan, usually repayable when the property is sold. Properties can be bought with initial stakes as low as 25 percent for shared ownership and 50 percent for shared equity purchases. In both models, the un-purchased equity in the home can be bought (or the loan repaid) at the prevailing market value when the transaction takes place, rather than at the value of the original purchase. Most shared ownership schemes are offered on new build properties, thus subsidising additional demand has minimal impact on house price inflation as housing supply is simultaneously increased. Shared equity schemes are less numerous and commonly based on open market properties.

It is clear that there are a number of social policy ambitions that support investment in low cost home ownership, including asset accumulation, but the longer term outcomes for people who have purchased their home using one of the many products available are poorly understood. One view traditionally sees shared ownership as a transitional tenure between renting and owning with an impermanent status as households move through the schemes into full ownership. Little is known about the extent to which this transition to full home ownership occurs or how, if it does, it is achieved, given that shared owners could not at the outset of their home purchase afford open market values. Previous studies have suggested that there are reasonable opportunities for shared owners to move on (Bramley *et al.*, 2002), but mobility within the sector has not previously been a focus of research.

LCHO schemes in the UK expanded rapidly with little examination of the longer term outcomes for purchasers. The aim of this chapter is to highlight the concerns of a minority of shared owners who remain unable to move on to full home ownership, and for some, are also unable to move within the LCHO sector if their circumstances change. The chapter reports the findings from a study about mobility among shared owners and examines to what extent shared owners move on, the outcomes of their move and what supports or constrains their moves, particularly to full home ownership (Wallace, 2008).

Firstly, the chapter discusses the role of low cost home ownership in the context of contemporary debates about home ownership in the UK. A brief overview of the methods used in the research project on which this chapter is based is then discussed, before going on to consider the findings of the study. An account of the rate of mobility within the shared ownership sector, the reasons why owners may wish to move and the tenure destinations of those that do form the next section. This is followed by an examination of the processes that represent barriers or facilitators to shared owners moving on to full home ownership or, in the event of being unable to afford the open market, another home when their aspirations or circumstances change. The household circumstances, the role of the local housing market and the housing association policies that may support mobility are then considered in turn. The chapter concludes with a discussion of the policy implications of the study.

2.2 Supporting access to home ownership in the UK

This section considers the social policy ambitions of LCHO in supporting access to home ownership and the perceived benefits of the tenure.

Home ownership

Home ownership in the UK is the dominant tenure, comprising 70 percent of households, and has been promoted by a succession of Government housing policies (Munro *et al.*, 2005). The tenure has become normalised to such an extent that other housing tenure have become stigmatised (Gurney, 1999), especially if people remain tenants past a certain age (CBRE/Hamptons, 2007; Edwards, 2005). Although surveys repeatedly show that there are widespread aspirations to the tenure across the UK, Edwards (2005) suggests that the preference for home ownership amongst low-income households is not considered to be the key attribute of a good home, as safer neighbourhoods and long term stability are more important. Support for home ownership did weaken following the housing market recession in the early 1990s in the UK, but bounced back to record levels (Pannel, 2007). However, younger households show less enthusiasm for home ownership in the short term, as there are a number of competing pressures that include the affordability of home ownership, lifestyle choices, the desire for mobility whilst establishing a career, later marriage and family formation and student debts (Andrew, 2006; GMAC_RFC, 2005; CIH, 2009a). These factors have contributed to a decline in the rate of home ownership amongst young households. This is a matter of concern as first time buyers inject liquidity into the housing market, thus supporting transactions further up the chain (Andrew, 2006), and because their absence from the market signals a possible contraction not expansion of the home ownership market in the future (Williams, 2007).

The present government held a policy ambition to meet the widespread aspirations to home ownership by expanding the tenure from the present 70 to 75 percent (ODPM, 2005). Behind the support for home ownership from policymakers are the perceived benefits for individuals and communities. For example, Rohe *et al.* (2000) suggest that in addition to asset accumulation, home ownership also brings citizenship benefits and increased levels of life satisfaction to individuals, households and communities, through their commitment to their home and the neighbourhood. However, such a large expansion in a mature home ownership market could only be achieved by subsidising access to the tenure, drawing in and possibly increasing risks to, more marginal households (Brook Lyndhurst, 2006; Hills and Lomax, 2007). Extending the reach of home ownership in the UK represents a risk for a number of reasons. The public and private safety nets for home owners are limited, there is little employment protection in increasingly flexible labour markets, there have been changes in the pattern of household formation and dissolution and a blurring of boundaries between borrowing for house purchase and other consumption (Stephens and Wilcox, 2008; Wilcox, 2008). So while the expansion of mortgage credit to marginal households has provided opportunities, it has also increased the risks (Whitehead and Gauss, 2007).

In this context the policy emphasis on home ownership is called into question and the implication that buying a home is the only way to secure a good home or assets is challenged (Maxwell and Sodha, 2006; Edwards, 2006; Bill *et al.*, 2008). Home ownership as a substitute for social welfare policy also attracts criticism, as encouraging people onto a housing ladder that involves personal risk and debt could result in greater social exclusion, rather than less asset poverty (Jarvis, 2008: 229). Notwithstanding these reservations, home ownership in the UK remains the norm (Ronald, 2007; Gurney, 1999). For the government, the continued promotion of the tenure offers mutually beneficial outcomes, as it receives maximum political returns by meeting aspirations at minimum fiscal costs (Boelhouwer *et al.*, 2004).

Access to home ownership is however difficult for many younger households. The mortgage market has contracted by 57 percent in the 12 months to April 2009 (CML, 2009a) and consequently lending has become cautious and prudent. Loan to value ratios for first time buyers have fallen from a typical 90 percent at the height of the boom in 2007 to 75 percent and loan to income ratios to three times a salary (CML, 2009b). Therefore, despite house prices having fallen, only first time buyers with large deposits or family assistance can enter the market.

Low-cost home ownership

The main mechanism through which the Government has sought to increase access to home ownership has been through a range of LCHO products offered by housing associations, and more recently by private developers. LCHO schemes have existed in the UK since the 1970s (Munro *et al.*, 2005) but were used infrequently until the 1990s and 2000s. There has been a rapid expansion of these LCHO schemes across the UK, with the number of shared ownership properties in England alone increasing by 57 percent between 1996 and 2007[1].

Moreover, until recently, LCHO attracted a third of new public subsidies for housing and constituted around a half of all housing association new business (Hills and Lomax, 2007).

The total stock of LCHO homes in which housing associations retain an interest exceeded 114,000 in 2007, representing only one percent of the total housing stock. However, these schemes are geographically concentrated in areas of high housing costs. In some areas, like Milton Keynes in South East England, shared ownership represents around 5 percent of the local housing stock. In London, Wilcox and Williams (2007) estimated that 10 percent of first time buyers had in 2006/7 purchased their first home using an shared ownership or shared equity product. This suggests that although small, LCHO has a disproportionate impact on some local housing markets than their aggregate numbers would otherwise indicate.

Numerous objectives for the recent focus on subsidised access to home ownership are apparent. The government proposed investment in LCHO to provide the opportunity for households to accumulate assets, to enable people to meet their aspirations to home ownership, to create mixed communities in regeneration areas, and to free up social housing units by tenants buying LCHO homes (ODPM, 2005). In addition, a prime driver of the most recent expansion of LCHO schemes has been the substantial surpluses housing associations have generated in rising housing markets from new and repeat sales, or increased investment through 'staircasing', that was used to cross-subsidise social rented housing (Housing Corporation, 2008a). Furthermore, policymakers have incorporated LCHO into mortgage rescue schemes, providing 'flexible tenure' in the circumstances of mortgage default (Joseph Rown-

1 Regulated Survey Data accessible from Tenant Services Authority.

tree Foundation, 2007; CLG, 2009a), and devised new LCHO products with the intention to remove unsold surplus new build stock from the market (e.g. CLG, 2009b). In the context of debates about housing reforms and the future of social housing in the UK, LCHO schemes remain mooted as alternatives for low-income working households who would be encouraged to leave social housing if their circumstances improved (Hills, 2007; CIH, 2008; CSJ, 2008; Moss and Greenhalgh, 2009). Arguably, many of the above objectives for subsidised home ownership schemes are therefore fiscal, reducing the need for public subsidies in other areas of housing or welfare policy, rather than tied to any beneficial outcomes for purchasers.

However, it is uncertain to what extent these social policy ambitions for the sector have been met. Evaluations of various initiatives have broadly found purchasers satisfied with their homes, although shared owners are less satisfied than shared equity purchasers (Bramley *et al*., 2002; Morgan *et al*., 2005; Battye *et al*., 2006; Clarke *et al*., 2008), and are also much less satisfied than general needs housing association tenants (Housing Corporation, 2008b; Tenant Services Authority, 2009a). Housing associations' reliance on surpluses from developing LCHO and open market sales has contributed to their greater exposure to the market than in the previous housing market downturn, threatening some associations' financial standing (Tenant Services Authority, 2009b). The extent and use of housing assets amongst shared owners is unexamined. However, the terms and conditions of shared ownership leases formally restrict access to any accumulated housing equity, unless it is to be used to repair or improve the property. Shared owners are therefore prevented from using equity withdrawal to subsidise consumption or essential expenditure, now or in retirement, as other home owners have done during the last decade (Smith and Searle, 2006). Furthermore, very few social housing tenants have moved into the low cost home ownership sector and so the added benefits of creating social housing re-let opportunities has not materialised, despite applications from these households attracting the highest priority (NAO, 2006). A recent poll of social housing tenants indicated that only five percent aspired to be living in the LCHO sector within five years (CIH, 2009). Shared ownership's contribution towards mixed tenure communities has also been under explored, but there is evidence to suggest that shared owners were the least satisfied with their homes and neighbourhoods in new build high density mixed tenure developments (Bretherton and Pleace, 2007). It is also unclear and disputed as to the extent the sector is less risky for lenders or purchasers and whether it offers better outcomes in sustaining purchasers through market downturns (Bramley *et al*., 2002; NHF, 2009; CML, 2009d). These longer-term outcomes of the sector deserve greater examination.

One long-term concern relates to the ability of LCHO owners to move on to full home ownership eventually and how they are able to move if they remain unable to afford open market values. Many LCHO properties are marketed on the basis of being a ‘first rung’, ‘first step, or ‘first foot’ on the ‘housing ladder’. Indeed, much of the popular discourse surrounding the sector in the media, conferences or Government reports reflects these epithets, all of which carry the implication that there will be further steps, rungs or feet on the ‘housing ladder’ that purchasers of these properties will be able to travel. Furthermore, more explicit assertions are made in the marketing of many shared ownership schemes, which suggest that the purchase of part of a home will mean that a household will achieve full home ownership as and when the household’s circumstances change. For example, consider the following extracts from housing associations’ websites that illustrate the frequent suggestion that shared ownership can become full ownership over time.

> “[Name] Housing is building a number of homes that you can buy a share in. Shared ownership or part buy/part rent brings the dream of buying a home within many more people’s reach. It’s now known as New Build HomeBuy and offers you a stepping stone to owning your own home outright one day.”

> “The ideal stepping stone to owning your own property.”

The study on which this chapter is based examined the extent of mobility within the shared ownership sector and the facilitators and barriers to fulfilling home ownership or satisfying changed housing needs or aspirations. The next section provides an overview of the methods used in this research.

2.3 Methods

This chapter is based on a study funded by the Joseph Rowntree Foundation (Wallace, 2008), which used mixed methods to examine mobility amongst shared owners. Information resources in this sector are poor (CML, 2009d; Wilcox and Williams, 2007) and so the study adopted a range of approaches, with varying success. Nevertheless, the different sources of data allows for triangulation between different key parties to shared ownership, as well as between the qualitative and quantitative data, to inform the conclusions of the research.

The quantitative methods involved analysis of the government statistical dataset, the Survey of English Housing; the administrative data completed by housing associations to the regulator, the Regulated Survey Return; CORE data and the data collected by the London Home Ownership Group (LHOG).[2]

These data inform our understanding of the 'stock' of existing residents and the 'flow' of new entrants to the sector, but are limited in terms of the research. To supplement these datasets a national survey of housing associations was undertaken, to understand further the extent of resales; 'staircasing', where owners purchase additional shares in their home; and the destinations of moving owners. The response was very low, only 10 percent (n=26), which also representing only 10 percent of the housing associations active in this field. The data from this survey was used only, in conjunction with other sources, to inform estimates of the rate of move on from shared ownership. It was evident that requesting data outwith that required by the regulator or for administrative purposes proved onerous for organisations.

The qualitative stage of the study involved six case study areas that were chosen to consider the experiences of shared ownership in different housing market contexts across the UK. The case study areas were Belfast, Northern Ireland; Glasgow in Scotland; Cardiff/Newport in Wales; and Milton Keynes, Cornwall and the London Boroughs of Kensington and Chelsea and Brent in England. In-depth qualitative interviews were conducted with 39 housing professionals active in the shared ownership sector across all case study areas, including housing association marketing and development staff, estate agents, solicitors and mortgage brokers.

Again to supplement the quantitative data outlined above, a postal survey of shared owners was undertaken, through participating associations in the case study areas, of owners who had lived in the property for three years or more. The owner survey had 189 respondents, a response rate of 12 percent , after two reminders were sent and incentives offered. The response was low and there is likely to have been a self-selection process present where owners with an interest in the topic are likely to respond. Therefore, some caution must be exercised when interpreting the results of the survey. The issues highlighted in the survey were explored more fully during the 28 in-depth interviews conducted with shared owners across the case study areas. These shared owners were in the process of moving or wanted to move and consented to be interviewed when completing the survey. The evidence from the housing associations and analysis of statistical data provided further support for the issues arising from these shared owner interviews. It is hoped that as the sector becomes more prominent and the issue of outcomes for shared owners becomes more prominent that improvements to the statistical and administrative data available will be improved.

2 The London Home Ownership Group comprises 23 housing associations offering low cost home ownership options in the capital. They routinely collect additional data from their members to compare performance.

2.4 Mobility and shared ownership

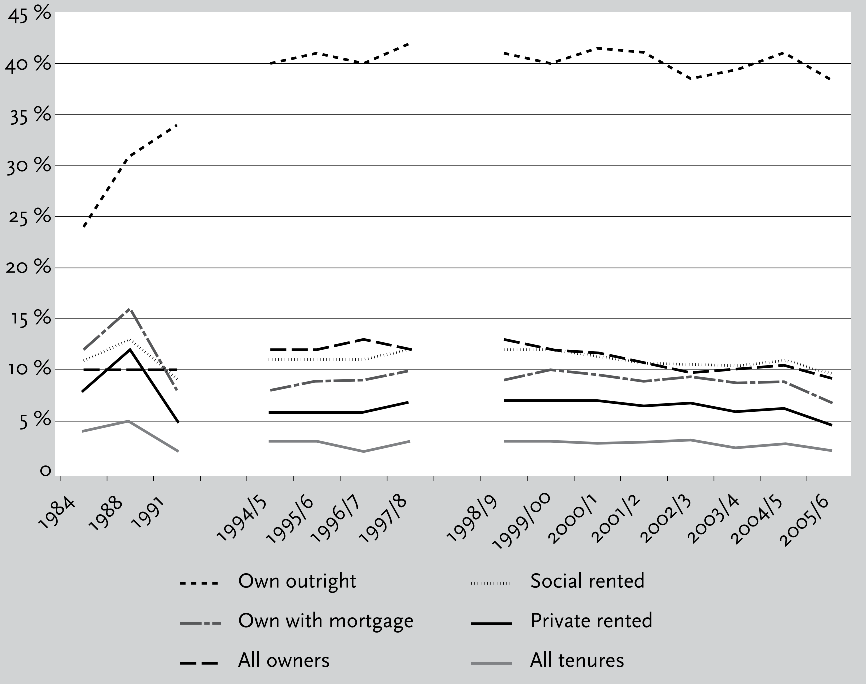
Movement within the shared ownership sector needs to be considered within the context of mobility in the wider housing market, but interpreting data on residential mobility can be challenging. Although households need to be able to move for a variety of reasons, high levels of mobility may be problematic in terms of developing stable communities. Low levels of mobility can similarly be viewed negatively or positively. For example, high levels of mobility amongst transient populations can be a sign of low demand and weak neighbourhoods (SEU, 1999). However, in contrast, an important attraction of the private rented sector is the ability to move freely between homes whilst establishing careers and personal lives (GMAC_RFC, 2005). Furthermore, a lack of movement between social housing tenancies has been cited as restricting tenants' chances of entering employment (Hills, 2007). However, with regard to home ownership, low rates of mobility in this tenure raised concerns that home owners may be restricted from accessing alternative labour markets, although this may be overstated (see Oswald, 1999; Murphy *et al.*, 2006). While the citizen and community benefits that arise from the US literature on home ownership suggest that the mechanism through which these positive outcomes may arise is the residential stability of home owners (Rohe *et al.*, 2000). Although establishing an appropriate level of mobility would be difficult, it is clear that households need to have reasonable opportunities to move on if they need or desire.

Rates of mobility

The Survey of English Housing (SEH) shows that mobility has declined for home ownership and social renting across the last decade, but has been consistently high in the private rented sector (Figure 2.1). While 40 percent of private tenants moved in the last year, the rate of movement of home owners with a mortgage has declined from 10 percent in the late 1990s to around seven percent by 2005/6. These lower rates of mobility were last experienced in the 1990s UK housing market recession. However, 2005/6 displayed very different market conditions as this was just before the peak of the last market cycle in 2007. The rate of mobility amongst outright home owners is around 2-3 percent.

Although the data available in the shared ownership sector is limited, the best estimates from London housing associations and the small survey of housing associations suggest that the mobility rate amongst shared owners is around 3-5 percent a year. This rate is below that of ordinary home owners buying with a mortgage and is perhaps comparable to older home owners without a mortgage rather than younger households who have purchased

Figure 2.1 Households moved in last year by current tenure (1984-2005/6)



Source: S212 Survey of English Housing CLG

their first property. The SEH indicates that traditional first time buyers move on more frequently than shared owners, with almost no first time buyers being resident in the same property after ten years, compared to 40 percent of shared owners. This may reflect shared owners buying property appropriate for their long terms needs at the outset. However, traditional first time buyers most frequently have one or two bedrooms above their needs compared to shared owners, who do sometimes have one spare bedroom but are more likely to have no spare bedrooms. In addition, around five percent of shared owners are overcrowded, using the Bedroom Standard, compared to around one-two percent of first time buyers. These findings are based on SEH data for 2002/3-2005/6 where most shared owners occupied two or three bedroom houses. New entrants to the sector are predominantly purchasing one or two bedroom apartments, so it is uncertain how the change in the type of dwellings purchased may change the demand for mobility amongst these owners in the future. Some interview participants thought that it might increase the number of households who needed to move as their current apartments did not lend themselves to family life.

As in the wider market, at any one time most people do not wish to move home and shared owners in the survey were no different. However, a significant minority, 37 percent, of shared owners who had lived in their home for three years or more reported that they wished to move but had not done so, primarily because they could not afford it. We may be cautious about these figures but the suggestion that a minority of shared owners become stuck in their first purchase, unable to invest further in their home or move out to full home ownership is strengthened by the qualitative evidence. The interviews with owners found several shared owners who were unable to bridge the gap between their current equity stakes and open market values or move within the sector.

Shared owners recognised that they did have the option to move to a different tenure if full home ownership or another shared ownership property was unavailable, but this was financially and emotionally uncomfortable. Repaying the mortgage early was likely to incur penalty charges amounting to several thousand (GB) pounds and owners felt they had advanced their circumstances by becoming (partial) home owners and so considered renting to be a retreat from their ambitions.

> "Well we're not stuck here, we could obviously sell and be renting again but that would be a step back." (Couple, Cornwall)

> "It does seem to be that you're quite trapped, in a position where house prices are rising and you only own a quarter of the house you might as well be renting, because if you own say, well my bit of it is £25,000, what can you buy with £25,000?" (Survey respondent)

Reasons for moving

The SEH 2005/6 suggests that the main reasons home owners with a mortgage moved in the last year, after 'wanting to buy' for first time buyers, was for personal reasons (including marriage or divorce), employment reasons, to live independently and to move to a larger home (CLG Live Table S226). In contrast, shared owners in the study survey rarely mentioned employment, but the key reasons for wanting to move were for a larger home (30 percent), a better neighbourhood (26 percent), starting or expanding a family (16 percent) and other family reasons, which included moving long distances to be near older relatives (17 percent). Several owners interviewed described how they required a larger home to accommodate a growing family:

> "We're really cramped. The house is suitable for two small children, but not a larger older family" (Owner, Northern Ireland)

Interview data collected for this study certainly supported the view that dissatisfaction with neighbours, estate management, the design of developments and the local neighbourhood were not uncommon.

> "No [not fulfilled our hopes]. I think to be honest we're very disappointed that we weren't informed that the four floors below were social housing. And the way it was marketed was as shared ownership and we weren't told the rest was social housing – so people with mental health issues in block, urinating in the lift, damage to communal areas, my car was broken into. There has been a lot of those issues, I know they happen anywhere but

they have the wrong kind of people in the block." (Owner, South East)

However, home owners with a mortgage cited moving to better neighbourhoods only slightly less frequently (23 percent) as a reason to move in the SEH 2005-6 than shared owners in the study survey (26 percent). Furthermore, analysis of the pooled SEH data 2003-6 finds that shared owners are no more dissatisfied with their local area than ordinary first time buyers. However, a recent study found that shared owners were the least satisfied with living on new high density mixed tenure estates (Bretherton and Pleace, 2008). One explanation for this discrepancy may be that most shared owners in the SEH 2003-6 lived in houses, whereas most new entrants to the sector and, for those surveyed by Bretherton and Pleace, live in new-build high-density developments, usually apartments. Respondents to the shared owner survey fell between these two poles.

Savage *et al.* (2004) suggested that homes and neighbourhoods were important to a person's construction of their identity and reflected their 'visions for living'. Therefore, another explanation of the dissatisfaction of some recent shared owners may be that the presence of other tenure and neighbourhood nuisance may conflict with how the owner's originally envisaged home ownership.

Tenure destinations

None of the housing associations had any mechanisms in place to record the moving destinations of shared owner households. It was therefore difficult to establish the location, tenure or property types to which former shared owners moved.

The study survey revealed that fifteen percent of owners who had lived in their property three years or more, twenty seven households, were in the process of moving or were completing during the course of the study. Half of these moving shared owners went on to achieve full home ownership, and of the remainder, four went on to another low cost home ownership property, four to the private rented sector, two to social rented housing and one went to stay with family and friends, with the destination of the others unknown.

From the comments received in the survey forms it was clear that the moves to private renting or social housing were sometimes made reluctantly, as the option to move to another shared ownership property was not available to all shared owners. Most of the moves were from two bedroom properties to three-bedroom houses, and most moving households were couples, with just over half of the moving households being couples with children. Indeed, analysis of the survey data revealed that over half of the households who wanted to move but could not were single adult households or lone parents.

The extent to which shared owners are able to move on or enter full home ownership is contingent on a combination of factors, such as their household circumstances, the local housing market and their shared ownership providers' policies. The remainder of the chapter discusses these key facilitators and barriers to mobility in more detail.

2.5 Household circumstances and mobility

A number of factors contributed towards a shared owners' ability to move on to full home ownership. These included a households disposition to live in high cost areas, the nature of the household's employment, whether the person formed a relationship in which housing costs would be shared and the age of the owner.

One of the factors that meant that some shared owners remained unable to afford properties on the open market was that they were committed to living in high cost housing markets. The issues that bound shared owners to particular localities included concerns over the safety of neighbourhoods in less expensive housing markets, lifestyle expectations, and family or employment commitments.

For example, some owners had been born and raised in Cornwall and had parents nearby who helped with childcare arrangements. Others had always lived in Northern Ireland where the market had experienced unprecedented house price inflation. While other shared owners had moved to Central London in their early twenties or younger and had started families or become accustomed to the lifestyle, although some did envisage moving out of the city in the long term.

> "Not really [considered moving out] as I really love London, I've lived here since I was 17 and I really don't want to sacrifice that...I think without the scheme we wouldn't have lived in a nice area as we've lived in. It has allowed us to stay in West London and not move out to Heathrow, which I think is the case for a lot of young couples – that they get pushed out of the city." (Couple, Kensington)

These households' attachment to pressured housing markets constrained their ability to move on to full home ownership, as they were unable to afford the open market prices in the local area. These households sought solutions to their housing needs through moves within the low cost home ownership sector itself.

Shared owners in less professional type employment more frequently discussed their inability to move on. This was principally because their incomes had only kept pace with inflation since their initial purchase, compared to others who enjoyed employment with rapidly advancing salaries and career structures. Although the numbers must be treated with caution, households

Table 2.1 Average annual household income by household composition (2003)

	SEH 2003 - Open market first time buyers buying with mortgage		SEH 2003 - Shared owners		Shared owners' survey 2007	
	Mean annual household income	Number of cases	Mean annual household income	Number of cases	Mean annual household income	Number of cases
Single adult below 60	50,098[1]	7	22,371	14	26,774	31
Single adult over 60	17,264[1]	3	9,919[1]	4	9,080	11
Couple, no children	42,484	23	33,233	19	33,304	23
Couple, with children	51,575	2	34,803	23	28,663	44
Lone parent	27,942	11	19,318	6	22,447	21
Multi-family household	-	-	22,204[1]	1	35,850	4

[1] Results are indicative and are not statistically significant.

who were moving had greater mean household incomes than those were wanted to move but could not. Teachers, accountants or IT specialists reported a positive ability to move, some even when they were single adult households, but for clerical officers or manual workers moving on was problematic.

> "I think it works if you can pay them off but if you're on a low wage it's hard and its only people really struggling who go down this route." (Owner, Belfast)

> "My salary has gone up but so has everything else...I'm only an administrative officer." (Owner, Glasgow)

Becoming a couple was a commonly reported factor that facilitated the original single shared owners' ability to move on, as it often increased the household income significantly.

> "It was only when I got together with my now husband that we thought about the possibility of staircasing, which we then did a couple of years later." (Owner, Kensington)

The Survey of English Housing allows us to compare single adult and couple households in both the shared ownership sector and traditional first-time buyers on the open market (Table 2.1). The numbers of shared owners represented in any one year of the survey are small; however, there are large differences between the household incomes of couples and single adult households, especially lone parents; and the much larger incomes of traditional first time buyers compared to similar households in the shared ownership sector. The table presents data from the shared owners' survey conducted across the six case study areas for comparison purposes.

There are striking differences between traditional first time buyers and shared owners in 2003, with the former having greater household incomes across all household types. Single adult and lone parent shared owner households have much lower household incomes than couple shared owners. The shared owners' survey also asked about household income but represents a different UK wide geography compared to the SEH, which may explain the relatively low wages of the owners compared to the SEH sample conducted four years previously.

Forming a couple did not automatically mean additional household income as some people used the opportunity for one partner to return to study and retrain for another career, while others started a family and one member of the couple left or reduced their involvement in the labour market. In addition, not all single people envisaged going on to form relationships whereby they would share the housing costs.

> "I think for the foreseeable future this is where I will live. I don't think my circumstances will change significantly as they haven't for the last ten years." (Owner, Milton Keynes)

Lastly, a shared owners' age influenced their ability to move on to full home ownership. Several older shared owners spoke of their frustration as they were unable to take on additional borrowing to accomplish a move at a cost they could afford due to having too few years left prior to retirement or because they had already retired. They wanted to move for reasons of disability or because they had a growing and older family but could not afford a suitable property. As the sector matures the low rate of mobility suggests that it is likely that there will be greater numbers of older or infirm households in shared ownership. Furthermore, older shared owners who stay put have no access to equity release products that provide for an income in later life from their housing wealth.

2.6 Local housing markets and mobility

As with other home owners, the housing market context in terms of geography and market cycles also influenced the prospects of shared owners moving on. The research was conducted during 2007/8, before and after the collapse of confidence in the Northern Rock bank and the events that precipitated the now entrenched financial crisis in the UK, but before the full affects of the crisis became apparent. The prevailing experience of shared owners at that time was one of rising markets and housing affordability problems. However, divergent experiences were also noticeable. The market in Northern Ireland had already stalled; where as in other places the fall off in demand had not become particularly discernable from any normal slowing down in the market during the winter months. In addition, rapid house price gains had been most clear in Northern Ireland and least apparent in Scotland where the market had only just risen and had done so from a lower base.

At the time, almost all of the shared owners interviewed had made equity gains on their stake of the home in proportion to the share of the property bought. For example, if someone purchased a 50 percent share of a property originally valued at £100,000 and it was later valued at £200,000, when sold the owner would get 50 percent of the £100,000 rise in equity, i.e. £50,000. However, the rising market represented both a benefit and a bind to various shared owners. Some had seen substantial rises on their shares, which reflected the rapid rise in house prices in London or Northern Ireland for example, but for others their equity gains were more modest, such as those shared owners in Glasgow. Many owners expressed dismay that rising markets had meant the value of the equity gap that they needed to bridge to reach full home ownership had significantly increased, making their ambitions less achievable than ever.

Nevertheless, such equity gains helped some owners move on to full home ownership, although often in circumstances where there was also some additional income from a partner, higher wages, or where a move to a less expensive housing market area was involved.

> "…it does mean now that I do have a deposit and I can now move on to the next stage of the housing market…I wouldn't have been able to [move locally], if I hadn't moved geographically and moved so far north geographically, I couldn't have done it, no." (Single woman, NW London)

It must be recognised however, that lower cost housing markets for all shared owners may not exist in reasonable proximity. Shared owners in London did largely have the option of moving out of the city and using any equity gains in lower cost housing markets, although it may not have been their preferred solution. In contrast, shared owners in some areas of Glasgow were often already residing in properties at the lower end of the housing market. However, for those shared owners who wanted to move within their current local housing market area, for reasons of employment, family or children's schools, the equity they had in their home did not facilitate a move, as the properties that they wished to purchase had also risen in value by similar proportions. Rising markets meant that gaining a financial asset could limit them in other ways by contributing to their immobility.

> "No-one would have imagined in their wildest dreams that it'd have risen like it has…I just want to turn the radio off when talk about the house prices comes on. Estate agents and building societies say its great, but I suspect underlying it there are a lot of people like ourselves who bought at lower prices and can't realistically move on." (Owner, Northern Ireland)

In many instances house prices had risen at a far faster rate than shared owner household's ability to take on additional borrowing to bridge the equity gap, which was a more important factor to them than the equity they had available to them. One owner in Glasgow cited the main barrier to her moving on was that "the quarter share just isn't worth very much".

Shared owners are able to increase their investment in their homes by buying additional shares, a process known as 'staircasing'. It seems that very few shared owners attempt to bridge the gap to full home ownership by increasing their shares incrementally, only 11 percent of the owners surveyed had increased their holdings from their initial purchase short of 100 percent ownership. Additional shares are purchased at their current market value but many owners reported that they were unable to afford the additional borrowing required to purchase the remaining share, which for some was worth more than the initial purchase price of their whole property. This owner described how the value of the unpurchased share of the home had risen beyond his means. He viewed the unpurchased portion of his home as something he should repay, although he was not required to do so in his lease. However, there are some schemes whereby public or private agencies do require people to repay subsidies within a certain time limit.

> "At least when people have a straight mortgage it goes down, but mine keeps going up. Ideally, I'd love to pay them off as it is a debt, but next year it could be £72,000…They know that people who go on this scheme go on it because they can't afford to pay the full amount. And like my debt started off at 11 grand and for people who are on the lowest wage they know it's quite hard to pay it off now." (Owner, Belfast)

Some shared owners were able to purchase additional shares in their property but were concerned that doing so would make their property harder to sell on, as they were aware that lower shares are more attractive to prospective LCHO purchasers. Although this reflects an awareness or knowledge of the market into which these shared owners bought, it could also act as a detriment to them in the future if they deferred purchase when they could afford it and prices rose in the future. In addition, the lease provides for such events by allowing the property to be sold in its entirety to the open market if no buyer can be found. Attempting to bridge the equity gap when they can afford to do so would therefore not disadvantage the owners, but it is unclear whether owners fully appreciated that this was the case. Conversely, not increasing exposure to the market may be wise when markets fall, but it does mean for owners to consider bridging the equity gap between their current holdings and those of the open market they must continually appraise the market.

2.7 Housing association support for mobility

Shared owners' ability to move was determined by the local housing market and household circumstances, but how the housing association mediated between these factors was also important. If the purpose of shared ownership is to assist people on a journey towards full home ownership then sustainably maximising the owners' shares in their homes is important to ensure the equity gap towards the open market is minimised. If the purpose of the sector is purely about acquiring assets then maximising those assets is less significant. In these circumstances, however, alternative provision for shared owners who wish to move, needs to be established.

At the outset, it seems that many shared owners may not have invested as much as they could into the property, taking the share of the property offered rather that what they could actually afford. This has been noted before (NAO, 2006; Bramley *et al.*, 2002) but usually in relation to the opportunity to reduce the level of public subsidies to the sector, but minimising the equity gap is also crucial if owners wish to move on to home ownership in the future. A recent report indicated that LCHO owners were now taking on as much as they could comfortably afford (Ecotec, 2009). However, the trend is for people to purchase smaller shares in property. CORE data indicated that the proportion of home shared owners are purchasing has reduced over the recent period, falling from an average of 50 percent of the property to 40 percent and the volume of shared owners purchasing 25 percent has increased. Many association staff noted that the smaller shares are more attractive, but it does beg the question as to whether the ability of shared owners to cross the growing gap towards full home ownership in the future may be further diminished.

The shared ownership provider in Northern Ireland had reduced the tranches that shared owners could staircase up in to five percent, to encourage greater staircasing. However, each transaction would involve valuation and legal fees, which may inhibit such small incremental increases. Anecdotally, other associations may be considering meeting the transaction costs of shared owners' staircasing but there were few incentives to staircase evident from the study.

