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# Globalisation and home ownership

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Experiences in eight member states  
of the European Union

Edited by  
John Doling and  
Janet Ford

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# List of tables

Table 1.1	Growth of home ownership sectors in selected European countries . . . . .	8
Table 1.2	Characteristics of housing finance, in 1999, in selected European countries . . . . .	9
Table 1.3	Characteristics of labour markets (in %) in selected European countries (average 1990s) . . . . .	10
Table 1.4	Government social spending as proportion of GDP (circa 1993) . . . . .	11
Table 1.5	Proportion of households reporting mortgage repayment difficulties in 1996 . . . . .	15
Table 1.6	Correlation coefficients of proportion of households expressing mortgage repayment difficulties with institutional variables . . . . .	16
Table 2.1	Proportion of owner-occupiers by socio-economic characteristics . . . . .	26
Table 2.2	Profile of non-subsidised and subsidised owner-occupiers and tenants . . . . .	30
Table 2.3	Housing costs and affordability (in euro) in the different housing markets, 1997 . . . . .	32
Table 2.4	Unemployment trends in Belgium, the degree of unemployment as percentage of the active population, 1980-1999 . . . . .	34
Table 2.5	Part-time workers in Belgium as a share of the wage workers, 1983-1997 . . . . .	35
Table 2.6	Trends in temporary works in Flanders, average per day, 1989-1997 . . . . .	35
Table 2.7	Tenure mobility in Belgium, 1985-1997 . . . . .	36
Table 2.8	Effects of life-events on housing conditions in Belgium . . .	37
Table 2.9	Mortgage production in Mio euro in Belgium, 1996-2000 . .	41
Table 2.10	Evolution of the new registered mortgage arrears by natural persons in Belgium, 1994-2001 . . . . .	45
Table 3.1	Households by housing tenure status in Finland, 1980-2000 (in %) . . . . .	68
Table 3.2	Housing subsidies 1990-1999, in millions FIM . . . . .	71
Table 4.1	Distribution of households by occupation status (in %) . . .	81
Table 4.2	Mortgages granted in 1998 . . . . .	85
Table 4.3	Changes in unemployment rate since 1970 (in %) . . . . .	90
Table 4.4	Levels of various household assets (in %) . . . . .	93

---

---

Table 5.1	Share of loans held in the residential real estate market by type of financial institution (in %) . . . . .	106
Table 5.2	Occupational structure of West Germany . . . . .	109
Table 5.3	Unemployed persons, time workers . . . . .	109
Table 5.4	Characteristics of the unemployed in 1999 . . . . .	110
Table 5.5	Part-time employees as percentage of all workers . . . . .	110
Table 5.6	House price developments . . . . .	112
Table 5.7	Foreclosures . . . . .	113
Table 5.8	Capital losses as percentage of total outstanding loans . . .	113
Table 6.1	Core data for the Netherlands employment market . . . . .	127
Table 6.2	Owner-occupiers in perspective, 1998, in euro . . . . .	130
Table 6.3	Risk profile of people with a mortgage according to age, 1999 . . . . .	132
Table 7.1	Social housing in total housing stock (in %) . . . . .	145
Table 7.2	Total housing provision, 1960-1999 . . . . .	146
Table 7.3	Forms of housing (legally built) . . . . .	147
Table 7.4a	Working contract . . . . .	151
Table 7.4b	Employment type of contract . . . . .	151
Table 7.5	Weekly work time . . . . .	152
Table 8.1	Historical change in tenure in Spain, 1950-1996 . . . . .	164
Table 8.2	Distribution of home ownership by groups of age, 1991 . .	165
Table 8.3	Housing tenure in relation with family condition, 1991 . .	167
Table 8.4	Proportion of young living with their parents at 25-29 years old . . . . .	167
Table 8.5	Recent change of way of access to housing in Madrid . . .	168
Table 8.6	Evolution of economic sectors by proportion of workers in Spain, 1960-2000 . . . . .	171
Table 8.7	Recent trends in the effort to buy a house at an average price in Madrid, 1990-2002 . . . . .	175
Table 8.8	Proportion of young people with temporary contracts in relation to independent living in 1995 . . . . .	177
Table 9.1	Households by tenure in the UK (in %) . . . . .	187
Table 9.2	Number of households buying with a mortgage . . . . .	187
Table 9.3	Composition of employment in Britain in 1981, 1991, 1996, 2001 and 2006 (in %) . . . . .	190
Table 9.4	Employment status of heads of households in, or seeking employment by tenure (winter 1997/1998) (in %) . . . . .	192

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Table 9.5	Employment continuity and change for all heads of mortgagor households and their partners (if any) (1991-1994 and 1995-1998) and tenure at end date (1994-1998) . . . . .	193
Table 9.6	Risk to mortgagor heads of households of unemployment, 1994/1995 . . . . .	194
Table 9.7	Full time employees with gross weekly earnings below the Council of Europe's decency threshold (£239.16 per week in 1996) (millions) . . . . .	194
Table 9.8	Reasons given for mortgage arrears in England in 1995/1996, 1996/1997, 1997/1998 and 1998/1999 (in %) . . . .	200
Table 9.9	Attitudes to home ownership . . . . .	202
Table 9.10	Age and attitudes to home ownership . . . . .	202
Table 9.11	Attitudes to home ownership by region . . . . .	202
Table 9.12	Mortgage borrowing by first-time buyers . . . . .	205
Table 9.13	Mortgage borrowing by former-occupiers . . . . .	206
Table 10.1	Support with housing costs to unemployed home buyers . . . . .	214
Table 10.2	Support with housing costs and tenure neutrality . . . . .	215
Table 10.3	The potential costs of the forced sale of housing . . . . .	226
Table 10.4	State responses to the unemployed homebuyer by welfare regime type . . . . .	228

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---

# List of figures

Figure 1.1	Home ownership and the strong globalisation thesis . . . . .	6
Figure 2.1	Distribution of 'subsidised owners' across income deciles . . . . .	28
Figure 2.2	Mortgages: applications and realisations, in Mio euro . . . . .	40
Figure 2.3	Mortgages: refinancings versus realisations without refinancings, in Mio euro . . . . .	40
Figure 2.4	Mortgages: evolution of the market according to the goals, in Mio euro . . . . .	42
Figure 2.5	Mortgages: market evolution according to the type of interest, in Mio euro . . . . .	43
Figure 2.6	Mortgages: evolutions of the market by type of interest (in %) . . . . .	44
Figure 3.1	Development of real prices of dwellings in blocks of flats, 1983-2001 . . . . .	64
Figure 4.1	Solvency via the 0% mortgage and housing benefits according to income, in francs, for a couple with two or more children . . . . .	82
Figure 4.2	Property prices index 1970-1999, inflation adjusted . . . . .	89
Figure 4.3	Inflation and mortgage rates 1980-2001 (in %) . . . . .	89
Figure 4.4	Precarious jobs (x 1.000), 1985-1999 . . . . .	91
Figure 6.1	Cumulative growth of mortgage-linked credit loans and the house price developments of existing owner-occupied housing, 1980-2000 . . . . .	122
Figure 6.2	The maximum available mortgage for modal and twice modal incomes and the prices of existing owner-occupied housing, 1980-1999, in euro . . . . .	124
Figure 6.3	The housing costs quote in % and the loan-to-value in % and loan-to-income ratios in the Netherlands (recent purchasers), 1960-2000 . . . . .	131
Figure 6.4	Development of house price and long-term equilibrium price, 1965-2000 . . . . .	135
Figure 7.1	Average permits per 1.000 inhabitants . . . . .	144
Figure 7.2	Housing credit (in euro) and average interest rate . . . . .	156
Figure 8.1	Evolution of unemployment rates in Spain, 1993-2002 (in %) . . . . .	170
Figure 8.2	Evolution of the total housing built in Spain and the social housing (housing with some financing of the State), 1970-2000 . . . . .	173

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Figure 8.3	Evolutions of the housing prices in Spain and Madrid, 1987-2002 (euro/m <sup>2</sup> ) . . . . .	174
Figure 9.1	Mortgage arrears and repossessions in Britain, 1985-2001 . . . . .	199

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# Preface

This book is an outcome of an extended body of research, carried out by researchers in eight countries: Belgium, Finland, France, Germany, The Netherlands, Portugal, Spain and the UK. Its inspiration derived from an observation that across European countries there seemed to be some evidence, albeit unsystematic and patchy, of home ownership markets in which the experiences of some households were becoming problematic. The incidence of loan repayment difficulties, loan default and even forced sales combined with examples of falling prices and negative equity seemed to indicate a side to home ownership that constituted problems with social, economic and political dimensions.

Initial analysis, also unsystematic and patchy, seemed to indicate that the developments in housing markets could not be seen in isolation from other developments in European countries, and particularly those taking place in labour markets and financial systems, and indeed in the nature of welfare systems. A weekend workshop held at the University of York in October 2000 provided an opportunity for a group of researchers, who hitherto had been exchanging ideas, observations and some research findings, to bring together evidence of developments in each of their countries and collectively to explore meanings and explanations.

Several conclusions came out of the workshop. Information that mapped developments in the areas of labour markets, financial markets, social security systems and home ownership was of uneven quality and in some cases, for some countries, was simply not available. Nevertheless, there seemed to be sufficient evidence to support a thesis that, whereas there were national differences in experiences, there also appeared to be some strands in common. The research challenges then seemed clear: to establish, on a more systematic basis than hitherto, evidence of relevant developments across a range of European countries; and to attempt to make theoretical sense of what was happening.

Given that as a collection of individual researchers we would be able to take up this challenge using time squeezed from other activities, the major practical problem of finding the financial means occasionally to meet face-to-face and indeed to draw on the knowledge and insights of others was met through the obtaining of a small grant from the European Union with respect to a proposal entitled Home Ownership – Social and Economic Problems (HOSE).

The project proceeded with the development of a template that guided each of us in assembling comparative data with additional policy analysis drawn from already published studies. Two workshops were held - in Paris in December 2001 and Delft in April 2002 - at which the key arguments of the

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thesis were discussed and tested with the emphasis placed on attempting to understand both the variety of historical contexts and the influences on current diversity.

The present book brings much of the research together in a form which it is hoped is accessible to both the research and the policy making communities in Europe.

Finally, we wish to acknowledge the support and input of a number of people. Nikos Kastrinos, our scientific officer at the European Commission, who had the foresight to recognise the potential significance of the research and who provided connections to other interests within the Commission. In addition, we are grateful to those people who attended our workshops and provided us with information about and insights into the developments we were exploring: Michel van Huffell (European commission - DG Consumer Affairs); Peter Williams and Bob Pannel (Council of Mortgage Lenders, UK); P Wessels (Dutch Ministry of Housing); Professor Jochen Clasen (University of Stirling); and Marja Elsinga (Technical University Delft). Veerle Guerts and Julianne Pfau, though not part of the core group funded by the EU grant, also played active and valuable parts in the workshops and in undertaking research. We would also like to acknowledge Jane Allen's help in collating and preparing the manuscript.

John Doling  
Janet Ford  
September 2002

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# Contents

## List of contributors

<b>1 Globalisation and home ownership</b>	<b>1</b>
<i>John Doling, Janet Ford and Nick Horsewood</i>	
1.1 Introduction	1
1.2 The strong globalisation thesis	3
1.3 Weak globalisation	7
1.4 Studying the impact of globalisation and home ownership	12
1.5 A model of risk in European housing markets	14
1.6 Argument and structure	17
<b>2 Belgium</b>	<b>21</b>
<i>Pascal de Decker and Veerle Geurts</i>	
2.1 Introduction	21
2.2 A short history of housing policy in Belgium	21
2.2.1 The first housing law and beyond	21
2.2.2 Main features of the promotion of home ownership	24
2.2.3 Pushed into ownership: the current situation	25
2.3 The profile of home owners in Flanders	27
2.3.1 (Un)equal distribution of homeownership	27
2.3.2 'Subsidised' ownership	28
2.3.3 Housing costs and affordability	31
2.4 Risk reduction measures	34
2.4.1 (Un)employment in the 1990s	34
2.4.2 Households losing their home	35
2.4.3 Basic social protection: unemployment benefit	37
2.4.4 Assurance against the loss of income	38
2.5 Mortgage market and arrears	39
2.5.1 Mortgage markets	39
2.5.2 Mortgage trends	39
2.5.3 Mortgage arrears	44
2.6 Conclusions	48
<b>3 Finland</b>	<b>53</b>
<i>Hannu Ruonavaara</i>	
3.1 Introduction	53
3.2 Macro social change in the 1990s	55
3.2.1 The 1990s economic depression	55
3.2.2 Liberalisation of financial markets	56
3.2.3 Restructuring of the labour market	58
3.2.4 Restructuring of the welfare state	61
3.3 Home ownership in the 1990s	63
3.3.1 The new home ownership market	63

---

---

3.3.2	Over-indebtedness .....	65
3.3.3	The response of home owners .....	68
3.4	Housing policy and home ownership .....	70
3.4.1	Subsidies to home ownership .....	70
3.4.2	Support for home owners in distress .....	72
3.5	Conclusions .....	74
<b>4</b>	<b>France .....</b>	<b>80</b>
	<i>Jean Bosvieux and Bernard Vorms</i>	
4.1	Structural changes in homeownership and labour markets ..	80
4.1.1	Levelling off of owner occupiers .....	80
4.1.2	Housing policies: encouragement to buy, support of other sectors .....	80
4.1.3	The mortgage market .....	82
4.1.4	Changes in demographic behaviour .....	88
4.1.5	Relative price stability .....	88
4.1.6	The work market .....	90
4.2	Consequences on behaviour and on the property market ..	93
4.2.1	Less interest in being an owner occupier? .....	93
4.2.2	Risk factors .....	93
4.2.3	Changing attitudes to home ownership .....	96
<b>5</b>	<b>Germany .....</b>	<b>103</b>
	<i>Julianne Pfau</i>	
5.1	Introduction .....	103
5.2	The development of housing policies .....	103
5.3	Main features of the contemporary home ownership market .....	105
5.4	Housing market outcomes .....	111
5.5	The future .....	113
<b>6</b>	<b>The Netherlands .....</b>	<b>118</b>
	<i>Peter Boelhouwer and Peter Neuteboom</i>	
6.1	Historical context of housing systems and particularly of home ownership .....	118
6.1.1	Introduction .....	118
6.1.2	History .....	118
6.1.3	Policy objectives: Housing 2000 Memorandum .....	120
6.2	Contemporary changes in the social, economic and policy context of homeownership markets .....	121
6.2.1	Structure of housing finance systems for homeownership ..	121
6.2.2	Socio-economic policy .....	125
6.2.3	Public and private support for the housing costs for	

---

---

home owners in the Netherlands	128
6.3 Individual and housing market outcomes	129
6.3.1 Households	129
6.3.2 The housing market	133
6.4 The future of homeownership	136
<b>7 Portugal</b>	<b>141</b>
<i>Pedro Guedes de Carvalho</i>	
7.1 Introduction	141
7.2 Home ownership risk in the 1990s	153
7.3 Policy implications and conclusions	157
<b>8 Spain</b>	<b>160</b>
<i>Jesus Leal Maldonado</i>	
8.1 Introduction	160
8.2 Historical context of housing systems: from rent to ownership	160
8.3 Contemporary changes in housing tenure	164
8.4 Housing tenure and the family cycle	166
8.5 Residential behaviour in a country of home owners	167
8.6 Labour market and home access	169
8.7 From the labour market to the housing market	172
8.8 When ownership is the only way to get a home	176
8.9 Judicial security of home tenure	178
8.10 Support for the unemployed	181
8.11 Conclusions	181
<b>9 United Kingdom</b>	<b>185</b>
<i>Janet Ford and John Doling</i>	
9.1 Introduction	185
9.2 Structural changes	186
9.3 Housing market outcomes	197
9.4 Behavioural responses	201
9.5 Conclusions	208
<b>10 Managing globalisation</b>	<b>212</b>
<i>John Doling and Janet Ford</i>	
10.1 Introduction	212
10.2 Common trends, different outcomes	213
10.3 Understanding the outcomes	218
10.4 Policy responses	223
10.5 Research challenges: unanswered questions, further investigations	229

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# 1 Globalisation and home ownership

*John Doling  
Janet Ford  
Nick Horsewood*

## 1.1 Introduction

The aims of this book are based around two questions: how, or in what ways, is globalisation affecting home ownership markets in western European countries; and why do the effects vary from country to country?