> "For myself I had hoped we'd have been able to buy the whole of the property and then move on, I definitely saw it as a stepping stone as then you would have the freedom to choose any property...If they were say to us that you could have a discount it would make us look to purchase the other part of the property." (Couple owner, Cornwall)

If the targeting of shared ownership properties has been correct (i.e. households on lower income) then it is unsurprising that there are significant pools of owners who remain unable to afford to purchase their whole home or buy on the open market. Clarke *et al.* (2007) revealed few shared owners were in a position to sustain additional housing costs and, as described above, that was the case for many owners who nevertheless wished to move in this study. However, only some providers in and around London in the study were able to say they would facilitate the movement of shared owners within the LCHO sector, possibly relating to the maturity and critical mass of shared ownership locally.

> "Absolutely, definitely [help them move within shared ownership]. Important that we do that, someone buys a one bedroom studio their circumstances are going to change, what they do at 25 will be different at 35, and if they don't have another option for another shared ownership property they'll go to the private rented sector which is more expensive, or go on [the] waiting list for social housing property which is obviously expensive [to the public purse]. A small, but common, occurrence." (Housing Association, London)

Elsewhere, many LCHO schemes are aimed solely at first time buyers so shared owners are ineligible to buy another shared ownership home. This is despite the fact that their original home would be offered back to the shared ownership sector for a first time buyer, much in the same way as a vacant social housing tenancy would then be available to re-let. Some LCHO providers did not see a role for them to offer further support to the owners or the functioning of this emerging sector.

> "Visit housing advice and housing options, they've only really got the choice to go into rented or put their names on the housing register. We don't operate a scheme to take people to the next level, that's part of their responsibility, I know these things do happen, you're in that situation and you have to manage your life around that." (Local authority provider, Wales)

The advice given to shared owners regarding movement to another shared ownership property differed between, and even within, associations and it is clear that further guidance on the issue is required from association regulators. Allowing movement within the sector represented problems for some housing associations. Reconciling the different regulations for shared ownership type schemes built under different funding streams was a challenge and the volume and type of shared ownership property in the local area may be limited, non-existent or unsuitable for meeting moving households' needs. For example, some shared owners wanted to move because of illness or disability or wanted to move to accommodate a growing family, but the new shared ownership opportunities have predominantly been new build apartments and are unlikely to meet these needs.

> "But we have owners who have purchased a one bedroom shared ownership on their own and a few years down the line have got a partner and a baby and it is very difficult to

make it possible for them to move on." (Housing Association, South East)

The resale process was examined only in so far as it contributed to shared owners ability to move on. Most shared ownership leases include a nomination period that stipulates that the housing association has a set time, anything from two to twelve weeks, to find a new purchaser for the home should the owner wish to sell their share. If no buyer is found then the property may be marketed on the open market. There were tensions between the associations who wished to retain control of the next purchaser, to ensure correct targeting of the housing opportunity and resource, and the desires for some owners to want their property sold on the open market, where they perceived the property would be sold more quickly and attract greater values. Despite newer leases that state the property cannot be sold for a sum in excess of an independent valuation, housing associations in London and Milton Keynes experienced sellers frustrating the nomination process as the owners wished to sell on the open market instead. This further reflects the confusion surrounding the shared ownership sector and whether it is seen as market housing or some form of public housing. This confusion creates a conflict between the market trading of these properties and the bureaucratic or administrative allocation of buyers.

"The sales people here quickly realise when someone's trying to fob someone off, and we will be very stringent in forcing them to say you have to sell it to that person as what people tend to do is just try and get rid of a buyer to sell it on the open market and get a higher price, as they'll put it on the open market with [Estate Agent name]." (Housing Association, London)

"[association] are excruciatingly slow with the process, both when we purchased our flat and now we are trying to sell." (Survey respondent).

It is fair to say that many owners in the open market may also be frustrated with the process of buying and selling homes (CLG, 2007). There are some advantages to selling the home through the housing association, as associations have access to lists of potential purchasers and the costs are usually, although not always, less than a private estate agent. However, the processes by which some associations found active buyers were often cumbersome and caused unnecessary delays. Housing associations are using commercial marketing techniques to sell new build shared ownership opportunities, but the same techniques are rarely, if ever, afforded to resale properties and in a difficult market this may provide additional challenges for shared owners.

Supporting movement to another LCHO home for the small number of shared owners who may wish to move each year is necessary, but does highlight a tension inherent within this sector. Shared ownership is increasingly marketed as market housing, meeting housing demand at an affordable cost, with brochures imitating the literature of private developers. However, several owners highlighted that the homes are managed akin to social housing. This is reflected in some owner's experiences of estate management and the resale process but is brought into sharp relief when the issue of move on within the sector is considered. For example, should owners be permitted to move to another shared ownership property on the basis of housing need or housing demand? Some associations did facilitate to move on for shared owners on the basis of demand, while other associations considered movement to be similar to social housing tenants transferring tenancies and sought proof of housing need. As one attribute of owning a home that people favour is the ability to exercise control over your home or housing choices, such approaches may conflict with notions of home ownership.

2.8 Conclusions

Many shared owners spoke of their positive attitudes towards the housing opportunity shared ownership gave them, especially women following relationship breakdown or those seeking independent housing. However, the evidence from this study suggests that this hybrid tenure has elements of restricted mobility for some shared owners, which is a matter of concern if more marginal households with less market choices are to be attracted to the sector in the future. Bramley and Dunmore (1996) asked whether low cost home ownership was a short term expedient or a long-term tenure and we can suggest it represents both of these things for different households in different places. The outcomes for the different owners are set out below.

Firstly, many shared owners are content with their homes and do not wish to move. For them shared ownership represents a long term permanent hybrid tenure, between owning and renting and not the transitional tenure to full home ownership as widely envisaged. Housing associations should develop policies that reflect the long term nature of their occupancy. In particular, the issue of equity release in retirement will urgently need resolved. Alternatively, associations may wish to offer greater incentives to staircase and move on to the open market, thus creating further opportunities for new entrants to join the sector, even in tight housing markets.

Secondly, many shared owners do successfully move on to full home ownership, where their circumstances have changed to enable them to take on additional borrowing or they were able to move to a less expensive housing market. Wilcox and Williams (2007) note that shared ownership opportunities in London were well targeted at households who could not afford home ownership in their borough, but that a significant proportion of these would have been able to afford a home in a less expensive borough. It is likely that there is an overlap between this population of shared owners and those who are able to move on from shared ownership. It may also be the case that some households may have just waited to enter home ownership when relationships and careers were more settled, avoiding the requirement for any public subsidies. It must be noted that obviously some people's lives often change unexpectedly and future affordability may not have been anticipated at the time of the purchase.

Lastly, for shared owners who remain unable to afford full market values but who wish to move their options are limited. If their housing association provider does not support shared owners moving to another LCHO property, there is a high likelihood that some owners will get stuck in their initial shared ownership purchase unless reluctant moves are made to the private or social renting sectors. More recently, the Tenant Services Authority (2009a) have raised their own concerns regarding mobility within the shared ownership sector. Their large survey found that a fifth of owners had been in their home for between 11 and 20 years, and that only eight percent of existing shared owners had taken steps to reduce the gap between their holdings and the open market by purchasing additional shares in their property. Dunmore *et al.* (1998) advocated a national mobility scheme for low cost home owners a decade ago, but the low cost home ownership market remains fragmented and difficult for some households to navigate. A system of regional agents to assist potential first purchasers into low cost home ownership has been established but managing move on and resales of shared ownership properties, or facilitating moves within the sector, is outwith their remit.

The changing market conditions since the study was conducted raises additional concerns. Firstly, a more prudent mortgage lending regime, although desirable to many, may further inhibit some shared owners from increasing their investment in their home or moving on to full home ownership as access to mortgage finance to low income low equity households is currently constrained and may remain so for some time (CML, 2008). The lack of access to mortgage finance particularly for shared ownership homes, as lenders have a strong preference for shared equity products (CML, 2009d), may also constrain shared owners' ability to sell their homes in the future. Secondly, many housing providers reported that people wished to move on from flatted accommodation more quickly, which as flats are now the primary source of shared ownership opportunities, could mean that the issue of mobility becomes more pertinent in the future. Thirdly, the spectre of negative equity is becoming apparent across the housing market, which must also be a concern for those who have bought into some parts of the apartment market, especially as lenders appear reluctant to lend on some of these properties.

The study is the first to focus upon mobility in shared ownership. The available evidence outlined in this chapter challenges the dominant view that shared ownership acts as a 'stepping stone' to full home ownership as the situation amongst owners is more diverse. The marketing of shared ownership as a transition to full home ownership should therefore be reconsidered. There is much to understand about the social policy benefits, sustainability and other outcomes of low cost home ownership as it has been central to UK government housing policy. As for debates about the future, on the issue of mobility alone shared ownership cannot yet be considered an alternative tenure to social housing unless the owners are afforded pathways through or within the sector should their housing circumstances or aspirations change.

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3 Promoting home ownership through demand-side targeted measures

The case of Norway

Rolf Barlindhaug and Kim Astrup

3.1 Introduction

In many countries, housing policy has changed from being a system of large general subsidies for new construction projects into targeted, income-related, demand-supported instruments that promote home ownership. At the same time, public budget constraints have led to an overall fall in housing sector subsidies (Turner and Whitehead, 2002). Although this change in housing policy has also occurred in Norway, the constraints on Norwegian fiscal policy have been far fewer due to the country's significant oil-related revenues.

In its white paper on housing policy, the Norwegian government makes it clear that facilitating higher rates of home ownership among disadvantaged groups in society is a key policy target (St.meld. nr. 23 'Om boligpolitikken'). In order to retain a home ownership rate of around 80 percent, individual demand-stimulating policy instruments have been introduced, which are intended both for new construction projects and the existing housing market. Loans for first-time buyers who are ineligible for loans from private institutions, investment cash grants for partially financing purchases and housing allowances are available for the most disadvantaged applicants, including refugees and immigrants. Local authorities manage and allocate these subsidies on behalf of the State Housing Bank. Housing allowances are given to low-income households with high housing expenses. The scheme is tenure-neutral, but most of the recipients are elderly people in rented housing. Only 5 percent of all households in Norway are eligible.

The government has looked at whether there is a sufficient degree of harmony and consistency across these policy instruments, and the extent to which they are able – both individually and in conjunction with one another – to provide low-income and disadvantaged groups with affordable housing. This has included analysing the performance of housing allowances as a means of promoting home ownership among low-income households.

As a temporary provision, Norway has a small residual social rental sector that is exclusively targeted at vulnerable groups. Houses in the Norwegian social rental sector are owned by or at the disposal of local authorities, and rents are increasingly market-based. The pure social rented sector is estimated to constitute about 1.5 percent of the dwelling stock (Dyb, 2007).

The Office of the Auditor General of Norway (2008) has investigated public assistance for disadvantaged groups in the housing market. One of its findings concerns the lack of information about people who are too well-off to qualify for a house in the social rental sector, but too poor to own a home.

In this chapter, we develop an affordability model for home ownership in order to evaluate the different policy instruments that are meant to encourage aspirations towards home ownership. We introduce the concept of the 'economic margin' as a means of expressing a household's budget constraints. Central to the affordability of home ownership is the notion that a household should be able to afford, after tax, a minimum level of subsidence and the expences of a decent dwelling purchased in the market. We examine the role and effectiveness of central housing policy instruments in achieving affordable housing for disadvantaged or low-income groups, in both the low- and high-priced housing markets in Norway.

In the following sections, we outline the background conditions that have led to the high rate of home ownership in Norway, and present some relevant literature on home ownership. We then give a more detailed description of the Norwegian instruments that are designed to promote home ownership. A general microeconomic framework is developed, leading to an affordability model for home ownership. The Norwegian policy instruments are analysed using this analytical framework, and elements of corresponding British government schemes for low-cost home ownership are examined in the Norwegian context. We focus in particular on the housing allowance scheme, and the impact of a number of changes to this scheme that were introduced in the second half of 2009. We also discuss the extent to which adopting the British approach to low-cost home ownership might allow the State Housing Bank to further enhance home ownership rates among low-income households.

3.2 The development of home ownership in Norway

Home ownership as the preferred mode of tenure emerged after the Second World War. As such, it was based on a tradition of scattered settlements, a large number of small-scale farming landowners, and negative attitudes toward the property-letting industry. Home ownership was also encouraged through collective ownership, with each housing cooperative being owned and managed by its members.

Industrialisation and urbanisation led to housing shortages in major urban areas where many multi-dwelling rental buildings had been constructed, mostly by private owners but also by local authorities and philanthropic organisations. As late as 1950, 64 percent of all households in Oslo occupied rented property (Annaniassen, 2006).

A senior Member of Parliament for the Labour Party stated that it was unacceptable for private industry to play a role in the ownership of people's homes, a statement that was aimed at the professional, private owners of multi-dwelling rental buildings. Such attitudes paved the way for the growth of cooperative housing associations. The local authorities in the biggest cities began to collaborate extensively with cooperative housing associations. Cheap land was placed at the disposal of these associations, enabling them to build low-cost housing with financing from the State Housing Bank. These dwellings were allocated to members in order of seniority of membership, and residents were officially known as tenants. The Tenant Organisation supported this cooperative solution as a contribution to the development of a 'country of home owners'. The cooperative sector expanded, especially in the biggest towns, at the expense of multi-dwelling rental houses. Driving this expansion of home ownership were subsidies to aid the building of new homes and price regulation to keep subsidies under control.

Another important aspect of this story was the building of new condominiums in the 1960s. In addition, many private rental multi-dwelling houses were converted into condominiums at the initiative of private investors (Wessel, 2002), an activity that grew rapidly over the years until its prohibition in 1976. With the 1983 Owner-Tenant Act, division into property units was allowed only if certain conditions were fulfilled. As a result, the activity resumed, and was further stimulated by the deregulation of the credit market. Home ownership grew rapidly, fed by the construction of detached houses and condominiums for individual owners, dwellings in housing cooperatives in urban areas, and the extensive sub-division of multi-family rental houses in the biggest towns.

In the cooperative sector, there was mounting dissatisfaction with price regulation, from which residents of condominiums were exempt. In the 1980s, the Conservative government abolished housing price regulation as a part of their 'right to private ownership' programme. This was based on the idea that private property creates responsible, free, independent and productive citizens (Sørvoll, 2009). With the 2003 revision of the Housing Cooperatives Act, residents in the cooperative sector stopped being 'tenants' and became 'owners'.

Today, nearly 80 percent of households are home owners, whether they are individual owners of a property, co-owners in condominiums, or co-owners in a housing cooperative. While between 90 and 95 percent of the population will be home owners during their lifetime, almost all will also be tenants for a shorter period at some point (Gulbrandsen and Nordvik, 2007). The private rental market consists of many small owners and many temporary tenancies (Aarland and Nordvik, 2008). Housing units that can be transformed into owner-occupied housing, without for the need for any legal transactions or physical conversions, comprise more than 60 percent of rented units in Norway (ibid.).

The flexibility of the Norwegian housing market could have an impact on home ownership over time. It is therefore important to have instruments that preserve home ownership, even if they do not necessarily increase its prevalence.

3.3 Home ownership: the preferred form of tenure

As we explained above, there are several reasons why home ownership is the preferred form of tenure. A further important reason stems from the favourable terms of income and wealth taxation in Norway. There is no taxation of imputed rent, and the assessed value of a house is set to about one third of the market value for the purposes of taxing wealth. Interest expenses are fully deductible from tax on capital income.

Home ownership is associated with a range of advantages, including capital gains when house prices rise; having something to leave to one's children; and low out-of-pocket costs when the debt is paid off (Munro, 2007). Ownership is also assumed to make owners more independent and secure. As Aarland and Nordvik (2008) point out, home owners, in contrast to renters, do not have to ask for permission to make changes to the interiors of their dwellings. Moreover, low-income households often enjoy the additional benefit of undertaking renovations themselves (ibid.).

Whitehead and Yates (2007) find that the risks of home ownership increase with the amount of household wealth that is concentrated in housing, and the higher the borrowing requirement. Owner occupation exposes owners to housing value variations over time, transaction costs associated with the benefit of being in a particular location, and timing difficulties associated with realising the asset on relocation.

In many countries, young people find it difficult to become home owners. Munro (2007) ascribes lower ownership rates among young people to increasing student indebtedness, high house-price-to-earnings ratios and an extended period of youth. Sandlie (2008) found that in Norway, the younger generation is delaying owner occupation, but that it will eventually catch up with preceding generations.

Many countries have programmes that promote home ownership among low-income groups. Bramley and Morgan (1998) question whether low-cost home ownership (LCHO) mechanisms designed to assist those on the margins to make the transition to home ownership are sustainable, or whether their interests might be better served through the provision of rented alternatives. Some of the initiatives encourage social rental tenants who are in employment to become owner-occupiers in other areas, thereby increasing the concentration of economically inactive households in the social rental sector (ibid). In Ireland, as Norris *et al.* (2007) point out, universal support for housing was abolished in the 1980s and the remaining resources were reoriented towards enabling low-income households to purchase a home. Widespread arrears on mortgages among scheme participants cast doubts on the sustainability of the type of home ownership that such schemes are meant to facilitate (ibid.).

Whitehead and Yates (2007) define shared equity products as those that enable the primary purchaser to reduce their outgoings at the expense of giving up rights to part of the equity in the home, thereby sharing the risks associated with home ownership between owners (as legal entities). These products are described in terms of the way in which they are financed, the way the value is allocated, and the nature of the transfer rights between the primary and the secondary owner. In Munro's (2007) view, the scale of LCHO schemes has been too limited to have any influence on ownership rates among excluded households. The schemes have lacked a strategic focus, suffer from a lack of widespread understanding and, in the case of Conventional Shared Ownership (CSO), are complex, risky and offer poor value for money. As Bramley *et al.* (2002) found, with the exception of London and South East England, these schemes have not extended home ownership significantly to those who cannot afford it; about half of all purchasers would have bought anyway. Likewise, an evaluation of the French upfront ownership subsidy shows that 85 percent of the beneficiaries would have moved and purchased a dwelling anyway, even if they had not received a subsidy (Gobillon and Blanc, 2008). This upfront subsidy takes the form of an interest-free loan to first-time buyers, mainly for new construction projects.

Those who buy property are taxed favourably in comparison with renters, and enjoy the prospect of future capital gains. On the other hand, there are risks associated with home ownership. Unexpected rises in interest rates will mean increased out-of-pocket costs, and can lead to home owners falling into arrears. House price fluctuations can result in capital losses when the house is sold. LCHO schemes targeted at those on the margin therefore raise questions about sustainable home ownership. Access and affordability for low-income groups are also major issues. These schemes have been criticised for failing to significantly extend home ownership, and because many of the recipients would eventually have bought a dwelling anyway. The concept of reducing one's outgoings in return for giving up part of the equity in a property does not exist in Norway, but would seem worth considering in this case.

3.4 Norwegian ownership-promoting housing policy instruments

In this section, we present a brief overview of the two main Norwegian housing policy instruments that are designed to promote home ownership: the start-up loan and the individual investment cash grant. In addition, a tenure-neutral housing allowance scheme helps low-income households to obtain a suitable house or to retain one. State Housing Bank statistics show that 6,490 first-time buyers received a start-up loan in 2008. These households constituted 8,900 adults, around 15 percent of the normal birth cohort of approximately 60,000 persons. Of the households receiving a start-up loan, 18 percent also received an investment grant, 11 percent took out a start-up loan and received housing benefit, but only 5.2 percent[1] received help from all three sources: a start-up loan, an investment grant and the housing allowance scheme.

Loans for first-time buyers

Applications for start-up loans can be lodged with the local authority as a form of full or supplementary financing to facilitate entry into the housing market. Start-up loans are primarily intended for first-time buyers who are unable to access the private mortgage market. Local authorities fund loans from the State Housing Bank at market rates. In the case of repossession, any loss is shared between the local authority (25 percent) and the State Housing Bank (75 percent). The terms of the start-up loan for the borrower are based on market conditions, but the rate of interest is not adjusted to compensate for the higher level of risk that is incurred. Each year, around 6,000 households receive a start-up loan, but about 50 percent of applicants are turned down, mostly because they are unable to afford the annual housing expenses for the actual dwelling.

Investment cash grants

Investment cash grants, or vouchers for purchasing houses, may be provided along with start-up loans to first-time buyers. The objective is to help particularly disadvantaged households to own a home. The grants are available to households with permanently low incomes who would not otherwise qualify for a start-up loan. There are no clear rules or guidelines defining the terms of eligibility or the extent of the grant. On average, one-time grants provided in 2008 constituted 20 percent of the purchase price.

There is a form of clawback on the investment grant that can affect a household's willingness to move if the family's circumstances change. If the house is sold after 20 years (ten years before 2009), the grant does not have to be repaid. However, if the house is sold before this time, some of the grant will have to be repaid, depending on how long the household resided in the house prior to the sale. Five percent of the grant is calculated as the household's equity for each year prior to an eventual sale. The State Housing Bank has an annual investment grant budget, and grants are allocated to municipalities according to certain criteria, one of which is the current housing price level.

1 Figures for the first quarter of 2008. For the first quarter of 2009, the share was 3.2 percent.

Housing allowances

Housing allowances in Norway are tenure-neutral, and repayments of principal count as eligible housing expenses. The Norwegian housing allowance scheme is designed in accordance with the housing gap scheme (see Kemp, 2007).

(1) $B = a(EH - bI)$

B is the housing allowance entitlement, a is a fraction that is usually less than 1, EH are eligible housing expenses, b is the household contribution rate and I is income. The eligible housing expenses are supposed to represent the household's housing expenses, and are partly based on actual expenses and partly on assessed expenses for various housing expense components. Interest expenses are deductible in the taxation of capital income at a 28 percent tax rate. However, in the computation of eligible housing expenses (EH) for home owners, interest expenses before tax are used. For home owners, the fraction covering the gap between the recipient's eligible housing expenses (EH) and the household's contribution (bI) is 70 percent.

Eligible housing expenses have ceilings that vary with household size and region. In the scheme as it was in 2008, the household contribution rate (b) varied with household size and increased sharply with income.

In Norway, 31 of approximately 430 municipalities run municipal housing allowance schemes in parallel with the national housing allowance scheme. Some local schemes are only for renters, others are only for renters in the social rental sector, and others are also for home owners. The municipalities also provide social security benefits to cover housing expenses.

In a recent white paper (St.prop. nr.11, 2008-2009), the government stated that it would be willing to spend more on the housing allowance scheme. A proposed bill to that effect passed into law in spring 2009. The number of households drawing a housing allowance was anticipated to rise from about 100,000 to 150,000 in the latter half of 2009. Spending, it was assumed, would increase by 40 percent. The government also gave assurances that nobody would lose out under the new scheme, a promise that implied increased spending. Households had to meet certain income-related criteria in order to qualify for the old scheme, including the requirement that working households had to include children and meet minimum housing standards. All of these conditions would be removed in the new scheme, which would have a simpler legal framework. For example, b in equation (1) would be equal for all households, and would only depend on per capita income.

3.5 Affordable home ownership in the Norwegian housing market

In order to clearly analyse the interconnections between the policy instruments, we fitted them together in a model of affordability. The purpose of the model is to identify the income threshold at which a household can access home ownership, using various policy parameters.

Gabriel *et al.* (2005) associate affordability with an individual's capacity to exercise choice in the marketplace, while Maclennan and Williams (1990) state that affordability is concerned with securing some given standard of housing at a cost that does not impose, in the view of the government, an unreasonable burden on household income.

In our model, we adopt a 'residual measure' approach to affordability (Gabriel *et al.* 2005). This focuses on the income remaining after housing costs have been deducted, in order to determine whether housing is affordable in the context of current income levels and essential household expenses. The assumption underlying this approach is that households should be able to afford a minimum level of both housing and non-housing consumption.

The starting point for our model is the budget constraints affecting individual households. We introduce the concept of the 'economic margin' (EM), defined as income after tax minus housing expenses and expenditure on non-housing consumption (Vatne, 2006). All variables wijzigenare measured in nominal terms and are related to the first year of owner occupation.

(2) $EM = I - T - H - NH$

where:
EM: Economic margin
I: Gross income, including both taxable and non-taxable income
T: Tax on income
H: Housing expenses (net after housing allowances)
NH: Non-housing expenses

In principle, income after tax can be used for consumption and savings. If the economic margin (EM) is positive, there will be room for saving or consumption in excess of minimum levels. If the EM is less than zero, the household will either have a negative cash flow or will have to reduce non-housing expenses if housing consumption levels are fixed. As we shall see below, housing expenses (as we define them) include some elements of savings. Therefore, a zero EM will also imply some (forced) savings. When credit institutions consider whether to lend to a household entering the housing market, they demand a budget that shows a positive EM.

Whitehead (1991) points out that definitions of affordability usually focus on the relationship between housing expenditure and income. One could presume that H should not exceed more than, for example, 20 percent of income after tax (I - T). This is the same as saying that when the EM is equal to zero, non-housing expenses, NH in (2), should constitute at least 80 percent of the income after tax. In this paper, we approach affordability by choosing certain household-dependent minimum expenses for non-housing consumption (NH) and combine these with some minimum housing standards that are operationalised in terms of square metres. For given regional house prices and interest rates, and with certain policy parameters, we can work out the income levels that are needed to obtain a positive EM.

Housing expenses are defined here as an out-of-pocket concept. For renters, this is the gross rent minus the housing allowance (if they qualify for it). Owners pay nominal interest on loans, amortisation, maintenance costs, municipal duties, insurance, and so forth. For owners, H is an expression of gross housing expenses minus tax benefits on deductible interest expenses in capital taxation minus housing allowance.

We should point out that in our calculation of the economic margin, we employ a buffer interest rate. This is what the State Housing Bank advises local authorities to use when they are considering whether to give a start-up loan to a household. In 2007, this buffer interest rate was two percentage points above the market interest rate. Most credit institutions take account of an add-on interest rate of about three percentage points, in case of a future rise in interest rates. In the conventional lending practices of some credit institutions, a mortgage application is only approved if the loan does not exceed three times the household income. A risk buffer mechanism, which takes unexpected growth in interest rates and possible income reduction into consideration, is therefore included in the concept of the economic margin.

The yearly housing expenses (H) for a household with a start-up loan, an investment grant and a housing allowance can be expressed as

(3) $$H = P \cdot e_1 \cdot i_1 \cdot (1-t) + A + D - B$$

where:

H:	Housing expenses
P:	House price
e_1:	Proportion of the house price financed by mortgage
i_1:	Mortgage interest rate plus a buffer
t:	Tax rate on capital income
A:	Amortisation over the first year
D:	Maintenance etc.
B:	Housing allowances

H could be lowered by reducing e_1 or by setting A=0. One could also introduce an indexed mortgage system, by which only the real interest rate is paid and the inflation part is added to the existing debt. When house prices follow inflation, the debt as a percentage of the market price will then stay constant over time. In an inflating economy with constant real house prices, owners who pay nominal interest rates will accumulate wealth without paying on the principal.

A key goal of housing policy for low-income households is to help them to acquire a decent dwelling and to prevent non-housing consumption from falling below a certain level. An important aspect of the design of housing policy instruments for low-income groups is to account for regional and urban price variations, so as to prevent households from being forced to move to low-price urban or rural areas.

The acquisition of a decent and affordable dwelling can be a question both of the minimum level of housing consumption for different household types and the price of housing. The concept of decent housing can be quite complex. In our model, we use the space standards established by HATC Limited (2006) as an approximation, allowing us to make the concept of decent housing analytically tractable. These standards are presented in Table 3.1.

The price of a given dwelling standard and size will vary across different housing markets. Urban house prices can be twice as high as those in some rural areas. Based on space standards and house price statistics, we estimate a purchase price for every household category, depending on household size and region. The key question is then not whether a household can achieve home ownership, but whether it can afford to own a decent home. Affordability hangs on adequate standards of both consumption and housing.

The affordability constraint defines the maximum amount that a household can borrow for a given household income. We can distinguish between four different minimum consumption level measures (see Barlindhaug and Astrup, 2008). Credit institutions and local authorities use minimum consumption budgets to assess households' mortgage applications. Housing expenses are not included in these minimum levels of consumption, and the same levels can be used in all local housing markets. One of the four minimum consumption levels is used in repossession situations, when there is a voluntary or compulsory debt settlement involving private individuals (the Debt Settlement Act). In such cases, households have to live at a minimum consumption level for five years. Another minimum consumption level is the rate that is recommended by the government for the social security benefits that local authorities provide to vulnerable households.

In our evaluation, we apply the measure for an adequate standard of living that has been normatively determined by the Norwegian Institute for Consumer Research (SIFO). This measure provides us with a measure for the minimum expenditure on consumption other than housing. This minimum subsistence scale does not allow for the replacement of durable goods, whereas

Table 3.1 Minimum house size in square metres by household type

	No children	One child	Two children
Young disabled	60	-	-
One adult	35	50	63
Two adults	50	63	73

Source: HATC Limited (2006) and the State Housing Bank (for young disabled)

the normal SIFO budget standard does. The SIFO minimum, which does not include the replacement of durable goods, has to be used with caution, and it is inadvisable to apply it to long-term low-income households that meet one of the investment grant's eligibility criteria. With regard to single parents, we made certain assumptions about the amount of child maintenance that would be paid by the non-resident parent.

As Gabriel *et al.* (2005) explain, supporters of residual measures argue that this approach is more accurate than ratio measures when it comes to providing information about different household types, such as housing expenses in relation to income. Residual measures have been criticised on the grounds that a subjective process is used to determine what should fall under 'necessary' household expenses.

To identify possible inconsistencies between the schemes, as well as the impact of policy changes, we have constructed a model that has three modules: a finance module, a housing allowance calculation module and a budget module that calculates the economic margin as a result of net income, net housing expenses and a minimum amount for subsistence expenses. Running the model shows how the economic margin varies with income level.

Since a person's eligibility for a start-up loan is indicated by a positive economic margin, we should be able to determine the minimum income level needed to service a start-up loan in the presence of a housing allowance and an investment grant.

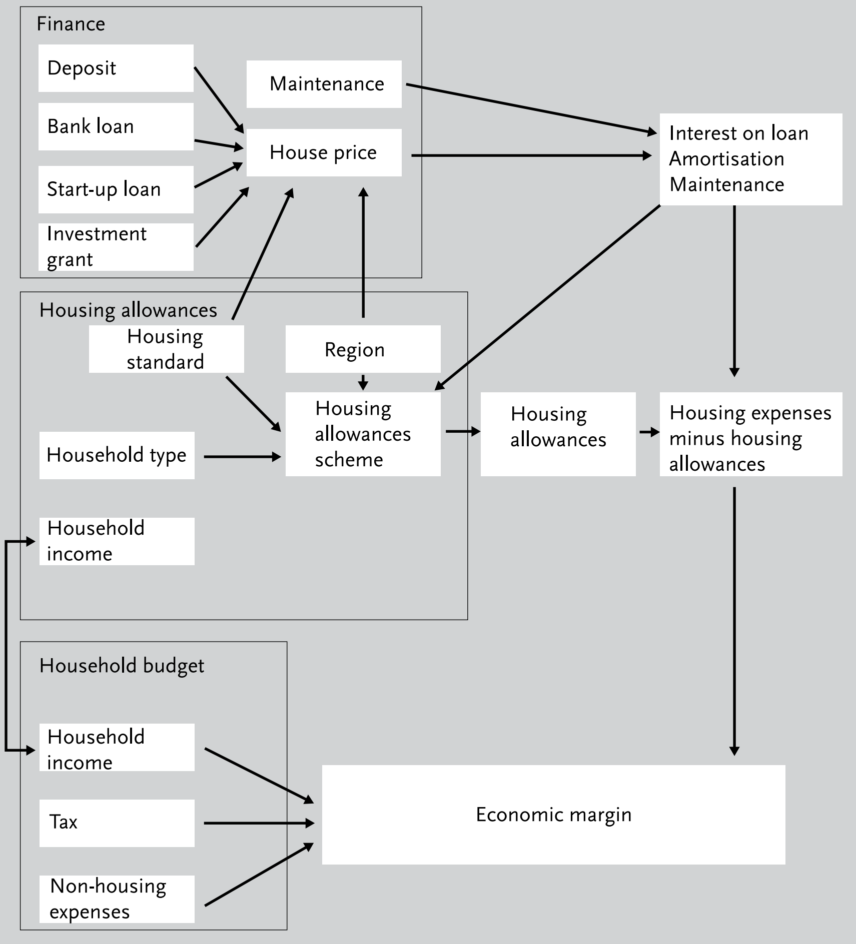
In the finance module, we can see how the purchase price is financed. Some households can finance a house purchase using a combination of a bank loan, a start-up loan, an investment grant from the local authority and their own capital (provided by a deposit, for example). Other households may finance 100 percent of the purchase using a start-up loan.

House prices vary between regions, and only four regions are represented in our model. The regions are defined in accordance with the regional variations in the ceilings for eligible housing expenses. One of the regions is that of Oslo, which has the highest price level. Combining space standards with regional prices, Table 3.2 shows minimum purchase prices for different household types in the four regions[2] for the year 2007.

In Figure 3.1 we start with the housing allowance module, choosing the region and the household type. The house price is then given by Table 3.2. We then move to the finance module. In our example, the entire purchase price is financed by a start-up loan and an investment cash grant. The investment

2 There has been a change in the proposal for the new housing allowances scheme: Region 1: Oslo. Region 2: Bergen, Trondheim Tromsø, Stavanger and Bærum. Region 3: Kristiansand, Skedsmo, Frogn, Lørenskog, Oppegård, Asker, Nesodden, Sola and Sandnes. Region 4: rest of the country.

Figure 3.1 Affordability model for entering into home ownership*



* Economic margin for the first year of occupancy

grant's share of the purchase price takes three alternative values in the computations shown here: no investment grant; a 20 percent investment grant; and a 40 percent investment grant.

Given the maintenance cost, the interest rate and the down-payment profile of the start-up loan, we can calculate the gross housing expenses. We apply an interest rate of 6.5 percent, which is two percentage points above the actual interest rate. The reason for this is that households ought to be able to manage the out-of-pocket expenses resulting from a future increase in the interest rate. The loan term is set at 20 years as an annuity loan.

We then return to the older version of the housing allowance scheme, prior to the changes that came into force in the second half of 2009. Using this earlier version of the scheme, housing allowances for all income levels for the chosen households and region are computed. The housing allowance scheme will not be explained in detail here, but we will outline the rules for a single parent household as a means of highlighting subsequent changes to the scheme.

This household consists of a single parent with one child, with NOK 105,000

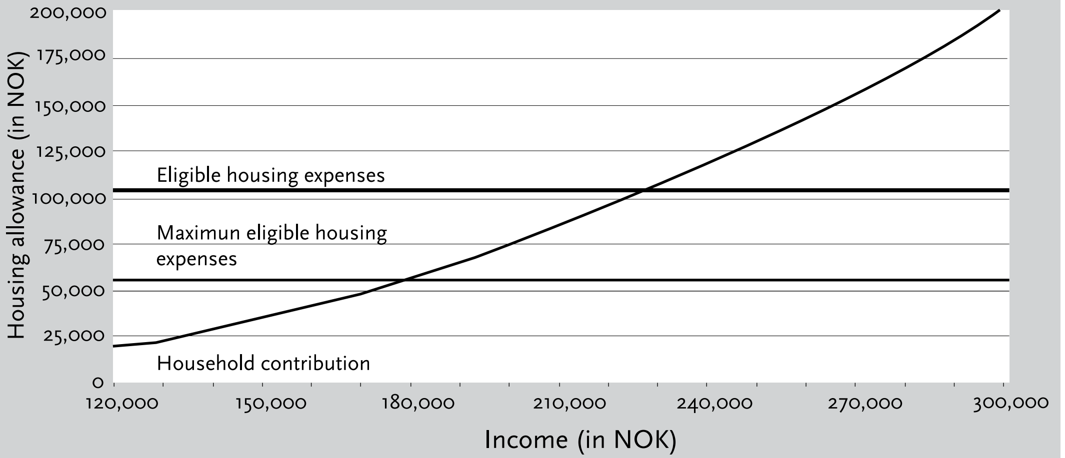
Table 3.2 House prices in (x NOK 1,000) by household type and region*

	No children	One child	Two children	Young disabled
Region 1				
One adult	1,386	1,903	2,314	2,222
Two adults	1,903	2,314	2,607	
Region 2				
One adult	1,212	1,654	2,000	1,923
Two adults	1,654	2,000	2,242	
Region 3				
One adult	1,008	1,363	1,503	1,574
Two adults	1,363	1,503	1,684	
Region 4				
One adult	893	1,199	1,305	1,377
Two adults	1,199	1,305	1,455	

*1 euro = 8.9 NOK

Region 1: Oslo
Region 2: Bergen, Trondheim and Stavanger
Region 3: Kristiansand, Drammen, Tromsø and Fredikstad
Region 4: The rest of the country

Figure 3.2 Housing allowances scheme – single parent with 1 child, living in municipalities with the lowest ceiling for eligible housing expenses*



* Investment grant: 20 percent of the purchase price.

of annual eligible housing expenses (see Figure 3.2). This figure is based on our assumptions regarding the purchase price, the investment grant share, the interest rate and amortisation. According to the scheme, the maximum eligible housing expenses for a two-person household in this municipality are NOK 55,000, a figure that is substantially lower than the actual eligible housing expenses (NOK 105,000). In (2), EH is set to NOK 55,000. The household contribution is 16.5 percent for incomes below NOK 130,000, but this increases by 0.3 percentage points for every increment of NOK 1,000 in income. At an income level of NOK 242,000, the household contribution is 50 percent of household income. Housing allowances are computed as 70 percent of the gap between maximum eligible housing expenses and the household's own contribution. The household contribution curve crosses the maximum eligible housing expenses curve at an income level of NOK 179,000. According to the rules, housing allowances of less than NOK 2000 are not paid to recipients. Therefore, in this example, housing allowances will be given to households with incomes lower than NOK 175,000.

Finally, we move on to the housing budget module, whereby the economic margin for all income levels is computed for the three investment grant alternatives.

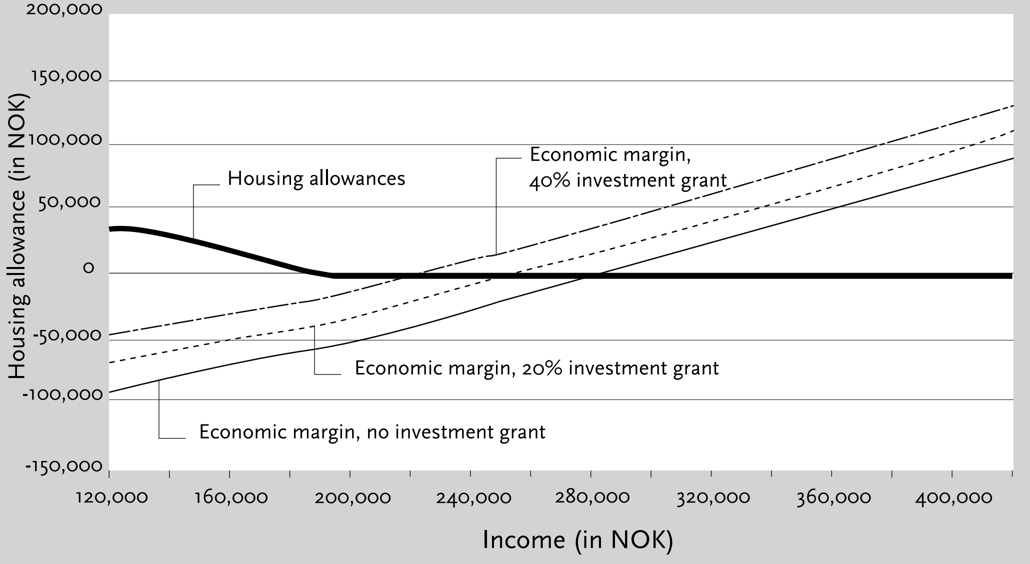
3.6 How do Norwegian housing policy instruments interact?

One of the main goals of Norwegian housing policy is to promote home ownership, particularly among low-income households. Designing the various instruments with a view to effective interaction has proved to be quite a challenge. Østerby (2007), ECON (2005) and the Office of the Auditor General of Norway (2008) all found that the housing allowance scheme targeted-disadvantaged groups more than those individuals who could afford to buy their own homes. Some households earn too much to qualify for social rental housing and a housing allowance, but too little to service a start-up loan. Using our model, we can identify the income bands for the households that are in this situation, even when they can receive generous investment cash grants. The households in these income intervals are probably situated in the private rental market, although there are few statistics or research studies that might confirm this assumption.

We first focus on affordability problems, taking the schemes as they were designed in 2007. In Figure 3.3, we show the results for a single parent with one child who is purchasing a dwelling in the region that has the lowest house prices. Three alternatives for the investment grant share are presented, together with housing allowance levels for the different income levels. In our example, the housing allowance does not vary with the investment grant share because the ceiling for maximum eligible housing expenses comes into effect for all three alternatives. Actual eligible housing expenses are therefore never lower than the maximum eligible housing expenses in the scheme.

As Figure 3.3 shows, housing allowance is paid for incomes below NOK 175,000. When the household gets an investment grant for 40 percent of the purchase price, the household must have an income of NOK 200,000 to achieve a positive economic margin. If the investment grant is reduced to 20 percent of the purchase price, the household must have an income of NOK 230,000 to service the loan. Figure 3.3 clearly shows how little interaction there is between the three central housing policy instruments in a situation in which a low-income household wishes to purchase a house. Households

Figure 3.3 Economic margin and housing allowances. Interaction between start-up loan, investment grant and housing allowances – single parent households with 1 child, living in municipalities with the lowest ceiling for eligible housing expenses



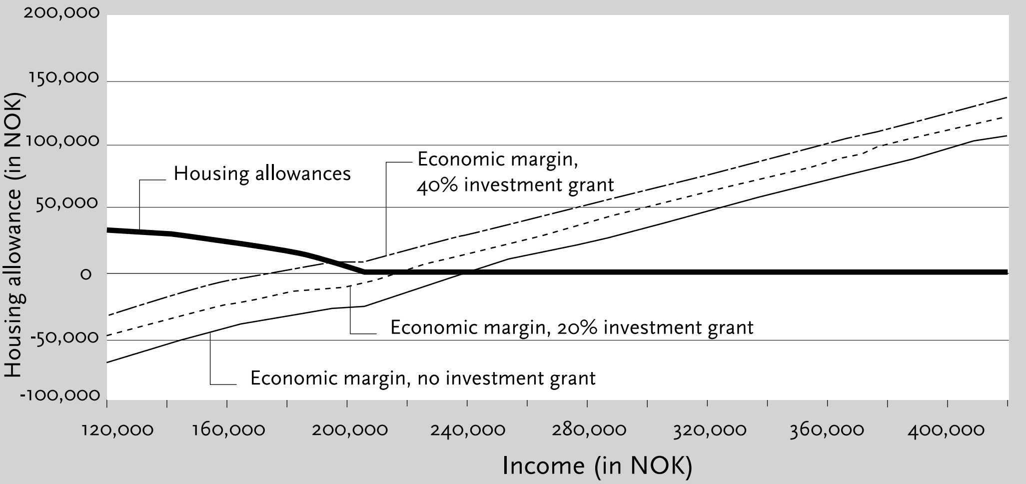
with incomes equal to or higher than NOK 175,000 do not receive a housing allowance, but must earn NOK 200,000 to service a start-up loan of 60 percent of the purchase price. If the housing benefit and investment grant were both to help to put the economic margin above zero for households whose economic margin would otherwise be negative, this would suggest a high level of interaction. Even if we were to find income intervals showing such an interaction, however, it will not be possible to help many low-earning households to purchase homes unless some or all of the instruments are improved.

There is a very small amount of scheme interaction for some of the household categories, a finding that remains valid even when we assume that house prices have been significantly overestimated (Barlindhaug and Astrup, 2008). The disparity between the highest income level eligible for a housing allowance and the level required to service a start-up loan is particularly evident for couples without children and families that consist of two adults. It also remains valid when 40 percent of the purchase price is awarded as an investment grant. We only find scheme interaction in a narrow income range for young, single individuals and young, disabled adults. Young, single individuals only fall within the housing allowance's target group if their income is derived from social security benefits or public assistance.[3]

Extending the term of the mortgage from 20 to 30 years reduces monthly repayments considerably. As far as loans and credit ratings are concerned, a 30-year term would be a good option in many cases. It would reduce the saving component of payment of housing expenses, while allowing home own-

3 In the new housing allowances scheme, a household will qualify for housing allowances independently of the type of income and household composition.

Figure 3.4 Economic margin and housing allowances. Interaction between start-up loan, investment grant and housing allowances – single parent with 1 child, living in municipalities with the lowest ceiling for eligible housing expenses*



* According to the new housing allowances scheme. Maturity 30 years.

ers to take 'repayment holidays' should the household experience a difficult period. Many recipients of the start-up loan would see their earnings grow over time, making it less onerous to repay the loan. Extending the maturity date has a small positive impact on the interaction effect for single individuals and single parents with one child, but the effect is greater for young disabled people.

Barlindhaug and Astrup (2008) offer examples of how changes to the housing allowance rules can result in higher levels of inter-scheme coordination. Since the new housing allowance scheme is already enacted in law, we will focus on the likely improvements to inter-scheme coordination. The new scheme has a simpler legal framework. For example, b in (1) will be equal for all households. Instead of household income I, an income per capita will be used in (1). Each additional member in a household is given the weight 0.1. A two-person household with an income of NOK 200,000 will then have a per capita income of NOK 182,000. In Figure 3.4 below, we use the same interest rate and house prices as before, but update the figures for the minimum subsistence scales and the tax parameters to the 2009 level. We have also extended the maturity to 30 years.

This single parent household would be eligible for a housing allowance if it had an income level of NOK 200,000 or less. If this household were to receive an investment cash grant constituting 40 percent of the purchase price, the household would need an income of NOK 173,000 to service a start-up loan. Without a housing allowance, the household would need to earn NOK 191,000 to service a start-up loan combined with a 40 percent cash grant. If the household were to be given a lower investment grant share of 20 percent, there would be no interaction between the start-up loan and the housing allowance scheme.

More expensive regions have a lower level of interaction than those municipalities that have the lowest ceilings for housing allowance eligibility. The increased ceilings do not compensate for higher price levels. We can conclude that for this household type and for some others, the new housing allowance scheme will not work as an incentive for home ownership unless the household receives an investment grant that covers 40 percent of the purchase price.

3.7 Discussion

We have shown that Norwegian housing policy instruments do not interact well enough to promote home ownership among households at the margins of affordability, even in those situations in which the new housing allowance scheme is used. There is a major gap between income thresholds for the start-up loan and the housing allowance scheme, even when purchasers receive an investment cash grant that covers 20 percent of the purchase price. In this section, we address the policy implications of this finding. Should the Norwegian government simply abandon its ambitions for affordable home ownership for all disadvantaged households, and if not, what policy changes should be made?

We do not intend to debate the merits of owner occupation as a form of tenure. However, the government's attempts to increase the affordability of home ownership for disadvantaged groups seem to be based on unrealistic assumptions, insofar that the income needed to achieve a positive economic margin after a house has been purchased is relatively high. The unprecedented and continuous growth in house prices since 1993 has contributed to this situation. Investing in property used to be regarded as a high-return, low-risk venture, masking the inherent risks of owner occupation, particularly for low-income households. This view of the housing market gave rise in turn to the belief that owner occupation was an efficient instrument for fighting poverty and increasing social justice. No additional schemes were introduced to deal with the possible sustainability problems that might arise from bringing marginal purchasers into owner occupation.

The housing allowance scheme can act as a partial safety net when interest rates rise or incomes fall, assuming that eligible housing expenses are not far above the ceiling for those expenses and that incomes are not too high. Sandlie and Nordvik (2009) found that 11.6 percent of 6,072 households with a start-up loan in 2003 also received a housing allowance in the same year. Moreover, 23 percent of recipients of start-up loans in 2003 received housing allowance at least once between 2003 and 2008. For start-up loan recipients in later years, the take-up rate of housing allowance was lower than in 2003. Sandlie and Nordvik (2009) state that the higher house prices and higher interest rates seen since 2003 mean that higher incomes are needed to service a start-up loan, which reduces the ability of the housing allowance scheme to provide a safety net for these households.

Given the policy of extending owner occupation to low-income households, how might this be achieved in an efficient way? Should the Norwegian government change the parameters of its current instruments, or should it adopt new ones, possibly including some form of equity loan scheme?

It can be argued that the Norwegian housing investment cash grant scheme is poorly designed, both in terms of efficiency and equity. The main goal of Norwegian housing policy is to extend owner occupation to low-income groups, not to assist with the accumulation of housing wealth. The proceeds of equity transfers from the investment grant could be used as an alternative means of helping more households to become home owners. Moreover, the grant has undesirable distributional properties; the eligibility conditions are vague, and there is an intrinsic arbitrariness in the distribution of grants as a result, which favours the making of large grants to a few households, not small grants to many households. Consequently, apparently insignificant differences in income can determine whether or not a household qualifies for a substantial grant.

The investment grant scheme could be replaced by an equity loan scheme. One well-known example is the British Homebuy scheme, by which the buyer receives an interest-free loan that is equivalent to 30 percent of the purchase price (see Jackson 2001 for an in-depth discussion of the Homebuy scheme). Housing expenses with an equity loan scheme could be expressed as follows:

$$HE = P \cdot e_1 \cdot i_1 \cdot (1\text{-}t) + P\,(1\text{-}e_1) \cdot i_2 \cdot (1\text{-}t) + A + D - B \qquad (4)$$

where:

HE:	Housing expenses with an equity loan
P:	House price
e_1:	Share of the house price financed by mortgage
$1 - e_1$:	Share of the house price financed with an equity loan
i_1:	Mortgage interest rate plus a buffer
i_2:	Interest rate on the equity loan
t:	Tax rate on capital income
A:	Amortisation the first year
D:	Maintenance etc.
B:	Housing allowances

In some Homebuy arrangements, the equity loan is interest-free. In this case, i_2 is set to zero and (4) would be exactly like (3), which describes the Norwegian system. However, in the Homebuy scheme, this part is a loan, not a grant (as it is in Norway). In the 'MyChoiceHomeBuy' variant of the scheme, a loan without amortisation is given that constitutes between 15 and 50 percent of the purchase price. The low initial level of interest is gradually adjusted to the market rate. 'Ownhome' is another product that offers an interest-free loan that covers between 20 and 40 percent of the purchase price. Unlike the original Homebuy scheme, the interest-free period only lasts for five years, after which a relatively low interest rate is paid, which increases to the market rate at ten years. These arrangements aim to increase the individual ownership rate to 100 percent, through gradual staircasing. The older Homebuy schemes provided no such incentives to staircase.

Another option would be to introduce a form of shared ownership in Norway, whereby for example the local authority would own part of a house, on which the resident would pay a subsidised rent. In this case, the housing expenses could be expressed as

$$(5) \qquad HS = P \cdot e_1 \cdot i_1 \cdot (1\text{-}t) + A + [r \cdot (1\text{-}e_1) \cdot i_2 \cdot (1\text{-}t) + A + D - B$$

where:

HS:	Housing expenses in shared ownership
P:	House price
e_1:	Share of the house price financed with a mortgage
$(1 - e_1)$:	Share of the house owned by the local authority
i_1:	Mortgage interest rate plus a buffer
r:	Marked rent on the house (excluding maintenance)
t:	Tax rate on capital income
$r.(1 - e_1)$:	Local authority's market rent on the local authority's share
A:	Amortisation the first year
S:	Individual subsidy on the local authority's rent
D:	Maintenance etc.
B:	Housing allowances

In (5) the rent subsidies S on the part owned by the local authority must be high, so as to achieve yearly housing expenses that are lower than would be the case with a start-up loan and an investment grant.

Both shared ownership and Homebuy include forms of risk-sharing or debt assurance, in case a dwelling is sold with a capital loss. This can be important when low-income groups are involved. The rate of negative equity insurance is inversely related to the individual ownership rate. Since the initial individual ownership rate in some arrangements is set in proportion to the household's ability to pay, the rate of debt insurance is also inversely related to income. Low-income households have a higher default risk, and they usually find it more difficult to cope with changes in circumstances, such as unemployment, illness or higher interest rates. Shared ownership shares the risk of price variation and offers protection, inversely correlated with ownership share, against a rise in interest rates, because the rental part is not affected directly.

Shared ownership without a rent subsidy reduces risk, but does not necessarily enhance affordability. However, shallow rent subsidies could help additional households to become owner-occupiers (Whitehead and Yates 2007; Yates 1992). Compared to the Norwegian system of investment grants and tenure-neutral housing allowances, it is easier to use subsidies on the rental part of the shared ownership to directly increase affordability, without simultaneously misallocating resources to promote the private accumulation of assets.

Would some form of shared ownership arrangement improve the Norwegian package of instruments for promoting home ownership? In what ways could a shared ownership scheme enhance affordable and sustainable home ownership in Norway? Such schemes do not necessarily solve liquidity problems or improve the economic margin of low-income households. However, it is important to consider whether an investment cash grant should be exchanged for a time-limited interest-free loan, and to find ways to share the risk associated with fluctuating house prices.

One argument for shared ownership relates to social justice. In Norway, only people in the lowest income bracket receive housing allowances and social housing, and people whose income is sufficient for home ownership receive generous tax benefits. However, low-income households in the private rental market receive no governmental support. By using shared equity schemes to ease access to home ownership, one could reverse the current tendencies towards polarisation and marginalisation (Yates, 1992).

One could also question the benefit of tenure neutrality in its current manifestation in the Norwegian housing allowance scheme. Repayments of principal are eligible housing expenditures. With a set budget, there is a clear tension between extending owner occupation to new households and transferring equity to households that already own their homes. Since transferring equity to established households is not a policy goal, one could argue that this implies that repayments of principal should not be eligible expenditures. The same logic can be applied to nominal interest payments, where households in a situation with constant real house prices can save the discrepancy between nominal and real interest rates. Thus both the Norwegian housing allowance scheme and the investment cash grant scheme suffer from the same shortcoming, namely that they indiscriminately support both established home owners and households that aspire to home ownership.

In Norwegian housing policy, full ownership is the only alternative form of tenure to renting. We have found that full ownership is not a feasible option for many low-income households under the current policy regime, and these conditions are unlikely to improve significantly with the new housing allowance scheme. Improving the interaction between schemes in the start-up phase and making further adjustments to housing allowance parameters would make current recipients eligible for higher housing allowances regardless of tenure, and would make it easier for other owners and renters to access the housing allowance scheme. Indeed, one might ask whether the housing allowance scheme should be calibrated for any appropriate interaction at all, as this would give rise to a significant fiscal expansion.

It is possible that increased governmental support for low-income groups could drive up house prices, which would perpetuate the affordability problem. However, the scale of start-up loan schemes is relatively small compared to overall housing demand. Increased affordability will probably have a minuscule effect on house prices. This conjecture has been confirmed by an empirical study of Norwegian housing prices (Nordvik, 2006).

3.8 Conclusion

Facilitating home ownership among disadvantaged groups is a central policy objective in Norway. The start-up loan is a key instrument, and the investment cash grant scheme is intended to cover part of the purchase price for some start-up loan recipients. These policy instruments are complemented by the housing allowance scheme, which enables households to pay their annual housing expenses while continuing to reside in a house. The government wants these three instruments to work together, offering a 'package of instruments' that promotes home ownership among disadvantaged groups in the housing market.

Using an affordability model, we have shown that these Norwegian housing policy instruments in their current form are an ineffective means of facilitating home ownership among many low-income households. A new housing allowance scheme was introduced in the latter half of 2009, with the main change being that an additional 50,000 households would qualify for the scheme (households which did not previously meet the eligibility criteria). Nevertheless, the scheme will not significantly improve interaction between the various Norwegian housing policy instruments, nor facilitate access to home ownership.

We have shown that only the most vulnerable are offered a house in the social rental sector and that the housing allowances scheme reaches a lower income segment than that which qualifies for a start-up loan and an investment grant.

As an alternative, we have discussed the possibility of introducing some form of equity loan or shared ownership scheme in Norway. Both of these options could increase access to owner occupation, but most important reduce or spread the risks associated with home ownership among low-income households.

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4 Housing equity among Norwegian home owners

Lars Gulbrandsen

4.1 Introduction

As a basic welfare good, housing delivers services independently of tenure type. In order to consume housing by purchasing a home, it is normally necessary to make a mortgage-financed investment, whereby a large part of future housing costs will consist of interest and mortgage repayments. In contrast to tenants, home owners can divert part of their cashflow into savings. At the same time, home owners' wealth may increase as a result of rising house prices. Using panel survey data from the US, Di, Belsky and Liu (2007) show that between 1989 and 2001, home ownership had a positive effect on net wealth among households that had been tenants at the beginning of the period. Over this period, house price appreciation was near its long-run average and stock market gains were above average. Using survey data drawn from the population aged 50 and above in ten EU countries, Jørgen Lauridsen and Morten Skak (2009) draw a similar conclusion. They show that even levels of financial wealth are much higher among home owners than among tenants. As Richard Ronald (2008) clearly shows, the commodification of housing and its availability in a market means that wealth can be accumulated, stored and transferred between individuals and across generations.

In this paper, we will address these themes in the light of the current situation in Norway. Norway is a rich welfare state that has a well-developed public pension system, and is today probably the most typical example of the so-called Nordic welfare state model. At the same time, Norway is a typical home owner society, with a higher rate of home ownership than its two neighbours, Sweden and Denmark, which are also typical Nordic welfare states. At any time, as many as 80 percent of Norwegian households are home owners, and between 90 and 95 percent become home owners sooner or later in the course of their lives (Gulbrandsen, 2006). Housing standards and housing consumption levels are quite high. In contrast to many other countries that have experienced a steep growth in ownership rates, Norway has had a high rate of ownership for a long time. In Norway, shareholders in local housing cooperatives should be placed within the home owner category. To own a share in such a company, which gives one the right to live in and sell an apartment at a price decided in a free market, is home ownership in any sense of the term. International comparisons do not always include cooperative dwellings, however. When Francis Castles (1998) compared the development of rates of home ownership in 18 OECD countries between 1960 and 1990, his table omitted this group of Norwegian owners. While Norway was given a middle ranking in Castles' table, it should have been placed among the top three at every point of comparison. If we use data from a 2004 nationwide representative survey of 26 EU countries, the rate of home ownership in Norway is only lower than those of Hungary and Lithuania, according to a table presented by John Doling and Janet Ford (2007).

The main research question of this paper concerns the willingness of Norwegian home owners to deplete their housing equity, to use home ownership as a vehicle for savings, and to postpone equity depletion to a later phase in life, perhaps in order to supplement anticipated income from public pensions and financial savings. A further important aspect of home ownership is its relationship to the family, both in the way that it reflects the strength of family ties and potentially strengthens them. As such, housing wealth may also play an important role in the system of transferring wealth between generations. The paper will focus on Norwegian home owners' attitudes and behaviour in relation to phenomena such as spending, saving and transfers.

In the following section, we provide a short review of some of the international literature on this topic. In Section 4.3, we turn to the development of the Norwegian housing market and the enormous growth of housing equity over the last 15 years. We always describe the primary data used in our analysis. In Section 4.4, we address housing wealth and other assets belonging to Norwegian households. In Section 4.5, we present our measurement of people's willingness to deplete housing wealth. We also ask whether such attitudes have changed over the last ten years. In Section 4.6, we describe the actual use of housing wealth and its correlates. In the last section, 4.7, we discuss the results in the light of the themes introduced in the two first sections.

4.2 Housing, spending and saving

The macro-level relationship between home ownership and the welfare state was addressed in the early 1980s by Jim Kemeny (1981). Kemeny postulated an inverse correlation between home ownership and welfare spending, explained by the reluctance of younger and middle-aged home owners to bear the necessary tax burden to pay for welfare services and pensions. This reluctance was nourished by the high costs of purchasing a home early in one's lifetime. Due to the fact that a house is a lifetime investment, mortgage repayments may serve as an alternative to financial savings for pensions, due to the dramatic reduction in housing costs that occurs once the mortgage is paid off. At the same time, this increase in wealth may be depleted. In this way, a high level of mortgage-free ownership among the elderly can mitigate public expenditure on pensions. Home ownership may thus present an alternative to the life-cycle redistribution that is perhaps the primary function of the welfare state. Furthermore, a weak welfare state may provide an incentive for home ownership as a means of making life-cycle savings (Castles, 1998).

In this way, saving through home ownership may serve as an alternative means of meeting the care costs incurred by a growing elderly population, thereby reducing public spending on pensions. As argued by Peter Malpass

(2008), the private housing sector is playing an increasingly important role in relation to, but not as a part of, the welfare state. Malpass raises the further question of how far governments are prepared to go in their reliance on the housing market to pursue non-housing goals relating to key welfare areas, such as health, education and pensions. In this way, Malpass argues that housing should be a driver in the transformation and modernisation of the welfare state. In the past, home owners accumulated wealth as a by-product of purchasing a home; now, the idea of the home as an asset is more widespread, and probably more widely accepted. Housing wealth is not allocated randomly, however, but is usually strongly positively correlated with other wealth components, not least pension rights. In this way, governments that choose to rely more strongly on asset-based welfare face the unavoidable consequence of increasing inequality.

Asset-based welfare is dependent on the existence of financial arrangements which make it possible to release housing equity without too great a reduction in housing consumption or housing welfare, as well as on home owners' willingness to deplete at least some of their housing wealth. However, contrary to such consumption patterns, property in the form of housing is often seen as an asset that should be kept within the family. This has perhaps more often been the case in agrarian societies, in which farms and land have usually been transferred from one generation to the next, than in modern urban societies in which the private ownership of dwellings and flats does not have the same strong connection to concrete pieces of land. There are exceptions to this trend, however, as shown by Richard Ronald and Yosuke Hirayama (2006) in the case of Japan, where the sense of permanence attached to land remains. The strong link between property and the family may also result from having an underdeveloped system of public pensions and welfare services for the elderly. As a consequence,home owners in the parental generation use their property as a means of obtaining care and maintenance in their old age from their children, through a strategic bequest motivated by the wish to receive care in return for transferring their house to one of their adult children as a form of advance inheritance. Drawing upon the family for care in this manner may reduce the need, and therefore also the demand, for public welfare services. It is probably dependent on co-residence involving more than two generations, whereby elderly parents live in the same house as one of their children and their grandchildren. Such a model is not uncommon in Japan, for example, as shown by Miza Izuhara (2008). It also remains quite common in Southern European countries (Poggio, 2008). In Norway, although relatively common 50 years ago, such living arrangements are now extremely rare (Gulbrandsen and Langsether, 2003).

So far, we have discussed saving and spending in a life-course perspective, with potential spending occurring late in a person's lifetime. Spending, however, is not necessarily something that has to be reserved for old age. Both paying off one's mortgage and increasing house prices can create room for adjusting spending and consumption patterns in earlier life phases. In this way, housing wealth as a driver of consumption can affect the economy, either by enabling people to spend more of their assets when house prices are rising, or by inhibiting consumption when house prices are falling (Smith and Searle, 2008). By using three different surveys carried out in the UK between the beginning of the 1990s and 2003, Susan Smith and Beverly Searle formulated three generalisations. First, the size of the sums released by mortgage equity withdrawal had grown. Second, the proportion of British mortgage holders who had increased their in situ secured borrowing had risen. Third, there was increased diversity in routes for equity extraction. There had been a great increase in the number of people remortgaging or taking further advances against an existing mortgage account. Mortgage equity withdrawal had become increasingly available and appealing.

The use of flexible mortgages among home owners in the UK increased during this period. Using three smaller surveys, Smith and Searle show a strong inclination among the respondents to reinvest their extracted housing equity in their homes, a phenomenon that is neither new nor restricted to the UK. Grouped together, home improvements and home extensions are still the reasons most often mentioned for equity extraction, clearly ahead of other specified reasons. The desire to purchase cars and other consumer goods was mentioned less often. In this way, depleting housing wealth 'on high days and holidays' seems to be the exception, rather than the rule. This is consistent with the findings of Lauridsen and Skak (2009) concerning middle-aged and elderly citizens in ten EU countries. The rate of mortgage to house value was found to be very low; it was only above ten in Sweden and the Netherlands, and close to zero in Southern Europe.

4.3 The housing market in Norway

Due to the traditionally high rate of home ownership in Norway, it has long been the norm for an individual to increase their housing wealth over the course of their lifetime, as they pay off their mortgage. A change has occurred over the last 25 years, however, in the form of changing housing equity due to market price fluctuations. Before the middle of the 1980s, there was no house price index in Norway. During the 20 years after the Second World War, the Norwegian housing market was strongly regulated. The deregulation of the Norwegian housing market gradually took place between the late 1960s and the first half of the 1980s. Table 4.1 shows house price fluctuations in Norway since 1985.

A steep increase in house prices started in 1985, and ended in the spring of 1988. This upward movement was followed by falling prices until the spring

Table 4.1 Price fluctuation in the Norwegian housing market 1985-2008[1]

	Mean price per square metre	Yearly increase/decrease %	Accumulated increase/decrease %	Consumer price index ****
1985	5,100			100
1986	6,700	31.4		107
1987	8,200	22.4	60.8*	116
1988	8,200	0		124
1989	7,100	-13.4		130
1990	6,800	-0.4	-43.9**	135
1991	6,200	-8.8		140
1992	5,700	-8.1		143
1993	6,100	7.0		146
1994	7,000	14.8		148
1995	7,500	7.1		152
1996	8,300	10.7		154
1997	9,000	8.4		158
1998	10,300	14.4		162
1999	11,700	13.6		165
2000	13,400	14.5	329.8***	170
2001	14,500	8.2		176
2002	15,400	6.2		178
2003	15,700	1.9		182
2004	17,800	13.4		183
2005	19,300	8.4		186
2006	22,100	14.5		190
2007	24,500	10.9		192
2008	23,500	-4.1		196

1 All prices in this chapter are reported in Norwegian kroner (NOK). 1 euro = 8.0 NOK

* Increase over 1985-1988
** Decrease over 1988-1992
*** Increase over 1992-2007
**** 1985 = 100

Source: Eiendomsmeglerbransjens boligprisstatistikk, published by Norges Eiendomsmeglerforbund and Eiendomsmeglerforetakenes Forening, developed by Econ Pöyry for FINN.no

of 1993. The nominal prices were higher at the end of this period than they had been in 1985, but since the value of the Norwegian krone fell by 44 percent during in the same period, real house prices fell by 22 percent. As in many other European countries, house prices in Norway then increased for a very long period until the start of the current financial uncertainty in 2006-2007. Between the spring of 1993 and August 2007, house prices increased every year. By the end of this period, prices were more than three times as high as they had been in 1992, while during the same period, according to the consumer price index, the Norwegian krone only lost 34 percent of its value. Between August 2007 and the end of 2008 prices decreased, but only by 11 percent. At the end of 2008, interest rates fell sharply, after which housing prices rose strongly. In April 2009, prices were 10.2 percent higher than they had been in December 2008, and had almost reached the peak of August 2007.