The ‘how’, rather than ‘whether’, in the first of these questions reflects a number of initial observations and assumptions. Globalisation is often viewed as a prior element that provides a lead and a context to change in all countries and in all areas of their economies and societies. As a motor or instigator of change it can also be seen as engendering convergence; hence the common view that, across countries, health systems, eating habits, clothes, employment patterns, birth rates and so on are becoming more alike. Housing is no exception. Alongside this general perception of globalisation causing increasing similarities between countries, there has been empirical evidence, some systematic and some anecdotal, suggesting that over the last decade there have been some common developments in home ownership markets – volatile house prices and high rates of indebtedness, for example – that may be attributable to structural change. The connection, then, seems clear: globalisation is impacting in similar ways on home ownership markets in different countries, leading to similar outcomes.

The ‘why different’ question arises because investigation of the ‘how’ question seems to indicate that whereas the changes appear to be structural rather than cyclical in origin, they are by no means uniform. What might be expected in one country, on the basis of what has happened in another, has not always resulted. There has not, therefore, appeared to be a simple, mechanistic process operating in which a single cause has everywhere been leading to an identical effect. Indeed, in some respects there is as much divergence as convergence apparent.

In this chapter the intention is to develop both theoretical and empirical insights to aid understanding of the ‘how’ and ‘why different’ questions. In the first section it sets out the case for what might be called a ‘strong’ globalisation thesis. This posits that globalisation has taken away the room for autonomous action by national governments, with the resulting policy developments in turn affecting not only the operation and outcomes of home ownership markets everywhere, but also the perceptions and behaviour of indi-

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vidual consumers of housing. There is thus a chain of cause and effect brought about because first globalisation removes the independence of governments and second households adapt to the changes. In terms of the agency-structure question, a 'strong' globalisation thesis is firmly located in structural determinism: the actions of governments and housing market actors are posited as being organised by the structural position – established by globalisation – they find themselves in.

In the second section of the chapter, a 'weak' globalisation thesis is presented. This does not deny the presence of global processes and the constraints they place on national governments, but considers the constraints as relative rather than absolute. On this view some governments may make policy changes of one type, some of another, with yet other governments making no changes at all. Similarly, individual households may adapt their behaviour in a variety of ways. A rejection of structural determinism, however, does not necessarily mean the adoption of the voluntarism of individualism. Indeed, the 'weak' version can incorporate structuration theory, which accommodates both agency choice and structural disposition. One consequence, methodologically, is that an empirical aim is to identify points or links in the causal chain of structural determinism where the effect is not pre-determined by a prior link, but where there is room for manoeuvre. In fact, it is possible to theorise the links running in both directions with households bringing pressure to effect national policy change and national policy in turn encouraging, discouraging or shaping globalisation.

In whatever way the impact of globalisation is conceptualised – weak or strong, absolute or relative – a common feature is that it generates uncertainty or risk. The capacity of capital to become 'footloose' and for both manufacturing and service activities to re-locate in the search for greater profitability creates, in principle, unpredictability and uncertainty for states, institutions, markets and households with respect to, for example, the permanence of employment or the availability of investment resources (including those for housing) or the withdrawal of production. It is this facet of globalisation that creates the potential for various parties to seek to mediate the risks and hence to mitigate the impact, a series of processes and opportunities denoted by the term 'risk society' (Giddens, 1991). This possibility of responding to risk, on the part of governments and individuals, and the way such responses are shaped, and with what implications, becomes a central focus of concern in our assessment of the validity of a weak globalisation thesis.

In the third section of the chapter, we identify a number of methodological issues encountered in assessing empirical information about individual countries against the two models of globalisation. The fourth section reports

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on one of the approaches taken in the research. The final section presents the broad structure of the book.

## 1.2 The strong globalisation thesis

The frequency of the usage of the term globalisation is not matched by any great precision or agreement about its meaning. It tends to be a catch-all for a wide range of changes in socio-economic systems across all the countries of the world (see Waters, 1995). So pervasive and all embracing are these changes that they are seen by some to be that resulting in uniformity and a reduction of differences between countries. “According to the new orthodoxy, we are now entering a new phase in world history in which cross-border flows in goods and services, investment, finance and technology are creating a seamless world market where the law of one price will prevail” (Weiss 1998: 167).

The infusion of common economic and financial developments throughout the countries of the world is also seen as the domination of the economic over the political. Nation states have been weakened in their ability to influence, let alone simply reject, the movement of capital, labour and goods or to distribute resources within their boundaries in order to achieve greater levels of equality. “What we are witnessing say the proponents of globalism is no less than the demise of the nation-state as a power actor, the end of ‘national capitalisms’ with their characteristic welfare system and national policies, and ultimately world-wide convergence on one kind of economic system: Anglo-American-style free market capitalism” (Weiss 1998: 168).

This judgement of the ‘retreat of the state’ (Strange 1996) should not be confused with the notion of the ‘hollowing out of the state’, as a result of which “the powers of nation states are being limited through a complex displacement of powers upward, downward, and outward” (Jessop 1996: 178). Nevertheless, they share a recognition that many of the functions of the nation state have been replaced by supranational organisations – such as the EU, the World Bank and the World Trade Organisation – and that this applies as much to matters of social welfare as of economics (Moses, 1995; Deacon, 1997).

The basis of a strong globalisation thesis lies in the observation that capital in its various forms – financial, manufacturing and human – increasingly is able to re-locate across national boundaries. In the early post Second World War decades, most nation states, even where the levels of imports and exports were high relative to GDP, in many respects operated relatively closed economies. The regulation of financial systems and organisations by each

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country's central bank enabled their governments to act, with some degree of autonomy, in setting interest rates, credit quotas and inflation targets. Market regulations, sometimes overt market protection, combined with high information and transport costs enabled them likewise to impose their own rules about income taxes and social costs on manufacturing industry. In this context, national governments, within the limits of national politics, could institute redistributive measures as between regions, groups and individuals.

Emanating initially from developments in the US, from the 1960s there has been a general shift toward the de-territorialisation of financial institutions and markets. For example, in 1960 US banks had 131 overseas branches, but by 1980 the number had risen to in excess of 900 (Cho 1985). With increasing amounts of money being held in overseas banks that were not subject to the minimum reserve requirements laid down by central banks, a wedge was driven between financial institutions and national regulation. National governments for their part responded with some sensitivity to these developments since financial institutions and investors came increasingly to make investment decisions informed by the financial policies of individual countries (Leyshon & Thrift 1992).

In addition to the actions of national governments, the European Commission has also been an active agent of reform, being long interested in the creation of a single market for financial services, including mortgage finance. The Single Market programme, set out in the Cecchini Report, was intended to generate cross-border competition and reduce the differences in levels of efficiency between the financial institutions in each state. The Second Banking Directive created a framework whereby financial institutions were to be supervised by the government of their own countries and once licensed an institution would be free to set up branches in other EU countries, an outcome that could be expected to achieve convergence in all aspects of mortgage markets.

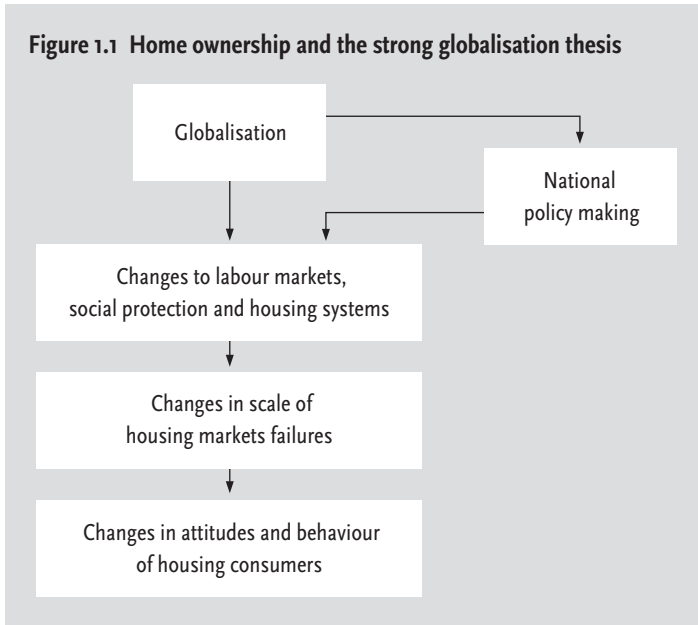
Running in parallel with the globalisation of financial capital and connected with it, has been the globalisation of manufacturing capital. There has been a greater standardisation of products that has offered opportunities for economies of scale alongside a new international division of labour in which many areas of manufacturing requiring less skilled labour, for example, have been switched from the developed to the developing world, where labour costs are generally lower (Frobel et al, 1980; Levett, 1983). Technological developments have engendered a situation where in many products there is global surplus capacity. One measure of this lies with the number of people who across the world as a whole are unemployed or underemployed, that is from an economic point of view constitute under-utilised resources: according to one estimate, about one billion people (ILO, 1998). Against this background,

nation states are forced to recognise that capital, particularly though not exclusively in the form of multinational companies, is able to move production, marketing and many other aspects of its activities, from one country to others. National arrangements that are not conducive to capital may be met with the economic and political consequence of higher unemployment.

The problem for nation states, then, is the fear that, because they have lost much of their leverage over investment decisions, capitalists may engage in regime shopping or social dumping, whereby they (re) locate in the knowledge of matters such as which countries have high taxation for social purposes and labour rights restricting their freedom of operation. In short, the actions of national governments can be seen as being driven by a logic of globalisation.

### **Home ownership**

On this view of globalisation, what might the consequences for national home ownership markets be? Notwithstanding sometimes massive interventions during the early post war decades taking the form of social housing provision, Table 1.1 shows that in most European countries home ownership sectors have continually expanded so that the average west European household is now a home owner (Doling, 1997). The transformation from renting to owning was based on sets of arrangements linking housing, welfare policies and work that, whilst differing in detail from country to country, at a medium to high level of generalisation can be seen to be quite similar. To begin with growth was facilitated by the increasing prosperity shared by large sections of the people of Western Europe that has allowed them to consume ever more goods and services. But, the growth of home ownership can also be seen as part of a mutually supportive system combining housing, work and welfare. Incomes did rise, but over many of the post war decades there was also full employment and, for many people, a continuity of employment that facilitated the making of regular repayments on a long term housing loan. This continuity was based not only on the high demand for labour, relative to supply, but also the gradual strengthening of labour protection legislation as part of the compromises reached between capital and labour. The predictability of income made it possible both for the individual and the financial institutions to enter into long-term loan contracts, secure in the knowledge that there would probably not be an adverse change in the labour market position of the borrower that threatened their ability to repay. Their relationship was in the case of many countries, underpinned by welfare policies that both helped to sustain full employment and provided compensatory income, enabling loan repayments to be maintained, in those cases where unemployment did occur. The integrity of this system was reinforced by the increasing levels of home ownership which acted like a magnet to the goods produced by manufacturing industry, boosting

**Figure 1.1 Home ownership and the strong globalisation thesis**

consumption and social solidarity, and, by giving them a stake, incorporated people within national projects.

Figure 1.1 outlines the main steps in the strong globalisation story, through the dismantling of these symbiotic relationships, leading to home ownership sectors characterised by high levels of insecurity and individual failure. Increasingly over the

last quarter of the twentieth century, national governments have been forced to weaken legislation protecting workers and citizens. As the reality of capital mobility became more apparent, as the demand for labour decreased giving rise to high levels of unemployment, and as the fiscal burden of welfare systems increased, governments acted to reverse the trends. In order to do so, they would have to reduce social overheads on industry in terms of both direct tax and the cost of worker's rights that created inflexibility in their labour strategies. Accordingly labour markets were made more flexible by reducing protection for workers, for example by reducing minimum wage levels or compensation for redundancy. Likewise, responsibility for individual welfare was transferred from the state to individuals frequently by increasing the role of markets. In the housing sphere, the role of social housing was reduced as a result of decreased new production and tenure transfer to home ownership. In the welfare sphere, benefit levels were reduced and eligibility criteria tightened.

According to a strong globalisation thesis, policy developments have dismantled some elements of the symbiotic relationship between work, welfare and home ownership, while actors in housing markets also came to be located in a changing structural position. What had been assumed to be a stable relationship – between income, loan repayments and welfare safety nets – broke down. Whenever in the new labour markets the incomes of individuals unexpectedly fell there was an increased probability of arrears followed by repossession actions through the legal system. Such an outcome may be more likely where few have savings or other resources they can draw on. Where a geographical area had been economically reliant on a single firm or industrial sector that reduced or even ceased its activities, many home owners may have become redundant and the local housing market may have collapsed. Some households unable to maintain their loan repayments also faced the



situation of negative equity. So, home ownership, earlier a source of stability, security and investment, becomes for many a site of uncertainty and risk in which some of the consequences of the changing nature of work and welfare are played out. The transformation of these structures and processes (and others), along with their impact on housing, increase the risks faced by individuals and societies. A number of writers have identified and discussed the growth of a 'risk society' (Beck, 1992; Giddens, 1992) and pointed out the conjunction of this with that of the retreat of collective provision and the individualisation of responsibilities for key areas of life.

In turn, the perception of risk may deter households from making what in earlier times would have been decisions that optimised their quality of life; for example there may be less willingness to move to another, more expensive house, or to move in order to take up a job opportunity. Or, they may seek to take loans over shorter repayment periods. It may mean a dampening effect on new household formation, on moving away from the parental home and on a reduction in the numbers of first-time home buyers. Other market actors such as loan managers and developers can be expected to adapt their behaviour accordingly. Loan managers may become more inclined to give shorter repayment periods and they may become increasingly reluctant to lend, at all, to those with fixed-term work contracts or those they see as working in insecure occupations and industries.

Following through the logic of globalisation, then, developments in the economic sphere that have given ease of mobility to capital have as a result given it dominance over the political sphere. Forced to lower the costs of employing labour – by reducing rights to people in their capacities as both workers and citizens – national governments have directly contributed to the reshaping of their home ownership sectors. For their part, individual households, faced with a range of housing opportunities among which home ownership has become characterised by high levels of risk, have adapted their behaviour patterns. More cautious in their decisions, they have opted for reducing their loan commitment in terms of the percentage of the value of the dwelling and the loan repayment period.

### 1.3 Weak globalisation

The argument developed in this part of the chapter is that the effect of globalisation on the actions of nation states and, in turn, individual households is much weaker than portrayed above. The position taken is that "globalisation has developed through structuration processes in which actors have had constrained but nevertheless significant choices" (Scholte, 2000: 107). In fact those

**Table 1.1 Growth of home ownership sectors in selected European countries**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Austria											50							
Belgium	61															65		
Denmark			55													52	53	
Germany					43			40										41
Greece	70										75							
Finland			65												62			
France		50										54				54		
Ireland	74															80		
Italy			65													78		
Luxembourg	59										72							
Netherlands	42															49		50
Norway	74									78								76
Portugal	57										66							
Spain	73										78							
Sweden			50												61			
UK			59												67			

Source: European Mortgage Federation (2000)

countries where the impact has given the appearance of being greatest, that is conforming to the structural determinism view, are those in which neo-liberal ideology has been most strongly embedded. Neo-liberalism “has generally prevailed as the reigning policy framework in contemporary globalisation” (Scholte, 2000: 34) in that many governments have followed its directives in forming their relationship with globalisation. Given the argument that the state has become powerless to resist global forces, they have, as Waters has pointed out, been able to use globalisation as an excuse for their own failures: “our economy is failing because of the recession in the USA or Europe or Japan or somewhere else; our currency is declining because of the activities of unidentified international speculators....” (Waters, 1995: 101) and so on. But governments may also use globalisation as a convenient and convincing cover story for policies that they want to promote anyway. In doing so, they may often be guiding globalisation, for example through deregulating financial markets they have facilitated and guided the penetration of agencies into geographical areas in which they had not previously had a foothold (see Helleiner, 1995). Such responses contribute “to the reflexivity of globalization” (Waters, 1995: 107) so that whereas globalisation may have had impacts, the effects of those impacts have been far from uniform. Thus, in some European countries the consequences on home ownership markets – high incidence of failure; and household behaviour – greater caution – is not everywhere apparent.

The variation in response can be attributed to both different national starting points, in terms for example of the size and socio-economic character of home ownership sectors, and the ability of actors to exercise a degree of

**Table 1.2 Characteristics of housing finance, in 1999, in selected European countries**

	Mortgage interest rate (%)	Variable share (%)	Maximum duration in years	Mortgage loan-to-value (%)
Belgium	7.2	75	15-20	n.a.
Denmark	6.8	10	30	80
Germany	6.4	80	25-30	100
Finland	6.3	90	10-15	80
France	5.8	20	15-20	60
Ireland	6.2	57	20-30	95
Italy	6.5	40	10-15	80
Netherlands	6.6	75	30	125
Austria	7.1	n.a.	20-25	100
Spain	5.9	80	15-20	80
UK	6.7	100	25	100
Sweden	6.1	100	20-40	100

Source: Neuteboom (2002)

autonomy in their decision making. Also important may be the extent to which neo-liberalism has permeated each country.

### Financial markets

Whatever the apparent pressures emanating from the European Union to move national financial systems toward convergence, in fact mortgage markets remain parochial. Cross border lending has not developed to such an extent that competitive pressures have been able to effect change toward a common model, so that wide variations in practices and norms remain (see Table 1.2). Thus, maximum loan to income ratios vary between a maximum of 60% in France to 125% in the Netherlands, and maximum loan repayment periods from 10-15 years in Finland to up to 40 years in Sweden.

### Labour markets

Esping-Andersen (1996) has developed a typology of strategic responses to global pressures; the Scandinavian (typified by Sweden and Denmark), the labour reduction (Germany, France) and the neo-liberal (US, UK), each distinguished by their preferred strategy for managing industrial and employment decline. Thus, there are predicted and observed differences in the degree to which countries seek to manage globalisation and international competition by de-regulating the labour market to secure flexibility (but with the consequence of low wages and potentially rapid labour turnover) as in the neo-liberal model, or by maintaining a high wage/high unemployment economy as in the labour reduction and Scandinavian models. One conclusion may be that "a country can control the form and distribution of risk, but cannot evade it" (White, 1996); the main point, however, is not whether Esping-Andersen's typology is correct or useful, but rather its premise that states have choices, not entirely unrestricted, with some room for manoeuvre avail-

**Table 1.3 Characteristics of labour markets (in %) in selected European countries (average 1990s)**

	Unemployment	Long-term unemployment	Self-employment	Part-time employment
Belgium	8.4	59.9	15.3	5.1
Denmark	7.7	28.1	8.6	10.3
Germany	7.9	43.6	9.4	2.5
Finland	12.1	28.2	14.3	5.0
France	11.1	39.1	11.7	5.3
Ireland	12.8	60.3	20.6	6.3
Italy	11.8	62.6	24.5	4.3
Netherlands	6.2	48.2	10.7	11.6
Austria	4.0	25.9	10.9	2.3
Spain	20.1	53.4	21.0	1.6
UK	8.3	38.4	12.7	5.9
Sweden	7.5	9.6	10.6	6.4

Source: OECD Employment Outlook, various issues

able to them. In part, the consequences can be seen in the variations in the composition of employment with different balances between employment and unemployment, and between different forms of employment – part time, self employment and so on (see Table 1.3)

### **Welfare systems**

Here, too, there were different national starting points. The western, industrialised countries each developed welfare systems that in detail were distinctly different one from another, but which can be located within one of several family types. Esping-Andersen (1990) is also useful here. The basis of his typology lies in the nature of class conflict in western, industrialised countries and the resolutions that determined the extent to which access to welfare goods was separated from labour market position, that is the extent to which welfare states provided socially acceptable standards of living independently of participation in economic activity. He combined this with the nature of the eligibility criteria and levels of benefits or provision in each country. His typology can, therefore, be seen, as Bonoli (1997) points out, to incorporate elements of both the scale and the nature of state intervention. On this basis Esping-Anderson proposed three, distinct regimes. Liberal regimes, of which the US could be viewed as the archetypal case but with the UK sharing some of its characteristics, take a minimalist position, providing welfare as a last resort, generally means-tested, in the event of the failure of markets to provide, and to a minimum level. In conservative-corporatist regimes – West Germany and France being archetypal – there is no great attempt to modify status differentials, welfare being typically delivered through or in relation to occupations; the family and the Church are key elements in welfare provision. Finally, social democratic regimes – here, Sweden

is archetypal – are based on broad consensus across social classes, with universalist principles aimed at achieving high levels of de-commodification and equality; the state is the first, not the last, resort. The formulation has been widely criticised, for example by Leibfried (1993) who has proposed a fourth regime type found in the Latin rim countries of Mediterranean Europe, in which the family and the Church take prominent welfare roles. Here again the important point is not whether the Esping-Andersen formulation is correct, but that it indicates, and the data of table 1.4 substantiate, the existence of wide variations in social security systems.

### Housing systems

Just as the work-welfare contexts and the policy responses have differed from country to country, so, from a weak globalisation perspective, assessment of their consequences for home ownership need to recognise that there are differences here also. One dimension of difference is in the meanings, particularly legal but also other aspects such as status, that are attached to home ownership. For example, in some countries, such as Sweden and Finland, there are specific forms where there is collective ownership of blocks of apartments with the shares entitling households to rent individual apartments (Ruonavaara, 1987). Such tenant owners have different sets of rights and responsibilities to home owners in, say, France and Spain. Once the definitional problem has been recognised (even if not resolved), another dimension of difference is in the relative size of home ownership sectors within each national system. In some EU countries – such as Ireland, Spain and the UK – 70% or more of households are home owners, whereas in others – Sweden and West Germany, for example – the proportion is around 40%. (Hedman, 1994). There have also been differences in recent growth rates in different countries. In some – the UK being the prime example – the growth of home ownership sectors has, if anything, accelerated in recent years, partly in response to cuts in government programmes providing other forms of housing and the de-regulation of financial markets that has made more money available to household consumption. (MacLennan, 1996).

There are other important differences in national housing systems. Some countries, principally the Netherlands, UK and Sweden, have large social housing sectors that allocate housing on the basis of need rather than the ability to pay. Others, principally, Germany, Portugal, France and Belgium, have large private rental sectors (Hedman, 1994). Subsidy systems differ so that, for example, in France subsidies particularly support the move into home ownership of lower income groups, whereas in Finland they favour

**Table 1.4 Government social spending as proportion of GDP (circa 1993)**

Country	Social spending (%)
Austria	17.8
Belgium	20.5
Denmark	14.8
Finland	10.5
France	16.4
Greece	19.0
Germany	14.3
Ireland	10.7
Italy	14.0
Netherlands	17.1
Norway	17.7
Portugal	10.7
Spain	10.9
Sweden	22.1
UK	12.2

Source: International Monetary Fund (1994)

middle income groups (Balchin 1996). It is possible, although there is little systematic research, that across EU countries there are different attitudes towards the home, particularly relating to the propensity to move from one home to another or from one city or region to another.

Furthermore, there are differences in legal frameworks and cultural norms. Thus, in some countries, the legal framework may make it more difficult than in others for financial institutions to gain possession of a house where the household has defaulted on their housing loan. Likewise, the cultural norms of a society may militate against financial institutions taking such steps (Balchin 1996).

It is against very different housing systems and attitudes, therefore, that the consequences of the changing nature of work and welfare are played out. Further, the restructuring of these structures and processes (and others), along with their impact on housing, increase the risks faced by individuals and societies.

### **Behaviour and risk**

The argument under a strong globalisation thesis that the actions of households as actors in housing markets are structurally determined is consistent with the perspective of methodological individualism: individuals are able accurately, that is objectively, to assess the level of risk inherent in competing courses of action. There is an argument that such a perspective is also nurtured by neo-liberalism which both encourages the view that risk is a positive good as well as breaks down the collective responsibility that reduced the negative impact on the individual (Douglas, 1994). On this view, the actions of the UK government have appeared to most clearly support a structural determinism perspective.

One of the alternative perspectives, that fits more closely with a weak globalisation thesis, is a social action one, which posits that “individual risk perceptions are mediated by social norms about what ‘risk’ is” (Rhodes, 1997: 216). Risk then is socially constructed and any given objective level of risk may be assessed quite differently in countries where the dominant view is that risk in the housing market is not an issue.

## **1.4 Studying the impact of globalisation and home ownership**

Given a theoretical perspective on globalisation and home ownership that stresses the relative autonomy of actors – be they the state, private compa-

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nies or individual households – what are the opportunities and barriers to identifying, empirically, relevant developments in the member states of the EU? In fact, the tables presented in the preceding parts of this present chapter, in that they indicate similarities and differences as well as changes over time in a number of variables appropriate to our interests, have already begun to demonstrate some of the opportunities. Set against more demanding data needs, however, it is important to recognise some of the limitations.

### **Methodological considerations**

One issue relates to data availability and the need to establish a minimum level of both quantitative and qualitative data for a number of European countries if the thesis is to be tested. This requires, for example, quantitative data on the key attributes of financial markets, labour markets and welfare systems, and recent patterns of change; as well as an understanding of the more qualitative nature of government, institutional and household responses to the uncertainties of global processes. Further, there are a number of potential home ownership risk ‘outcomes’ that have to be assessed of which levels of mortgage arrears and evictions (which need to be contextualised, not least in relation to the legal system) are clearly important, but more qualitative outcome measures such as failing markets (falling prices, low demand etc.) are also significant.

The research, on which the subsequent chapters of this book are based, has relied mainly on the use of secondary data sources in the form of national surveys but, where possible, European surveys in order to enhance the comparability of the data (for example, The European Labour Force Survey, the European Household Survey and OECD data). Some data series are fully harmonised across countries and over time, but elsewhere there are the familiar limitations of missing data, varying census years, changing definitions and so on. The data on the size of home ownership sectors given in Table 1.1 are a case in point. However, data on some issues are either not collected at all in some countries or not available in the public domain (for example, arrears and possessions, homelessness etc) and here attempts have been made to instigate primary data collection even if only resulting in indicative statements. Contextual information on the historical development of home ownership markets and current public policy with respect to housing, social security and the labour market are drawn from existing studies. Throughout there are issues of conceptualisation, definition and measurement, especially where data are drawn from local studies.

There is, however, a further level to our methodological concerns: what can be done with the data, or, more explicitly, how can the data be analysed and presented in order to shed light on both real world outcomes and the

processes underlying them? In this study we have adopted a two-fold strategy. The first – the content and results of which are reported in the next section – is an explicitly comparative examination using secondary data. A premise is that statistical analysis can exploit the national differences in institutional arrangements – housing market structures, social security systems and so on – to identify key relationships. In other words, by using secondary data describing relevant characteristics of European countries and incorporating them into a single model, we discover evidence of how they combine to influence specified dimensions of home ownership. In using quantitative data and assuming that complex relationships can be captured within a single model, this is of course a positivist strategy. Whatever its strengths and weaknesses, however, it provides an explicit comparison and ordering of the countries sampled.

The second part of the strategy – the results of which are presented in the following chapters – consists of country case studies. Here, the data are both quantitative and qualitative and describe developments in some detail in each country. Whereas we have carried out these case studies using a loose template that has allowed each author both to address common questions and to reflect the peculiarities of their individual case, this can perhaps be best described as implicitly comparative. Each country case can be read on its own as an independent account of its national developments, with any comparisons across countries requiring identification through the endeavours of either the reader and/or the authors of the present and final chapters. There is a further important distinction between the two approaches. The first is based on an assumption that risk can be objectively defined and quantitatively measured: whereas the second allows the possibility that risk may be socially constructed. Overall, then, what the case studies offer is more detail, more depth and more richness in the identification of trends, interpretations and meanings.