In the following analysis, we will use data from several national representative surveys that we have undertaken over the last few years. Due to the heavy increase in data collection costs, the surveys carried out after the year

2000 were based on an Internet design. In order to get representative data using this method, we had to impose an upper age limit. In Norway, access to the Internet, either at work or at home, is so widespread among people in their mid-sixties or younger that this method provides sufficient data within this age range (Gulbrandsen, 2007). The age range of the 2008 sample is thus 18-64 years, and the sample consists of 3001 respondents. Our analysis omits young respondents who are still living with their parents. Taking this into account, our sample consists of 2617 persons, 83% of whom are home owners.

4.4 Housing wealth and other assets

In the light of this strong and long lasting increase in prices, the timing of a house purchase ought to be of great significance to the value of a household's real assets. In the survey from the summer of 2008[1] we asked home owners when they had bought their dwelling. We had no information about any dwellings that they might have bought before their present home. As shown in Table 4.2, only 10 percent of owners had bought in the last two years, but this group did not only include young first-time buyers. Thirty-eight percent of buyers were aged under 30; 30 percent were aged between 30 and 39; 18 percent between 40 and 49; and 14 percent were older than 49 (aged between 50 and 64). Since Norwegians tend to become home owners quite early in the course of their lives, we would expect to find both second- and third-time buyers, not only among people in their thirties or older, but even among those under 30. According to the quality of life survey carried out by Statistics Norway in 2004, 63 percent of the 25-29 age group, and 78 percent of the 30-34 age group, were home owners (Andersen and Gulbrandsen, 2006). The corresponding rates in the same age groups from our survey carried out three-and-a-half years later were 65 and 79 percent respectively.

In the light of the big increase in house prices, the distribution of household debt should to a great extent be a result of the timing of the last house purchase. At the same time, the considerable proportion of middle-aged people among those who recently bought a house is expected to produce a great variation in the size of debt, even among people who recently bought their homes. Table 4.3 shows the distribution of total household debt, depending on the year in which the present dwelling was bought. Even among recent buyers, we find households that do not have any debt at all. The range of the variation is also greatest among recent buyers.

The decreasing amount of debt resulting from the increasing length of time since the last housing market experience gives the opposite picture when we

1 Three nationwide surveys carried out in 2004, 2006 and 2008, financed by GE Money Bank.

Table 4.2 Norwegian home owners (younger than 65) distributed after the year they bought their dwelling *

2007-2008	2004-2006	2000-2003	1990-1999	Before 1990	Number
10%	18%	20%	25%	27%	(2,117)

* Survey carried out in June 2008.

Table 4.3 Total debt of Norwegian home owners (x 1,000 NOK), distributed after the year they bought their dwelling

	First decile (10%)	First quartile (25%)	Median value (50%)	Third quartile (75%)	Last decile (90%)
2007-2008	0	630	1,313	1,950	2,500
2004-2006	0	590	1,300	1,800	2,240
2000-2003	0	351	955	1,460	1,870
1990-1999	0	180	690	1,222	1,740
Before 1990	0	0	220	700	1,300

Table 4.4 Size of net housing wealth of Norwegian home owners (x 1,000 NOK), distributed after the year they bought their dwelling*

	First decile (10%)	First quartile (25%)	Median value (50%)	Third quartile (75%)	Last decile (90%)
2007-2008	-350	-10	410	1,292	2,350
2004-2006	-60	170	600	1,400	2,335
2000-2003	74	450	1,130	1,950	3,095
1990-1999	246	700	1,380	2,400	3,270
Before 1990	480	1,000	1,610	2,500	3,400

* Estimated market price of their dwelling minus total debt.

Table 4.5 Size of the total net housing wealth of Norwegian home owners (x 1,000 NOK), distributed after the year they bought their dwelling

	First decile (10%)	First quartile (25%)	Median value (50%)	Third quartile (75%)	Last decile (90%)
2007-2008	-150	110	782	1,940	3,510
2004-2006	77	428	1,050	2,015	3,115
2000-2003	250	820	1,620	2,700	4,900
1990-1999	480	1,080	2,020	3,245	5,200
Before 1990	935	1,520	2,491	3,635	5,774

focus on what we might call housing equity or value, or net real capital value. This is shown in Table 4.4. This table shows home owners' own estimates of the market value of their houses minus the total amount of household debt. Even among home owners who bought in 2007 and 2008, nearly three out of four home owners have a positive net housing wealth. Regardless of where we look into the distributions, the more time that has passed since the last house purchase, the higher the figures.

In Tables 4.3 and 4.4 we include total debt, not only outstanding mortgage debt. When describing a household's overall financial situation, we also have to include other assets. Holiday homes are an important real asset for about 20 percent of households, and we asked about the estimated market price of second homes. We asked about the size of bank deposits, and about the value of the households' stocks and shares and the value of their shares in mutual funds. The survey also asked about the estimated value of the family's car or cars. Together with the estimated value of the house and the total debt, we use these data to compute the total net wealth of the households. The distribution of this net wealth in relation to the timing of the last home purchase is shown in Table 4.5. Not unsurprisingly, these figures are much higher than the figures in Table 4.4. Even among households that bought their house in the one-and-a-half years before our survey was carried out, a great majority have a positive net wealth. The median value is 782,000 NOK, or close to €100,000.

4.5 Willingness to deplete housing wealth

In several surveys that we undertook from the 1990s onwards, we questioned respondents about the spending of housing wealth. The respondents were presented with seven alternatives, and asked which they would choose if it were possible for them to spend potential housing wealth. One should note that we were asking about a hypothetical situation, and that people did not need to have any housing capital to answer the question. The seven alternatives are presented in Table 4.6.

Over this rather long period, there has been a slight change in people's attitudes. A substantial increase both in housing wealth and in net wealth has not made people more willing to deplete their housing capital. A minor change seems to have occurred between 1991 and 2001, and appears primarily to relate to the balance between alternatives 3 and 4. In 1991, a majority of the respondents who intended to deplete their housing wealth would at the same time reduce what we might call their physical housing consumption, by selling and moving into a smaller dwelling. From 2001 onwards, it was much more common to be willing to make use of the housing wealth in a way that apparently had no consequences for what we might see as housing welfare.

In Table 4.7, we present the result of a logistic regression on willingness to deplete potential housing wealth. We have defined such willingness to be equal to having chosen one of the five alternatives numbered from 2 to 6, as shown in Table 4.6. Table 4.7 shows the odds ratios for expressing such willingness, as defined above, in relation to the reference value on each variable controlled for the effects of the other variables in the model. We would expect to find positive effects for resource variables such as housing equity, net total wealth and income. At the same time, we would expect bad liquidity to produce willingness to spend housing capital if the respondents had access to

Table 4.6 Attitudes towards spending a possible housing wealth in 1991-2008, for respondents under 63 (in %)

	1991	2001	2006	2008
1. Would not spend anything of the housing wealth	37	29	25	30
2. Sell the house to a financial institution with a right stillto be living in the house	3	4	1	1
3. Borrow money with the house as security	6	31	36	31
4. Release equity by buying a smaller house	27	15	14	13
5. Release equity by selling and become a tenant	6	4	1	2
6. Other	5	5	4	4
7. Don't know. Not answered	16	11	19	20

Table 4.7 Logistic regression on the odds for being willing to deplete housing wealth among home owners, 2008

Age (Reference group: under 30)	
30-39	0,72 *
40-49	1,00
50-64	1,24
Housing equity (Reference group: less than equal to 200,000 NOK)	
200,000-700,000 NOK	0,78
700,000-1,500,000 NOK	0,68
1,500,000-2,500,000 NOK	0,76
> 2,500,000 NOK	0,75
Total net wealth (Reference group: less than equal to 500,000 NOK)	
500,000-1,000,000 NOK	1,24
1,000,000-2,000,000 NOK	1,84 *
2,000,000-3,000,000 NOK	1,59
> 3,000,000 NOK	1,52
The year of house purchase (Reference group: 2006-2008)	
2003-2005	1,03
2000-2002	1,43 *
1990-1999	1,62 **
Before 1990	1,50 *
Gross household income (Reference group: First quintile less than 350,000 NOK)	
2. quintile 351,000-500,000 NOK	1,26
3. quintile 501,000-650,000 NOK	1,50 **
4. quintile 651,000-800,000 NOK	1,38 *
5. quintile >800,000 NOK	1,57 **
The household's liquidity (Reference group: Was always able to pay bills etc. last year)	
Was sometimes not able to pay bills etc. last year	1,31 *
Was often not able to pay bills etc. last year	1,76 **

*p < 0,05
**p < 0,01

this form of equity.

As we have grouped the variables, we find few significant effects in the model. There are also some strange results. For instance, it is odd that the size of the housing equity has no independent effect on the home owner's willingness to use it. We find that total net wealth has a positive effect. Even if only those households with a net wealth of between one and two million NOK are significantly more likely than the reference group to be positive when it comes to making use of housing equity, seen as one group, households with a net wealth of more than half a million NOK are significantly more likely to have a positive attitude towards spending housing equity than households that have a lower net wealth. We also find the odds to be higher among people who have lived in the same house for at least five years. The same is true for people who belong to the three highest quintiles on the distribution of gross household income. Finally, we should note the effect of household liquidity. People who have often experienced problems meeting payments obligations over the past year are significantly more likely to have a positive attitude to depleting their housing equity.

4.6 Actual withdrawal of housing equity

To answer a hypothetical question about how one might possibly use housing equity is not the same as actually making use of an opportunity to do so. For some years, Norwegian banks have been trying hard to convince home owners with high levels of housing wealth to take the opportunity to spend some of their real capital. Flexible instruments have been developed that give home owners an upper limit, up to which they may dispose of money as they wish and pay interest on the amount of money that they owe to the bank at any one time. The use of such flexible loan arrangements, which are apparently similar to the flexible mortgage products that have seen substantial growth in the UK (Smith and Searle, 2008), has increased significantly in Norway over the last two years. In our survey, 27 percent of home owners answered that they had entered into such agreements.

In Table 4.8, we show the results of a logistic regression on the odds of having entered into such an agreement. We use two models: first, that which has the same variables as the model we used in Table 4.7 to analyse home owners' willingness to spend housing equity; and second, a model in which such willingness is incorporated as an additional right-side variable.

In model 1, we observe that three of the variables have statistically significant effects on the probability of having have entered into an agreement. Being older than 29 strongly increases the likelihood of having made an agreement. However, we don't find any differences between the groups aged 30 and above. We also find that increasing the gross income increases the likelihood of having entered into an agreement. Compared to the reference group, however, the odds are slightly lower in the highest income quintile than in the next-highest quintile, which may be due to the fact that people belonging to the highest income group have less need for such loan arrangements. While the odds of being willing to spend housing equity were highest in the group that has the most frequent liquidity problems, the likelihood of having entered into such a loan agreement is highest in the group that experiences such problems less often. It is unlikely that people in tight financial

Table 4.8 Logistic regression on the odds for having entered into an agreement about depleting house equity among home owners 2008

Age (Reference group: under 30)		
30-39	3,06 **	3,28 **
40-49	2,80 **	2,84 **
50-64	3,01 **	2,97 **
Housing equity (Reference group: less than or equal to 200,000 NOK)		
200,000-700,000 NOK	0,98	1,04
700,000-1,500,000 NOK	1,43	1,54
1,500,000-2,500,000 NOK	1,28	1,35
> 2,500,000 NOK	1,69	1,81
Total net wealth (Reference group: less than or equal to 500,000 NOK)		
500,000-1,000,000 NOK	1,52	1,46
1,000,000-2,000,000 NOK	1,70	1,55
2,000,000-3,000,000 NOK	1,68	1,55
> 3,000,000 NOK	1,38	1,29
The year of house purchase (Reference group: 2006-2008)		
2003-2005	1,19	1,18
2000-2002	1,27	1,20
1990-1999	1,12	1,04
Before 1990	1,14	1,07
Gross household income (Reference group: First quintile less than 350,000 NOK)		
Second quintile 351,000-500,000 NOK	1,67 **	1,61 *
Third quintile 501,000-650,000 NOK	1,66 **	1,54 *
Fourth quintile 651,000-800,000 NOK	2,29 **	2,20 **
Fifth quintile >800,000 NOK	1,62 **	1,51 *
The household's liquidity (Reference group: Was always able to pay bills etc. last year)		
Was sometimes not able to pay bills etc. last year	1,35 *	1,31 *
Was often not able to pay bills etc. last year	1,02	0,95
Attitudes towards use of housing equity (Reference group: Don't intend to use)		
Don't know		0,88
Are willing to use housing capital		1,77 **

*p < 0,05
**p < 0,01

situations would ever be invited to make such an agreement.

The introduction of the attitude variable in model 2 does not change the results very much, at least as far as the question of which effects are statistically significant is concerned. However, we should note that the coefficients for the odds for the groups with different amounts of housing equity show higher values, although these are not statistically significant. At the same time, all of the coefficients showing the odds for the different groups' total net wealth are reduced. The same is true for the coefficients showing the odds for different income groups. We find that the attitude variable has a unique and rather strong effect. Not unsurprisingly, the probability of having entered into an agreement that creates an opportunity to withdraw housing equity is much higher among people who have a positive attitude towards such forms of spending.

The results from the analysis of these last regression models indicate that having a positive attitude towards spending housing equity is an important factor for predicting actual use. However, there is no one-to-one correlation between attitudes and behaviour. Among home owners who either say they are unwilling to withdraw housing equity or are unsure about what they might do, approximately 20 percent have entered into a flexible loan arrangement. Among owners who intend to withdraw housing equity, 33 percent have actually entered into an agreement. Viewed the other way, 64 percent of the respondents who have made an agreement express a positive attitude to such spending, while 48 percent of the respondents without an agreement do the same. Apparently, many home owners who wish to make an agreement will never be offered one, either because they do not have enough housing equity, or because they were unable to meet payment obligations in the past and have a bad credit history. At the same time, a lot of home owners who are financially well-off and have high levels of equity choose not to enter into such agreements, simply because they do not need to do so.

4.7 Discussion

Although the use of flexible equity depletion agreements has increased strongly over the last two-to-three years, a majority of home owners (more than 70 percent) in the age group that we investigated have not made any such agreements. Both the credit risk and the credit cost to home owners will undoubtedly be lower for those who choose not to make use of this opportunity. One obvious weakness of our survey is that it does not cover elderly home owners. However, earlier research based on surveys from the 1990s has shown a clear correlation between age and attitudes towards spending. According to these surveys, the elderly in Norway are less inclined than younger generations to spend financial assets in old age, including housing equity (Gulbrandsen and Langsether, 1998).

In this climate of low inclination and willingness to spend, Norwegian banks have long been trying to sell flexible loans arrangements that draw on steadily increasing house wealth. For a long time, their marketing strategies were unsuccessful. Over the last two-to-three years, the number of agreements has grown, but it still remains far short of the potential market for such agreements. Neither have there been attempts by Norwegian governments to channel this wealth in the direction of more asset-based welfare. Maybe this is less necessary than in many other countries, due to Norway's North Sea oil income, but like elsewhere, Norway will face the problem of how to cope with an ageing population. Taxing housing wealth might produce some income, but political dynamics make this issue problematic. During the deregulation of the Norwegian housing market, right-wing political parties defended the notion of greater freedom for home owners, while left-wing parties defended the existing regulations (Sørvoll, 2008). Even many years later, the success of right-wing parties on this issue still seems to create fear among the parties of the left, who are scared of being associated with a policy that is hostile towards home owners. This creates a deadlock, as a result of which any proposed increase in taxation of home ownership, if not completely unanimously accepted, is doomed to fail.

One consequence of the reluctance among Norwegian home owners to deplete housing equity is the phenomenon of substantial transfers to the next generation. As the rate of home ownership has been high for so long, there is a high incidence of Norwegians whose parents are still alive and who own their homes, as well as Norwegians whose parents were home owners before they passed away. However, a rather low percentage of Norwegians live in an inherited house (Gulbrandsen and Langsether, 2003). To some extent, this is a consequence of the urbanisation of Norway after the Second World War, whereby sons and daughters in peripheral areas moved away from the countryside, and many years later inherited houses in other parts of the country (Nordvik and Gulbrandsen, 2009). A steady decrease in the rate of multi-generational co-residence may have the same effect, however, even in those situations in which elderly parents and adult children live in geographical proximity to one other (Gulbrandsen and Langsether 2003). In this way, home ownership is playing an important part in giving the family a substantial role, even in a modern, well-developed, Nordic-style welfare state. The intergenerational transmission of home ownership has been characterised as a core element of the familialistic welfare regimes that we find in many Southern European countries (Poggio, 2008). In this respect, we can observe many similarities between the housing sectors in, for instance, Norway and Italy, even if their overall welfare systems are quite different. Although the Nordic-style welfare state has assumed much of the responsibility for caring for the elderly, it seems that family ties have not become weaker as a result. This might be an important reason why Norwegian home owners are not very eager to deplete their housing wealth. Their central concern is neither saving nor spending, but transferring.

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5 Housing wealth leakage, return migration and transnational housing markets

Experiences of UK-based African-Caribbean home owners

Ricky Joseph

5.1 Introduction

This chapter focuses on a cohort of home owners whose experiences, to date at least, have been poorly served within the academic and policy literatures; very little is known about the experiences and housing consumption activities of ethnic minority elder home owners from a migration background, particularly those who have established second homes in their country of origin (cf. Teles. *et al*. 2005; Warren and Britton, 2003). This omission is surprising given that home ownership levels among some ethnic minority groups over 60 years of age are far higher than the White population. Evandrou (2000) in her analysis of the socio-economic position of ethnic minority groups in later life in the period 1991-96 revealed that 84 percent of Indian elders aged over 60 years were home owners, by far the highest of all ethnic groups. This compared with 66 percent for the White population, with rates among Black Caribbean elders being slightly lower at 60 percent. While there is a rising number of UK home owners who have a second home, the literature is only beginning to build an understanding of the socio-economic profile of households engaging in this activity (Oxley *et al*., 2008). The limitations of the largely quantitative data held on those engaging in this sector of the housing market makes it difficult to fully appreciate its diversity. The chapter pays particular attention to a small sub-set of ethnic minority home owners: Caribbean elders domiciled in the UK who are engaging in return migration activity in the Caribbean region.

The backdrop to the examination lies in a number of qualitative studies conducted in the 1980s and 1990s reporting a significant increase in the numbers of Caribbean elders returning to the Caribbean region (Rubenstein, 1982; Thomas-Hope, 1985; Peach, 1991; Byron, 1994; Byron and Condon, 1996; Goulbourne, 1999). While there are ongoing debates about the nature of 'the return' and how it is defined (Thomas-Hope, 1992), there is little doubt that the fall in size in the Caribbean born population in Census returns during this period can be partly attributed to return migration activity (Peach, 1996).

The examination of this activity is also particularly timely as there is growing evidence of a much younger cohort of second-generation Black British return migrants emerging from this group (Chamberlain, 1998; Conway *et al*., 2005; Reynolds, 2008). This diaspora should be seen within the wider historical context of migration flows across the Caribbean region itself. Its people are among the most globalised on the planet, often referred to as transnationalised communities with a long tradition of complex patterns of outward and inward migration (Thomas-Hope, 1998; Chamberlain, 1998; Goulbourne and Chamberlain, 2001; Castles and Miller, 2009). For these reasons, the migration flows and experiences of the cohort of Caribbean born returnees, who form the focus of the chapter, is widely viewed as a template for understanding return migration trends more generally among second-generation Caribbean returnees and other New Commonwealth labour migrants (Byron and Condon, 2008; Castles and Miller, 2009).

The central thesis of the chapter is that housing wealth accumulated throughout home ownership careers by this cohort of post-war labour migrants has enabled some to engage in complex investment activities of second homes in Caribbean housing markets within the context of return migration planning. This generation of labour migrants from the Caribbean and New Commonwealth were establishing home ownership careers at a pivotal point in the development of the UK housing market (Phillips, 1989; Byron, 1993). The immediate post-war period, not only witnessed the start of mass labour migration from the New Commonwealth, but also a major restructuring of the housing market. This triggered a sequence of events leading to the dominance of a home ownership ideology, major property price rises, the liberalisation of financial markets enabling home owners to release significant sums of housing wealth fuelling higher levels of consumption and debt (Forrest and Murie, 1989; Hamnett, 1999; Baker, 2004; Smith, 2005a) and more recently to the current credit crunch.

The chapter synthesizes a wide range of literatures drawn from the fields of home ownership, housing wealth and return migration. It builds on work from Caribbean return migration scholars who noted the way Caribbean elders, who have established 'successful' home ownership careers in the UK, have engaged in return migration (Byron, 1994; Byron and Condon, 2008). This body of literature however, has not drawn explicit links to the second homes or housing wealth literatures. Moreover, little is known about patterns of housing investment among return migrants in the country of origin or indeed the way return migration plans are financed, beyond the use of lifetime savings and retirement pensions. These discourses have wide implications for policy and theory particularly in our understanding of the workings of global housing markets and possible links this may have with shifting patterns in international migration. In seeking to bridge this gap, different strands of literature are considered, and a theoretical framework presented which attempts to explore some of the risks and opportunities associated with return migration planning and overseas housing investment decisions at micro (household) level. The life history accounts, on which analysis of these issues is based, were drawn from a small sample of Caribbean elders based in Birmingham and London who established multiple residence between the UK and the Caribbean.

The remainder of this chapter is organised in three sections. Section 5.2 provides a review of the literature about ethnic minority home ownership and return migration, leading into the development of a theoretical framework. This theoretical framework is used as the context of a qualitative study, reported in Section 5.3, that uses detailed interviews to explore the behaviour of a small number of ethnic minority elders. In the final Section 5.4 the significance of the findings are drawn out and conclusions presented.

5.2 Housing wealth and return migration: the existing literature

Post-war ethnic minority home ownership in Britain: establishing a foothold on the housing ladder

The immediate post-war period, which saw the arrival of Caribbean and other New Commonwealth migrants, marked an important phase in the development of the UK housing market. This period of mass labour migration to Britain also marked the start of a major restructuring of the housing market leading to the dominance of home ownership as the tenure of choice (Phillips, 1989; Byron, 1993). Although levels of home ownership today among households of Black Caribbean origin are comparatively lower than most other ethnic minority groups (ONS, 2007), this was not always the case (see Table 5.1).

Despite significant barriers faced by Caribbean and other New Commonwealth migrants in penetrating the labour and housing markets, which are well documented in the literature (Davison, 1966; Rex and Moore, 1967; Smith, 1977; Karn *et al.*, 1985; Sarre *et al.*, 1989), levels of home ownership among this group, in the mid 1960s was at times higher than the indigenous White population (Byron, 1993).

The body of empirical studies emerging from the early 1960s (Glass, 1961; Davison, 1962; Patterson, 1967; Peach, 1968; Rex and Moore, 1968) – commonly referred to as the 'race' and housing literature – drew attention to the problems facing many post-war New Commonwealth migrants. With respect to these there are a number of underlying themes. Firstly, the reconstruction of the post-war UK housing market was still experiencing severe housing shortages (Milner Holland Report, 1965; Rex and Moore, 1967; Phillips, 1987; Byron, 1994). Secondly, the relaxation of immigration rules encouraged the recruitment of new workers to run essential public and transport services (Glass, 1961; Davison, 1962; Peach, 1968).

From the body of early literature, it is possible to piece together important insights into the conditions and experiences of post-war ethnic minor-

Table 5.1 Housing tenure for Caribbean, Asian and white population, 1961-2001 (percentages of all households)

Ternure type	Caribbean (per cent)	Asian (per cent)	White (per cent)
1961*			
Owner occupation	29	47	42
Council tenant	3	8	22
Private tenant	22	58	3
1964*			
Owner occupation	40	67	45
Council tenant	5	10	25
Private tenant	15	32	3
1971*			
Owner occupation	45	58	45
Council tenant	22	10	28
Private tenant	20	21	5
1974**			
Owner occupation	50	76	50
Council tenant	26	4	32
Private tenant	24	19	18
1982**			
Owner occupation	41	72	55
Council tenant	46	18	32
Housing associations	8	2	2
Private tenant	6	6	10
1994***			
Owner occupation	50	82	67
Council tenant	46	12	23
Housing associations	13	14	3
Private tenant	4	6	9
2001****			
Owner occupation	50	76	72
Council tenant	42	11	19
Housing associations	44	20	22
Private tenant	8	14	9

* Taken from Bhat *et al.* (1998).
** Taken from Peach and Byron (1993).
** Taken from Byron (1993) Source: Smith (1977) Table A50, Brown (1984), OPCS, General Household Survey: 1974 and 1982.
*** Taken from Modood *et al.* (1997: 215).
**** Taken from Wilcox (2004).

ity home owners. For example, a number of authors have commented on the problems faced by newly arrived migrants in accessing the home ownership and private rented sectors (Rex and Moore, 1967; Patterson, 1968; Rex and Tomlinson, 1979; Modood *et al*., 1997). Others provided compelling evidence of financial exclusion, particularly problems experienced in obtaining mortgage facilities (Karn, 1978; CRE, 1985; Karn *et al*., 1985). Discriminatory practices by exchange professionals, and the higher costs associated with property purchase compared with White buyers, have also featured in this literature (Daniel, 1968; Fenton, 1984). The clustering of migrant households in properties at the lower end of the housing market has been highlighted in the literature (Rex and Tomlinson, 1979; Brown, 1984; Karn *et al*., 1985; Sarre *et al*., 1989; Smith, 1989). A particular point of interest, which is taken up later in the argument in this chapter, is the reliance on migrant groups on informal financial, kinship and social networks used to purchase properties (Karn, 1982; Karn *et al.*, 1986; Sarre *et al.*, 1989; Sterling, 1995).

The emergence of housing wealth and the experiences of ethnic minority home owners

In the UK housing market, the period following the late 1970s marked a further rapid expansion of home ownership and the emergence of housing wealth as a key feature. Home ownership, which at the turn of the twentieth century was perceived as the tenure of the rich, had broadened its social base (Saunders, 1990; Malpass and Murie, 1994; Hamnett, 1999). This growth was matched by a collapse in the private rented sector and the transfer of stock that had been privately owned into the home ownership market (Malpass and Murie, 1994). The gradual rise in property prices from the 1960s culminated in the first major price boom in the 1970s (Hamnett, 1999), one consequence being that increasing numbers of home owners were beginning to accumulate large assets in their properties. This period is important because the first comprehensive survey of wealth holding in the UK by the Royal Commission on the Distribution of Income and Wealth (1977) revealed that the home had now become the largest single personal asset of many households, outstripping pensions, personal savings and other forms of investment. This landmark study triggered a flurry of empirical work that helped to give a better understanding of the social geography of housing wealth (see for example Forrest and Murie, 1989; Thomas and Dorling, 2004). While, with the notable exceptions of Ward, 1982 and Hamnett, 1999, there were few studies of the experiences of ethnic minority home owners, important clues can be gained from some of the seminal work on return migration literature emerging from the late 1970s.

Developing links between ethnic minority home ownership, housing markets and return migration

Some of the earliest insights to ethnic minority home ownership, housing markets and return migration planning can be traced to the 'race and housing' literature in the 1970s. The influential work of Dahya (1974) and Anwar (1979) provided some of the earliest accounts of complex housing investment activities by Indian and Pakistani households in localised housing markets in the UK, acquiring property portfolios within inner city areas, not only as a means of meeting mutual housing needs within social and kinship networks, but also as an integral part of asset building aimed towards achieving return migration. Indeed, more generally, links have been established between home ownership status and return migration activity (Thomas-Hope, 1992; Byron and Condon, 2008); for example, in her study of return migration planning among Leicester based Nevisians, Byron (1994) noted that Caribbean elders who were home owners, featured more prominently among her case studies than any other housing tenure group. Moreover, Byron and Condon (2008) drew attention to the use of family land inherited by returnees as a popular site for building a home for a permanent return or as a second home in the Caribbean.

In contrast to these findings, the literature on return migration surprisingly pays little attention to the way return migration activity is financed or indeed the financial networks or other assets used. Rather, this literature tends to focus on the role of transnational social and kinship networks in facilitating return migration. Even less is known about the housing investment decisions in housing markets in the country of return, the risks or opportunities associated with this. This is a particularly pertinent issue for return migrants who have established multiple residence.

Developing possible links between second homes and family land with return migration planning

The growth in the second home market has been an important feature of the home ownership market in the UK in recent years (Gallent *et al.*, 2000; Council of Mortgage Lenders, 2001; ODPM, 2005; Oxley *et al.*, 2008). However, surprisingly, given the size and importance of second homes in the UK, there is limited socio-economic and demographic data available on the profile of second home owners (Oxley *et al.*, 2008) and particularly, in the present context, about ethnic minority home owners. There is however some evidence in the Caribbean return migration literature that offers important clues about the use of second homes in the Caribbean region particularly on family owned land used to construct retirement homes by UK based Caribbean elders.

In this, family land assets held by some return migrants in their island of origin have played a role (Byron, 1994; Besson and Momsen, 2007), the general context being the system of family land developed across parts of the Caribbean region since the abolition of slavery in the 1800s. This system of landholding differs significantly from that established in most of Western Europe, as land held within families is communally owned and inherited across extended kinship networks. The UK inheritance literature tends to ignore land assets that may be held by ethnic minority communities overseas (Rowlingson and McKay, 2005). The possession of family land within Caribbean families, predating their post-war arrival to these shores, would suggest there is a much longer tradition of land/home ownership than had previous been presented in the UK housing literature. There is evidence which suggests access to family land, not only provides an important resource influencing the decision to return in later life, but is a significant factor in reducing the overall cost of the return (Byron, 1994; Byron and Condon, 2008). Byron (1994) noted:

> Land in some cases with a building on it, had been inherited by 15 percent of the

> migrants while they were in Britain and 20 percent of the Leicester sample had purchased land but had not yet built on it. (Byron, 1994: 172-173)

Byron's findings not only suggested that her sample of Caribbean elders were making use of UK housing wealth to develop housing on family land that had been inherited, but hinted at the existence of a buoyant second home market in the Caribbean.

The role of social, kinship and financial networks in negotiating the risks and opportunities of return migration and overseas housing investments

While there has been an emphasis on the role of social and kinship networks to interpret return migration planning, much less is known about financial networks or other assets available to returnees in the island of origin. Byron (1994: 20) in her study of return migration among post-war Caribbean return migrants developed the idea of a 'social network resource system' to conceptualise the network of social and kinship relations used in achieving a range of return migration goals and housing investment decisions in the Caribbean. Her analytical framework is grounded within social field theory. This is applied widely within the migration literature to describe the network of social relations that exists, and are used by migrant communities in establishing themselves in host countries, and in the remigration process. More recent contributions to this literature by Basch *et al.* (1999) put forward the notion of transnational social space. This provides a conceptual framework in which to explore the social, economic and political cross-national processes in which migrant groups are embedded (Ramji, 2006). These social and kinship networks not only enable migrant groups to establish themselves in the host country, but also reinforce transnational ties with the country of origin (Olwig, 1987; Goulbourne and Chamberlain, 2001). Information networks are also intimately linked within these social and kinship networks, providing an important resource, enabling migrant groups to formulate return plans (Tiemeko, 2003).

There have been few attempts to incorporate financial networks (both formal and informal) and other assets that might be available to return migrants in the country of origin. One of the key overseas assets identified in the literature referred to earlier, and used by Caribbean elders, is the availability of family land. Byron (1994) identified this, along with financial assets (i.e. lifetime savings and redundancy payments, etc) as important assets, enabling many of her informants to reduce the overall cost of the return. It is useful to apply the term 'assets' and 'resources' interchangeably to describe tangible and intangible assets in the context of return migration planning and related investments in housing in the country of origin. In practice, return migrants tap into a wide range of these formal/informal resources and networks in realising remigration plans. Moreover, this approach is useful as it provides good opportunities to explore the opportunities and risks faced in making important housing investment decisions in Caribbean housing markets.

5.3 Researching life histories

The study, carried out in 2005, included 13 Black Caribbean families based in Birmingham and London. All had entered home ownership at some point since their arrival in Britain. The informants on the whole, although describing themselves as 'working class', exhibited many of the characteristics of 'middle class' lifestyles. Many were active in their local communities, church members or held professional occupations. Each informant completed a a short biographical profile before the interview took place, which was used to construct basic background information on a range of issues (i.e. housing and migration history, family, employment, migration background, etc.).

Table 5.2 provides a brief profile of the informants' return migration and housing investment plans. All of the names of informants have been changed. The life history interviews provided opportunities to explore the mix of assets and networks influencing return migration and housing investment plans in the Caribbean.

The role of housing wealth in funding return migration

Housing wealth accumulated throughout UK housing careers was the main source of financing for return migration and housing investment activities in the Caribbean. This housing wealth was often combined with other formal financial assets such as lifetime savings, pensions and in some cases lump sum redundancy payments from previous employment. Informants made clear connections between their return migration plans, their home ownership status and equity they had accumulated throughout their housing careers as the following comments illustrate:

> "We always talk of going back as soon as we reach here..it was a dream that a lot of us have...for a long time I though that it would never happen, but now it has become a reality because of my home...I've paid off my mortgage and I can afford to go back in style." (Fieldwork interview: Ezra Gunford – London)

> "We've been talking about going back to Jamaica ever since my husband retired...the children have all grown up and are doing really well, and they want us to be happy...we are thinking of selling this place which will be hard but the money will go a long way back home." (Fieldwork interview Mary Dickens-Birmingham)

Table 5.2 Profile of housing investment and return migration plans

Name	Place of birth	Age	Inherited family land in Caribbean	Made investment in land or property	Type of return *
Ezra Gunford	Dominica	70	Yes	Yes	Multiple residence
Daniel Charles	Dominica	73	Yes	Yes	Permanent return
Nemiah Albert	Jamaica	75	Yes	Yes	Multiple residence
Mary Barclay	Grenada	47	Yes	Yes**	Not decided
Sonny Browne	Jamaica	75	Yes	Yes**	Not decided
Donald Byron	Grenada	74	Yes	Yes	Multiple residence
Mary Dickens	Jamaica	73	Yes	Yes	Not decided
Ben Bradley	Jamaica	72	Yes	Yes	Not decided
Sarah Lloyd	Jamaica	77	Yes	Yes	Not decided

* *Permanent return* means the individual intends to return to the Caribbean within the next 6-12 months. *Multiple residence* means the informant hopes to set up dual residence between the Caribbean and UK. *Not decided* means the informant has not made a final decision whether they intended to migrate permanent or establish dual residence.
** These informants started building second homes in the Caribbean but abandoned these after financial problems.

Source: Fieldwork 2002-2005

The role of family land within housing investment decisions in the Caribbean

An important overseas asset influencing decisions to return and housing investment strategies was the availability of family land in the Caribbean. Informants were asked whether they had inherited family land since their arrival to the UK. While there was no evidence among the entire sample that informants were engaging in purely speculative investments within Caribbean housing markets, but there was strong evidence the possession of these types of inheritance played an important role in reducing the cost of the return on retirement:

> "I inherited land from my mother when she passed away...I think it was in 1973...I didn't do much with it then, I didn't think I could have done it (return migrated) then because I was struggling to make my way in England...when I was coming up for retirement I began to think that I could use some of the money on my house in East London to build a retirement home on the land...it meant that I could save money because I didn't have to go through the hassle of finding land to buy and pay for it..." (Fieldwork interview: Daniel Charles – London)

> "Yes it make a difference having the piece of land that we all get when my mum died... I would say that it was the deciding factor to use money from this place to build it up...it definitely helped to make it a lot cheaper..."(Fieldwork interview: Derrick Byron – London)

Deciding whether to make a permanent return or multiple residence?

Perhaps the biggest issue facing many informants at the start of their planning centred on whether their return should be a permanent move or whether they should establish multiple residence. This key decision influenced the scale of disinvestment in housing assets in the UK and the level of investments in housing markets in the Caribbean. One informant, Daniel Charles, a retired print worker living in London, decided well in advance of his retirement to make a permanent return to the Caribbean. He considered housing disinvestment decisions in the UK housing market relatively straightforward. The proceeds of the sale of his UK home enabled him to build a large property on family land he had inherited from his mother:

> "I knew from a long time that I would go back home and when I did I wouldn't be coming back...It wasn't a big deal for me to sell my house...this place is worth a lot of money...I was lucky that I bought at the right time." (Fieldwork interview: Daniel Charles – Birmingham)

There were a number of informants who were undecided about the type of return they would make. Unlike Daniel Charles, their decision on whether to make a permanent return was complicated by the consequences of 'burning bridges'. There were several dimensions to this. Some concerns centred on the impact this would have on close kinship networks in the UK and the loss of a UK base should the return prove unsuccessful. The following comment articulates the concerns expressed by a number of informants:

> "The thing I worry about most is what I will do if we sell our home, go back, but find out I don't like it and I want to come back? I know my husband doesn't mind but I do a bit...I know that my children will be happy for us to stay with them but I don't want to impose on them." (Fieldwork interview: Mary Dickens – Birmingham)

There were also concerns a permanent return might be high risk at their phase of the life cycle. This meant it might be difficult to get back onto the UK housing ladder if the return did not work out:

> "I guess that I've never lost the desire to return back home (Caribbean), the thoughts have never left me even after I was forced to sell the property I built in Barbados when I lost my job here...At the time the biggest issue for me was whether my daughter would want to come with me... In any case if I had sold everything who would I stay with if I changed my mind and wanted to come back...It was a struggle for me to buy my council flat and the way that property prices are going it would have been even more difficult to buy again." (Fieldwork interview: Mary Barclay – London)

> "At my age, if I were to sell everything here and go back to Jamaica, what will I do if it doesn't work out and I want to come back...I don't think I would be able to buy something here, even with the money I make from selling my home." (Fieldwork interview: Sarah Lloyd – Birmingham)

These two informants were more detached from kinship networks to enable them to make life changing decisions on their own. Mary Barclay was a lone parent in her early thirties when she bought her council flat in the late 1980s. She had been actively considering a permanent return to the Caribbean for some time. Mary was concerned that the timing of a permanent return would impact adversely on her daughter who was still living in the parental home, and had not as yet established an independent housing career. Moreover, Mary went through a period of ill health and job insecurity, which not only made her less confident about her ability to carry out her plans for a permanent return, but also threatened her ability to maintain her mortgage on her council flat:

> "I had to do everything by myself and I hated it at times...a lot of my friends had partners so at least they were able to share the risks together...my daughter was beginning to establish herself and the last thing that she needed was me taking a big gamble by putting everything into one basket by going back to the Caribbean for good." (Fieldwork interview: Mary Barclay – London)

The second informant, Sarah Lloyd, considered herself to be financially secure since the death of her husband and has been living alone for some time. She was close to her daughter who she relies on for support but feels were she to reconsider her decision to remain in the UK, multiple residence rather than a permanent move would be the safer option for her:

> "Its hard for me to just pick up sticks and go back to Jamaica by myself at my age, I'm not a spring chicken...it would be different if my husband was still around, at least we could plan together...I have my daughter here (Birmingham) and I rely on her a lot...if I keep this place at least I have the choice of coming back if it doesn't work out...I love going back home when I can and I like the life I have here as well." (Fieldwork interview: Sarah Lloyd – Birmingham).

A number of informants who had already established multiple residence or were seriously thinking of doing so had ruled out the possibility of returning to the Caribbean on a permanent basis. This was largely because they had accumulated sufficient housing equity throughout their home ownership careers to have the option of retaining the UK home and have enough financial resources to invest in a second home in the Caribbean. Moreover, the strength of kinship networks established in the UK were powerful influences in their decisions to establish multiple residence:

> "We had extended the property that we have in Dominica a while back...we were lucky because we've paid off our mortgage and this house is worth a bit of money...it means we have more choices to do things that we could only dream about when we first moved to England...yes we thought about going back for good but we have the children and grand-

children here and we'd miss them...we also have lots of close family back home as well so we've got the best of both worlds." (Fieldwork interview: Ezra Gunford – London)

"I have everything I need...I have a house here (London) that I paid for and a little place back home that I can spend time whenever I want...I have my pension and a bit of savings and I have my family around me here and in Jamaica." (Fieldwork interview: Nemiah Albert – London)

Risks associated with return migration and housing investment planning

Some of the risks associated with return migration and housing investment planning in the Caribbean were revealed. There was evidence of weakened kinship networks in the Caribbean and the quality of these relationships, particularly with relatives who had a share in family land, were playing an important role in housing investment decisions. Many informants were reliant on family and other social networks in the Caribbean to be their 'eyes and ears' on family land they shared. This land also formed the focus of potential financial investments in realising a return. These issues were more acutely felt when undertaking return migration planning on a restricted budget:

"I get a piece of land in Jamaica a while back...I share it with my brother..we plan to build a little place on it the two of us...we talk about putting our money together...things go wrong at the start...he very unreliable and in the end the whole thing fall through...I still angry about it because I waste a lot of money that I couldn't afford to lose." (Fieldwork interview: Sonny Browne – Birmingham)

"In the past when I was looking to go back the cost was an issue if I had to be honest...a lot of people think that because you planning to go back home you're rolling in it (laugh)...its just not true in every case...look at me, I was a single mum struggling to make ends meet in a reasonable job...yes I inherited a bit of land from an aunt in Grenada and my original plan was to build a modest home on it...things didn't work out because of family disputes over who owned what and I gave up...in the end a friend persuaded me to look at building something in Barbados...I went out there and found something in my price range, but it was still more than what I would have spent if I was able to build on the family land in Grenada." (Fieldwork informant: Mary Barclay – London)

Concerns about the rising costs associated with developing family land, building material, the hiring of builders, solicitors and other professionals featured strongly among informants. Several informants complained these costs, agreed at the start of the project, had escalated significantly over a relatively short time period:

"I hired this guy who was recommended to me by a friend who went back a few years ago..I went out there to meet him and we talked about what I wanted and the sort of building materials I wanted him to use, you know the usual thing...in the end he gave me a quote, I looked at it and though oh that's fine and said yes go ahead with it...a few months later after I got back to London I received a call from the fella, he said that he would have to adjust his quote, I said what do you mean we agreed earlier, he said that the cost of building material had gone up and that he had no choice but to put up the quote...he said that he had said the same to a lot of people like me...I asked him what the problem was, he said that there's a lot of people moving back to Dominica from England and places like Canada...what can I do I didn't feel I had any choice." (Fieldwork interview: Daniel Charles – London)

"We had no idea how much it would cost us to build a second home in Dominica..you get a rough idea from people you know who gone through it before but every case is different...we were surprised how much some of the building costs went up even after we agree the amount...it was very frustrating..its a lot worse now because more people like us are building second homes in the Caribbean...all this does is push up the cost of things for everyone." (Fieldwork interview: Ezra Gunford – London)

These comments, which were typical of many of the views expressed by informants, hinted at some of the adverse affects of increased housing investment activities among returnees.

There were other factors impacting on housing investment decisions in Caribbean housing markets it was important to draw attention to. The timing of some of the fieldwork interviews coincided with Hurricane Ivan, which swept across parts of the Caribbean in September 2004. This was followed shortly by the Asian Tsunami devastating large swathes of the Indian Ocean coastline on Boxing Day that same year. These events had extensive coverage in the international media. Several informants expressed anxieties about these natural disasters and wider concerns about climate change. Moreover, these concerns were increasingly feeding into migration plans and housing investment decisions in the Caribbean:

"I feel very sorry for the returnees, those people who have retired and sold or used proceeds from their property to build homes for their retirement because the damage has been so extensive...to find the money to repair will be huge source of problems for those who had total devastation or no hope of rebuilding.. its very likely that they might have to return to the UK." (Fieldwork interview Mary Barclay – London)

"Yes, it's a real tragedy, I know a lot of people out there who've been hit hard...it made me think about my own plans to go back to Dominica...I decided long ago that I'd build a generator and install a water storage tank just in case...you never know." (Fieldwork interview Daniel Charles – London).

5.4 Discussion of findings and conclusions

The interviews have, then, provided insights into the way that home ownership status, access to housing wealth and other resource networks provided new opportunities for UK based Caribbean elders embarking on return migration activity and housing investments in their island of origin. In this section, the aim is to draw out some of the general implications.

Housing wealth as the key financial asset in funding return migration strategies

The decision to embark on a permanent return or to establish multiple residence had a direct impact on the scale of disinvestment in the UK housing market. The strength of kinship and financial asset networks in the UK and Caribbean were important influencing factors in the decision making process. The decision to sell the UK home created anxieties within family relationships in the UK for some informants. One of the main anxieties facing was the potential consequences if the return proved 'unsuccessful'. Would they be able to re-join the housing ladder having 'burned bridges'? Who would accommodate them if they needed somewhere to stay?

Although the study did not explore the precise financial mechanism by which informants were able to release equity in their UK home when investing in Caribbean housing markets, the findings do nonetheless suggest that housing wealth provided the main financial resource enabling many of these informants to activate return migration strategies. The landmark studies of return migration among Caribbean and other New Commonwealth groups referred to earlier (Dahya, 1974; Anwar, 1979; Thomas-Hope, 1992; Byron 1994), although making no direct references to housing wealth, acknowledge the importance of the UK housing market in realising the return to the country of origin. The findings suggest a likely connection between return migration planning, home ownership status, housing wealth and housing markets.

Linking family land and second homes in facilitating the return

Access to family land played an important role within return migration planning and housing investment decisions of UK housing wealth in Caribbean housing markets. The literature on Caribbean return migration has made continual reference to family land (see Byron, 1994; Besson and Momsen, 2007; Byron and Condon, 2008), however this literature has not been considered within the second homes literature as it relates to overseas housing market (Centre for Housing Studies, 2005; Gallent *et al.*, 2005; ODPM, 2005; Oxley *et al.*, 2008). Nor has the literature considered the experiences of ethnic minority home owners from a migration background. The findings here suggest further work is needed to integrate these various strands of return migration and housing literature with the second homes literature. Moreover, although beyond the specific focus of the chapter, there are opportunities to develop links with the inheritance literature which has tended to ignore overseas land assets that might be available to ethnic minority groups from a migration background (Rowlingson and Mackay, 2005).

Housing wealth leakage and transnational housing market

So far the analysis has focused on micro-perspectives around housing consumption activities of a small sub-set of housing consumers; ethnic minority home owners from a migration background. It is also possible to reflect on some of the broader implications of our findings from a theoretical perspective, particularly in relation to the workings of global housing markets, and on some of the possible policy implications. Important microinsights were gained to the way housing investment decisions, or 'housing wealth leakage' from the UK housing market took place. This notion of 'housing wealth leakage' is based on the work of Kemeny and Thomas (1984) who discussed the scale of 'capital leakage' of housing wealth into non-housing spending, but the notion of housing wealth leakage into different forms of consumer spending has been well established since (Smith, 2005a). Rather than focusing on the use of housing wealth into non-housing consumer spending the term in the context of this study is used to incorporate spatial flows of UK housing wealth into housing markets and other forms of investments overseas. Some of these other forms of investments, supporting kinship and social networks through intergenerational exchanges in the Caribbean by informants (i.e. remittance, loans, etc.) are not considered here.

Housing markets in the Caribbean provided important investment opportunities for many first generation informants embarking on return migration. These investments tended to be directed at family land inherited by some informants since their arrival in the UK. The flow of capital and people in this way has created 'transnational housing markets'. The conceptualisation of this phenomenon is built around the literature reviewed on the second homes market (ODPM, 2005; Gallent *et al*., 2005) and contributions from Smith (2005b).

Smith (2005b) has argued that the study of housing markets has been dominated to date by economic perspectives. These perspectives have tended to focus on the way housing markets perform, how investment decisions takes place, and their wider implications to the economy (Barker, 2004). She went on to argue the study of housing markets were increasingly opening up to contributions from other social science disciplines and that these perspectives could offer fresh understandings to its workings and future development. Moreover, there were important insights that could be gained by incorporating micro-perspectives from 'non-economic' disciplines. These reflections provided opportunities to build on this discourse by using the unique micro-perspectives gained from the life history interviews to explore how

Caribbean elders who are widely viewed as transnational communities embark on return migration by investing housing wealth accumulated from UK home ownership careers in the Caribbean.

Transnational housing markets as conceptualised here are particular forms of housing markets created through the process of return migration and investments in land and property to meet the housing needs of returnees. The conceptual underpinnings used to describe these flows of return migrants and capital is based on two developments in the literature. The first of these is the notion of transnational social space (Basch *et al.*, 1994; Portes, 1996; Portes *et al.*, 1999; Pries, 1999). The study of transnationalism covers a wide range of phenomena (Basch *et al.*, 1994; Portes *et al.*, 1999; Goulbourne and Chamberlain, 2001; Ramji, 2006). This literature posits the notion that transnational migration processes have taken on a new quality. Pries (1999) argues this convergence of geographical and social space is driven not only by global migration trends, but by a number of factors incorporating political change, transnational corporations, information technology, worldwide consumption of cultural activities creating new global markets, and international tourism. These all contribute to networks of globalised transactions of data, goods and human resources. Global migration form an extensive and enduring new social linkage forcing a rethink of our understanding of the relationship between geographic space and social space (Pries, 1999).

There are a number of different perspectives to transnational social space, which provide opportunities to develop the notion of transnational housing markets. Basch *et al.*, (1999) focus on social, economic and political networks migrant communities interact and are embedded. This notion of networks here is further refined by incorporating return migration trends and by combining this with the need for migrants to access housing on the point of return. The findings suggest there are a range of asset networks (i.e. social, kinship and financial) that all play an important role in facilitating the return. Housing wealth accumulated through the UK home ownership has created powerful financial leverage into housing markets in the Caribbean for many of the informants.

Although the study reported here is limited in scope, in terms of its sample size and focus on a small subset of UK home owners investing in the Caribbean housing market, the findings do nonetheless suggest return migration activity may be a key driver of overseas second homes activity in the region. The micro-perspectives gained from informants taking part in this study, suggests housing investment, particularly in neighbourhoods where return migration activity was greatest, have created overheated housing markets characterised by rising costs of building construction and other related costs. This finding mirror Byron's (1994) account of return migrants on the island of Nevis and more widely in some of the second homes literature which looks at its impact on sub-regional housing markets in the UK and across mainland

Europe (CML, 2001; Centre for Future Studies, 2004; ODPM, 2005). An important caveat to make when presenting this aspect of the research is that it was beyond the scope of the study to quantify how much of this could be attributed to return migration activity or whether there were other factors (i.e. international tourism) in play.

Finally, there are a number of policy implications flowing from these findings. For example, how might this leakage of UK housing wealth by returning migrants impact on local housing markets in the Caribbean, and what impact might this have on younger cohorts of returnees identified in the literature? What impact might this activity have on local housing consumers in the Caribbean, and might this provoke the level of disenchantment experienced in parts of the UK, where they have been priced out of local housing markets by second home owners domiciled outside of these neighbourhoods? These are all questions that might be addressed in further research. Moreover, there are opportunities to undertake further theoretical work to develop and refine the notion of transnational housing markets linked to the global movement of returning migrants seeking to meet their housing careers in the country of origin.

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6 Managing assets and risks through ownership and regeneration

Housing policy in the Netherlands

W.P.C. van Gent

6.1 Introduction

Owner occupancy has been on the rise in recent decades. While some countries have had high rates of owner occupancy for some time, many traditionally rental-oriented countries in Western Europe are showing increasing rates of owner occupancy (Whitehead and Scanlon, 2007). This trend is related to top-down government policies that encourage this form of tenure (Atterhog, 2006). Even at the EU level, owner occupancy is being promoted as the preferred form of housing tenure (Doling, 2006). These policies typically employ demand- and supply-side tax incentives and subsidies, but can also involve the pro-active transfer of public ownership to private hands, and the restructuring of housing markets through urban regeneration. The push for owner occupancy is not related to the natural superiority of this form of tenure, but is very much related to the wider political economy of housing and the state. The promotion of owner occupancy is best understood in relation to the distinct ideology, or ideologies, of home ownership, which is an expression of a complex set of power and social relations (Ronald, 2008).

In the British housing literature, the notion has been put forward that housing policies that promote owner occupation and the ownership ideal should be seen in the light of the neo-liberal politics of welfare state reform. This reform strategy is centred on a discursive move within policy and governance which emphasises the importance of asset-building. Housing, and particularly owner-occupied housing, can play a major role in propagating the asset agenda or the asset-based welfare state (Gamble and Prabhakar, 2006; Sherraden, 1991). Policymakers and politicians promote ownership while emphasising the benefits of unmortgaged housing equity as a financial buffer in later life. The implication is that housing wealth may then be used to augment or replace welfare services, such as pensions or healthcare. This also implies that residents will have to remortgage, overmortgage or 'trade down' their houses in order to be able to make use of the equity. As a consequence, the asset gains from investing in housing may offer individual households an alternative to welfare state provisions. For governments, the widespread acceptance of an individual alternative to welfare state provisions may create the political space needed to make changes to welfare state arrangements (Groves, *et al.*, 2007; Malpass, 2008).

However, this view of housing policy as a means of change is based on the British experience (prior to the recent financial crises), and it begs the question whether housing policies and politics elsewhere reveal similar welfare state reform agendas (Doling and Elsinga, 2006). The first aim of this chapter is to examine Dutch housing policy for the presence of an ownership/asset ideology, and to appraise this ideology within the context of the Dutch housing system.

The second aim of this chapter is to illuminate the role of urban regeneration in the promotion of owner occupancy. This chapter will argue that urban regeneration is both a strategy for reforming the housing supply and a strategy of risk mitigation. Regeneration may be a means of converting tenure and increasing the amount of owner-occupied housing, but it may also be a way of reducing the risks associated with volatile, underperforming and unstable sections of regional housing markets. One of the aims of regeneration policy is to upgrade the housing market position of 'weak' areas (Aalbers, 2003, Van Gent, 2010). Consequently, regeneration could be a means of securing or increasing housing property values, and ensuring housing wealth for individual households. Urban regeneration policy is particularly interesting in this respect, as it is one of the most direct institutional routes from ideology and discourse to intervening in a city's social structures. As such, regeneration may be a mechanism which expresses institutions (beliefs, rules, meaning) geographically (cf. Philo and Parr, 2000). Like the aims, the main question is twofold: to what degree is the ideology of ownership played out in Dutch housing policy; and, second, how does the push for ownership relate to neighbourhood regeneration policy?

6.2 Asset-based welfare and ownership ideology

The term 'asset-based welfare' refers to policies that provide individuals with a stock of assets. Prabhakar distinguishes two strands in debates on asset-based welfare and the asset agenda: those of social policy and citizenship (Prabhakar, 2009).

First, the social policy strand of the debate relates to policies that seek social and economic benefits from asset owning. Assets are preferred to a flow of income, because they are presumed to have a beneficial 'asset effect'. This asset effect essentially changes the attitudes and mindsets of individuals, making them set long term goals and formulate plans to reach them (Sherraden, 1991). There is some debate about whether this presumed attitude-changing asset effect actually exists. A second social policy approach to asset-based welfare is the claim that assets may change an individual's behaviour, rather than their psyche. An individual who has a stake in ownership may feel an incentive to act more efficiently or protectively in order to maintain and expand the value of their assets.

Second, the citizenship strand of the asset agenda proposes that the egalitarian ideal of citizenship in society includes the universal possession of assets. This ideal of 'basic capital' is similar to the social democratic ideal of 'basic income', yet they produce different policies. 'Basic income' policies aim to provide individuals with a large, single-payment sum (Prabhakar, 2009).

The asset agenda and the assumptions surrounding social policy in particular are similar to the ideology of home ownership in Anglo-Saxon societies. Ronald (2008) argues that in these societies, there are several discourses which order and align a number of values and meanings towards the norm, or normalisation, of owner-occupied housing. The normalisation of owner occupancy in these societies has meant that renting is considered 'abnormal' or 'unnatural' by both policymakers and the general public (Clapham, 2005; Gurney, 1999; Kearns, 2002), leading to a differentiation of meaning in tenure (see Forrest, *et al.*; 1990, Saunders, 1990). The discourses of home ownership are related to (Ronald, 2008):

- Social status – owning a dwelling can be an expression of social class and a form of distinction.
- Autonomy and control – owning a dwelling gives individuals control over their lives and their dwelling, and freedom from surveillance by a landlord.
- Responsible citizenship and family life – ownership is seen as the 'proper thing to do' and is a sign of good citizenship and responsible adulthood.
- Economic advantages and security – owner occupancy can be seen as an investment which will give access to unmortgaged housing equity. These housing assets will empower and enable individuals, or may be drawn upon later in life to provide security (see below).

These discourses of owner occupancy as a 'natural' or 'superior' form of tenure are in part self-fulfilling, as they contribute to (over-)demand for owner-occupied housing and the subsequent residualisation of public rental housing (Ronald, 2008).

The ideology of home ownership is thus in line with the asset agenda in many respects. Yet the nature of housing goes beyond a capital investment. Dwellings are also a consumer product and, for many, form part of the personal domain (see King, 2004).

6.3 Assets, ownership and housing policy

Ronald argues that the ideology of ownership and the promotion of owner occupancy 'serves the interests of economic neo-liberalisation and has been important to the restructuring of the welfare systems and the distribution of welfare responsibilities and risks between individuals and state' (Ronald, 2008, p. 81). Indeed, with respect to the British case, a number of authors have drawn attention to the neo-liberal politics of the New Labour government. These politics are characterised by an economic neo-liberalisation agenda (Rose, 2000); that is, the expansion of market relations, the commodification of housing, welfare state reform and the 'financialisation of everyday life' (see Harvey, 2005; Jessop, 2002; Peck and Tickell, 2007; Watson, 2009). Simultaneously, these politics have put forward remedies for social dislocation and inequality, which are inherent consequences of neo-liberal economic policy. These remedies have quite often been sought in the field of housing and urban planning, as making macro-economic interventions and offering income support are contrary to neo-liberal practice. Social policies have been associated with a number of related discourses, such as those of citizenship and community , the need to have aspirations (Raco, 2008), and, of course, ownership and assets (Gamble and Kelly, 1996, Watson, 2009). Their interrelatedness supports the thesis of the neo-liberal restructuring project. Indeed, coherent discourses can play a decisive role in the success or failure of welfare state reform (Schmidt, 2002). Discourses are an essential part of the reform process, mainly because state reform is such a 'delicate effort either to transform programmatic change into an electorally attractive proposition, or at least, to minimise the political costs involved' (Pierson, 1996: 145). As a result, most changes have low visibility or affect only a small proportion of the populace, such as cuts in specific programmes and stricter eligibility rules. Even small changes require political space and careful manoeuvring.

Malpass (2006, 2008) proposes to view housing as a means for government to achieve welfare state reform incrementally and delicately. His argument stresses the importance of certain discourses in housing policies that allude to asset-based welfare. Drawing on the British experience, Malpass argues that welfare state restructuring is pursued by emphasising individual choice and responsibility. Choice, in general, refers to a greater reliance on market mechanisms that are supposed to provide more choice in the form of competitive prices. In terms of housing policy, choice means putting great emphasis on the private market. Owner occupancy gives people a degree of choice with respect to where they live. Furthermore, it offers people the prospect of wealth accumulation, which may be used for future social service and healthcare costs and for augmenting pensions.

Since the 1990s, the British government has increasingly used home ownership policies to investigate the possibility of using assets as a means for individuals to purchase services that were previously provided by the state. Indeed, perhaps too many government departments have seen owner occupancy as a means to offload financing problems, by focusing on the release of unmortgaged housing equity. This trend means that owner-occupied housing will not only become more important in the provision of shelter and in the intergenerational transfer of wealth, but will also play a more important role in underpinning the provision of social services (Groves *et al.*, 2007). Furthermore, official communication is emphasising the purpose of saving, that is, providing for oneself later in life, instead of promoting it for its own sake. The shift from collective responsibility to personal responsibility is readily apparent in the British government's concern about the 'wealth gap' – that is, poverty – and the use of housing as a means to reduce it. The third-term Labour Minister of Housing has encouraged saving through property ownership for 'when the rainy day comes' (quoted in Malpass, 2008).

It should be noted that the question of whether housing market gains are indeed sufficient to for people to freely choose welfare services or whether people are actually willing to trade down or remortgage their homes for extra income is a separate debate in the housing literature, and one that this chapter will not touch upon (see Boelhouwer *et al.*, 2005; Doling and Elsinga, 2006; Elsinga *et al.*, 2007; Hamnett, 1999; Saunders, 1990).

In addition to ideologies of ownership, choice and responsibility, Malpass (2008) cites a more practical incentive for British policymakers and politicians to pursue owner occupancy and privatise social rental housing. Over the last decade or so, housing has become a sizeable source of state revenue in the UK. The lower cost of social rental housing has resulted from three decisions: the shift from output subsidies to income-related assistance with housing costs; the sale of housing to tenants; and the transfer of social rental stock from municipal ownership to private housing associations. Furthermore, lower levels of investment over the last 30 years have allowed social landlords in the UK to reduce their overall level of indebtedness, which means a lower burden of loan charges. In addition, the disappearance of mortgage interest tax relief in 2000 meant that housing became a source of income through inheritance tax and stamp duty on purchases.

In this sense, housing is used as a 'possible tool or lever of change, rather than a driver of it' (Malpass, 2008). From this perspective, housing plays a centre-stage role in changing welfare state politics. The purpose of the use of housing for non-housing objectives is a cautious retrenchment or readjustment, where the change is not so much quantitative in terms of spending but related to more qualitative, or institutional, factors that structure debates, political preferences and political choices (cf. Palier, 2003).

6.4 The ideology of ownership in Dutch housing policy

While Malpass (2008) sees clear evidence for the formation of an asset-based welfare state through housing in the UK, there is some debate on the extent to which the asset-based welfare model has been adopted at the international level. Asset-based welfare theorists do not assert that asset-based systems should completely replace existing welfare state arrangements (Prabhakar, 2009). Furthermore, it is hard to find empirical evidence of a convergence towards the asset-based welfare model. Even in liberal welfare regimes, the notion serves better as a means of understanding policy discourse than as a description of actual systems (Ronald, 2008).

One of the aims of this chapter is to ascertain whether the notion of asset-based welfare is also present in Dutch housing policy, which would suggest a degree of convergence. However, neo-liberal restructuring projects tend to be embedded within 'national, regional, and local contexts defined by the legacies of inherited institutional frameworks, policy regimes, regulatory practices, and political struggles' (Brenner and Theodore, 2002). In other words, the Dutch government's reaction to economic neo-liberalisation on a global scale may have resulted in different kinds of housing politics and policies than those to be found in the UK.

The Dutch welfare state has historically been characterised by leftist and conservative paternalism under the aegis of Christian Democratic Party (De Swaan, 1988). Twenty-five years of reforms have diluted this leftist paternalism. Nevertheless, describing the Dutch welfare state as '(neo-)liberal' would be a step too far. While the welfare system has been liberalised, it is still characterised by the 'institutional inertia' of the social democratic and paternalist, or corporatist, assumptions that were dominant in the past (Becker, 2000). Furthermore, the Christian Democratic notion of subsidiarity has introduced some communitarian elements into the system, whereby civic society, community and family are seen as alternatives to market and state power as the predominant mode of societal regulation (Delanty, 2003; Van Staveren, 2007).

Like the welfare state in general, the Dutch housing system has distinct social democratic and corporatist characteristics (Hoekstra, 2003). In addition, certain liberal elements have recently emerged (see below). A distinctive feature of the Dutch housing system is the dominance of social housing, which is owned by approximately 500 housing associations. Even though they are privatised, housing associations are required by law to invest their proceeds in improving housing quality and new developments. While the number of social housing units has remained relatively stable, the share of social housing fell from 39 percent in 1995 to 35 percent in 2005. The decrease is mainly due to the increase in owner occupancy, which stood at 54 percent in 2005 (Elsinga and Wassenberg, 2007).

While social rental housing thus remains significant, the promotion of owner occupancy has been on the political agenda for a long time, and has consequently featured in housing policies (Elsinga, 2003). This is also true for the most recent national housing policy memorandum on housing, *Mensen, Wensen, Wonen* (English title: *What People Want, Where People Live*), which dates from 2001. The memorandum was drawn up under auspices of a Social Democratic-Liberal 'Third Way' government, and specifies the 'housing mission' for the period 2000-2010. The 'mission' is to increase owner occupancy by reducing the social rental sector through demolition and sales, and through new construction projects. Furthermore, means-tested subsidies have been introduced to further increase ownership rates among low-income groups. These goals are framed by a (neo-)liberal asset ownership discourse.

First, the memorandum emphasises the need for greater individual choice in the housing market. Like British policy, this 'choice' implies choosing owner occupation rather than rental housing.

Second, the memorandum propagates the assertion that home ownership has an asset effect and promotes better citizenship. It states that 'when a citizen is an owner of a to-be-built dwelling (…) or an existing dwelling (…), he will be more aware of his rights' (VROM, 2001: 68). In addition to this citizenship discourse, the memorandum also puts forward a control and autonomy ownership discourse: 'generally, authority over and responsibility for [the state of] the dwelling are greatest in case of owner occupancy (ibid.: 74)'.

Third, the memorandum acknowledges the possible advantages of housing equity and assets. According to this policy, there are not only financial and empowerment-related advantages for individuals, but also wider benefits: 'owner occupancy can contribute to enhancement of the quality of living, as well as to desirable societal goals such as increases in property values and wealth (ibid.: 74)'. The memorandum states that the macroeconomic effects stemming from an increased share of owner occupancy benefit society as a whole, as increased consumer spending is financed by the surplus value of owner-occupied dwellings. However, a change to the regulation on the tax deduction of mortgage interest, which limits deductibility to expenditure related to home-improvement and housing costs, may have reduced the housing-asset-fuelled consumption of the late 1990s.

The housing memorandum thus clearly puts forward home ownership discourses, but it is still a matter of debate whether it also reflects an ideology that is connected to economic neo-liberalisation and welfare state reform. The third goal clearly identifies the economic advantages of ownership, yet it lacks any reference to security in old age. More generally, while Dutch policies have tended to display an ideal of empowerment through ownership, owner occupancy has not been tied to welfare provision in the Netherlands (cf. Boelhouwer and Van der Heijden, 2005). This means that while an asset agenda can be identified within the housing memorandum, there is no sign of welfare state reform through owner-occupied housing in the Dutch case. There is no clear rationale that links asset gains from owner occupancy to a possible future 'rainy day'. The absence of serious political pressure on pensions may be explained by the robust pension system, which until recently had performed comparatively well (Haverland, 2001). However, this may change in the wake of the financial crises in 2008, which dealt a severe blow to Dutch pension funds. Individuals have already had to increase their contributions.

In addition, one cannot claim that owner occupancy is being used as a means to balance the government budget, as in the UK. The Dutch system of mortgage interest tax deduction is the most unrestrictive in Western Europe. The system is essentially a regressive distribution of wealth, as tax reductions increase with income levels. Although the government does not view it as tax-related expenditure, the owner-occupied tax regime reduced the income tax base by €17.9 billion in 2005 (Van der Hoek and Radloff, 2007), which is hardly comparable to income from owner occupation or from privatisations.