## **1.5 A model of risk in European housing markets**

Our aim in this section of the chapter is to present the results of the first of our two approaches to understanding relationships between globalisation and home ownership. Reported more fully elsewhere (Horsewood & Doling 2002), it provides evidence of interconnections between, on the one hand, developments in financial and labour markets, with social security systems, and, on the other, risk in national housing markets. The starting point is the observation that, as a proportion of total household expenditure, housing-related expenditure varies across European countries, as do national levels of



mortgage debt relative to GDP. Thus, the total mortgage debt tends to be much higher in the countries of northern as compared to southern Europe (European Mortgage Federation 2000). One way of viewing these variations is to regard them as measures of the level of risk that is tolerated by the actors in the house purchase decision, the household and the financial institutions. An additional measure of risk is indicated by the proportion of households in each country that experiences difficulties in meeting the agreed loan repayment schedule. According to the European Household Panel Survey carried out in 1996 the proportions vary from less than 1% in the Netherlands to over 27% in Greece (Table 1.5).

A central argument of the analysis is that the level of risk in the housing market in each country is managed through decisions covering matters such as loan to income ratios, interest arrangements and loan duration, all of which vary considerably (see Table 1.2). Further the assessment of what is tolerable will be related to: the nature of national labour markets in that they influence the extent to which households future income is assured; and the nature of social security systems that protect households against loss of income. From this it is possible to posit a general equation or model that explains the level of risk in a country. The level of risk (proportion of households experiencing mortgage repayment difficulties) is a function of:

- the characteristics of housing loans (e.g. interest rates);
- the characteristics of labour markets (e.g. proportion of people working part-time, levels and changes of unemployment, level and growth of national prosperity);
- the characteristics of social security systems (e.g. social security payments as proportion of GDP).

This model can be tested using data from secondary sources to establish which, if any, of the independent variables contribute significantly to explaining the variation in levels of risk. Insofar as developments in all the independent variables can be seen to be influenced by globalisation, the effect of a strong version of globalisation operating, as we have argued above, would be to reduce variations from country to country, and thereby to remove their impact on levels of risk. In short, convergence in these institutional factors would mean that they had limited explanatory value in the model and, therefore, that some other factors – not yet specified – would be the determinants of levels of risk. By testing the explanatory power of each of the independent variables and how they contribute to levels of risk tolerated in each country, therefore, the nature of the globalisation processes is also being tested.

**Table 1.5 Proportion of households reporting mortgage repayment difficulties in 1996**

Country	% reporting difficulty
Austria	1.1
Belgium	4.9
Denmark	1.2
Finland	13.6
France	2.9
Germany	1.3
Greece	27.1
Italy	8.5
Luxembourg	2.0
Netherlands	0.6
Portugal	3.2
Spain	7.1
UK	6.2

Source: Reijo and Juntto 2002

**Table 1.6 Correlation coefficients of proportion of households expressing mortgage repayment difficulties with institutional variables**

Variables	Correlation coefficient
Interest rate	0.23
Standard deviation interest rate	0.64
Unemployment rate	0.46
Standard deviation unemployment rate	0.68
Social spending as % GDP	-0.50
Part-time employment rate	-0.45
Growth GDP	-0.21
Standard deviation growth in GDP	0.48
Owner occupation rate	0.66

The correlation coefficients reported in Table 1.6, all being significant at least at the 10% level with most at the 5% level, show the strength of the statistical associations. Whereas the reference point for the data is the mid 1990s, there is nothing in our investigations that indicate that the findings would not be replicated with current data were these available. They lend support to two general conclusions.

Firstly, national variations in mortgage repayment difficulties are associated with institutional factors. Specifically, the coefficients suggest that mortgage repayment difficulties are more prevalent in countries where there is the greatest variability in unemployment, in interest rates and in national economic growth. All these factors may be interpreted as capturing the volatility underlying the long-term credit arrangements, founded in economic change that impact on the ability of borrowers to sustain repayment schedules.

For example, when unemployment rises it is likely that some borrowers, who had based their repayment schedules on future flows of incomes from employment, will experience difficulties. The correlation coefficients further indicate that repayment difficulties are high in countries where the home ownership rate is also highest. One interpretation of this is that where the rate is high more people who in terms of income or wealth are marginal buyers have been attracted or forced into the tenure. Many of these households will be walking a financial tightrope and any disturbance to their position, however small, may throw them off-balance. Finally, the correlation coefficients indicate that rates of repayment difficulty will tend to be higher in countries where social spending, and thus the extent of state support, is lowest. In other words, low levels of social protection appear to result in high levels of individual hardship. Whereas it is important not to push the interpretation of statistical associations too far these findings do provide a measure of empirical support for arguments earlier in the chapter about general relationships between housing, labour, finance and social security.

Secondly, the findings also provide some empirical support for a view that the level of convergence in housing markets is limited by the lack of convergence in these other areas, and, in turn, that globalisation is having less impact on overall convergence than a strong version of the thesis would suggest. There is a further caveat here arising from the cross-sectional nature of the analysis. Using data for one point in time only, the model does not directly capture the dynamics of real world developments. It is possible that cross sectional analysis repeated for different points in time would reveal some convergence. Even if this were the case, however, the fact that there had only

been some convergence so that considerable differences remained apparent, would not lend support for a strong version of the globalisation thesis.

## 1.6 Argument and structure

The following chapters provide an opportunity to assess the theoretical framework(s) set out here via a country by country account of the impact of globalisation on home ownership. In general, they support a weak, rather than a strong, globalisation thesis. According to this, global processes both facilitate home ownership and make it riskier through the standardisation and de-territorialisation of production and the movement of capital with its associated impact on labour market opportunities and outcomes. These changes are, however, experienced within different historical, social, economic and political structures that continue to shape the responses on the part of governments, institutions and households. Thus in the face of convergence processes, there is a continuing diversity of home ownership markets and experiences of home ownership.

While our argument is that the weak globalisation thesis is the more compelling in the light of the evidence, countries can nevertheless be placed on a continuum with those having the strongest neo-liberal ideology appearing to offer more support for the strong globalisation thesis. Evidence from the UK might be interpreted in this way with the predominance of market processes seemingly unchallenged, reinforced and extended by policy response and borne out by evidence of, or fear of, market failure. But policies are also choices, albeit that in reinforcing globalisation they give choice the appearance of constraint. Further, even in neo-liberal countries, such as Britain, evidence of state intervention to reduce and manage risk can be found, as in the creating of market renewal policies in response to low demand, or mortgage rescue packages in the face of rising evictions.

The major part of the book, then, consists of a series of country chapters that allow the reader both to build an understanding of the impact of globalisation on home ownership in particular states and on a comparative basis. A final chapter fulfils three aims. First, it summarises and organises the evidence of the country chapters and their significance for our perspective on globalisation. Second, starting from the position that home ownership is risky, it explores the question that, given the predominance of the tenure, its centrality to economic growth and its increasingly problematic nature in European countries, what should be the role of the state in safeguarding home owners? Finally, it points to further studies that would usefully assist the search for understanding of globalisation, risk and home ownership.

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## 2 Belgium

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### 2.1 Introduction

In this chapter we focus on home ownership and the risk reduction strategies in Belgium. Belgium is, to use Saunders' (1990) words, a nation of home owners. Nearly 70% of households own their house, and home ownership is a longstanding tradition. The first housing law, enacted more than 100 years ago, even then intended to promote home ownership. So, home ownership is deeply embedded in Belgian society.

The first part of this chapter looks into the roots of home ownership in Belgium (and its regions). In the second part we look at the profile of home owners. We shall focus on some aspects of the correlation between home ownership and social inequality, including the distribution of housing subsidies and housing quality and a discussion of affordability issues. Part 3 presents information on the loss of owner occupied houses and the risk reduction measures. On this subject we observe a rather paradoxical situation: on the one hand, housing policies in Belgium (and its regions) have traditionally promoted ownership, but on the other hand, only in the late 1990s was any insurance to protect against the consequences of a loss of income introduced. In a final part we deal with the mortgage market, mortgage arrears and, as far as information is available, with the way banks are dealing with arrears.

Before we start our argument, we should warn the reader, that due to the restructuring of the state and the regionalisation of housing (and therefore data-collection), data for Belgium and Flanders are (unfortunately) mixed.

### 2.2 A short history of housing policy in Belgium

#### 2.2.1 The first housing law and beyond

After a study of housing policy in Britain, France and Germany, Kleinman (1996) concludes that some countries become locked into particular patterns of policy development at an early stage, for reasons that may be historical, deliberately chosen, or the product of accident. Once locked in, future development is constrained. This so-called 'path dependency' approach fits well for Belgium and the region of Flanders, since the larger options of the first housing law of 1889 still stand and to some extent are reinforced these days.

This first housing law is rooted in two of the three main social divisions in Belgium, that is the one between labour and capital, and the one between the Catholics and the Liberals.<sup>1</sup>

The first housing law was part of a larger labour law, resulting from the 1886 social unrests. A homogenous Catholic government, combining the Catholic vision on housing with anti-labour options, voted it in. It included three vital objectives which still hold today: (1) the promotion of home ownership (although almost nobody could afford it at that time); (2) the promotion of the single-family house; and (3) the avoidance of urbanisation (a policy that started earlier – see Smets, 1977; Goossens, 1982; Kesteloot, 2001). Positively formulated, the Catholic party saw the owned single-family house as the best framework within which to raise a family (Goossens, 1982). In looking back, this option also embedded mechanisms to counter the collectivisation options of the labour movement and the breakthrough of the Socialist Party (founded in 1885) by atomising society into a huge number of small owners confronted with years of mortgage payments (Goossens, 1982). In the end, the Catholic strategy can be evaluated as very successful and efficient (De Decker, 1995), since its basically ideologically loaded housing options became the norm – or, to quote Kemeny (1995), became ‘hegemonic’. In Flanders today more than 70% of households own their house, and (especially) post-war new house construction was dominated by semi-detached and detached dwellings (Goossens, Thomas & Vanneste, 1977). There is a broad consensus that Belgium is a very anti-urban state (De Decker & Kesteloot, 2000; Kesteloot, 2001).

In order to understand the consolidation of the hegemony of the Catholic housing option, it is necessary to stress that the Catholic movement incorporated a part of the labour movement. In competing with the socialist labour movement – opting for collective housing for rent and planned urbanisation – it would be the Christian Labour Movement that stood, and still stands, for the Christian housing policy.<sup>2</sup> On the one hand they were very aware of the fact that free market housing would never lead to good and affordable housing for all. But at the same time they could not, for at least two strategic reasons, opt for mass social rental housing. The first of these reasons has to do with market shares, so the Catholic labour movement sought to confront the housing options of the Socialist Labour Movement and the Socialist Party. The

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<sup>1</sup> The third division is between the Dutch and French speaking communities, which since the 1970s has led to an ongoing process of state restructuring and decentralisation of responsibilities.

<sup>2</sup> In a recent update of their housing options, CD&V, the Flemish Christian Party (now in the opposition) still chooses ‘to go fully for home ownership’, since that is the way Flemish households realise their housing right (Heeren & De Clerck, 2002).

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second is that the Christian Labour movement very soon after its foundation at the end of the 19<sup>th</sup> century became incorporated in the larger Catholic movement (or 'pillar'), which also encompassed other Catholic movements, including the Catholic employers, the Catholic self-employed and the Catholic peasants. So, within this movement – in the end becoming a so-called 'people's party' –, it was impossible to opt for social rental housing in a more radical way. In their ideological position, the Catholic (and later Christian) parties in general and the Christian Labour Movement in particular, was helped by two encyclical letters from the Pope. In these the importance of home ownership for the development of the individual in a family context was stressed. According to this 'social doctrine' of the Church, home ownership of the workers was not only a guarantee for the well-being of the individual and their family, it was also a warrant for social order in society (Werk-groep Alternatieve Economie, 1977; Smets, 1977; Goossens, 1982).

Given this politico-institutional arrangement, the model for promoting home ownership in Belgium could have a remarkable stability. The lack of a viable alternative and, even more importantly, the central social role of the Christian Workers Movement (CWM or ACW in Dutch), led to the hegemony of its housing philosophy. In other words, broad strata of society accepted the CWM's overt preference for home ownership as the best housing policy option. Because the CWM, first as a pillar of the Catholic and later of the Christian party (CVP, now CD&V), also acquired and retained political power, it could and did put its policy on housing into practice. In coalition governments, the Catholic/Christian party was always the largest<sup>3</sup> and therefore most dominant political force. This has meant, on the one hand, that its opinion could never be set aside, and, on the other hand, that measures in 'the more collective sphere' (e.g. building dwellings for social renting) were only tolerated as an exception to, and in excess of, the measures to support ownership<sup>4</sup>. The socialist parties, which did not excel in developing an operational and coherent alternative vision, have rarely been able to test their approaches in practice.

An often used – but originally largely additional – argument to continue the promotion of home ownership is that it is a kind of pension saving. And indeed it is correct that the risk of poverty amongst elderly home owners is

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<sup>3</sup> In the post-war period, the Christian or Catholic parties were only twice out of government. This occurred once during the Fifties and since 1999, when a so-called purple-green coalition was formed at all levels.

<sup>4</sup> It is to be noted that after the Second World War, the two main trade unions, the Catholic one and the Socialist one, formed front in order to develop (successfully) a far reaching welfare state, but that they never converged on the housing issue. On the contrary, according to Deslé (1990), the Socialist Labour movement in the 1950s stressed that its alternative options had as a goal the undermining of home ownership.

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lower than amongst elderly tenants, especially when housing poverty is considered (Geurts & Goossens, 1999). Moreover, since other pro-ownership arguments are running out of gasoline, this argument grows in importance. Stressed on different occasions by the Christian Workers Movement – see for example a high council on housing in 1989 (D'havé, Decaluwé et al., 1990) and its representative within the Christian Party (CVP) in Parliament (C. Decaluwé 1995) – this argument is attracting more support. For example a former housing minister, the democratic nationalist B. Anciaux (1999) mentioned the importance of the housing/pensions link in a significant policy note and more recently, the same was done by the vice-minister-president, the Social Democrat S. Stevaert (in SP.a, 2002).

### 2.2.2 Main features of the promotion of home ownership

Historically, Belgian – and later Flemish – housing policy has provided a wide range of instruments designed to promote home ownership, including tax deductions, grants, premiums, cheap plots of land, social loans and renovation grants. We summarise their main features below.

Firstly, subsidies for the construction of new houses have always been a central axis of housing policy. These subsidies have been directed at individual households who took responsibility for purchasing land, contracting an architect and organising the building process. Renovation received, until recently, only lip service. The idea behind this was the filtering up principle: massive new construction enables the lower income groups to rent better-quality accommodation. The outcome of this policy can be seen in the lack of substantial renewal policy to date and the fact that a large quantity of housing in poor condition remains in constant use (De Decker & Raes, 1997).

Secondly, housing policy was/is directed at a broad target group: at certain times no income thresholds are laid down, at other times, only the highest income groups are excluded from certain subsidies. In Flanders, 66% of all households have an income lower than the statutory income threshold for access to a social loan for house purchase. This figure is even higher (72%) for rent subsidies. In fact, according to the current thresholds for social loans, 75% of households who currently do not own a house could make use of an allowance within the framework of promotion of home ownership (all figures for 1992<sup>5</sup>). No one is excluded for tax deductions on mortgages.

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<sup>5</sup> Recently all governments – and especially the Flemish one – have enlarged the target groups again in order to combat 'marginalisation' of social rental housing (De Decker & Serriën, 1997; De Decker, 1998; De Decker & Pannecoucke, 2002).

Thirdly, housing policy was/is characterised by low financial incentives in both macro and micro terms. The historical policy option was to give as many households as possible relatively limited support rather than to support a more limited target group more substantially. The low investment level in macro terms is illustrated by MacLennan et al. (1996). It has also repeatedly been demonstrated that the level of intervention at the household level remains consistently low in comparison to necessary investment. Premiums or grants therefore rarely influence the decision to become a home owner. In 1979, the Planbureau (National Planning Office) highlighted the limited extent and effect of subsidies. Several years later, criticism of subsidy levels and their ability to encourage home ownership was voiced by researchers who argued 'the limited amount of the premium (less than 4% of the purchase price of a newly-built house) can in itself provide no encouragement for building' (Deleek et al, 1983). The National Bank has also confirmed this opinion stating that there is no significant relationship between the demand for housing and the number of premiums granted. In fact, households that built or bought with the aid of a cheap loan from the Housing Fund for Large Families received premiums, on average, of an amount varying from 2.3% to 8.9% of the total investment costs (De Decker, Goossens & Beirens, 1994).

Based upon purchase prices for an average size house on the private or social market, it has been calculated that the effect of the subsidies for 1992 was minimal. With a fixed interest rate set at 8.5%, an investment of all savings and repayment periods ranging between 20 and 30 years (depending on the age of the head of the household), we calculated that only 4.1% of households who get interest subsidies and only 6.3% of the households who get social loans would be under the limit of 33%, being the bank norm for affordability (Meulemans, Geurts & De Decker, 1996). In short then, whether or not households are able to buy or build their own houses is entirely dependent on their own personal financial means. The role of subsidies is at best marginal.

Altogether these features have led to a low level of new construction after the Second World War – and therefore the necessity of the ongoing use of poor housing (Peeters & De Decker, 1997) – and larger benefits for higher income groups (De Decker, 2000).

### **2.2.3 Pushed into ownership: the current situation**

Before proceeding, we summarise the major housing policy lines that currently pertain. Firstly, we have to stress that since 1980, according to the Belgian constitution, housing policy is a matter for the regions (Flanders, Wallonia and the Brussels Capital Region). But the fact is, this is only partially true, since the federal state is still responsible for fiscal policy and private rental contracts.

Table 2.1 Proportion of owner-occupiers by socio-economic characteristics

	Active persons (-65)				Elderly persons (65+)				Total			
	1976	1985	1992	1997	1976	1985	1992	1997	1976	1985	1992	1997
All households	66.2	67.2	67.0	71.6	62.1	68.1	69.6	69.7	65.1	67.4	67.6	71.1
Number employed												
0	64.7	60.1	65.2	61.3	60.5	67.3	68.6	69.4	61.6	64.9	67.4	66.6
1	66.9	65.0	63.4	65.6	-	-	-	-	67.1	65.5	64.4	65.8
2/+	65.6	71.9	70.4	80.1	-	-	-	-	65.9	72.0	70.5	80.2
Activity head												
employed	66.5	68.4	67.0	73.4	-	-	-	-	66.7	68.4	66.9	73.2
not employed	64.2	62.5	67.4	66.0	61.7	67.9	69.7	70.0	62.4	65.8	68.7	68.4
retired	73.9	77.9	79.3	82.2	61.8	67.9	69.7	70.0	63.8	70.4	72.3	73.2
unemployed	44.4	35.1	47.2	37.8	-	-	-	-	44.7	35.1	47.2	37.8
ill/disabled	67.5	67.8	64.8	69.7	-	-	-	-	65.4	67.8	64.8	69.7
Professional category head												
unskilled worker	63.5	58.0	56.6	50.5	56.7	63.4	66.2	65.2	61.5	59.9	60.1	55.6
skilled worker	64.3	69.9	65.4	68.9	56.0	74.6	78.7	72.1	63.2	70.5	67.1	69.5
junior clerk	64.9	67.6	69.3	76.3	59.8	70.7	61.7	67.3	64.4	68.0	67.7	74.3
executive/entrepreneur	69.3	73.7	75.6	81.9	73.0	80.1	86.9	79.3	69.7	74.5	76.9	81.5
self-employed/farmer	73.8	67.6	69.8	70.0	75.8	77.5	76.9	84.2	74.5	69.9	71.8	74.7
Number of incomes												
singles	49.8	36.0	41.0	44.7	49.8	60.3	57.3	53.5	49.9	50.3	48.6	48.6
single-income couples	71.4	71.8	74.5	75.1	72.6	79.9	81.9	79.2	71.6	73.4	76.4	76.4
multiple-income couples	64.7	70.2	71.3	79.3	67.7	70.4	78.8	86.0	65.2	70.3	72.3	80.3
Standardised income quintile												
1	61.2	55.6	53.9	52.0	60.6	67.2	64.0	65.6	60.9	61.0	59.0	58.8
2	67.0	64.6	65.9	65.1	61.9	65.7	72.6	69.3	65.6	64.9	67.9	66.7
3	69.4	68.5	67.4	69.7	64.8	68.0	71.5	69.7	68.9	68.4	68.2	69.7
4	66.3	71.6	68.4	78.4	67.9	70.3	77.0	77.0	66.3	71.4	69.2	78.2
5	64.0	70.6	73.5	81.7	75.9	76.9	78.6	84.2	64.7	71.2	74.0	81.9
Social security status												
insecure	56.3	51.9	39.9	39.7	64.7	63.3	62.4	64.1	62.1	57.7	51.7	53.4
secure	66.6	67.8	68.2	73.0	61.3	68.7	70.8	70.6	65.6	68.0	68.7	72.4
Education household head												
primary education	68.5	71.3	67.3	64.3	61.2	67.8	70.7	63.7	65.7	69.7	69.1	64.0
lower secondary	64.9	66.1	67.8	70.7	67.8	62.0	64.5	74.4	65.2	65.4	67.2	71.6
advanced secondary	66.6	64.8	66.1	67.3	60.3	73.7	68.3	79.3	66.1	65.8	66.4	68.9
higher education	61.8	67.3	66.5	79.6	72.3	79.5	76.3	79.0	62.8	68.3	67.2	79.5

Italicized: fewer than 50 cases; - fewer than 20 cases not presented.

Source: Belgian SEP, Flanders

Consequently, in order to develop a housing policy, the regions lack large amounts of money – tax deduction is by far the largest subsidy scheme (De Decker, 2000) – and cannot intervene in private renting (De Decker, 2001). This has major consequences: apart from some minor arrangements, the private

rental market is a free market. There are no guidelines – let alone regulations – either on the relation between rents and housing quality or on the relation between income and rents (and housing allowances are absent). Some existing quality measures – in Flanders introduced after the first Flemish housing law (1997) – are weak (since hardly enforceable and a cause of re-housing problems). Secondly, social renting represents approximately 5% of the market in Flanders, and up to 10% of the market in the larger cities (e.g. Antwerp and Gent). Waiting lists are long – 60,000 compared to a housing stock of 130,000 – and families especially have to wait for years. Moreover, the impact of the social rental market is minuscule, standing for 6% of the housing transactions and approximately 2% of the money paid for housing (De Decker, 2002).

As a result of the lack of regulation on the private rental market (De Decker, 2001; 2002) and the quasi inaccessibility of the social rental market, home ownership is the sole stable housing option in Belgium.

## 2.3 The profile of home owners in Flanders

### 2.3.1 (Un)equal distribution of home ownership

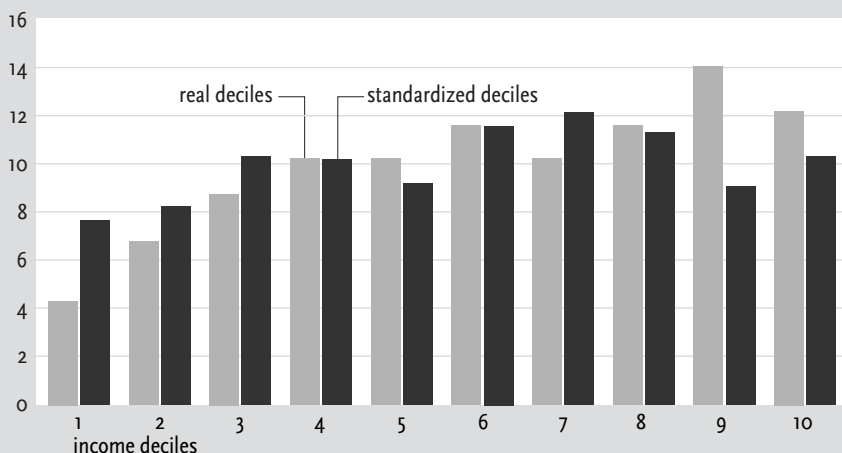
In the absence of an alternative, the economic expansion until the mid-1970s provided good economic conditions for households to attain home ownership. During this period, even financially relatively weak households were able to build or buy their own house. Table 2.1 shows that in 1976, the differences in the proportion of home ownership are very limited when looking at income, education and occupational status. This is true for elderly people as well as for economically active people. One- or more-income families, low- or high-income families, manual or non-manual working families, low- or high-educated families, they all had more or less the same home ownership rate, i.e. 65%.

However, from then on there has been a widening gap between the well-off and the less well-off. A remarkable increase in home ownership occurred between 1976 and 1997 among couples with two or more incomes (from employment), households belonging to the two highest income quintiles, and households whose head has enjoyed higher education. In addition, for the first time ever, a substantial drop in the owner-occupancy rate occurred for households whose heads received only primary education or who were

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**6** However, these categories decreased over the years, especially among people of active age. Therefore, the overall home ownership rates are not much affected.

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**Figure 2.1** Distribution of 'subsidised owners' across income deciles

unskilled manual workers.<sup>6</sup> In addition, Table 2.1 suggests that especially among households under the age of 65, the discrepancy between socio-economic categories intensified.

### 2.3.2 'Subsidised' ownership

Flemish social housing policy may be described as a kind of selective provision, in that it – in theory – is aimed primarily at the lower income categories. An indication of the extent to which the policy realises this objective in practice can be obtained by comparing the household profiles in the various segments of the housing market (Table 2.2) and by looking at the distribution of 'subsidised ownership' across income deciles (Figure 2.1). Based on the Belgian Socio-Economic Panel it is possible to identify so-called 'subsidised owners' in 1997.<sup>7</sup> In Flanders, 29.8% of households made use of the direct incentives for property acquisition, which corresponds to 41.8% of all home owners. The now abolished purchase and building grant is the measure most commonly taken up: 21% of all Flemish households have claimed a government grant for the acquisition (approx. 1/5) or construction (approx. 4/5). Some 7.8% obtained a loan at a reduced rate of interest provided by the Flemish Housing Association (Vlaamse Huisvestingsmaatschappij) or the Flemish Housing Fund for Large Families (Vlaams Woningfonds van de Grote Gezinnen), while 6% claimed a renovation, redevelopment or improvement grant. Some 3.5% of the Flemish households have purchased a cheap dwelling (approx. 3/4) or building lot (approx. 1/4) from a recognised social housing association or other government institution, and, finally, 0.8% claimed the recently introduced and even more recently abolished rent subsidy. Many households combine two or more measures.

<sup>7</sup> By the term 'subsidised owners' we mean households who received support from the Flemish government for the attainment of home ownership.

Figure 2.1 shows that subsidised home ownership in reality is not selective to any great extent. No more than 11% of all the subsidised owners belong to the first two income deciles. If actual income is corrected for differences in household size, this proportion rises to nearly 16%. The participation rates are widely spread over the other decile groups, with a tendency towards the higher middle groups (real deciles 6 to 10). After correction for household size, participation rates decrease in the highest decile groups and increase in the lowest income groups. In conclusion, the participation in social housing benefits for home ownership can be considered as relatively equal.

The socio-demographic composition of the group of 'subsidised owners' (i.e. those receiving support from the Flemish government) is slightly divergent from that of the 'non-subsidised owners' (Table 2.2). In the group of subsidised owners, there is a smaller proportion of single persons (14% versus 21% among non-subsidised owners) and a more substantial share of large households (9% with at least 3 children compared to 5% among the non-subsidised owners, and 17% composite households compared to 12% among the non-subsidised households).

Over half of the households enjoying social measures for home acquisition are in the 40-to-65-age group. As regards level of education and professional status, the 'subsidised owners' are slightly more prominent in the lower categories: 53% did not study beyond secondary school, compared to 43% among the non-subsidised owners, while 40% are manual workers, compared to 31% among the non-subsidised owners. Although multiple-income households are represented more strongly in the category of subsidised owners than in that of non-subsidised owners, and the employment rate among household heads is also higher, one observes that the average standardised household income is only €50 lower.

These results indicate that subsidised home ownership is most common among the (higher) middle class and less common among the less well-off. This modest degree of selectivity towards better earners might be explained by two factors. On the one hand, the high financial burden of becoming an owner-occupier, and on the other hand the relatively low amounts of subsidies. Furthermore, the income ceilings of government support for the attainment of home ownership are high so that theoretically 3 out of 4 non-owners are eligible. Overall, the schemes promote home ownership in particular for households who could manage it financially anyway, the subsidies are mostly additional and home ownership remains the privilege of the middle and higher income groups. Consequently, low-income households mainly have to turn to the (private or social) rented sector.