It has been suggested that there is an indirect relationship between the welfare state and housing. This relationship can be explained in terms of welfare state reform and the discontinuation of substantial object subsidies in the social rental sector (Boelhouwer and Van der Heijden, 2005). Furthermore, the large social housing sector seems to have offered the government several opportunities to reduce costs and even to generate income. The housing memorandum also included several reforms to the social rented sector, including the new option of selling to renters. These reforms have put a strain on the social rental sector (Van Kempen and Priemus, 2002). Three recent government actions show that the social rented sector is providing income and opportunities for change.

First, besides maintaining stock and providing housing, the Social Rented Sector Management Order states that housing associations have to provide housing (but not care) for the elderly and disabled. Moreover, while they have been obliged to work on creating liveable neighbourhoods since 1997, housing associations are increasingly being forced into a new role with regard to urban social policy (see Boelhouwer, 2007). Consequently, housing associations are increasingly expected and required to contribute to local service provisions, such as care for the elderly, healthcare, employment, and safety issues, in the form of 'social real estate' (such as care facilities or community centres), or the subsidising of local regeneration interventions.

Second, while housing associations have long been exempt from taxes on profits, new taxation regulations will start to collect these from 2008 onwards, providing the state with an extra income of about €600 million. In addition, there are also legal issues relating to the institution of a corporation tax. In essence, taxation and the required 'social investments' may be viewed as a means of extracting assets from the 'unmortgaged' housing wealth of the social rental sector.

Third, in addition to taxation and contributing to have been cast as tools for new construction projects and the conversion of owner-occupied housing for middle- and low-income groups. As such, they are expected to bear the risks associated with the regeneration of poor or unpopular areas with low housing market demand (see below).

The social rental sector may thus have become a source of income, a means of outsourcing some elements of welfare provision, a way of pushing forward an asset agenda, and a means of sharing the risks of regeneration. This also means that there is interest in sustaining the tenure form, along with its institutional context. Housing associations, however, have been less than enthusiastic about their new roles. In 2008, a housing association took legal action to see whether it would be possible to become a fully privatised organisation beyond the scope of the Social Rented Sector Management Order. If it succeeds, the Dutch social rental system may implode. It is thus questionable whether the situation is indeed sustainable.

6.5 Ownership, risk and regeneration

Housing as an asset may provide individuals with a level of security, but 'banking on housing' also implies risk. The restructuring of the welfare state towards private asset ownership, together with changes in the market, means that households are increasingly dependent on the financial markets for their long-term security. For instance, the globalisation and financialisation of mortgage markets means that housing market risks are increasingly intertwined with financial market risks (Aalbers, 2009). The neo-liberal 'governmentality' holds that individuals should embrace these risks, along with the promise of asset gain (Langley, 2007). The shift from collective insurance to individual investment has also been described as the 'great risk shift' from the state to the individual (Hacker, 2006).

Smith (2005) identifies several interrelated individual and systemic risks associated with housing as an asset. First, individual risks are associated with indebtedness or low returns on housing investments. Furthermore, there is the risk of social exclusion and inequality through tenure. Affluent owners tend to have better access to credit than renters and less affluent owners, giving them more opportunities for wealth accumulation and additional financial buffers. In addition, affluent households who own in attractive areas tend to benefit more from market gains than less affluent households who have to buy in less attractive areas (Hamnett, 1999). The increasing use and availability of online Geographical Information Systems on 'neighbourhood quality' may even exacerbate the social and political patterning of urban space and increase unevenness (Burrows and Ellison, 2004). The distribution and accumulation of housing wealth are thus intrinsically uneven.

Second, a number of systemic risks are related to the effect of volatile housing markets on monetary policy and the wider economy. Furthermore, the spread of owner occupancy among more vulnerable low-income households poses serious policy challenges to sustaining high rates of owner occupancy. Rising housing prices may threaten affordability. In addition, a number of low-income households may struggle to maintain their assets (for example, conducting repairs), which may threaten the environmental quality and condition of the housing stock. Lastly, there is the systemic risk of leakage of housing equity out of the housing infrastructure into other parts of the economy. To an extent, the asset-based strategy for welfare services relies on this. However, leakage may also occur when housing equity is used for non-housing consumption. In this case, the system would lean towards short-term revenue for individual financial gains and consumption, rather than long-term equity-building that is designed to create a more effective social safety net and well-maintained dwellings.

In order to mitigate some of these risks, several measures have been proposed or have been put into effect in the UK. For instance, Smith proposes a future of owner occupancy which would promote fairness and accountability among lenders, and a trans- or post-tenure approach to wealth accumulated through owner occupation (see Smith, 2005). British housing policy aims to lessen the risk of affordability and volatile markets by increasing the supply of housing. The increase in supply will have to be met by housing developments on greenfield sites, and by the regeneration of brownfield industrial sites and ageing housing estates. In this last respect, the Barker Review cites regeneration approaches such as the Sustainable Communities plan as a 'reform of the housing supply' that will produce less volatile and more stable markets (Barker, 2004). This is part of the Labour government's attempt to balance maintaining existing housing asset values against making owner occupancy available, attractive and affordable for future generations (Watson, 2009).

Neighbourhood regeneration can thus be seen as an effort to mitigate some of the risk of being exposed to volatile housing markets. Regeneration can stabilise and upgrade an area's market position by providing new amenities and services, as well as improving public spaces and providing new (owner-occupied) housing. As such, regeneration can mitigate the risk of owning in a declining, stigmatised or unpopular area, which can lead to social exclusion, low returns or indebtedness among home owners.

However, regeneration efforts may also be seen as an effort to promote the home ownership agenda in urban rental areas. In both the UK and the Netherlands, regeneration often involves tenure restructuring; that is, the demolishing or sale of (public) rental housing and the construction of new owner-occupied dwellings. As it often implies the commodification of social rental housing, regeneration may thus also function as a vehicle of change.

Interestingly, the justification for tenure restructuring found in overarching urban policy shares some features with the asset effect (see Van Gent *et al.*, 2009). The addition of owner-occupied housing is intended to accommodate (lower) middle-class households. Their presence is assumed to create a better social mix in the neighbourhood, which will have a positive effect on low-income residents through the introduction of positive role models, positive socialisation, community leadership, more social capital, improved reputations and better conditions for area management (see Galster, 2007; Kleinhans, 2004; Musterd and Andersson, 2005; Uitermark, 2003). The positive effects emanating from new home owners are referred to as 'neighbourhood effects', and it is claimed that they fulfil the social economic aims of urban regeneration policy. In the Western European context, however, these effects should be regarded as a policy discourse (Galster, 2007, Van Gent, *et al.*, 2009).

6.6 Ownership, risk and regeneration in Dutch housing policy

The Dutch housing memorandum acknowledges the potential risks of owner occupancy. The memorandum states: 'with owner occupancy increasing, the economy will be more vulnerable to fluctuations in consumer confidence, for instance when interest rates increase'. However, it finds little cause for concern: 'while capital risks in the rented sector lie with landlords, in the owner occupancy situation the risk is taken by the resident. (...) the general outlook is that of increasing value and prices. The great reservoir of potential buyers in the rented sector helps to sustain the increase' (VROM, 2001: 79-81). Despite the allusion to asset gains as a pyramid scheme, it is acknowledged that the shift in tenure may relieve pressure in some housing markets, which may increase property-value risk, especially in lower segments of the market (that is, deprived neighbourhoods and low-demand areas). Hybrid forms of owner occupancy and social housing that involve subsidised mortgage loans may lessen the risks while still allowing less affluent households to purchase a dwelling and benefit from increases in value.

The Dutch housing memorandum mentions another measure for lessening the risks. Neighbourhood regeneration is explicitly cited as a means to lessen the risks to individuals associated with owner occupancy: 'the development of capital risk at the neighbourhood level can be avoided by pro-active transformation measures within the neighbourhood, for instance by upgrading public space' (VROM, 2001: 79-80). This also seems to allude to regeneration strategies that involve tenure restructuring.

The housing memorandum goes even further, intertwining the discourse of the asset effect associated with owner occupancy with the discourse of neighbourhood effects, as found in urban policy. The memorandum states that the pro-active transformation of neighbourhoods involves owner occupancy, because 'owning a dwelling breeds more control and responsibility. The influence (of owner occupancy) is great and often extends to the way in which the residential environment is judged and participation in social activities within the neighbourhood' (ibid.: 81). Both ownership and regeneration policies are thereby framed within a discourse of responsibility, and cast as a tool for the social and economic advancement of individuals (see also VROM-Raad, 2006). The transformation or regeneration of neighbourhoods cannot rely solely on existing owner occupiers, especially in neighbourhoods with high shares of social rental units. In this case, the risks may deter renters from buying. The memorandum explicitly cites urban policy and neighbourhood regeneration as solutions to this problem. The role of housing associations with respect to investment, management and restructuring has already been mentioned.

6.7 Conclusion

The promotion of owner-occupied housing brings certain risks, and one can be sceptical about policy claims that gains in housing wealth relieve welfare state expenses or reduce social inequality. As recent crises have shown, housing market gains are by no means guaranteed or continuous. Moreover, the distribution of housing wealth gains and risks is intrinsically uneven, and may act as an exclusionary mechanism for those who dwell outside the 'norm'.

In the Dutch housing system, owner occupancy is being promoted with the assumption that it automatically generates asset gains for individuals and greater responsibility within Dutch society. However, no connection has been made with healthcare, pensions and other welfare provisions in policy and political discourse. Furthermore, we have seen that the Dutch housing system offers the government other opportunities for extracting unmortgaged wealth; specifically, when capital within the social rental stock is utilised for extra tax income or diverted into social programmes at the neighbourhood level. The Dutch case arguably confirms that politics are by definition opportunistic and, as such, depend on the opportunities offered within the framework of the existing housing system.

As we have seen, the promotion of ownership manifests itself in physical and social forms through regeneration policies. Both of these forms display mutually-reinforcing tendencies, which may be seen as part of a coherent discourse: namely, ownership breeds individual responsibility, income and autonomy (asset effects), which helps to regenerate deprived neighbourhoods (neighbourhood effects). Conversely, regenerating neighbourhoods advances the spread of owner-occupied housing and the commodification of rental dwellings in urban areas. Yet, the regeneration of neighbourhoods is also cast as a means to manage individual and systemic risks in housing markets. The question thus remains as to how we should interpret Dutch housing policy. It is perhaps easier to identify global neo-liberal discourse in the British case than in the Dutch one. On the one hand, economic neo-liberal thought and practice have certainly taken root in the Netherlands. On the other, coalition government politics, the legacy of leftist state paternalism, and institutionalised consultation processes that involve the state, trade unions and employers mean that radical changes to welfare policy will always be blunted by compromise.

Nevertheless, Dutch housing policy seems to underestimate the limits and risks of both owner occupancy and neighbourhood regeneration, and seems to overestimate the overlapping asset- and neighbourhood effects on individual well-being and life chances. This is no small matter, because social issues and poverty are not being addressed appropriately as a result. It is a matter of debate whether housing policy should address these issues at all. Compared to other types of policy, the range and impact of housing and regeneration policy tends be limited when it addresses issues such as social exclusion and urban poverty (Van Gent *et al.*, 2009).

As for housing, Clapham outlines three pragmatic social democratic alternatives to neo-liberal policies, which also have relevance for the Dutch case. First, regeneration policy should focus on social conditions in relation to their urban surroundings, rather than merely 'balancing' or 'mixing' the local 'community' through tenure restructuring. In addition, regeneration policies should help to improve neighbourhoods' reputations, which would combat the social exclusion that results from stigmatisation and underperforming housing markets. Second, he argues that assets in the form of housing may function as a means of giving individuals control and self-esteem. He argues for a form of asset-based welfare that also extends to public tenants (see also Smith, 2005). Third, he argues that the state should use housing market regulation to manage systemic risks, as well as to ameliorate individual risks without losing sight of personal responsibilities (Clapham, 2006). These suggestions stay close to the ideology of ownership, yet provide a crucial addition to current practice. Most importantly, they (re-)cast the role of the state, transforming it from being an agent of liberal reform into a regulator and redistributor of risk and wealth.

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7 Economic restructuring in Turkey

Developments in the housing sector since the 2001 crisis

Eylem Bal

7.1 Introduction

Housing is a complex commodity. In countries such as Turkey, which have undergone rapid and intense urbanisation, housing provides far more than mere shelter. Housing is important to household welfare, and provides a sense of security. It constitutes a means of investment, a property asset that may be used as collateral when dealing with finance companies, or converted into other resources if the need arises (Türkiye Ulusal Komitesi, 1996). Essentially, it is considered to be a tool for safeguarding future wellbeing. In recent years, the ideology of neoliberalism has come to dominate most developing countries. Neoliberal policies began to gain global influence during the 1980s, and became the dominant ideological and political form of capitalist globalisation in the mid-1990s (Brenner and Theodore, 2002). Housing played a fundamental role during the neoliberal period; with increased commodification, housing was transformed into a tool for both consumption and profit-making. Consequently, a new housing mission emerged in Turkey after 1980, which revolved around neoliberal policies. This approach became more prominent following economic developments in the 2000s. Housing was transformed into an object of the market and a mechanism for economic restructuring during the long- and short-term economic crises that dominated this period. Housing came to be regarded as a fundamental tool that would enable these crises to be overcome, as it was assumed that boosting the housing sector would inevitably stimulate many other sub-sectors; and that this, in turn, would provide significant input to the economy. Housing finance developments in Turkey have therefore recently sought to promote the housing sector as an effective agent of marketisation. As a result, developing the 'mortgage system' has become increasingly important.

The main argument of this chapter is that since the 2001 crisis in Turkey, the mortgage system has been used as a tool to boost the housing sector and restructure the economy. Although there has been a significant amount of research into the Turkish mortgage system (see Berberoğlu and Teker, 2005; Demir and Palabıyık, 2005; Aydın, 2006; Başdoğan, 2007; Bozkır, 2007; Öztürk, 2008; Berberoğlu, 2009), very few studies, if any, have seriously considered the role that the mortgage system plays in Turkish housing policy. With a view to this, this chapter critically examines how the mortgage system emerged in Turkey with regard to housing policy.

7.2 Development of the Turkish housing system

When analysing the Turkish housing system, one can see that it is formed into a series of historical layers, or strata, with changes during each period laying the foundations for the next. This structure has been shaped both by the country's own internal characteristics and by external interventions. The system's orientation towards home ownership and housing marketisation became apparent as a result of the interaction between socio-economic developments and the preferences created by the policies pursued by central and local administrations.

There have been few studies of the categorisation of forms of tenure and housing provision in Turkey. The most comprehensive classification is that provided by Tekeli (1995). Another source is Altaban's (1996) classification, which is based on similar foundations, although its historical aspects differ slightly from Tekeli's. Tekeli divides the solutions that were sought to Turkey's housing problems into four basic periods of time, ranging from the proclamation of the Republic in the 1920s to 1990 (Tekeli, 1995).

The 1923-1950 period

The first period, which started with the proclamation of the Republic in 1923 and ended in 1950, saw the transition to a multi-party system. After the Turkish War of Independence, an overwhelming majority of the population lived in rural areas, and the rate of urbanisation was rather slow. Within this framework, the demand for homes developed in response to needs (Tekeli, 1995). During the Republican period (itself a product of the modernist project), a modernist urbanisation policy was followed as a spatial expression of the ideology of the time. In this sense, during the period in question, Ankara became a symbolic model for the fields of architecture and city planning. During this period, the dominant form of housing provision was that of self-provision or individual house building/production (Altaban, 1996). Housing formed part of the post-war modernisation and spatial restructuring process.

The 1950-1965 period

The period between 1950 and 1965 saw a different phase of house production. During this period, two distinctive house production schemes emerged: the squatter house (gecekondu) and the 'Build and Sell' model (yapsatçılık). At this time, the pace of urbanisation began to quicken, gradually amounting to an annual rate of 6%. The previous approach of meeting home production needs individually proved to be insufficient in view of increasing urbanisation. In parallel to the development of the urban industrial sector, large numbers of rural migrants to the cities began seizing urban properties and setting up squatter houses. Under the pragmatic policies pursued by the central and local authorities, pardon laws were frequently enacted to allow for the encroachment of squatter housing. The period in question witnessed the construction of squatter houses around industrial areas and on urban peripheries. Mainly low-income groups lived in these areas, and the squatter houses gradually acquired legal foundations during this period. At this time, the rate of urbanisation was high, whereas the planning process moved slowly. The authorities were unable to assert control of this process using land policy. This gradually led to high absolute land rents, whereby it became impossible for middle-income groups to construct a single house on a single parcel of land. At this point, the Build and Sell model emerged, by which multiple buyers jointly produced a number of houses in the form of apartment buildings constructed on single parcels of land (Tekeli, 1995; Altaban, 1996). 'Build and Sell' homes were constructed on plots that were legally available for restructuring. In each city, the spatial location choices for this model were developed in accordance with the city's unique qualities. During this period, housing was considered to be an instrument that would enable the country to urbanise cheaply, on the grounds that the country's economy was based on industrialisation and required the presence of mass labour in the cities.

The 1965-1980 period

During this period, which is known as the 'planned period', the pace of urbanisation continued to increase. Between 1965 and 1980, planning was regulated by legal and institutional provisions, and had to be efficient. Reflecting the objective of using planning to produce holistic spatial policies, housing policy promoted forms of mass housing. While squatter houses and the Build and Sell models were essentially developed by individuals, mass housing was developed via the provision of large tracts of land and the injection of considerable capital. During this period, private capital and local authorities led the development of mass housing practices, although it had originally been assumed that this role would be played by the state (Tekeli, 1995; Altaban, 1996). Attempts to plan and implement collective housing areas located outside cities, specifically for low- and middle-income groups, were particularly associated with social democratic municipalities (Altaban, 1996). During the 'planned period', the government revealed its determination to play an effective role in urban planning, but it did not demonstrate a similar commitment to housing.

The 1980-1990 period

The 1980s witnessed a standstill in Build and Sell schemes. These had previously played an important role in the production of housing, particularly for the middle classes, even when conditions had become quite expensive. This development is verified by the decline that can be observed in the number of licensed houses from 1980 to 1985, according to data from the State Statistical Institute (Işık and Pınarcıoğlu, 2001). An important watershed occurred during this period, which marked the beginning of the transition towards liberal economic policy, and a policy that focused on the supply of capital required for enabling the transformation of urban areas. The influence on housing was evident in the accelerated institutionalisation of mass housing in the form of mass housing laws, particularly during the first half of the 1980s. Enacted in 1981, the Mass Housing Law envisaged the development of mass housing using cooperative organisational structures, from which large venture capital firms were excluded. Following criticism of this law, legislation enacted in 1984 aimed to open up mass housing programmes to private capital interests. Nevertheless, no significant developments were recorded in mass housing projects that were supported by private capital. Established in 1984, the Turkish Housing Development Administration (HDA) played a significant role in the production of homes during the second half of the 1980s, by providing loans to mass housing projects and cooperatives. Mass housing developments were most often located in peripheral urban areas, extending city limits.

More generally, 1980 marked a significant turning point for Turkey in that it paved the way for a period of neoliberal restructuring. During the country's transition from a closed to a liberal economy, housing was brought to the fore as a profitable area that would provide capital for the new economic order. The 1980s were transitional years in which housing became an important market mechanism.

The period since 1990

Although housing became a prominent market mechanism in the 1980s, it became more market-focused after 2000, when neoliberal policies became even more influential and were implemented more effectively. During this neoliberal period, cities became key conglomeration areas for capital, and new developments in housing provision signalled this change. The most striking change could be observed in the transformation of middle- and high-income groups' housing preferences, and the spatial imprint that this left on cities. In this respect, there were three outstanding tendencies in terms of location choice and usage values. The first tendency, which developed in parallel with the process of moving urban functions away from city centres, was towards areas that were located outside cities but that were linked to cities by strong transportation networks. Luxurious villas were built in natural surroundings far away from cities, or in urban enclaves where greater security measures could be taken. These villa settlements were located in areas where many kinds of changes had to be made in order to meet lifestyle and infrastructure demands. The second tendency was towards villa- and apartment-type housing projects that were situated within cities, requiring significant capital investments. These settlements were established in the most prestigious urban areas, with regard to advantageous locations or the city's characteristics. The third tendency was towards residences in which all sorts of needs could be met. These residences comprised multi-storey buildings that were also constructed in city centres, and mainly consisted of studio flats. Given that low- and high-income groups tend to prefer spatially adjacent locations, this indicates a change in terms of housing quality and lifestyles.

7.3 Comparative overview of Turkish and Western European experiences

Housing policy is closely related to macroeconomic stability, social wellbeing and economic development (Harsman and Quigley, 1991). Without doubt, every country's housing policy is increasingly becoming interlinked with major global developments, whether directly or indirectly. Turkey's housing policy has thus inevitably been affected by global social, economic and political processes. However, we should not ignore the fact that each country's housing policy displays distinctive qualities in the form of national, regional and local variables. Turkey, in this respect, reveals both similarities and differences when compared with Western European countries.

In general, the Second World War marked a turning point in Western European countries' housing policies and experiences of urbanisation. In a comprehensive study carried out in 1992, Boelhouwer and Van der Heijden analysed seven Western European countries. This study showed that in the post-war period, housing policies went through four phases (Van der Heijden, 2000). According to this study, immediately following the war, there was a strong governmental presence in the area of housing. In the first phase, due to the need for housing created by the war, policy focused on the production of new dwellings. In Turkey, however, in the period following the War of Independence, the government's efforts to repair the destruction caused by war did not constitute a national housing policy. Although the government made considerable efforts to modernise the capital, Ankara, these were largely symbolic.

In the second phase, western countries turned to focus on the quality of dwellings. As governments shifted their efforts from producing new dwellings to the current housing stock, poorer-quality dwellings were repaired and renovated. These two phases indicate the existence of systematic housing policies under government supervision. In Turkey, by contrast, an industry-based development model was adopted, reflecting the country's focus on boosting the post-war economy. In this respect, given the lack of any comprehensive housing policies for the masses that had migrated from villages to industrial cities or for groups that currently lived in cities and were in need of dwellings, people had to generate their own solutions to their housing problems.

In Western Europe, the market began to play a greater role during the transition from the second to the third phase, and home provision became bound to demand rather than need. In Turkey, the market started to play a more important role in the period after 1980, during the transition from a closed economy to a liberal economy. This period led to the use of the housing market as a means of overcoming economic depression. The market's increased importance worked against low- and middle-income groups, however. In the third phase in Western Europe, generic subsidies were reduced and individual subsidies were promoted, with more funds being directed towards underprivileged groups. More recently in Turkey, even though the HDA has developed policies to assist less privileged groups, these have not been systematically implemented as housing policies. In fact, Turkey's HDA has been far from able to adequately meet the housing needs of low-income groups (Kentsel Dönüşüm, Konut ve Arsa Politikaları Komisyonu, 2009).

The fourth phase has only been observed in certain countries, such as France, Germany, and Britain. During this phase, housing shortages and other housing problems have resurfaced. Dwellings that could, in principle, be bought or rented by less prosperous groups have proved unavailable or unaffordable. In Turkey, however, housing shortages and other housing problems have continued to multiply, and low- and middle-income groups have been most affected by this.

The following sections examine how recent economic developments in Turkey have had an impact on housing policy, and how neoliberalism has influenced the housing sphere. The Turkish experience contrasts somewhat to that of Western Europe, and reveals the influence of indigenous factors and institutional pathways in urban and economic governance.

7.4 Turkey: the 2001 crisis and its aftermath

In the 1980s, Turkey sought practical ways to overcome a perceived crisis in the form of uneven national growth resulting from globalisation. In doing so, the state sought to implement an economic restructuring programme. In 1980, inward-oriented import substitution development policies were abandoned. By opening its gates to foreign actors and investors, Turkey underwent a fundamental transition towards liberal economic policies. In accordance with the stability package signed on 24 January 1980, the state developed outward-oriented policies that would encourage economic growth under the leadership of the private sector, and a reduced role for the state in this process. At this point, the government preferred to orient capital towards and renew investment in urban areas. In the 2000s, another critical turning point was reached, which transformed the post-1980 process. Agreements signed with the International Monetary Fund (IMF) in 1990 and 1999 heralded the start of a new reform plan. This plan was a continuation of the 'Programme for Transition to a Powerful Economy.' It was known as the 'Urgent

Action Plan' by the government of the Justice and Development Party (AKP), and is now referred to as 'Second Generation Structural Reforms'. These second-generation reforms complement the first generation of structural reforms that were developed after 1980 (Ataay, 2007).

In the 1990s, Turkey preferred to follow a capital accumulation model that was largely based on 'hot money'. As a result, the country suffered small-scale economic crises in 1994 and 1998. These negative economic developments led to the discrediting of the accumulation model, and in 1999, a new programme was launched with the IMF. In 2001, the Turkish economy experienced one of the greatest crises in its history (Sönmez, 2004). The crisis was particularly far-reaching, resulting in a major collapse in output and employment. In response, one of the government's fundamental objectives was to create a market society that could adapt to market mechanisms and cope with volatility (İnsel, 2004). The Turkish economy displayed uninterrupted growth during the four years following 2001. However, it again experienced turbulence in 2006. At this point it became clear that the economy was affected by significant foreign debt problems (Boratav, 2006). Since 2002, a negative picture of the impact of economic growth has emerged. Economic growth has mainly followed an impoverishing growth model that does not embrace employment, and attempts to function with fewer workers and lower wages. High debt stock and high interest rates are the two elements that most threaten the structure of the economy (Sönmez, 2004). During the restructuring period following the 2001 crisis, practical solutions were sought to overcome the current and potential future crises. With a view to this, capital was yet again oriented towards cities and urban areas and, in this context, the housing sector was identified as a favourable area for post-crisis restructuring. The mortgage system was selected as a means of restructuring and revitalising the housing sector, and this agenda was promoted using big advertising campaigns.

In the aftermath of the 2001 crisis, economic conditions necessitated changes in the construction sector that affected all actors concerned with house production. Having experienced a long period of stagnation, the construction sector began to recover at the end of 2003. Although private sector building and housing investment had tended to shrink after 1996, they began to grow rapidly in the last quarter of 2003. Periods of contraction in the Turkish construction sector tend to correspond with periods of economic contraction. In fact, the construction sector's added value shrank rapidly in 1994, 1999 and 2001 (TCMB, 2005). The fact that the construction sector also stimulates other sub-sectors means that it has been seen as a key sector during the restructuring processes following economic crises, especially after the 2001 crisis. Having been expanding since 2004, the sector continued to grow signifcantly into 2005 (YEM, 2008). Between 1994 and 2004, the average growth rate in GNP was 3.24%, according to data released by the Turkish Statistical Institute, while the construction sector shrank at a rate of 1.71% during the same period. Between 2004 and 2005, as interest rates fell and a draft law to provide more opportunities for long-term housing finance in the banking system was brought onto the agenda, the construction sector grew by 21.5% (DPT, 2007). The expansion of the house-building sector played a particularly significant role in the growth experienced by the construction sector in 2005 (DPT, 2006). The sector peaked in 2005, after which its growth rate declined (Güneş, 2008). Indeed, the sector was affected by economic fluctuations in 2006, and entered a period of stagnation in 2007.

The fact that the contruction sector gained momentum in the early 2000s was mainly due to the housing market. The increase in building and home investments in the wake of the 2001 crisis buoyed the construction sector, and this has come to be perceived as one of the most practical ways of overcoming a crisis. Despite the fact that the mortgage sector had previously been largely undeveloped in Turkey, in the 2000s, the mortgage concept came to represent a critical mechanism for increasing demand for homes, thereby stimulating both the construction sector and, subsequently, the economy as a whole. Political and media discourse has focused on the Turkish mortgage system since the end of 2004, presenting it as a new housing finance model that is capable of providing better housing for all sections of society.

7.5 Restructuring and the housing sector

The five-year development plans prepared by the State Planning Organisation stress that Turkey has a housing deficit.[1]

On average, it is thought that Turkey has an annual housing deficit of 300,000 homes, and it is known that 55% of existing houses do not meet quality standards (YEM, 2008). According to a research study into Turkish housing needs between 2000 and 2010, only 62% of the total housing stock is licensed.[2]

When unlicensed houses were not included in the housing stock analysis in 2000, a major housing deficit was observed in all but 14 of Turkey's provinces. Nevertheless, when one compares all houses, both licensed and unlicensed, one observes that with the exception of seven provinces, demand has been met (Çanga *et al.*, 2002). The restructuring of housing finance is seen as a solution to housing quality and quantity problems, as well as a mechanism for restructuring the economy within and around market mechanisms.

Mortgage systems operate in both primary and secondary markets. In primary markets, the lender and the borrower are in direct contact with one

1 See http://ekutup.dpt.gov.tr/plan/plan.asp.

2 See http://www.konut.gov.tr/html/a_konutihtiyaci.html.

another; secondary markets, meanwhile, are markets that supply funds to the primary housing market from capital markets (Berberoğlu, 2009). The mortgage system is based on financial institutions making long-term loans to those desiring to buy homes. In securitised mortgage markets, receivables originating from loans (credit bonds) are transferred to mortgage-backed security institutions. These institutions export or sell mortgage investment funds or asset-covered securities against the receivables that they take over. In other words, mortgage-backed security institutions open these bonds to the market by means of the stock exchange. The funds obtained from the securitisation of housing credit are again transferred in the system, so that financial institutions are able to finance long-term house loans. The bank makes advance payments to purchase real estate in the name of the customer, to whom conditional ownership is transferred. The property mortgaged by the bank thus indebts the customer to the bank. The customer pays off his or her debt to the bank according to a specific monthly payment plan, until the previously-agreed date of maturity is reached.[3]

The system thereby enables groups who are unable to acquire a house directly to purchase a house through instalments, by providing mortgage-backed long-term loans (Demir and Palabıyık, 2005).

In the most general sense, housing finance is the provision of funds required by those who desire to purchase houses, or by institutions that realise large-scale housing projects. The mortgage market is thought to be the most developed type of housing finance system (Demir and Palabıyık, 2005). The practice of using mortgage loans to finance the purchase of housing dates back to the 19th century. Each country's housing finance system reflects its own socio-political, macroeconomic and financial conditions. It is thus possible to differentiate and classify countries' housing finance systems as 'developed' and 'developing' (Aydın, 2006). Housing finance in developing countries is generally carried out using non-institutionalised housing finance systems. In these countries, efforts have been made to institutionalise these systems since the 1970s (Bozkır, 2007). The housing finance systems in Brazil and Columbia, for example, which fall into the 'developing' category, are similar to that of Turkey in some respects. Hyperinflation, high interest rates and high budget deficits, along with an insufficient level of capital accumulation investment due to low income, are among the characteristics shared by these countries. Critically, their economies are highly vulnerable to capital movement. In these types of countries with fragile economies, increases in interest rates during periods of economic stagnation also create instability in housing finance (Aydın, 2006).

Turkey lacks an institutionalised model of efficient housing finance, howev-

3 See Alga Rabia (ed.) (2005), Mortgage Sistemi, available from http://arkitera.com/g2-mortgage-sistemi.

er (DPT, 2001; Berberoğlu and Teker, 2005; Demir and Palabıyık, 2005). Housing finance has mostly developed on the basis of homebuyers' savings, or homebuyers becoming indebted to friends, relatives or builders. In Turkey, 89% of people buy a home using their own means; 8% buy their house through the cooperative system; and 3% of people take out housing loans (Cansızlar, 2005). Thus, the role of housing loans granted by commercial banks is extremely limited in Turkey (Aydın, 2006). It is possible to evaluate the structure of Turkish housing finance provision in terms of institutional and non-institutional elements (DPT, 2001). The non-institutional parts of the structure are composed of housing cooperatives, housing contractors, and those who have constructed their own homes. In Turkey, no housing finance system has yet been established that effectively transfers resources within the housing sector from those with a surplus of funds to those in need of funds. Nonetheless, there are means of providing financial support to homebuyers. Social security institutions and commercial banks are institutions that provide support in this respect. Social security institutions have contributed most through cooperatives. However, it is noticeable that banks have provided housing loans within the scope of individual loans, particularly since 1989. In Turkey, Emlak Bankası (Real Estate Bank) provided the public with long-term, low-interest credit between 1947 and 1989. Nevertheless, it also provided short-term and high-interest credit, largely to high- and upper-middle- income groups. As mentioned above, one important institution established by central government to provide financial support to the housing sector is that of the HDA, which was founded in 1984. The HDA provides loan support to mass housing providers for the construction of housing and infrastructure, including cooperatives, cooperative unions and social aid institutions, as well as individuals and corporations that produce housing to sell, and municipalities (TOKİ, 2009).

The need to develop the mortgage market entered the Turkish political agenda in the 2000s, in accordance with the IMF's policy requirements. The mortgage market was deemed to have the capacity to stimulate employment in Turkey, to bring dead capital into the economy, and direct investment from overseas (Söyler, 2006). It is thought that this system was adapted for Turkey for two basic reasons. The first is that Turkey had an active real estate market, and real estate is widely used as a means of investment. The second is that Turkey had undergone considerable economic development in recent decades, and could now host more sophisticated housing finance mechanisms.[4]

As a result, after 2003, the Ministry of Finance and the Capital Markets Board carried out a series of joint activities. In 2005, these activities were completed and presented to the government as a draft proposal on mort-

4 See Alga Rabia (ed.) (2005), Mortgage Sistemi Available from: http://www.arkitera.com/g2-mortgage-sistemi.

gage regulation. During preparations for the new legal regulation on housing finance, the Capital Markets Board set out the need to develop the mortgage system as follows (SPK, 2005):

- to support individual home purchases;
- to enable individuals to access housing loans under reasonable conditions;
- to increase housing demand, which would stimulate a revival in the construction sector, which would thus lead to increased employment;
- to carry out purchases and sales of houses via a financial system;
- to prevent unrecorded actions;
- to bring new security to the mortgage-backed securities to be exported and to the capital markets (excluding state bonds and shares).