**Table 2.2 Profile of non-subsidised and subsidised owner-occupiers and tenants**

	Non-subsidised owners	Subsidised owners	Total owners	Tenants	Total
<b>H o u s e h o l d   t y p e</b>					
1 elderly person	11	8	9.8	20.3	12.8
1 active person	8.3	4	6.5	22.1	11
single-parent families	2	1.9	1.9	4.6	2.7
2 elderly persons	20.2	18.2	19.3	9.8	16.6
2 active persons, 0 children	15.4	15.5	15.4	17.5	16
with 1 child	11	11.9	11.4	10	11
with 2 children	15.4	14.5	15	7	12.7
with 3/+ children	4.6	9.2	6.5	2.6	5.3
others without children	8.5	10.3	9.2	3.9	7.7
met children	3.6	6.7	4.9	2.1	4.1
<b>A g e   o f   h o u s e h o l d   h e a d</b>					
<35	14.9	10.3	12.9	30.9	18.1
35-44	21.5	24.9	23	19.5	22
45-64	35.8	41.3	38.1	21.8	33.4
≥65	27.8	23.5	26	27.8	26.4
<b>E a r n i n g   c a p a c i t y</b>					
single person	21.2	13.9	18.1	47.1	26.5
single-income couple	21.6	24.5	22.8	17.3	21.2
double income couple	57.2	61.6	59	35.6	52.3
<b>P o v e r t y   s t a t u s</b>					
poor	6.6	3.3	5.2	11.2	7
non-poor	93.4	96.7	94.8	88.8	93
<b>S t a n d a r d i s e d   i n c o m e .   q u i n t i l e</b>					
1 lowest	17.2	15.1	16.3	28.9	20
2	16.8	21.5	18.8	23.2	20
3	18.3	21.6	19.7	20.8	20
4	22.5	21.4	22	15	20
5 highest	25.3	20.3	23.2	12.1	20
<b>E d u c a t i o n a l   l e v e l</b>					
primary education	22.5	25.6	23.8	32.3	26.3
lower secondary	20.9	27.1	23.5	22.4	23.2
advanced secondary	27.9	25.7	27	29.3	27.6
higher education	28.7	21.7	25.8	16	22.9
<b>P r o f e s s i o n   h o u s e h o l d   h e a d</b>					
unskilled worker	10	12.8	11.2	22.6	14.4
skilled worker	20.9	26.9	23.4	25.9	24.1
junior clerk	32.2	33.4	32.7	28.6	31.5
executive/liberal profession	21.1	15.1	18.6	10.7	16.3
self-employed	14.4	10.2	12.6	10.8	12.1
number of households	1,124	811	1,935	787	2,725

Source: Belgian SEP, Flanders, wave 1997



### 2.3.3 Housing costs and affordability

The Flemish housing market has seen significant price increases over the past 20 years. Rents and mortgage repayments have increased significantly more than the general increase in consumer prices. Survey data show that the average monthly mortgage repayment in Flanders was 73% higher in 1997 than in 1976 in real terms. The average rent increased by 65%. Moreover, results not shown here indicate that this trend was amplified by an increase in the proportion of mortgaged owners from 19.5% in 1976 to 30.8% in 1997. The general housing cost calculated for all households, including those without housing costs, increased by 95% (see Table 2.3).<sup>8</sup>

Over the same period the real disposable income of non-subsidised households increased by 'only' 5.9%. As the households grew increasingly smaller, the average welfare (measured in terms of standardised income, which corrects the actual income for household size) increased more rapidly (by 18.6%), but still not at the same rate as housing expenditure. Consequently, the average housing burden (the housing costs expressed as a percentage of income) rose for all households from 6.5% to 12% between 1976 and 1997.

Although the average rent increased less than the average mortgage repayment, in terms of housing burden, the gap between tenants and owner-occupiers widened between 1976 and 1997, most clearly in the last 5 years. Up until 1992, the increase was virtually identical for renters and owners (+6.4 percentage points), so that both groups spent an average 18% of their income on housing. However, between 1992 and 1997, the average housing burden increased sharply (+5.6 percentage points), whereas the average mortgage repayment rate increased very little (+1.8 percentage points). There are two factors behind this development: on the one hand, disposable income (both in real terms and standardised) of tenants declined; on the other hand, the proportion of outright owners (i.e. no mortgage) increased for the first time since 1976.

The problem of affordability increased between 1976 and 1985, and also between 1992 and 1997. In the intermediate period, there was a stabilisation. Precisely that period was marked by a strong increase in household welfare. Average standardised household income increased by 16%. In social rents regulations, a 20% housing burden is taken as the affordability limit. Following

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<sup>8</sup> Note that all figures with regard to housing expenses concern 'basic' housing expenses. The costs of decoration, maintenance, energy, water consumption and such have not been taken into account).

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Table 2.3 Housing costs and affordability (in euro) in the different housing markets, 1997

	Non-subsidised owners	Subsidised owners	Total owners	Total tenants	Total
<b>Disposable monthly income (average)</b>					
<b>Households with housing costs</b>					
real income	2,620	2,560	2,590	1,530	2,110
standardised income	1,440	1,280	1,360	1,050	1,220
<b>All households</b>					
real income	2,150	2,200	2,170	1,530	1,990
standardised income	1,270	1,220	1,250	1,050	1,190
<b>Monthly housing cost (average)</b>					
households with housing costs	450	360	410	300	450
all households	180	160	170	300	200
<b>Housing burden (average) (%)</b>					
households with housing costs	20.8	16.2	18.8	23.6	21.0
all households	8.1	7.2	7.7	23.6	11.6
<b>Housing burden (in categories)</b>					
no costs	61.0	55.5	58.7	0.0	44.8
< 15%	15.1	23.8	18.7	28.0	20.6
15-20%	8.2	9.4	8.7	20.8	11.6
> 20%	15.7	11.3	13.9	51.2	23.0
> 33%	3.7	1.8	2.9	17.0	6.4
<b>Comfort-affordability (in %)</b>					
- incomplete comfort and housing burden > 20%	3.0	2.0	2.6	13.2	5.6
- incomplete comfort and housing burden > 33%	0.7	0.2	0.5	4.2	1.5
<b>% with affordability problems (+20%)</b>					
<b>All households (%)</b>					
single person	13.4	11.6	12.8	71.6	39.0
single-income couples	10.6	12.3	11.3	49.1	19.0
lowest stand. income quintile	10.8	16.6	13.1	65.9	31.5
primary education	3.2	2.0	2.7	50.8	18.2
unskilled worker	10.5	16.7	13.5	50.1	28.0
<b>Households with housing costs (%)</b>					
single person	55.2	46.4	53.6	71.6	67.7
single-income couples	42.2	34.3	38.0	49.1	44.7
lowest stand. income quintile	70.9	64.3	67.5	65.9	66.4
primary education	32.6	10.3	18.9	50.8	48.3
unskilled worker	45.6	43.2	44.1	50.1	44.3
<b>Number of households sampled</b>					
	1,124	811	1,935	787	2,725

Italicised: fewer than 50 cases; - fewer than 20 cases not presented.

Source: Belgian SEP, Flanders, wave 1997

this standard, housing presents an affordability problem for 23.4% of the Flemish households. Again, it is noticeable that a gap has developed between owners and tenants in the 1992-1997 period. Up until 1992, the affordability problems for the two groups grew at roughly the same rate, from approximately 12% in 1976 to 30% in 1992. By 1997, housing expenditure had become rather high for 34.7% of mortgaged owners and for over half (51.4%) of tenants. If one applies the 33% norm which banks regard as the affordability standard for granting mortgages, it again emerges that the affordability problem in the Flemish housing market has increased sharply over the past 20 years: in 1997 some 6.8% of Flemish households were spending over 33% of their disposable income on 'bare' housing costs, compared to 2.3% in 1976. Again, the gap between owners and renters is considerable and, especially between 1992 and 1997, it has grown.

If one compares the different housing markets (Table 2.2), one immediately notices that the average housing burden exceeds the critical limit for non-subsidised mortgaged owners and tenants. They spend respectively an average of 20.8% and 23.6% of their disposable income on 'basic' housing costs. The average mortgage expenditure in the non-subsidised sector (€450) is €90 higher than in the subsidised sector (€360), while the disposable income is just €60 higher. Consequently, the average housing burden among those paying off a mortgage is 4.6 percentage points higher. However, there are more households without a mortgage among the non-subsidised owner-occupiers, so that the difference in terms of the average housing burden for all households together is just 0.9 percentage point higher than that for 'subsidised' owners. Moreover, 3.7% of the non-subsidised owners exceed the affordability limit set by financial institutions (33%), compared to 1.8% of the 'subsidised' owners. On average, the disposable income of tenants is €1,060 lower than that of mortgaged owners. On the other hand, the former pay only €110 less for rent on average, while 51.2% of the tenants spend over a fifth of their disposable income on rent and 17% spent over a third of their disposable income. Finally, if one matches comfort with affordability, it emerges quite clearly that the sector of rented dwellings is the 'worst' segment in the housing market: 13.2% of tenants spend over a fifth of their income on a dwelling with inadequate amenities.

Furthermore, Table 2.3 illustrates that 'subsidised ownership' involves fewer affordability problems for all socio-economic categories. Because of the higher proportion of mortgage-free owners in the private market, this is not unambiguously true when all households (including owners without mortgages) are taken into account. In that case, single-income couples, poor households and households belonging to the two lowest income quintiles, and households whose head is an unskilled worker, is self-employed or had

**Table 2.4 Unemployment trends in Belgium, the degree of unemployment as percentage of the active population, 1980-1999**

	Men	Women	Total	% of the active population
1980	120,719	201,176	321,895	7.8
1985	209,203	267,426	476,629	13.8
1990	137,803	210,129	347,932	9.7
1991	151,615	217,417	368,732	10.3
1992	170,797	239,885	410,682	11.2
1993	202,314	273,553	475,867	13.0
1994	218,396	288,801	507,197	13.9
1995	213,645	286,309	499,954	14.1
1996	204,157	273,583	477,740	13.8
1997	198,022	260,354	458,376	13.3
1998	185,732	246,078	431,810	12.6
1999	174,988	227,496	402,484	11.7

Source: RVA, NIS – taken out of Vranken, Geldof, Van Menxel & Van Ouytsel (2000)

secondary education are better off in the private market.

## 2.4 Risk reduction measures

In this part we deal with some issues concerning the loss of owner occupied property and the way to avoid this situation. As already mentioned in the introduction, Belgian governments only founded risk avoidance schemes at the end of the 1990s. Policies generally were oriented to ease access into home ownership and all the measures with the adjective ‘social’ are linked to a state guarantee. This means that the mortgage lender, being a state recognised institute, is assured against the non-repayment of the mortgage. So, the lender is protected, not the borrower. But before dealing with that, we shortly sketch the 1990s trends in employment and unemployment.

### 2.4.1 (Un)employment in the 1990s

A snapshot of economic and labour market changes in the 1980s shows the ‘adaptation’ of the Belgium labour market to the changed economic environment. It shows permanent levels of high unemployment – especially among the less-well educated – and the significant rise of part-time and temporary work. Table 2.4 shows the ongoing high level of the unemployment in Belgium (reaching 14% of the active population in 1995, remaining above 11% in 1999), while Table 2.5 shows the rising trend in part-time work (especially among women). Table 2.6 illustrates the rise of temporary work in Flanders.

These economic developments have at least two fundamental effects on par-

**Table 2.5 Part-time workers in Belgium as a share of the wage workers, 1983-1997 (%)**

	Men	Women	Total
1993	2.5	31.8	14.5
1997	3.6	35.2	16.8
<b>Change</b>	<b>+44.5</b>	<b>+16.9</b>	<b>+19.7</b>

Source: VRIND (1998)

**Table 2.6 Trends in temporary work in Flanders, average per day, 1989-1997**

	Number	Index (1989=100)	% of people at work
1989	16,687	100	0.77
1990	17,422	104	0.79
1991	17,305	104	0.77
1992	17,929	107	0.78
1993	17,105	103	0.75
1994	22,259	133	0.97
1995	26,448	158	1.13
1996	28,000	168	1.6
1997	31,600	189	n.a.

Source: VRIND (1996, 1997, 1998)

ticipation in the housing market. In the first place, economic restructuring has adversely affected overall household earnings (as shown). In the second place, production flexibility has led to economic insecurity, especially among those households dependent on precarious employment. Income insecurity affects decisions on housing investment in a most fundamental manner, a fact particularly significant in Belgium where government housing policies have historically favoured owner occupation.

### 2.4.2 Households losing their home

Neither in Belgium nor in its regions, is the number of home losses (for whatever reason) collected or researched. Nevertheless, we can get some clues from the Social and Economic Panel Study (SEP). The panel collected information on socio-economic characteristics, as well as on the housing situation of households from 1985 onwards. To analyse changes in tenure, we matched the different waves (1985-1988-1992-1997). This implies analyses at the individual level instead of the household level, since changes in households often occur. This means that all individuals are included: heads of the households, partners, but also children and other members of the family. Therefore, in a second phase, we specified our analyses for independent individuals only. This group includes only heads of the households and partners in the last wave (1997) who were also head of the household or partner in all of the previous waves. With regard to tenure, we divided the population into five sub-groups. The first two contain individuals who did not change tenure in any of the waves<sup>9</sup>: permanent home owners and permanent tenants. The third group consists of persons who were home owners in 1985 and became tenants in 1988, in 1992 or in 1997 and stayed tenant in the next waves. In the

<sup>9</sup> Or better 'who belong to a household that', because housing indicators are measured at the household level.

**Table 2.7 Tenure mobility in Belgium, 1985-1997**

	%	Average age in 1997	Numbers
<b>All individuals</b>	<b>100</b>	<b>44</b>	<b>4,520</b>
· permanent owner	52.3	48	2,362
· permanent tenant	14.2	46	641
· loss of property	7.6	37	344
· became home owner	14.7	36	665
· other	11.2	39	507
<b>Only heads of households and partners</b>	<b>100</b>	<b>56</b>	<b>2,698</b>
· permanent owner	58.9	59	1,589
· permanent tenant	15.3	57	413
· loss of property	4.0	55	107
· became home owner	14.3	45	386
· other	7.5	54	203

Source: Belgian SEP

fourth group we find individuals who were tenants in 1985 and became home owners in one of the next waves and then stayed home owners until the last wave. The last category consists of all others, i.e. individuals belonging to the category “others” in one of the waves and individuals making more than one transition.

Table 2.7 shows the mobility between tenures between

1985 and 1997 in Belgium. First of all, we see that mobility within the housing market is rather limited when tenures are considered.<sup>10</sup> The owner-occupied sector is positively stable; 58.9% of heads of households and partners are permanently home owners. Only 4% of the heads of households and partners who were home owners in 1985 left the owner-occupied sector during the next 12 years. This corresponds with 6.3% of all home owners (when excluding the category ‘other’). If we take all individuals – thus including children – into account, the share of “lost own homes” corresponds with 7.6%. Or approximately 0.6 percent of all individuals in Belgium are confronted with “home loss” – whether or not voluntarily – every year. This concerns on average 61,500 persons. Although this is a very tentative assumption, this percentage corresponds with 25,600 households.

In 1997 the SEP contains extra information on motives for moving and more detailed questions were asked so that we can make a distinction between the social rented and private rented sector and between subsidised ownership and non-subsidised ownership. If we look at home owners in 1992, we find that, in 1997, 92.2% still owned the house. So, 7.8% left ownership (6.4% to private renting, 0.4% to social renting and 1% to “others”). From the answers these households give to the question “why” they moved, we could conclude that in most cases it has to do with the breaking up of the family.

The main motivations for leaving owner-occupation are:

- changes in household composition – predominantly breaking up (49%);
- changes in professional situation (17%);

<sup>10</sup> Data do not say anything of moves from one house to another in the same housing sector.

**Table 2.8 Effects of life-events on housing conditions in Belgium**

	Numbers	Tenure:			Quality:			Costs: % spending		
		non-owner			no full equipment			> 20% of income <sup>1)</sup>		
		1985	1992	%	1985	1992	%	1985	1992	%
Negative family transition										
- widowhood	140	27.5	32.0	16	50.7	55.5	+9.5	29.9	48.0	61
- separation/divorce	101	48.3	66.2	37	38.1	44.9	18	27.3	42.1	54
Total	280	36.1	46.1	28	44.8	50.2	12	25.7	41.4	61
Negative employment transition										
- unemployment/sickness	128	52.5	38.4	-27	47.3	43.0	-9	26.6	24.8	-7
- pension	414	19.8	19.9	+0.5	29.9	32.8	10	13.5	18.7	39
Total	555	28.2	24.7	-12	33.9	35.4	4	19.5	20.5	5

1) Only households with housing costs in both waves.

Source: Meulemans, e.a. (1996)

- dwelling too large (11%);
- health (6%);
- housing costs too high (6%);
- house too small (6%);
- neighbourhood not nice (6%).

Although 42% of the moves out of home ownership relate to a decrease of income, too high housing costs are seldom given as a reason for moving.

### 2.4.3 Basic social protection: unemployment benefit

In a previous study we analysed the effects of so called 'life-events' on the housing conditions of households in Belgium (Meulemans, Geurts & De Deck-er, 1996). Especially relevant in this context is the transition from employed to not-employed (unemployment, sickness or disability, pension) and the transition from married to not-married (divorced, separated, widowhood). Both transitions had negative consequences for the quality/comfort and for the affordability of housing for the households. Only the negative family transition had some effect on tenure. More detailed analyses showed that the effect was fully due to divorce or separation (Table 2.8). This confirms what we found in the previous paragraph: separation or divorce can have severe effects on the housing conditions of (at least one of) the partners.

The effects of unemployment seem to be rather limited. We turned to a study of the Ministry of Employment (Ministerie van Tewerkstelling en Arbeid, 1996) on the net replacement rates of unemployment benefits. This study compares the net replacement rates in the event of unemployment for several typical cases (family composition and income level) in different countries. The conclusion from this study is that the replacement rates in the UK in general are far below those in the other countries studied (Belgium, the Netherlands, France, Germany, Denmark and Sweden).

### 2.4.4 Assurance against the loss of income

In Belgium most credit companies demand that borrowers take some form of (temporary) life insurance in order to guarantee the down payment, even in cases of death. Until recently, such a life insurance was also a condition for tax reductions on instalments of capital. The premiums paid for the life insurance on a yearly basis in turn give a right to tax deductions. Because of the fact that more and more people are unable to get a life insurance for medical reasons, this condition was abolished in 2001.

In June 1998, the Flemish government introduced an insurance against income loss in order to minimise the financial risks of purchase, new construction or renovation. When concluding a mortgage, a household can get a free assurance from the Flemish government. From the moment a mortgage is concluded, the assurance lasts for ten years. If during that period a household becomes unemployed or unemployable involuntarily, it can get, after a waiting period of six months, a monthly contribution to the repayment of the mortgage, for a maximum of three years. This contribution does not cover the whole sum. The household still needs to pay €247,89. The contribution is directly paid by the managing authority, which is a large public assurance company that won the contract, to the lender. This sum can be a maximum of €495,78 per month. Normally, it will be smaller since it depends on the household income and the size of the mortgage. During the second year, the benefiting households get 80% of the awarded sum. In year three, this decreases further to 60%. The Flemish government pays the cost of the assurance.

In order to be eligible, the applicant needs to fulfil the following conditions:

- have a concluded mortgage in order to (a) purchase or/and renovate a house or (b) the construction of a new house;
- in the third year before application have a yearly income below €30,000 for singles and below €42,500 for a couple (either married or living together), to which €25,000 have to be added for people with an incapacity;
- not possess another house, except for a house declared uninhabitable;
- be at work (at least part time), as either an employee or self-employed person;
- not be unable to work.

Not eligible are:

- mortgages concluded before 1 January 1998;
- mortgages concluded to refinance an existing one;
- mortgages less than €50,000;
- mortgages with a state guarantee.<sup>11</sup>

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<sup>11</sup> See before.



Furthermore, the dwelling should have rooms with a height of at least 2,10 m. Houses should be not larger than 210 m<sup>2</sup> and flats 105 m<sup>2</sup> (+25 m<sup>2</sup> per disabled person).

Since this insurance has only been recently set up, there is not much information available. Besides, the administrative management of the claimed dossiers does not allow in-depth analysis. In Flanders, ever since its inception, approximately 19,500 dossiers were started, of which nearly 3,000 were refused. The remaining around 16,000 dossiers correspond with an average monthly down-payment of €600 and a total mortgage of €87,495. 196 households, being approximately 1.2% of all accepted households, had to make use of it, because of illness (91 cases [46%]) or unemployment (105 cases [54%]). On average the beneficiaries get €297 per month.

## **2.5 Mortgage market and arrears**

### **2.5.1 Mortgage markets**

Following the privatisation of previously specialist mortgage institutions, mortgages in Belgium are now virtually entirely provided by private universal banks. Mortgages are generally offered on a long-term, fixed interest basis. Some changes in mortgage products have occurred recently as a consequence of low interest rates and greater competition between banks, so that more contracts have five year revision clauses in them when interest rates can be changed (Ball, 2002).

Growth in the mortgage market has been spectacular, with more than a threefold increase in the annual number of new mortgages between 1990 and 1999. Average nominal interest rates have been on a downward trend, dropping from around 10% in 1994 to around 6.4% in 1999. More recently they have tended to rise again. Many mortgages are being taken out by existing owners in order to withdraw housing equity and/or to take advantage of falling interest rates (Ball, 2002).

### **2.5.2 Mortgage trends**

For more information on the evolution of the mortgage market, we can fall back on the information collected by the 'Beroepsvereniging van het Krediet', the professional organisation of credit providers (BVK), which represents, besides 96% of the consumer credit market, 90% of the market of mortgages. Among the 84 members are banks, assurance companies and mortgages entrepreneurs. The BVK is a legally recognised partner of the government.

Figure 2.2 Mortgages: applications and realisations, in Mio euro

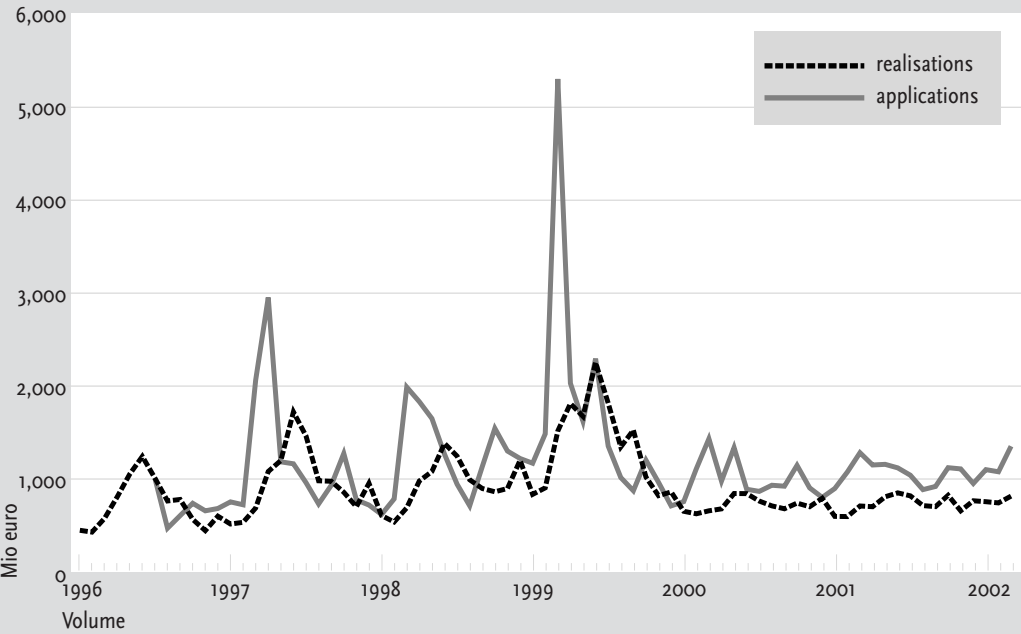
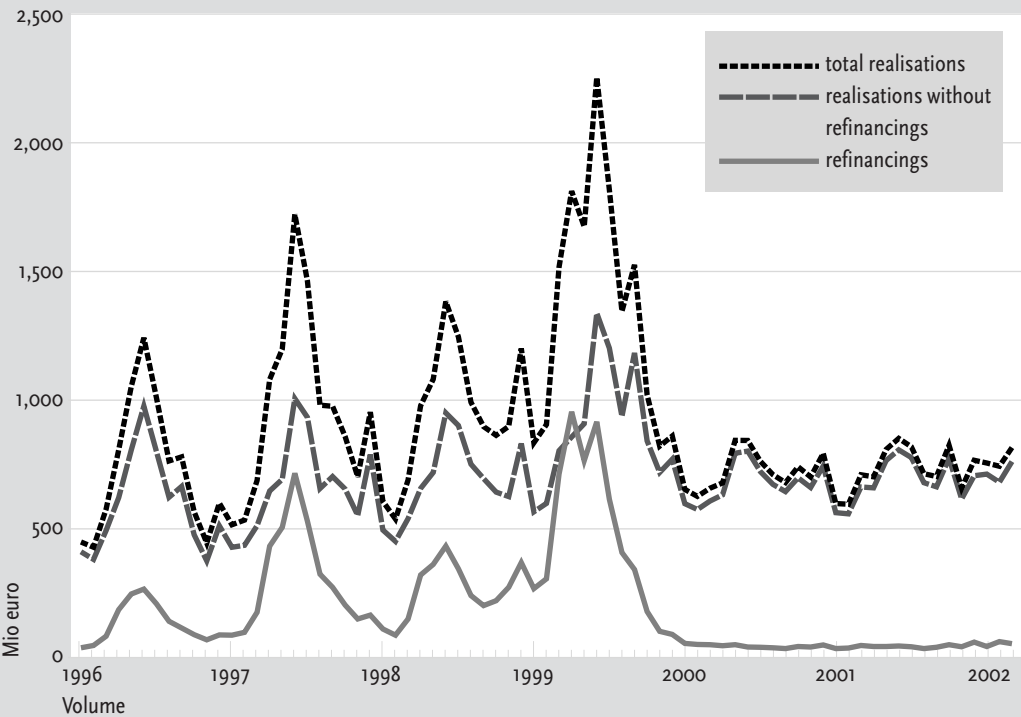


Figure 2.3 Mortgages: refinancings versus realisations without refinancings, in Mio euro



**Table 2.9 Mortgage production in mio euro in Belgium, 1996-2000**

		Purchase	New construction	Renovation	Purchase +renovation	Other	Re- financings
1996	Minimum	197	52	21	41	18	38
	Monthly average	289	131	40	13	32	131
	Maximum	409	358	73	90	47	264
1997	Minimum	254	79	22	56	24	58
	Monthly average	338	166	45	76	43	305
	Maximum	442	311	54	107	52	718
1998	Minimum	251	55	32	53	24	37
	Monthly average	360	151	56	81	40	260
	Maximum	451	254	87	107	57	433
1999	Minimum	331	95	39	57	32	90
	Monthly average	451	212	50	96	53	472
	Maximum	536	390	143	130	89	955
2000	Minimum	305	110	33	56	27	35
	Monthly average	391	135	45	75	34	45
	Maximum	445	194	57	85	35	55

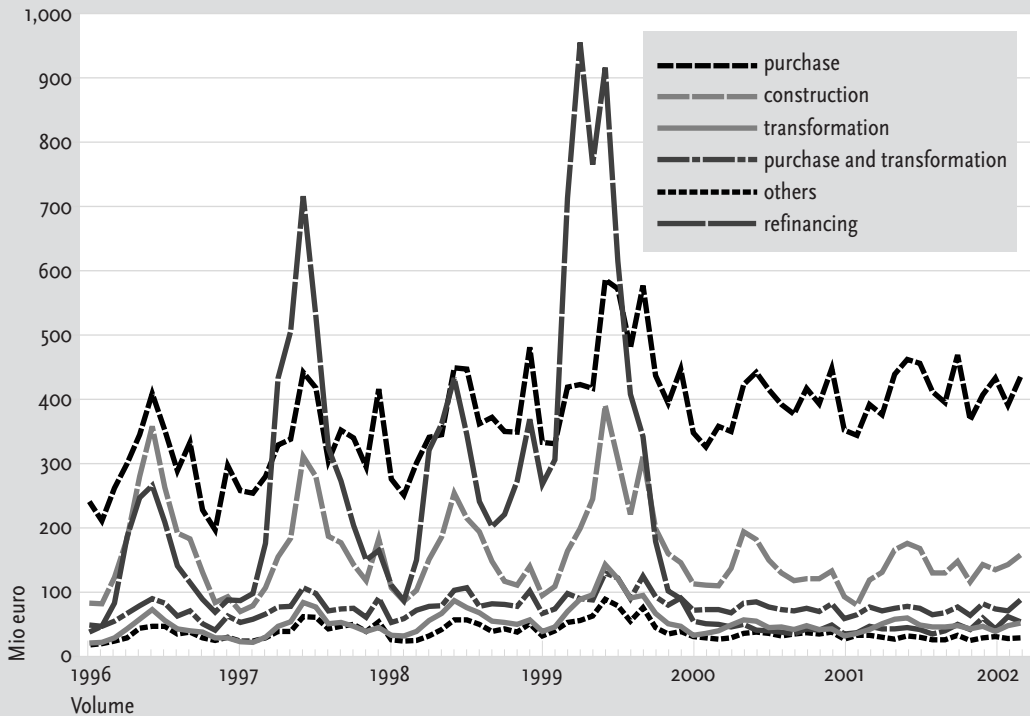
Source: BVK

Beside the defence of the interests of the professional credit sector, the BVK also has an informative and educative role. In doing so, the BVK distributes detailed statistics on consumption and mortgage credit. Above that, and discussed in the next section, the BVK manages the 'Centrale voor Uitwisseling van Gegevens over het Risico', this is the institution that deals with arrears in consumption and mortgage credits. The statistics of the BVK are ideal to document the evolution of the mortgage market. They allow analysis by the goal of the mortgage (purchase, construction...) and by category of interest (variable or not). Data are available since the mid 1990s.

Figure 2.2 compares the applications and the number of 'realised' concluded contracts. The classic pattern of a delay of two to three months between the two features is affirmed: the applications for mortgages reach their yearly climax in March-April, while the impact of the realisations is shown in June-July. This can be explained by different features, among which, besides some procedural and legal obstructions, the effect of Batibouw, the major building fair, is apparent. This fair functions as a catalyst for new house construction (through private households).

Figure 2.2 shows that, in contrast with the historical record of 1999 – (according to the BVK in the yearly report), the market is now much calmer. Not only have new realisations dropped to the lowest level since data were first compiled, but also fluctuations are less pronounced. Even the Batibouw-effect has faded away.