During the period in which the mortgage market became a key issue in Turkey, central government made intensive efforts to promote the system to the public. It was frequently stressed that the mortgage sector was extremely important for Turkey, and that the government would allocate 50 trillion liras to the mortgage system. Studies of the system have been undertaken since 2003, including contributions from the Turkish Housing Development Administration (HDA) and the Association of Real Estate Investment Companies.[5]

The State Minister and Deputy Prime Minister[6], answered questions regarding the targets of the government's new regulations. He identified the following main benefits:

> There is a need for housing in this country. This need will be eliminated. The construction sector is a pioneer sector and stimulates many sectors along with it. All the products in subsectors are produced by domestic capital in Turkey. So, there will be an increase in the domestic revenue and unemployment will thus decrease (Şener, 2005).

He went on to explain the changes that would occur when the draft mortgage regulation came into effect:

> Unrecorded actions will be eliminated, earthquake-resistant houses will be produced, legal houses will be produced on residentially zoned land, the real value of the dwelling will be declared when purchasing a house, urbanisation will be regulated, and new fields of expertise involving individuals and institutions will be formed under the roof of the Union of Turkish Real Estate Valuation Experts (ibid.).

Furthermore, Şener also stated that the mortgage system would become par-

5 See Kira Öder Gibi Ev Geliyor (2002), Hürriyet Gazette, dated 4 May 2002.

6 Abdüllatif Şener, the former State Minister and Deputy Prime Minister, made these statements during a programme called "Büyüteç" broadcast on TRT1 on 5 December 2005.

ticularly significant in the event that inflation and interest rates fell to one-digit levels. The most critical question concerning the development of the mortgage system was that of whether middle- and low-income groups would be able to buy homes using this system. Şener emphasised that by advancing the system of mortgage finance, in future, it would be possible for middle-income groups to become home owners, and that they would pay much less than they would have done in monthly rent. While the rhetoric was strong, however, the new laws were delayed in February 2006, and were not enacted until March 2007.[7]

The housing loans given by banks in Turkey indicate the existence of a primary market (Öztürk, 2008), while a secondary market has not yet been formed (Sungur, 2008). Although there are many different forms of mortgage loans worldwide, these have generally been produced from fixed and adjustable interest loan types (Berberoğlu, 2009). In recent years, Turkish citizens have been introduced to mortgage loans with fixed payments, adjustable interest rates, interim payments and periodic payments (Sungur, 2008).

When one considers the volume of housing loans between 2000 and 2005, one sees that there was a significant decline in 2001 due to the crisis. The volume of lending, which gained momentum in 2004, peaked in 2005.[8]

Although the ratio of housing loans in Turkey to Gross Domestic Product grew over time, the values lagged behind those of EU countries in which the mortgage market had been implemented more effectively.[9]

When one examines the interest rates attached to housing loans, meanwhile, one observes a significant decrease between 2005 and May 2006 (TCMB, 2007). After this period, economic turbulence led to another rise in interest rates (YEM, 2008). Since then, the interest rates attached to housing loans have not been able to provide stability for the mortgage market. Today, only a small section of society is able to benefit from mortgage loans (Teker, 2008).

Due to inadequate income levels, it is not possible for low-income groups in Turkey to benefit from the housing finance system in its current form. Conversely, it is estimated that people from high-income groups rarely use housing finance when buying a home. In order for a broad range of income groups to benefit from mortgage loans, housing interest rates should be low, periods of maturity should be long, and monthly payment levels should not be significantly higher than the cost of renting. However, as we have seen, the current Turkish mortgage system does not allow this, as interest rates are high and loan maturity is short. Thus, in its present form, the mortgage system is far

7 See 5582 Sayılı Konut Finansmanı Sistemine İlişkin Çeşitli Kanunlarda Değişiklik Yapılması Hakkında Kanun, T.C. Official Gazette no. 26454, dated 6 March 2007, http://rega.basbakanlik.gov.tr.

8 See Kredi İkiye Katlanır Faiz Fazla Düşmez (2005), Capital 2005/12, pp.288-292.

9 See TCMB. (2007) Türkiye Cumhuriyet Merkez Bankası Finansal İstikrar Raporu, http://www.tcmb. gov.tr/yeni/evds/yayin/finist/Fir_TamMetin5.pdf.

from being a structure that can meet the housing needs of low- and middle-income groups (Teker, 2005; Aydın, 2006; Başdoğan, 2007; Berberoğlu, 2009).

7.6 Evaluation and conclusion

In 1980, Turkey experienced a fundamental transition from being a closed economy to being a liberal economy based upon market mechanisms. At this time, it became apparent that economic restructuring would require capital, and for this purpose, investment strategies focused on cities and urban areas. During the restructuring process after 1980, the market was stimulated to a considerable extent by mass housing ventures. The period after 2000, however, marked a watershed in the restructuring process. In the wake of the 2001 crisis, capital played a central role in economic restructuring strategies, as a means of providing economic stimulation. Investing in urban areas became a prominent and practical means of accomplishing this goal, and housing was considered to be a critical field. The mortgage system was viewed as a fundamental means of providing economic stimulation. Turkey regards investing in housing as a basic tool for compensating for the economic turbulence that it has experienced, and for generating the capital required in order to do so. It is believed that during bottleneck periods in the economy, housing construction processes not only stimulate the construction sector, but also trigger growth in other sub-sectors, thus strengthening the economy. The mortgage sector was stimulated with the aim of encouraging the investment of savings and suchlike in property, in order to revitalise the economy. This would also enable the inflow of 'hot money' into the economy. The speculative statements made by the central government concerning the mortgage sector have predominantly focused on this goal, rather than on solving housing problems.

In the mortgage propaganda produced by both capital groups and the state, it is argued that mortgages will enable low- and middle-income groups who are in need of housing to acquire homes. Despite this, with the current levels of interest and maturity dates, the mortgage system makes it impossible for low- and middle-income groups to acquire homes. Therefore, when income levels are taken into consideration, the mortgage system remains a system that benefits upper-middle- and high-income groups. In its present state, the mortgage system does not support housing needs, but rather serves to stimulate housing demand. There are great disparities in income levels in Turkish society, which also leads to great segregation in the spatial structuring of cities. The mortgage system will only further the growth of spatial segregation.

It has been emphasised that the mortgage system needs economic stability and low inflation in order to function soundly. Turkey has undergone severe crises, and is a country where IMF crisis-monitoring policies have proved effective. As has been seen, the country recently experienced a period of economic growth, and inflation has fallen. This gives the impression that the economy is becoming stronger. Yet, behind this economic growth lie a gradually-deepening foreign debt stock, high interest rates, impoverishment and unemployment. In such a risky environment, banks have been reluctant to grant low-interest and long-term loans.

The rapidity of urbanisation and the increase in urban populations as a result of migration from rural areas to cities has created massive aggregations in the need for habitable housing in cities. Arguably, the development of large cities has reached its natural threshold. A comprehensive housing policy is thus required. The current mortgage system in Turkey primarily focuses on bringing 'hot money' into the economy as quickly as possible. It has not been devised in the context of comprehensive housing policies that concern housing needs and social demands. Instead, the state has adopted a passive, regulatory position vis-à-vis the mortgage system. However, in a developing country such as Turkey, the state has to actively produce policies regarding housing needs and demands. It is essential that these policies address public welfare issues, in order to protect the interests of society as a whole. The Turkish mortgage system is far from being able to serve such a purpose. Mortgage loans only enable those who are able to take advantage of this system to acquire homes. In a country in which the majority of citizens need housing and live in poor quality homes, the primary goal should be meeting basic housing needs and providing citizens with healthy accommodation. Instead, the present mortgage system is only a compensation mechanism, the goal of which is to overcome the economic crisis and maintain economic continuity in Turkey. Within the scope of neoliberalisation, there is a desire and pressure for housing commodification, which can be facilitated through mortgage finance networks. Arguably, a mortgage system that operates under free market conditions and is affected by all kinds of economic fluctuations should not be turned into the basic means of home acquisition in a country such as Turkey. Control over the housing policy required by Turkey, in its current vulnerable state of development, cannot be left to a tool that operates according to the merciless logic of capitalism.

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8 Home ownership, institutionalisation, and mortality of elderly in the Netherlands

Jan Rouwendal and Fleur Thomese

8.1 Introduction

In many countries home owners have a smaller propensity to become institutionalised than renters. See, for instance, Muramatsu *et al*. (2007) and Gaugler *et al*. (2007) for the US, Breeze *et al*. (2008) for the UK[1], or Nihtilä and Martikainen (2007) for Finland. The reason for this effect is still unclear. Most studies on admission to institutions include home ownership, but mostly as a control variable or a proxy for financial status. Nihtilä and Martikainen (2007) used home ownership as a mediator of income effects on institutionalisation, along with housing conditions. There remained an independent effect of housing tenure which they were unable to explain. Grundy and Jitlal (2007) found for the UK that only social renters, compared to private renters and to owners, had a higher chance of institutionalisation.

This paper contains a first exploration of the relationship between home ownership and institutionalisation (residential care and nursing home admission) in the Netherlands, a country for which – as far as we know – this relationship has not yet been studied. After reviewing possible explanations, we examine the effect of home ownership on institutionalisation in a 10-year longitudinal sample of people aged between 58 and 88 in 1995.

Three Dutch characteristics need to be taken into account. Firstly, the Netherlands has a relatively low rate of home ownership. According to Eurostat statistics, the percentage of home owners among pensioners in the whole EU was 60 percent in 1995, as opposed to 43 percent among the Dutch pensioners. The share of home owners is less than 30 percent for low incomes and more than 80 percent for high incomes.[2]

This means that Dutch housing tenure is limited to the higher classes more often than in countries where home ownership is more common. On the one hand, class differences could be enhanced, as only the "happy few" have access to housing tenure. On the other hand, the better-off are also numerous among tenants, possibly weakening more general socio-economic differences between home owners and renters.

Secondly, there has been a drop in institutionalisation rates, which has increased competition for admission. Starting with around 11 percent of the population over 65 living in an institution before the 1990s, percentages

1 Miller and Weisert (2000) provides a review of earlier US studies.

2 See, for instance, Rouwendal (2007).

have dropped to 7 percent in 1995 and 5 percent in 2005, making the Netherlands now average in the general policy towards limiting residential care across developed countries. Again, this could have worked in two ways. The increased competition for admission may have changed the differences over time. But less fundamental reasons for moving into an institution, other than the need for care, may have become less important in the selection process.

We can not look into these shifts here, but we will take them into account when interpreting our results. What we do want to analyse, is a possible effect of a policy change. In the course of a large modernisation operation, the government brought nursing home and residential care under the same law in 1997 (Staatscourant, 1996). As a consequence, people were no longer necessitated to usurp large part of their wealth before entering residential care. Costs for both types of institution were means tested, but the sharp inequality between those with and without wealth assets was abolished.

Why would home owners enter institutional care later than renters do?

The most common explanation for home owners' delay in institutionalisation is that home ownership indicates greater wealth in general (Breeze *et al.*, 2008). The home is an important asset of older people. This has several consequences for institutionalisation. Firstly, wealthier people are healthier and have a lower mortality, as is documented in, for instance, Attanasio and Hoynes (1998) Huisman *et al.* (2005), or Mackenbach (2006). Although the causal mechanism behind this relationship is not completely clear, it seems likely that the better health of wealthier people will also lead to lower demand for long term care. Many people need such care in the last stage of their life, and it may well be the case that this last stage starts later for those in better health. That is, the need for institutionalisation may be lower among home owners than among renters.

Secondly, admission to a nursing home or residential care is more costly for wealthier people. In several countries, long-term care is means-tested (Gibson *et al.*, 2003; WHO, 2002). This will often mean that home owners have to consume (part of) their home equity after being admitted to a residential care setting or a nursing home. The implied higher costs of long term care may well induce home owners to avoid it by postponing institutionalisation as long as possible. Thus, this type of care may be less attractive or open to home owners.

Thirdly, home owners may also have better access to alternatives for institutionalisation compared to renters. This brings us to independent explanations of the effect of home ownership on the probability of becoming institutionalised at a high age. One possibility is that home owners are better able to adapt the house to changing needs associated with deteriorating health than renters can (Easterlow and Smith, 2004), because they are more used to home maintenance and have better skills to mobilise the proper authorities. Also, owners do not need to ask permission for changing their house, like renters have to. Home owners can also use their home equity to increase the consumption of paid health care services by taking a mortgage loan (Doling and Horsewood, 2003). Or they might mobilise informal care from their children through a strategic bequest motive (Bernheim *et al.*, 1985). If these explanations hold, we would have to find an effect of housing tenure independent of health and income.

We will focus on the specific effects of home ownership as a type of wealth, accounting for general effects of social economic disparities. At this stage, it is not possible to analyse all possible effects in detail. We do expect that in the Netherlands, like in Finland, a negative effect of home ownership on institutionalisation exists net of other socio-economic factors. Many of these factors are interrelated with wealth effects on mortality (Martikainen *et al.*, 2008). We will therefore simultaneously model institutionalisation and mortality. The longitudinal data we use allow us to estimate duration models for institutionalisation and mortality. The observation period includes the 1997 policy change. By analyzing its effects we can review the relevance of means testing for institutionalisation.

8.2 The data

Data come from the Longitudinal Aging Study Amsterdam (LASA, www.lasa-vu.nl). LASA is an ongoing study on physical, emotional, cognitive and social functioning of older adults, with a nationally representative sample (Deeg *et al.*, 2002). In 1992 (T0), interviewers questioned 3,805 respondents as part of the Living Arrangements and Social Networks of Older Adults research program (LSN; Knipscheer, de Jong Gierveld, Van Tilburg and Dykstra, 1995), which used a stratified random sample of men and women born between 1908 and 1937. The oldest individuals, particularly the oldest men, were overrepresented in the sample, which resulted in approximately equal numbers of men (n = 1,859) and women (n = 1,946). The sample came from population registers of eleven municipalities: the city of Amsterdam and two rural communities in the west of the Netherlands, one city and two rural communities in the south, and one city and four rural communities in the east. These regions represented the differences in religion and urbanisation in the Netherlands at the time. Of the 6,107 eligible individuals in the sample, 2,302 (38 percent) refused cooperation due to a lack of interest or time, and another 734 were ineligible because they were deceased or too ill or cognitively impaired to be interviewed.

In 1992-1993 (T1, n = 3,107), 1995-1996 (T2, n = 2,545), 1998-1999 (T3, n = 2,076), 2001-2002 (T4, n = 1,691), and 2005-2006 (T5, n = 1,257) LASA performed follow-ups (Deeg, Beekman, Kriegsman, and Westendorp-de Serière, 1998).

Between 1992/3 and 2005/6, 46 percent of the respondents died, 5 percent were unable to participate in the study because of severe physical or mental health problems, 14 percent refused to be re-interviewed, and 2 percent could not be contacted because they moved to another country or an unknown address.

In each wave, the interviewers received a four-day training course and the LASA field work manager supervised them intensively. The interviewer tape-recorded the interviews to monitor and enhance the quality of the data obtained. The interviews took between one hour and a half and two hours. Between observations, mortality was regularly determined on the basis of death registers.

We selected 2,973 respondents with at least 2 observations between 1992/3 and 2005/6, who were living independently in 1992/3. We included those who had died between waves. Measurement differences between 1992 and 1992/93 precluded using the first wave, but we collected some background information, such as educational level, in 1992. The policy change in 1997 occurred between the second and third measurement in our analysis.

Measurements

Dependent variable – At each observation, the respondent's address was examined to see whether he or she had moved in the preceding period. If respondents had moved, we asked in what type of housing they lived. Alternatives included institutionalisation (nursing home or residential care setting). Interviewers also observed the housing type. Based on both measurements, a variable was constructed indicating whether or not the respondent had moved to an institution between two waves. If a respondent had died between waves, it was established whether he or she had been institutionalised before death.

- Independent variables – In 1992, respondents were asked if they owned their house. Alternatives were own property, rented, sublet, free of charge. The first alternative (own property) was scored as home ownership.
- Mediating variables – The effects of home ownership and socio-economic status (ses) on institutionalisation may be mediated through socio-economic health differences. The analysis procedure chosen here does not allow controlling for health. However, age differences partly indicate health differences. Outright owners have very low out-of-pocket user costs and could therefore be expected to stay as long as possible in their home. Owners were asked whether their house was free of mortgage. They could answer yes or no. Special adjustments could make it easier to stay in one’s home in the presence of problems associated with old age. Moreover, they may act as a threshold against moving, perhaps also to nursing homes. Respondents could say if they had any of eighteen adjustments, ranging from extra banisters to an alarm system or a special lift in the house. Another alterna-

tive resource better available to home owners than to renters, are a partner or children who can help. We included the presence of children and the number of living children reported by the respondents. We also include the presence of a partner in 1992.

- Control variables – In 1992, sex and age were recorded.

Home ownership may affect institutionalisation because it indicates greater socio-economic prosperity. We computed socio-economic status from educational level, income, skill level of occupation and occupational prestige. Educational status was measured in 1992, as the highest level of education obtained. The nine response categories ranged between no school finished at all and a university degree. To improve international comparability, the variable was recoded into years of education. Income was asked at each wave as the net monthly household income. For respondents living with a partner, the answer was multiplied by 0.7 to obtain an individual income. There were twelve categories ranging from a class mean of 1,125 euro/month (in 1992) to 5,570 euro/month. Skill level of the occupation and occupational prestige are based on the highest occupation obtained by the respondents. The occupations have been coded according to the Occupational Classification 1992 (SBC92) of the Netherlands Central Bureau of Statistics (NCBS). The SBC92 classifies occupations according to the skill-level needed to perform the tasks that are inherent to that occupation. The NCBS has developed a scheme to convert the codes of the SBC92 to an occupational prestige scale developed by Sixma and Ultee (1983). If one of the scores except income is missing or is lower than the score of the partner/spouse, the latter is taken. Scores were replaced for 25 percent of the men with a partner and for 82 percent of the women with a partner. The scores on the four variables were standardised. The inter-correlations are all higher than .51. Cronbach's alpha is .88 for all respondents with valid scores (n = 3,345) and is greater than .85 in all categories of (combinations of) sex and five year birth cohorts. The mean of the valid scores on the four variables is computed and assigned to a variable ses with a range from 0 to 1. The scores on occupational level and prestige are weighted as one score because both are derived from the occupation. This procedure gives an underestimation of the ses of widows, but gives a better indication of social mobility after finishing education than do education and income alone.

In the analysis that follows we relate characteristics of a person in 1992 (home ownership, ses, etc.) to his or her probability to become institutionalised in the course of time. That is, we do not explicitly take into account the process of health deterioration that ultimately leads to institutionalisation. Instead, we investigate whether the characteristics of an individual at the start of the observation period affect, possibly through their relationship with health, the institutionalisation decision. By taking this approach, we certainly do not want to deny that health plays a central role in the institutionalisation decision. However, there are several possible mechanisms through which home ownership may influence institutionalisation and we feel that modelling all of them would be too ambitious, at least for the purposes of the present paper. Therefore we consider health developments, and other processes that may affect institutionalisation, as a kind of black box. Initial conditions, including home ownership, are inputs in this black box and institutionalisation is the output we are interested in. In other words we investigate the relationship between inputs and output without considering explicitly the links from the former to the latter. Similar remarks can be made for the relationship between home ownership and mortality that will be considered later.

To test our hypothesis we use duration analysis. This means that we focus on the probability that persons with particular characteristics (age, housing tenure, etc.) living independently move to a nursing home in one unit of time, say the next year. We adopt the approach of Han and Hausman (1990) who formulate a proportional hazards model that is easily applicable to discrete data, that is, data in which the period of an event is registered rather than its exact timing. In our case, the period is the time span between two subsequent waves.

In proportional hazard (or risk) models for discrete data the probability that the event of interest (in our case: institutionalisation) occurs is the product of a baseline risk and a term reflecting the effects of explanatory variables, like age and housing tenure. The value of the baseline risk is identical for all persons involved whereas that of the second term depends on the values of the explanatory variables. For example, all respondents may have a chance of 2 percent of becoming institutionalised between 1992/3 and 1995/6, but for women this chance may be lower than for men. The baseline risk changes over time, for example with changes in the age distribution in the sample or changes in the admission rates, but the multiplicative term remains constant.[3] This means that the ratio of the risk of becoming institutionalised for two persons with different characteristics does not change over time, even though for both persons the risk itself may change considerably. Hence the name 'proportional hazard model'.

The model can be generalised to a bivariate model that allows us to carry out a simultaneous analysis of institutionalisation and mortality.

We start by estimating two single risk duration models: one for institutionalisation (moving to residential care or a nursing home), and one for mortality. In the institutionalisation model we treat respondents who died without having been institutionalised as censored observations. We first entered housing tenure. In a next step we added the control variables, followed by the mediating variables.

3 We do not use time varying covariates in this chapter.

We follow the same procedure when estimating the bivariate model, in which mortality and institutionalisation are treated as competing risks. The model we estimate is closely related to the competing risk model proposed by Han and Hausman (1990). However, when institutionalisation occurs, we also observe the (possibly censored) duration until death, whereas in a competing risk model one observes only the duration until the first 'event' occurs. To incorporate this additional information we have extended the Han and Hausman competing risk model to a bivariate model.

We mentioned already that the Han-Hausman model is a member of the family of proportional hazard models. In a discrete time setting this means that the probability that a particular event (in our case: institutionalisation or mortality) occurs is modeled as the product of two terms: a so-called baseline probability, which is a function of time only, and a second term that is a function of explanatory variables. The actual probability of occurrence of an event is therefore always proportional to the baseline risk. Since probabilities have to be nonnegative, the factor of proportionality cannot be negative, which rules out a linear specification in explanatory variables for the second term. In practice researchers therefore often use the exponent of such a linear function.

With such an exponential specification, the coefficients estimated for a particular variable can be interpreted as indicating the percentage change in the probability that is caused by a one unit change in the explanatory variable. For instance, a coefficient of 0.05 for age in the institutionalisation model implies that an additional year of age increases the probability of becoming institutionalised by 5 percent. This interpretation is based on an approximation that is more accurate for coefficient values close to 0 (as in this example), but is less precise for larger coefficients.

8.3 Home ownership, institutionalisation and mortality: first results

Table 8.1 describes institutionalisation and mortality among different groups of respondents. We see in the first column that 12 percent of respondents were institutionalised between 1992/3 and 2005/6, and 46 percent died. Institutionalisation and mortality were higher among renters than among owners. There are other differences between these groups, however: renters are more often women, they are older, have a lower ses and are more often without a partner than owners. There is no difference in the number of children. The question now is, to what extent these other differences explain the effect of housing tenure on institutionalisation and mortality?

We analysed the effect of housing tenure on the timing of institutionalisation (Table 8.2). In model I home ownership is the sole explanatory variable.

Table 8.1 Respondents in the sample by housing tenure (percentages and means)

Name	All (2,985)	Owners (1,129)	Renters (1,856)	p
Institutionalised between 1992/3-2005/6	12%	5%	16%	.000
Died between 1992/3-2005/6	46%	37%	55%	.000
Owner 1992	38%	-	-	-
Outright owner 1992	21%	56%	-	-
Women	51%	54%	45%	.002
Age in 1992	69.49	66.88	71.05	.000
Socio-economic status	34.17	40.62	30.24	.000
Partner 1992	68%	79%	61%	.000
Childless	13%	12%	13%	n.s.
Number of children	3.02	2.98	3.05	n.s.

As expected, we find a significant negative coefficient, indicating that home owners enter institutions later than renters do. In model II we added three control variables: gender, age and socio-economic status. Of these three, only age has a significant effect. The effect of home ownership it is now insignificant. This suggests that the lower number of home owners among the oldest respondents caused the negative effect of home ownership in model I. In model III we added three variables related to family composition: the presence of a partner, presence of children, and the number of children. None of these new variables has a significant effect. Model IV contains two additional indicators of housing: outright ownership and special adjustments in the house. Neither has a statistically significant coefficient.

These results lead to the conclusion that home ownership has no effect on the institutionalisation decision. The data do not justify the conclusion that home ownership is related to the propensity to move to residential care.

In the introduction we listed several reasons that lead one to expect such a relationship. The first one is the correlation between wealth (and therefore home ownership) on the one hand and health on the other. We have investigated this relationship separately in our data by regressing several health indicators on home ownership (results not shown). After controlling for the characteristics we also used in the duration models a significant relationship with the number of chronic diseases and depressive symptoms remained. Apparently, this relationship was not strong enough to lead to a significant effect of home ownership on institutionalisation.

The second possible relationship between home ownership and institutionalisation we considered in the introduction runs via higher costs. The policy change in 1997 is of special interest in this respect. To investigate the possibility that it increased the risk of becoming institutionalised for home owners, we estimated separate models before and after the change. Table 8.3 presents results for a model specification similar to model II in Table 8.2. Apart from the baseline risk, age is the only variable with a significant effect both before and after the change. It is almost equal in both periods. There does not seem to be any effect of home ownership and institutionalisation before and after the change.

Table 8.2 Single risk duration models for institutionalisation

	Model I	Model II	Model III	Model IV
Home owner	**-0.18** (.05)	0.03 (.05)	0,03 (.05)	0,11 (.07)
Gender		**0.10** (.05)	0.09 (.05)	0.09 (.05)
Age		**0.05** (.003)	**0.05**(.003)	**0.05** (.003)
Socio-economic status		-0.20 (.13)	-0.16 (.14)	-0.18 (.14)
Partner			-0.01 (.06)	-0.01 (.06)
At least one child			-0.02 (.08)	-0.03 (.08)
Number of children			-0.02 (.02)	-0.02 (.02)
Outright owner				-0.11 (.08)
Special adjustments (0-1)				0.07 (.06)
Baseline hazard				
1	**-1.11** (.03)	**-4.59** (.25)	**-4.58** (.27)	**-4.61** (.28)
2	**-0.87** (.03)	**-4.31** (.25)	**-4.29** (.27)	**-4.32** (.28)
3	**-0.69** (.03)	**-4.10** (.25)	**-4.08** (.27)	**-4.11** (.28)
4	**-0.59** (.03)	**-3.97** (.25)	**-3.96** (.27)	**-3.98** (.28)
Number of observations	2,973	2,973	2,973	2,973
Log likelihood	-1562.3	-1453.3	-1434.3	-1432.6

When only the baseline coefficients are estimated the log likelihood is equal to -1569.8.
Significant effects (p<.05) are printed in bold.

Table 8.3 Single risk duration models for institutionalisation before and after 1997

	Before the change	After the change
Home owner	-0.14 (.11)	0,04 (.09)
Gender	0.04 (.07)	**0.12** (.06)
Age	**0.04** (.005)	**0.04** (.004)
Socio-economic status	-0.09 (.19)	-0.27 (.016)
Partner	-0.06 (.08)	0.05 (.06)
At least one child	-0.07 (.11)	-0.003 (.09)
Number of children	**0.035** (.015)	-0.011 (.014)
Outright owner	-0.13 (.12)	-0.04 (.09)
Special adjustments (0-1)	-0.04(.07)	-0.09 (.07)
Baseline hazard		
1	**-3.76** (.43)	**-4.21** (.31)
2		**-3.92** (.31)
3		-3.78 (.31)
Number of observations	2,973	-2,532
Log likelihood	-445.4	-980.7

Models with only the baseline coefficients result log likelihoods of -496.4 and -1,073.5 for the periods before and after the change, respectively.
Significant effects (p<.05) are printed in bold.

Somewhat surprisingly, we find a significant positive effect of the number of children before 1997. We also find a significant positive effect of gender in the period after 1997. The negative coefficient for socio-economic status is much larger (in absolute value) after 1997 than it was before, but in both periods it is insignificant at the conventional 5 percent level. These findings suggest that substantial differences in the factors behind institutionalisation

Table 8.4 Single risk duration models for mortality

	Model I	Model II	Model III	Model IV
Home owner	**-0.36** (.04)	**-0.18** (.04)	**-0,17** (.04)	**-0,13** (.05)
Gender		**-0.46** (.04)	**-0.48** (.04)	**-0.48** (.04)
Age		**0.06** (.002)	**0.06** (.002)	**0.06** (.003)
Socio-economic status		**-0.48** (.10)	**-0.44** (.10)	**-0.44** (.10)
Partner			-0.08 (.04)	-0.08 (.04)
At least one child			**-0.18** (.07)	**-0.17** (.07)
Number of children			-0.01 (.01)	-0.01 (.01)
Outright owner				-0.04 (.06)
Special adjustments (0-1)				**0.14** (.05)
Baseline hazard				
1	**-0.62** (.03)	**-4.98** (.16)	**-4.74** (.18)	**-4.70** (.18)
2	**-0.25** (.03)	**-4.55** (.16)	**-4.30** (.18)	**-4.26** (.18)
3	-0.04 (.03)	**-4.30** (.16)	**-4.06** (.18)	**-4.01** (.18)
4	**0.45** (.03)	**-3.70** (.16)	**-3.45** (.18)	**-3.41** (.18)
Number of observations	2,975	2,975	2,975	2,975
Log likelihood	-3,948.0	-3,540.2	-3,534.9	-3,531.0

When only the baseline coefficients are estimated the log likelihood is equal to -3,985.5.
Significant effects ($p<.05$) are printed in bold.

may have occurred over the period we consider. However, they do not indicate that the role of housing has changed.

Apparently also the third route from home ownership to institutionalisation, better access to substitutes, was unable to generate a significant effect in the data.

We next estimated duration models for mortality, comparable to those for institutionalisation. Results appear in Table 8.4. We can see that now home ownership retains an effect on mortality. We find a significant negative coefficient for the home ownership dummy in model I, which remains negative and significant in the other three models. Irrespective of other factors do home owners have a lower probability of dying in a period of about three years.

The effect of home ownership becomes smaller when control variables are added, which is consistent with the conjecture that home ownership also signals the effect of other variables. However, even in Model IV there remains a relatively large effect for home ownership. Since it is unlikely that renting directly causes mortality, our interpretation is that other factors affect both home ownership and mortality.

We find a strong negative effect of gender, reflecting the longer life expectancy of women. Like in the institutionalisation model, a higher age increases the probability of dying. Socio-economic status has a significant negative coefficient. This means that people with higher incomes and education have a longer life expectancy. Having at least one child has a negative effect on mortality. Special adjustments in the house are associated with higher mortality. This probably reflects a bad health condition at the start of the survey.

8.4 A bivariate model

The analysis of the previous section showed that there are differences in mortality between home owners and renters, but that there did not appear to be such differences in institutionalisation. This suggests, of course, that – controlling for other characteristics – home owners become institutionalised at the same rate as renters, but stay longer in a home before they die. This somewhat unexpected result will be investigated in greater detail in the present section by estimating a bivariate model for institutionalisation and mortality. The main advantage of such a bivariate approach is that it allows us to take into account the mutual dependence of the risk of institutionalisation and mortality caused by unobserved factors. The univariate models estimated in the previous section allow us, of course, to consider the relationship between (for instance) age an institutionalisation and that of age and mortality. However, it is also possible that unobserved factors have related effects on both risks. One might think, for instance, of the experience of stressful events like the loss of a child. Estimation of a bivariate model allows us to take into account the correlation with these unobserved effects. This is clearly important if we want to consider the possibility that home owners who become institutionalised stay in that state longer than others.

The bivariate model we estimate includes both institutionalisation and mortality. It is a generalisation of the two previous models. These latter models refer to the special case in which the correlation between the two risks is equal to 0. Table 8.5 presents results of the bivariate model with a specification similar to Model III of the separate analyses (Tables 8.2 and 8.4).

The coefficients of the explanatory variables are close to those estimated earlier. One exception is the coefficient for socio-economic status in the institutionalisation part of the model. This is now significant, with the better-off having a lower chance of institutionalisation in a given period. We also find a significant positive correlation between institutionalisation and mortality. This indicates the presence of unobserved factors that affect institutionalisation and mortality in similar ways. In other words, the model may not be complete. It should, however, be observed that the correlation is relatively small. This implies that the data do not suggest that home owners who become institutionalised are those who also have (on average) a much higher mortality risk. The bivariate model therefore confirms our earlier tentative conclusion that home owners appear to stay longer in an institution than renters.

To get an impression of the implication of the model for individuals with different characteristics, we calculated the probabilities of institutionalisation and mortality that the bivariate model would predict. Tables 8.6 and 8.7 below contain implied probabilities of institutionalisation and mortality for a married man with two children (Table 8.6) and a single women with two child-

Table 8.5 Bivariate duration model for institutionalisation and mortality

	Institutionalisation		Mortality
Home owner	-0.10 (.10)		**-0.14** (.07)
Gender	0.09 (.07)		**-0.57** (.05)
Age	**0.064** (.005)		**0.076** (.003)
Socio-economic status	**-0.37** (.18)		**-0.45** (.13)
Partner	0.001 (.08)		0.08 (.05)
At least one child	-0.05 (.10)		**-0.15** (.08)
Number of children	0.02 (.02)		-0.009 (.01)
Outright owner	-0.14 (.11)		-0.007 (.08)
Special adjustments (0-1)	0.03 (.07)		**0.19** (.06)
Baseline hazard			
1	**-6.43** (.40)		**-6.22** (.22)
2	**-6.03** (.40)		**-5.68** (.22)
3	**-5.71** (.40)		**-5.39** (.22)
4	**-5.55** (.40)		**-4.74** (.22)
Correlation		**0.11** (.04)	
Number of observations		2975	
Log likelihood		-4,898.3	

When only the baseline coefficients are estimated the log likelihood is equal to -5560.7.
Significant effects ($p<.05$) are printed in bold.

ren (Table 8.7) respectively. Both have average age and ses. The tables read as follow: the totals show the average probability of institutionalisation and death in a given period. For example, if our woman in Table 8.6 is a renter, she has a 4 percent (0.040) chance that she will die between 1992/3 and 1995/6. Her chance of entering an institution during that same period is 2.1 percent (0,021). The same probabilities would be 2.9 percent (0.029) and 2.6 percent (0.026) if she were an owner.

Suppose our woman is a renter and she is institutionalised between 1992/3 and 1995/6. Her chance of dying between 1995/6 and 1998/9 would then be 0.2 percent (0.002).

Table 8.6 shows that the difference between renters and owners are small. The largest differences are found in the chances of dying in any given period. Renters have a 60.9 percent chance of remaining alive throughout the study. For owners, this chance is 66.3 percent. We also see that the largest chance of dying occurs after 2001/2 among those who have kept living independently (18.3 percent and 16.2 percent, respectively).

For a married man with two children, the differences are similar (Table 8.7). If he were a renter, his chance of remaining alive throughout the study would be 41.6 percent, as opposed to a 47.2 percent chance if he were an owner. The corresponding chances of not becoming institutionalised are 91.8 percent and 89.7 percent, respectively. This does demonstrate that men have a higher probability of dying and a lower probability of institutionalisation than women.

Table 8.6 Implied probabilities of institutionalisation and mortality: single woman, two children (average age and socio-economic status)

	Period of mortality					
Period of institutionalisation	**1992/3**	**1995/6**	**1998/9**	**2001/2**	**2005/6 (not died)**	**Total**
Renter						
1992/3	0.001	0.002	0.002	0.005	0.011	0.021
1995/6	0.000	0.002	0.003	0.008	0.017	0.029
1998/9	0.000	0.000	0.002	0.009	0.022	0.033
2001/2	0.000	0.000	0.000	0.004	0.017	0.021
2005/6 (not institutionalised)	0.038	0.067	0.059	0.183	0.543	0.890
Total	0.040	0.071	0.065	0.209	0.609	-
Owner						
1992/3	0.001	0.002	0.002	0.006	0.015	0.026
1995/6	0.000	0.002	0.003	0.008	0.023	0.035
1998/9	0.000	0.000	0.002	0.010	0.028	0.039
2001/2	0.000	0.000	0.000	0.004	0.022	0.026
2005/6	0.028	0.053	0.049	0.162	0.576	0.867
Total	0.029	0.057	0.055	0.190	0.663	-

Table 8.7 Implied probabilities of institutionalisation and mortality: married man, two children (average age and socio-economic status)

	Period of mortality					
Period of institutionalisation	**1992/3**	**1995/6**	**1998/9**	**2001/2**	**2005/6 (not died)**	**Total**
Renter						
1992/3	0.007	0.003	0.002	0.004	0.005	0.017
1995/6	0.000	0.002	0.003	0.007	0.009	0.021
1998/9	0.000	0.000	0.002	0.009	0.012	0.023
2001/2	0.000	0.000	0.000	0.004	0.010	0.014
2005/6 (not institutionalised)	0.101	0.124	0.090	0.224	0.379	0.918
Total	0.104	0.129	0.097	0.247	0.416	-
Owner						
1992/3	0.003	0.003	0.002	0.005	0.008	0.021
1995/6	0.000	0.003	0.003	0.008	0.013	0.027
1998/9	0.000	0.000	0.002	0.011	0.017	0.029
2001/2	0.000	0.000	0.000	0.004	0.013	0.017
2005/6	0.077	0.106	0.080	0.213	0.421	0.897
Total	0.080	0.111	0.088	0.241	0.472	-

8.5 Discussion and conclusion

Are the Netherlands different? This first look suggests that home ownership is less distinctive that in other countries. Although we did find a significant negative relationship between home ownership and mortality, there was no such relationship between home ownership and institutionalisation. The obvious explanation would be that social inequality is compensated through welfare state arrangements that prevent or compensate health effects. However, an independent effect of housing tenure was found in Finland (Nihtilä and Martikainen, 2007), a country with a generous welfare state. The distinction between social and private renters that Grundy and Jitlal (2007) found is less relevant to the Dutch situation. Housing laws provide both types of renters with equal protection. However, it may be that the relatively good financial and housing situation of Dutch renters decreases the difference with owners in the availability of extra resources to postpone institutionalisation.

Moreover, we did find an independent effect of housing tenure on mortality. This would suggest that some of the mechanisms we identified in the introduction may also hold for institutionalisation. The most likely mechanism here are the health disparities between renters and owners. Our analysis did not allow for incorporating health measures, but it seems apparent that we need to take account of health changes in the process of institutionalisation. Age alone is not a strong indicator of health, although it was one of the few factors that we did find to affect institutionalisation.

The costs of institutionalisation did not come out as an important factor in our analysis. The change in 1997, which did away with the financial disadvantage of institutionalisation for home owners, did not change the effect of housing tenure. We may have underestimated the consequences of the policy change, because we did not distinguish between residential care and nursing homes. The means-testing only occurred in residential care admission. However, social economic status was also irrelevant to institutionalisation. This would rather suggest that social inequality at large does not affect institutionalisation in The Netherlands. But again, we must be careful in our conclusion.

The access to alternatives for institutionalisation we identified only had an effect on mortality, and not on institutionalisation. Special adjustments in the house were better used by home owners, as we expected, but they did not forestall institutionalisation. Those with adjustments in the house did die earlier, probably because they were in bad health to begin with.

The help available form children and partner had no effect on institutionalisation either. The childless died earlier. This is probably a selection effect, as some people may have remained childless because of health problems. Outright ownership did not make a difference for either institutionalisation or mortality. Again, it could be that Dutch renters are relatively well-off in these respects.

The statistical approach we used here is certainly not the only possibility. Although the Han-Hausman approach is well suited to data in which time is classified into a number of periods of discrete length, the models we specified do not contain time-varying covariates, such as health. This is clearly a limitation, and we plan to use more flexible models in future work. Furthermore one may reconsider the role of age, which is clearly a key variable in this type of research. In the models used here it is in fact age at the date of the first interview that is included as an exploratory variable. One would of course like to take into account the effect of the ageing process during the observation period as well, which necessitates the incorporation of age as a time-varying covariate. But we would at the same like to take into account the effect of changes over time (like policy changes that have implications for the cost of institutionalisation). We can not do all at once. The perfect relationship between age, year of birth and time allows us to incorporate at most two of them in the analysis.

The central role of age for institutionalisation as well as mortality also suggests that it may be useful to treat it in a special way. One possibility for doing this would be to change the specification of the model. We explained earlier that our proportional hazard models take the calendar time line as a basic determinant of the risk for institutionalisation or mortality. The base line risk is only determined by time and the explanatory variables act as a factor of proportionality on that 'anchoring point'. An alternative model could be formulated in which the age time line determines the base line risk, while other explanatory variables (now including calendar time) are incorporated in the factor of proportionality. This and other extensions will be considered in future work.

At a more theoretical level, a possible explanation of the findings of this paper is that long-term care not only is a cost, as we assumed. It may also have properties of a luxury good, that is, wealthier people tend to demand more of it, e.g. by opting for more expensive, private residential care. This would mean that, contrary to our a priori expectations, home owners more often tend to decide for institutionalisation than renters when faced with comparable health problems. By itself, this would give rise to a positive effect of home ownership on institutionalisation, but since home owners have on average a better health and can easier afford the costs associated with institutionalisation the net effect would be close to zero. There is no such effect on mortality, and here the better health and higher wealth have the expected effects. This suggestion evokes the question why these positive effects did not show up in other countries as well. A possible explanation could be that in the Netherlands the dividing line between owners and renters coincides with that between wealthy and less wealthy to a larger extent than in other countries: only the very rich may be able to afford such choices.

Finally, a potentially important conclusion of our analysis is that home owners do not live independent any longer than renters do, but they do live longer. This would suggest that, on average, home owners make longer use of long term care. However, we need to include health changes in our analyses to corroborate this conclusion.

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9 The American nightmare
The unique contribution of the mortgage market

Manuel B. Aalbers

9.1 Introduction

The roots of the current global financial crises in the US housing market are presented as a problem in which home owners took out risky loans that were pushed by greedy loan brokers and lenders who didn't care about the riskiness of these loans as they would be packaged and sold off as residential mortgage-backed securities (RMBS) anyway. This popular account of the financial crisis continues to present a network of agents that have not paid enough attention to risk: not only borrowers and lenders, but also the state, regulators, investors and rating agencies. Three roots to the financial crisis are often discussed: greed, the bursting of a real estate bubble and the fact that 'everyone made mistakes'. This image of the roots of the financial crisis is not wrong, but it is limited in explaining what went wrong. Greed is nothing new, real estate bubbles need to develop before they can burst and we need to understand in which context actors made mistakes. In this paper I will discuss the roots of the financial crisis within the mortgage market. I will continue to argue that, although there was no 'master plan' to commodify home ownership even further, it was a conscious decision by a range of actors – including state actors and financial market actors – to increasingly financialise home ownership, not for the sake of increasing home ownership but to fuel economic growth. As a result, not only are home ownership and finance more entangled than ever before, but the mortgage crisis and the financial crisis are also feeding upon each other. As home ownership has increased primarily among low-income groups, it is these groups that experience the most insecurity because of changes in the labor market, changes in the welfare state and the mortgage market crisis. I will argue that the impact of the mortgage market on both sophisticated financial markets and ordinary citizens is unique. The financialisation of home ownership is not just another example of financialisation but a crucial one, as mortgage markets are crucial markets in the present economy, while homes are as crucial as ever for households, but have increased their importance as indicators of the economy.

The pairing of the home as an individual good and as a societal good is important here. Individualism is deeply rooted in American society. Actors interested in expanding financial markets through the expansion of home ownership have mobilised this American trait very well. A 'home' is the first thing most people mention when they think of the American Dream. The American Dream is, in a wider sense, about the prospect of prosperity, but throughout the years this prospect has increasingly been coupled to home ownership. Home ownership became one tangible result of prosperity, but –

as I will explain in this chapter – through financialisation home ownership also became mobilised for prosperity. The image of the home as an ATM, as a cash dispenser, is one that has become one that is connected to the financial crisis. For many people, in particular the millions faced with foreclosure, the crisis has turned their home, their American Dream, into their American Nightmare.

In this chapter, I will first discuss three contributing factors to the crisis. Firstly, I look at how the US mortgage market has developed and how securitisation and deregulation play a role in this. Secondly, I focus on two subsets of mortgage lending that were at the basis of the current crisis, namely subprime and predatory lending. Thirdly, I focus on the part played by bubbles and wrong incentives. After discussing these three factors, I take a step back to discuss the concept on financialisation and what financialisation means for mortgage markets. By doing this, I am able to place the crisis into a bigger picture: a picture in which greed, deregulation, real estate bubbles and incentives all play a role, but come about in a certain context. The concept of financialisation, which is at the same time the explanandum and the explanans, provides a heuristic that helps us to make sense of the financial crisis. Finally, I ask the question if the financial crisis necessarily had to start in the mortgage market, or if it is a coincidence and could have started in other financial markets as well.

9.2 Securitisation and deregulation

The current financial crisis originates in the housing and mortgage markets, but it affects financial markets around the world. A few decades ago most mortgage lenders were local or regional institutions. Today, most mortgage lenders are national lenders who tap into the global credit market. This is not so much the case because lenders are global financial institutions – most lenders are national in scope – but because they compete for the same credit in a global market. Before the financial crisis of the late 1980s, savings and loans institutions (S&L's) granted loans based on the savings that got into the bank. Generally speaking, the savings and loans were made in the same geographical market. The fact that the S&L's only worked in local markets was seen as a problem: what if savings are available in one area, but loans are needed in another; and what if a local housing market goes bust? The 'solution' was to connect local markets and to spread risk. The idea was that interest rates on loans would fall because there was now a more efficient market for the demand and supply of money and credit. Moreover, national lenders could more easily take the burdens of a local housing market bust because risk would be spread.

The trend from local to national mortgage lenders was one thing, but, it was argued, mortgage markets could be even more efficient if they were connected to other financial markets and not just to savings. In the wider credit market it would be easy for mortgage lenders to get money as mortgages were considered low-risk. Mortgages would be an ideal investment for low-risk investors and cheaper credit, in return, would lower interest rates on mortgage loans. Securitisation was already introduced in the 1960s by Fannie Mae and Freddie Mac, two government-sponsored enterprises that were meant to spur home ownership rates for low and middle income households. Securitisation enables mortgage lenders to sell their mortgage portfolio on the secondary mortgage markets to investors. Following the S&L crisis, deregulation favoured securitisation, not only through Fannie Mae and Freddie Mac, but also through so-called 'private labels'. Gotham (2006) has studied the deregulation of the mortgage market and demonstrates how the federal government, step-by-step, has enabled securitisation, e.g. by the Financial Institutions Reform, Recovery and Enforcement Act (1989) that pushed portfolio lenders to securitise their loans and shift to non-depository lending. In other words, the state was at the origins of the current crisis.

Deregulation also removed the walls between the different rooms of finance, thereby enabling existing financial firms to become active in more types of financial markets and providing opportunities for new mortgage lenders. Securitisation meant that mortgage lenders could work according to a new business model whereby mortgages are taken off-balance. This frees up more equity for more loans and enabled non-banks to enter the mortgage market. Many of these new 'non-bank lenders' had different regulators than traditional lenders and were also assessed by other, i.e. weaker, regulatory frameworks. In addition, it is not always clear which regulator watches what, but even if this is clear, this is no guarantee that regulators actually execute their regulatory powers, sometimes due to a lack of interest and sometimes due to a lack of manpower. In many cases, companies can actually shop around for a regulator. It is obvious that they won't opt for the hardest regulator. Mortgage portfolios could now be sold to investors anywhere in the world and because these investors thought mortgage portfolios were low-risk and there was a lot of money waiting to be invested, especially after the dot-com bubble crash (2000-2002), there was a great appetite for RMBS. In other words, the S&L crisis, the following bank merger wave (Dymski, 1999), securitisation, the entry of non-bank lenders and the demand for low-risk investments together shaped the globalisation and financialisation of mortgage markets (Aalbers, 2008).

Lenders, rating agencies and investors not only underestimated the risks of RMBS but also overestimated the returns. Even though housing prices on average fell by 20 percent between summer 2006 and summer 2008, the impact on the RMBS market was much bigger. This is not just a result of inflationary prices, but also of leveraging. Major players in the RMBS market, such as investment banks, basically invested with borrowed money (ratio's of 1:20 were not uncommon, 1:14 being the average) and because of this leveraging both profits and losses would be disproportionally large. For example, if an investment bank is able to borrow money on a 6 percent interest rate and expects a return of 8 percent on low-risk, prime RMBS and 16 percent on high-risk subprime, it effectively makes, respectively, 2 percent and 10 percent by doing almost nothing. By investing more than they borrow, they are able to rapidly increase profit margins. However, when returns are lower than the interest rate on which they have borrowed money, for example, respectively, 4 percent and 2 percent, the investment banks not only miss 4 percent or 14 percent calculated profit, they also have to take their losses on their equity, for instance: 14 (the average leverage factor) times, respectively, 2 percent (6 percent-4 percent) and 4 percent (6 percent-2 percent) equals equity losses of, respectively, 28 percent and 56 percent. Since the leverage factors in many cases were even much higher than 14, some financial institutions and investors that were heavily involved in RMBS, and especially subprime RMBS, effectively went bankrupt.

9.3 Subprime and predatory lending

Subprime mortgage lending has been growing fast, from about $35 billion (5 percent of total mortgage originations) in 1994 to $600 billion (20 percent) in 2006 (Avery *et al.*, 2006), 75 percent of which is securitised. In some states like Nevada, subprime loans accounted for more than 30 percent of the loans originated in 2006. In 2006, 13 percent of outstanding loans were subprime, but 60 percent of the loans in foreclosure were subprime, up from 30 percent in 2003 (Nassar, 2007). Neither the media nor academic economists ever pass an opportunity to point out that many borrowers took out loans they could not afford. This is correct, but in most cases this was not because borrowers were eager to take on large loans even though they had bad credit. A majority of the subprime loans went to borrowers with prime credit (Brooks and Simon, 2007; Dymski, 2007). This implies that lenders systematically overcharged borrowers. Subprime lending is often defined as lending to a low-income borrower with poor credit, but this would be a misrepresentation of the essence of subprime lending, which is lending at higher fees and interest rates whether or not the borrower actually has bad credit or a low income (Aalbers, 2009). Subprime loans were pushed on borrowers – low and moderate-income as well as middle and high-income – because they brought in more money, not because lenders were pushed to sell them.

Selling subprime loans to prime borrowers was good business for both mortgage lenders and brokers. Lenders could charge higher interest rates on subprime loans and thus make more money. For this reason lenders gave brokers bigger sales fees for selling subprime loans. Brokers did not have negative results as a result of defaulting borrowers, as they only get paid for what they sell. And defaulting borrowers actually created a bigger market for refinancing, which implied that brokers could make more money on clients by selling them another loan.

In addition, it is often argued that subprime lending enabled many people that were formerly excluded from home ownership, i.e. low-income and ethnic minority groups, to buy a house and enjoy the benefits of home ownership. This is questionable for at least two reasons. Firstly, many of these borrowers had bought properties at the low-end of the market that needed improvement work and because of the high interest rates their monthly expenses often went up much faster than their income and became unmanageable. Home ownership for many subprime homebuyers became a burden rather than a benefit. Secondly, most subprime loans were not enabling home ownership as more than half of them were refinance loans and second mortgages – in other words, loans for people who already owned a mortgaged property. Most of the refinance loans were designed in such a way that they looked cheaper than the original loan, but would, in fact, turn out more expensive for the borrowers and more profitable for the mortgage broker and the lender. Adjustable Rate Mortgages (ARMs) are a good example: one type of ARM known as a 2/28 or 3/37 will start with a low interest rate, but after 2 or 3 years the interest rate resets to a much higher rate. Borrowers are shown the initial, low interest rate while the higher interest rate is hidden in the small print of the mortgage contract, which is typically unreadable.

A subset of subprime lending is known as predatory lending. Predatory lenders charge excessive fees and interest rates and originated loans that were not beneficial for borrowers. Originally predatory lending was seen as a small part of the subprime mortgage market, but research from the past five years has demonstrated predatory lending is not an exception but rather something very common in subprime lending. Often home owners don't have a full understanding of the mortgage lending process and fail to hire experts, not only at the time of mortgage origination, but also when the first payment problems arise (Engel and McCoy, 2002). There is mounting evidence that subprime and predatory lenders use sophisticated marketing techniques to reach people with little education or prior lending experience (Carr and Schuetz, 2001; Quercia *et al.*, 2004; Newman, 2009). Predatory loans were sold mostly in neighbourhoods with ethnic minority populations. Almost half of the loans in minority areas were predatory compared to 22 percent in white areas (Avery *et al.*, 2007). African-Americans receive more than twice as many high-priced loans as Whites, even after controlling for the risk level of the borrower (Schloemer *et al.*, 2006). It then comes as no surprise that foreclosures are concentrated in certain parts of the city. These problems are not new: for at least ten years researchers have pointed out how subprime and predatory lending result in rising default and foreclosure rates (e.g. Pennington-Cross, 2002; Squires, 2004; Wyly *et al.*, 2006). Yet, this was not considered a major problem until house prices started declining and the value of RMBS fell.

9.4 Bubbles and wrong incentives

The root of the mortgage crisis, according to some observers, is in the housing market: the rapid increase of house prices forced people to take out bigger loans (Shiller, 2008). The housing bubble, like all bubbles, depended on a constant inflow of liquidity to sustain the rising market as well as the illusion that all participants in the market are winners (Lordon, 2007). Once the housing bubble burst, home owners got in trouble, not just because their homes were worth less, but also because so many of them had taken out big loans with small down-payments and high interest rates. Negative equity, default and foreclosure were some of the negative results. Indeed, there was a strong housing bubble, but this did not so much fuel the mortgage market – the mortgage market, in the first place, fuelled the housing bubble. House prices increased first and foremost because mortgages allowed borrowers to buy more expensive homes, but since almost everyone could now afford a mortgage loan – and generally speaking a much bigger loan than a decade ago – the expansion of the mortgage market resulted in higher house prices forcing people to take out ever bigger loans. In that sense, the mortgage market created it own expansion. Thus, mortgage and housing markets fuelled one another, but it is crucial to understand that the driving force here is the mortgage market. Surowiecki (2009: 38) summarises it as follows:

> With the housing bubble (...) there was no meaningful development in the real economy that could explain why homes were suddenly so much more attractive or valuable. The only thing that had changed, really, was that banks were flinging cheap money at would-be home owners, essentially conjuring up profits out of nowhere.

As argued in the previous sections, this was enabled through deregulation and re-regulation.

Old and new lenders alike had an interest in making loans that could be sold off and in loans that generated higher yields. This resulted in riskier loans with higher interest rates (subprime lending). Mortgage brokers were rewarded with higher fees if they would sell loans with higher interest rates (i.e. riskier loans); many of these were not loans to buy a home, but refinanced loans and second mortgages, or, in other words, loans that did not contribute to increasing home ownership rates. The higher risk of default on these loans was taken for granted, not just because they would be sold off, but also because default presented a risk to the borrower who would loose her/his home; the lender could repossess the home and sell it quite easily as house prices continued to rise.

There were enough investors who had an appetite for RMBS, first in so-called conforming loans because of their low risk that was considered to be comparable to state obligations. But since the late 1990s, and increasingly so after the dot-com bubble crash (2000-2002), they also showed an interest in subprime loans issued as RMBS: in an evermore competitive search for yield "each stage of market development replayed a dynamic of over-speculation based on competitive pressures to adopt riskier borrowers and loan products" (Ashton, 2008). Investors, in return, "had concentrated risks by leveraging their holdings of mortgages in securitised assets, so [when the bubble burst] their losses were multiplied" (Mizen, 2008: 532). Subprime loans were considered riskier, but this was compensated by higher returns and since the rating agencies still supplied high ratings, such RMBS were seen as low-risk/high-return. Rating agencies saw the increased likeliness of default on such loans, but like the lenders they didn't see this as a major problem, more as an inconvenience. In addition, rating agencies get paid by the firms whose securities they have to rate.

It is too easy to argue that this made the rating agencies less critical of RMBS. After all, they were also dependent on rating other financial products and if they would give high ratings to all of them, they would soon not be taken seriously anymore. So what did cause rating agencies to be so late in realising the risk of these securities? Firstly, as I suggested above, they simply did not realise the risk as they believed in rising house prices, just like home owners, lenders, and the media – like everyone essentially. Secondly, because the rating agencies had become so heavily involved with securities that their own growth now depended on rating more and more of them. Thirdly, throughout the years the most basic RMBS were complemented by ever more complicated products that few had an understanding of, not even the rating agencies on which investors trusted. It is sometimes argued that the rating agencies cannot be blamed for this as others in the mortgage network also didn't understand the complexity and riskiness of these products, but since it is their job to understand and then rate financial products, it could be argued, in an almost tautologically fashion, that the rating agencies are responsible for rating high-risk products as low-risk.

These RMBS were now traded on global markets that are localised in places like New York and London (Pryke and Lee 1995; Sassen 2001). While in the past a mortgage bubble or a housing bubble would affect the economy through home owners, the current bursting of these bubbles affects the economy not just through home owners, but also through financial markets. Because lenders are now national in scope this no longer affects only some housing markets, but all housing markets throughout the US. Housing markets may still be local or regional, mortgage markets are not. Since primary mortgage markets are national, the bubble in the national mortgage market affects all local and regional housing markets, although it clearly affects housing markets with a greater bubble more than those with a smaller bubble (Aalbers, 2009). In addition, secondary mortgage markets are global markets, which means that a crisis of mortgage securitisation implies that investors around the globe, and therefore economies around the globe, are affected. The mortgage market crisis affects the US economy on both sides of the mortgage lending chain – through home owners and through financial markets – while it affects other economies in the world mostly through financial markets, not just because investors around the globe have invested in RMBS, but also because the mortgage market has triggered a whole chain of events that have decreased liquidity and this affects even agents in financial markets that have never been involved in RMBS.

9.5 Financialisation

It is no coincidence that the securitisation of mortgage loans went too far and created a mortgage bubble – and thereby also a housing bubble. Securitisation may have started out for the sake of increasing home ownership, but the last 15 to 20 years the growth in securitisation had little to do with increasing home ownership – this was simply a by-product – and more with the dependence of the US economy on the financial sector for economic growth. Due to the slowing down of the overall growth rate and the stagnation of the real economy, capitalism has increasingly become dependent on the growth of finance to enlarge money capital (Sweezy, 1995; Foster, 2007). Therefore the capital accumulation process becomes financialised: focused on the growth of finance not to benefit the real economy but to benefit actors within financial markets such as investors. Financialisation is a pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production (Arrighi, 1994; Krippner, 2005). It signifies that the financial industry has been transformed "from a facilitator of other firms' economic growth into a growth industry in its own right" (Engelen, 2003). Financialisation refers to the increased role of finance in the operations of capitalism and implies that "the inverted relation between the financial and the real is the key to understanding new trends in the world" (Sweezy, 1995: 8). Financialisation can be characterised as the capitalist economy gone extreme: it is not a producer or consumer market, but a market designed only to make money.

Mortgage markets were originally designed to facilitate households who wanted to buy a home, but they also fueled house prices. In the US, in the late 1990s, the expansion of mortgage markets entered a new stage in which mortgage markets no longer only facilitate home ownership, but are increasingly, yet not exclusively, designed to facilitate the growth of credit itself. Home ownership has always been dependent on finance, but today investment in real estate markets is more than ever before dependent on the development of financial markets. The push for home ownership has increased the importance of home ownership at both the individual and the societal level (Aalbers, 2005). The expansion of the mortgage market is not just meant to increase home ownership, but is also intended as a means to further the neo-liberal agenda of private property, firms and growing profits. In this process, home owners also become more dependent on financial markets. Old arrangements of social rights have been replaced and continue to be replaced by new arrangements in which social rights and guarantees are transferred from the state to financial markets. Indeed, the restructuring of welfare states has resulted in a "great risk shift" in which households are increasingly dependent on financial markets for their long-term security (Hacker, 2006).

Due to the financialisation of home ownership, housing risks are increasingly financial market risks these days – and vice versa. The financialisation of home ownership forces more and more households to see acquiring a house not just as a home, as a place to live, but as an investment, as something to put equity into and take equity from – the ATM or cash dispenser image of the home I mentioned before. This can be a financially gainful experience, but is not necessarily so. As home ownership has increased primarily among low-income groups, there are also more groups that have become vulnerable to the risks of home ownership. It is these groups that experience the most insecurity because of changes in the labour market, the welfare state and the mortgage market crisis. It is also these groups that are hit disproportionally hard by predatory lending.

Financialisation has resulted in an increase in the number of home owners, but also, and more importantly, in a rapid and huge increase in the value of homes. It is not recent home owners who benefit most, but those who have been property owners for decades. The financialisation of home ownership is of course the most beneficial for those who invested earlier and who were able to invest more: the "upward pressure on house prices restricts access to home ownership and adds to the wealth of the 'insiders' at the expense of the 'outsiders'" (Stephens, 2007: 218). More available and, in particular, bigger mortgage loans may, at first sight, seem to benefit people who want to buy a house, but since it has resulted in dramatic increases in house prices, home ownership has paradoxically become both more accessible and at the same time more expensive.

In addition, the US financial system made other types of credit more and more dependent on home equity. Simply put, owning a home made it easier and cheaper to get credit and, in addition, the growth of the economy in recent decades has become increasingly dependent on credit rather than on income. Home equity was and is an important part of what needs to keep the system going. Consequently, the current mortgage crisis and the related fall in house prices affect not just households that need to refinance their homes or that want to sell their homes, but the whole economy. Home equity has become so entangled with other parts of the economy, that problems in housing affect other parts of the economy. A crisis in the mortgage market is therefore a crisis in the accumulation patterns of financialisation and affects the economy at large. If a rise in home equity can keep the market going, a stagnation or decrease in home equity can result in a stagnation of other sectors of the economy and can depress economic growth.

9.6 The unique contribution of the mortgage market

Greed, the bursting of real estate bubbles and the credo that 'everyone made mistakes' cannot explain the current financial crisis. The roots of the crisis are in the structural developments of the mortgage market. Deregulation supported both securitisation and subprime lending. While the primary mortgage market after the S&L crisis of the late 1980s developed into a national market, the secondary mortgage market (i.e. the market for RMBS) developed into a global market in which mortgage funding is increasingly tied to other credit markets. It is this combination of deregulation, securitisation and financialisation that is at the root of the current crisis. This not only resulted in more connected mortgage markets, but also in vastly expanding mortgage markets. This fueled housing prices, but also extended mortgage funding beyond what was deemed good business in the past (and beyond what is deemed good business again today). Home owners were lured into overpriced loans, often through expensive refinancing. The subprime and predatory boom were not meant to increase home ownership, as is often argued – instead, they were designed to maximise profits for lenders, mortgage brokers, investment banks, rating agencies and investors in RMBS, not borrowers.

Some commentators (e.g. Mizen, 2008) would argue that it is a coincidence that the financial crisis started in the mortgage market. They argue that the whole financial system is so rotten that, sooner or later, it had to fail: the mortgage market is the trigger of the downturn, but the actual causes are much deeper and have affected all financial sectors. Other commentators (e.g. Ashton, 2009) would alternatively argue that it is no surprise that the fall down of the financial sector was caused by the mortgage market. They argue that the mortgage market was far more rotten than any other financial sector and that in no other financial sector money had been provided as recklessly. In fact, the mortgage market was not unique in its financial excesses; other financial markets also showed developments that were getting out of hand. For example, at Lehman Brothers, the American investment bank that failed, it was possible to speculate on almost anything, including the weather. Investing in a house by taking out a mortgage loan, albeit a risky one, in that respect looks less risky; and also investing in RMBS, even in subprime RMBS, does not seem so excessive anymore.

Nevertheless, the mortgage market is different from other financial markets in at least two important ways. Firstly, the market for mortgage lending and the market for RMBS, not necessarily in turnover but certainly in outstanding volume, are simply much bigger than most other financial markets. If the market for weather speculation or even that for the securitisation of car loans would far apart, the impact would be far less reaching. Second, unlike many other financial markets, a downturn in the mortgage market hits not only agents active in the credit and securities markets, but also home owners. Since a home is the most expensive thing most households will ever buy and because it is such a basic need, the impact of a mortgage crisis – in a country like the US that is heavily dependend on mortgage loans to make the housing market work – could only be dramatic. In the sense that there were too many wrong incentives in the market, mortgages and RMBS were not so different from many other financial markets, but in its impact on both 'sophisticated' financial markets and ordinary citizens, the mortgage market is unique.

By simultaneously expanding the mortgage market – by means of granting bigger loans (as a percentage of income and as a percentage of home value) and by giving access to more households (so-called 'underserved populations') – the growth machine (cf. Molotch, 1976) kept on working smoothly for a while. Yet, every growth machine needs to keep on growing to function smoothly and the current crisis has announced the beginning of the end of ever expanding mortgage markets. In addition, the reduced liquidity of mortgages in the secondary market will make it harder for lenders to securitise loans. And considering that two-thirds of the US mortgage market is securitised, the impact could only be massive. This is why major bank lenders are hit hard and have lost billions of dollars in the crisis, but the ones going bankrupt (e.g. New Century Financial Corporation) or closing down (e.g. American Home Mortgage) are the non-bank lenders that fully rely on the secondary mortgage to sell their portfolios. In addition, foreign investors, such as European banks and pension funds, are hit because many of them have bought RMBS.

Crises have often been blamed a lack of openness and transparency. Yet, the current credit crunch originates in a market made open, liquid, and transparent; located in a country that prides itself on its free, open markets. In addition, an analysis of financial crises since 1945 demonstrates that financial liberalisation, whether de jure or de facto, precedes the majority of crises (Kaminsky and Reinhart, 1999) – the current crisis is no exception. Liberalisation-enabled securitisation and financialisation, by embracing risk rather than avoiding it, act against the interests of long-term investments.

Though securitisation was designed to limit risk by spreading it over a wider area and to increase efficiency as a result of economies of scale, the spread of risk gives the crisis wider latitude, not only affecting subprime loans, but also prime loans; not only affecting mortgage markets, but also other credit markets; and not only affecting the US, but also other places around the globe. Through financialisation, the volatility of Wall Street has entered not only companies off-Wall Street, but increasingly also individual homes – home ownership and finance are more entangled than ever before. It could be argued that the state has facilitated the privatisation of profit and the socialisation of risk.

The current credit crunch exemplifies how the fate of home owners is increasingly tied to the fate of financial markets. In its origins, this is not because rising default rates and foreclosures trouble financial markets, but because the financialisation of mortgages and home owners has led to the extraction of capital from home owners to financial investors. In other words, the mortgage crisis is a direct result of the financialisation of both mortgage markets and home owners. The financialisation of home ownership is not just another example of financialisation but a crucial one, as mortgage markets are crucial markets in the present economy, while homes are as crucial as ever for households, but have increased their importance as indicators of the economy.

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Home ownership sectors in most European countries have grown in size. Whatever assets European households have acquired in recent decades, real estate appears to form a significant element in wealth portfolios. Frequently, national governments have been active in promoting the shift in tenure balance. The general question pursued in this book is about the gains and losses accruing to individual households by virtue of their position as home owners. The focus, here, is on financial gains and losses. It also concerns the losses, in the form of repayment risk, related to difficulties that some households may experience in meeting housing loan repayment schedules.
The immediate background to this volume is the Home Ownership and Globalisation: Building on Home Ownership: Housing Policies and Social Strategies Conference held in Delft, the Netherlands. Hosted by OTB Research Institute for Housing, Urban and Mobility Studies, Delft University of Technology, it was held under the auspices of the European Network of Housing Researchers.

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