Figure 2.4 Mortgages: evolution of the market according to the goals, in Mio euro

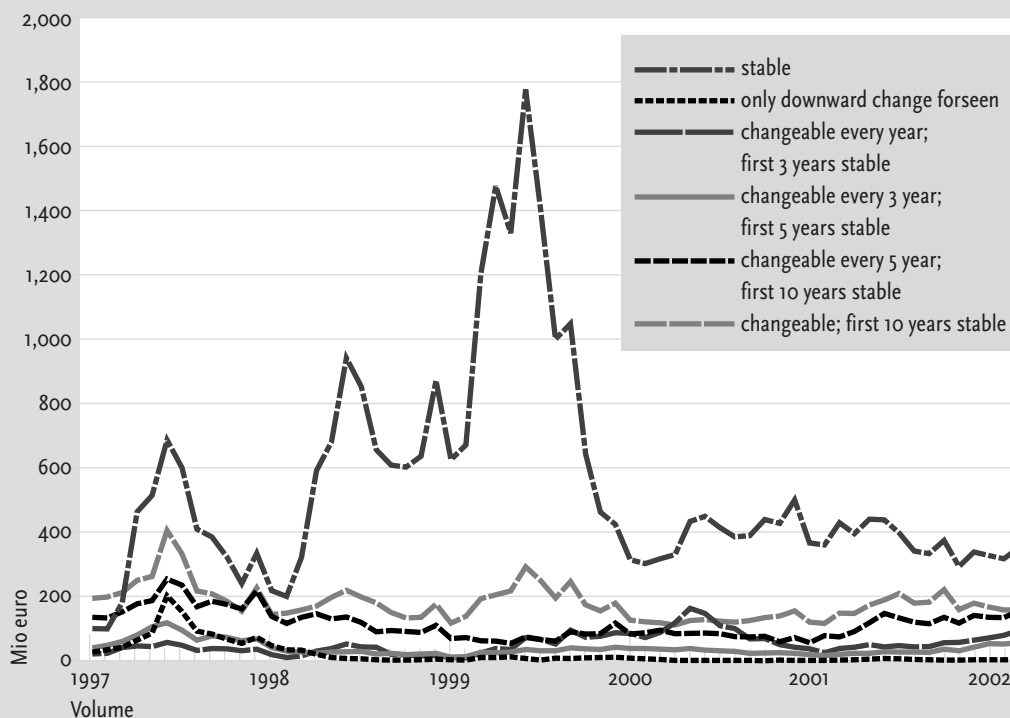


In order to understand the market, one should separate the re-financings from the production of mortgages (Figure 2.3). The yearly fluctuations are the same although the differences between the weak and strong months are much smaller in the last two years.

Today, the BVK concludes, the high activities of 1999 are basically linked to the anticipation of the households on their real estate 'plans' due to historically low interest rates. In the same year, in April to be precise, and based on the same logic, re-financings (to lower interest levels) outnumbered for the first time in history the production of new mortgages. Already the year before and due to the decreasing rates, re-financings stood for 10% to 50% of the realisations, while they dropped under a share of 10% since interest rates rose again (Figure 2.3).

Figure 2.4 differentiates the goals of the mortgages, showing – and excluding the re-financings of existing loans – that the largest share of mortgages is used to purchase a house, followed by mortgages for the construction of a new house.<sup>12</sup> Mortgages for other goals (renovation, purchase+renovation and others) are less frequently used and show a more stable pattern. This indi-

<sup>12</sup> Note that in the long run the relationship between construction and purchase was the other way around. It changed in the mid 1990s (Peeters & De Decker, 1997).

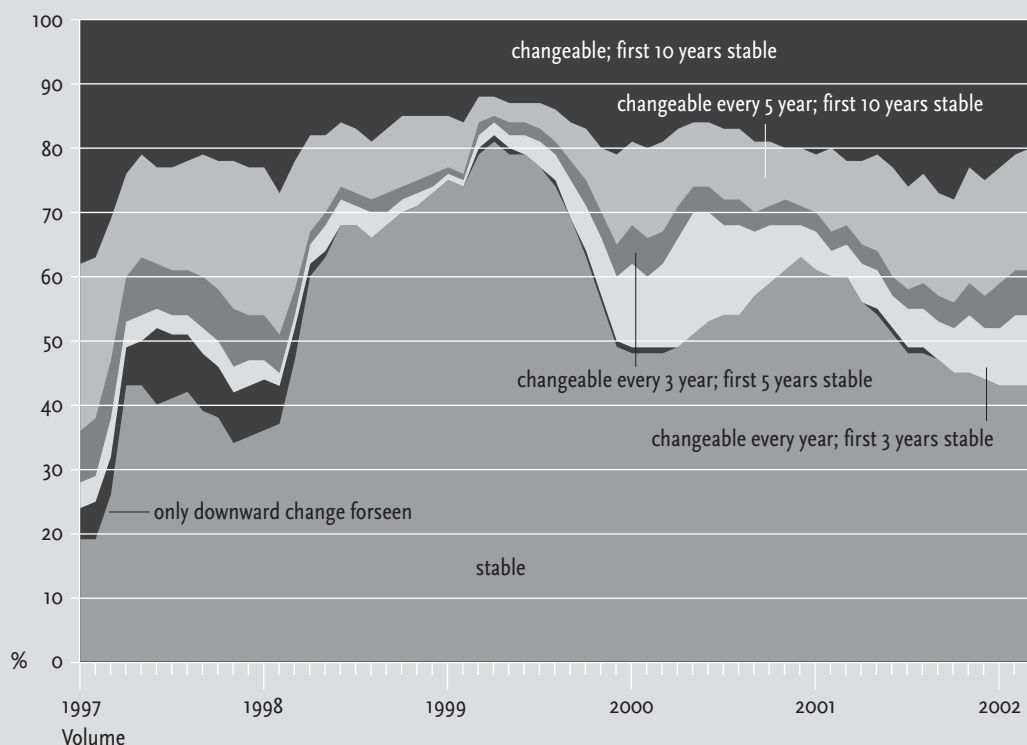
**Figure 2.5 Mortgages: market evolution according to the type of interest, in Mio euro**

cates that the decisions of the consumers on this type of mortgage depend less on the cycles and the conditions of the mortgage markets and the real estate market.

So, the major markets are purchase, re-financing and new construction, which each represent respectively 40%, 24% and 18% of the mortgage realisations. The volume of mortgages for new construction (the primary market) is smaller than the volume for purchase (the secondary market (see Table 2.9).

If one differentiates the mortgage production by type of interest, as in Figures 2.5 and 2.6, the overwhelming majority of fixed mortgages in 1998 and 1999 stand out. In April 1999 mortgages with fixed interest rates exceeded a market share of 80%. After this peak, its market share dropped again and is now fluctuating around 50%. Besides this rush into fixed interest rates, the formulas that are very near to fixed rates are most successful. Above that, more flexible products, with terms of either 3 or 5 years, pre-dominantly have caps – that is a limited upward level – of 2%. Even the flexible 10/5/5 is often accompanied by a cap of 2%.

Figure 2.6 Mortgages: evolution of the market by type of interest (in %)



### 2.5.3 Mortgage arrears

As mentioned before, the 'Centrale voor Uitwisseling van Gegevens over het Risico', a BVK-managed registration system of arrears, was introduced by law in 1991. The members of the BVK register the identity of the debtors and the contract details for those with arrears of three months and more. This information is considered as fact and does not include any moral judgement. It is a useful system in order to judge credit risks. Table 2.10 shows the yearly new registrations of mortgage arrears. In the first registration year approximately 25,000 new clients in trouble were registered. Until the end 2000 this number dropped, showing a rather sharp rise in the last registration year – thereby showing a similar pattern to rising arrears all over the credit sector. On a year-to-year basis, the total number of arrears fluctuates between 64,000 and 58,000 (Table 2.11). Although estimation is very tentative, this equals 6% of the households with down payment.<sup>13</sup>

Recently, some information became available on the arrears registered by the

<sup>13</sup> Based on 4,200,000 households (2000) and the assumption that the Flemish figures observed by Van Dam & Geurts (2000) count for the whole of Belgium. These are that 70% of the households own their house and of these 30.8% has a mortgage or a loan.

**Table 2.10 Evolution of the new registered mortgage arrears by natural persons in Belgium, 1994-2001**

Registration period	Numbers	Changes
10/1994 - 09/1995	25,966	
10/1995 - 09/1996	23,199	-10.6%
10/1996 - 09/1997	24,957	+7.6%
10/1997 - 09/1998	23,266	-5.3%
10/1998 - 09/1999	19,571	-15.9%
10/1999 - 09/2000	16,146	-17.5%
10/2000 - 09/2001	20,154	+24.8%
1994 - 2001	-5,812	-22.4%

Source: BVK

‘Vlaams Woningfonds’ and the ‘Vlaamse Huisvestingsmaatschappij’ (VHM), the two major agencies that are recognised by the state to allocate state guaranteed (social) mortgages (Gabriels, 2002). The institute was founded between the wars to support home ownership for large families. Although eligibility is theoretically limited to low income families, as mentioned before, in practice large parts of the population can participate.

For the Vlaams Woningfonds the number of cases with arrears of at least one month in 2000 was 1,064 on a total of 33,298 mortgages; in 2001 it was 1,109 on a total 33,490 mortgages. For the VHM the information is given in a different way. At the end of 2000 2,111 mortgages had arrears. This counted for 0.086% of the outstanding capital. A total of 170 of these dossiers had arrears of at least three months. At the end of 2001 the number of arrears were 2,529, counting for 0.095% of the outstanding capital. At the request of the Vlaams Woningfonds, in 2000 and 2001 respectively 12 and 6 dwellings were sold. Actions taken by the VHM have led to the selling of respectively 60 and 70 dwellings. In a comment mentioned by Gabriëls (2002), the Vlaams Woningfonds states that during the years the number of arrears is relatively stable. This is explained by an individualised follow up. The same seems to be the case for the VHM.

There is no general information available on the way of dealing with arrears. So we contacted the major mortgagors. We received written answers from three important mortgagors, among them the market leader.

### Bank 1

Concerning clients who cannot manage to pay in time, the following procedure is set in play:

- A fully automatic monitoring system functions. This means that, after the passing of the fixed terms, a ‘normal’ reminder is send to the client. After a while an official letter is sent by recorded mail. In this letter the consequences of not paying immediately are explained.
- The clients who, after running through the whole automatic monitoring system, still do not pay their arrears, are sent to the department ‘Risk Surveillance Unit’. This service warns the local managers. The local managers have a fixed term to deal with clients in a personal way in order to look for solutions.
- After this procedure one differentiates between:
  - The clients for which – according to the bank – an acceptable solution is reached. They go back to the automatic monitoring system.

- The clients who do not make any proposal, or who made a proposal that was not acceptable to the bank, are sent to the department responsible for 'Collection'. At this time, the bank ends their relation with client.

In the meantime and conforming to legal obligations, the information on clients with three months arrears, is reported (as mentioned).

The department of 'Collection' is responsible for the rapid collection of credit. Pre-dominantly this includes starting up the procedure to force the sale of the dwelling. In the meantime the (former) client still has the option to choose their own solution, e.g. selling 'out of hand' (instead of public) or refinancing with another bank. A spread repayment, even conforming to the original scheme, is nevertheless no longer possible, when the procedure has evolved this far. This bank, due to economic and administrative procedures, never repossesses a dwelling – even if they occur at their request.

## **Bank 2**

If clients do not pay their mortgage on time, the first step taken by the bank, is that a valuation assessor is sent. The visit has two goals. The first is to establish the reasons for the arrears (loss of employment, divorce, debts,...); the second concerns a search for a solution and a check on the state of the house (neglect, repairs, renovation...). The visit leads either to a proposal for a solution (notice, review of the down payment,...) or the starting of a procedure leading to possession (if payment remains delayed or lacking). A lawyer manages the possession procedure. On average 25 to 30 public sales are enforced, on an average of 7,500 new mortgages a year<sup>14</sup> (this is between 0.33% and 0.4% a year). During the last 20 years the bank repossessed only 10 dwellings (for sale afterwards).

## **Bank 3<sup>15</sup>**

In respect of mortgagors covered by the Law on Mortgages, Bank 3 follows the following procedure. During a first phase, often lasting between five months and one year, the bank – before steps to try to recuperate the money are set in motion – tries to solve the problems concerning the arrears. During this period as well as internal measures to make contact with the client (an automatic procedure), measures prescribed by the law (a procedure of friendly arrangement or reconciliation) are taken. If not successful, measures to get back the money are initiated.

An estimation of the number of forced sales of privately owned houses on the

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<sup>14</sup> Bank 2 has 150,000 active dossiers. If we suppose that an average mortgage is for 20 years, this gives us 7,500 new mortgages every year.

<sup>15</sup> Info received by a letter on 19.07.2002.



initiative of the bank – covering approximately ten months (October 2001-July 2002) – provided the following figures:

- on an average of reclaimable mortgages of 950 to 1,000 on which the procedure is started, approximately 50 dossiers are ended and a date for forced sale is fixed;
- an overwhelming majority of these 50 dossiers concerns the own house of the debtor;
- Since the possibility exists that between the sale dates (normally two) the procedure can be stopped, the number of 50 should be seen as an absolute maximum.

From the day arrears occur, or during the procedure, the debtor can decide to sell voluntarily. Data are not systematically collected. Nevertheless the bank estimates that on a portfolio of 1,600 dossiers in arrears a minimum of 250 dossiers lead to a sale on a voluntary basis. Factors that influence the sale of the dwelling concern divorce – often leading to arrears and a voluntary sale – and collective salvation of arrears – often leading to keep the family dwelling.

Note that this bank recently launched as a novelty mortgages for purchase or renovation with a length of 30 years. This is motivated by the fact that new construction and purchase prices are rising so fast that young households can no longer meet these costs. The spokeswoman of the bank, Elly Bens, declares in the journal *Het Laatste Nieuws* (6 September 2002), that the idea came up since so many young people showed interest in a loan for 25 years. Given the historically low interest rate and the expectation of a further rise in the prices of plots of building land, it seemed suitable to launch this, for Belgium, unique formula. With the extension of the repayment period, the benefits increase, being a lowering of the monthly repayment sum. Or, the households can choose the loan a higher sum to invest.

The bank made two formulae, the first with a fixed interest rate of 6.3% (implying that €60.73 per million euro should be paid).<sup>16</sup> Or the client can opt for a variable rate. In particular, a formula '6x5' offers flexibility, but a '20/5/5' formula is also available.

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<sup>16</sup> Implies a monthly discount of €100.17 on a loan of €100.000 lasting for 20 years. The consequence is that for the same monthly repayment, a household can borrow 16.5% more (in the journal *Gazet van Antwerpen*, 6 September 2002).

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## 2.6 Conclusions

We began this contribution by sketching the historical roots of the high level of home ownership in Belgium and its regions. Basically rooted in a political and ideological option to counter urbanisation and socialism, it became hegemonic – helped by growing wealth after the Second World War. This led, contrary to the experience of neighbouring countries, to high levels of home ownership in the early post-war period.

Since a great majority of the Belgian households are home owners, all social groups participate. Nevertheless, some changes can be observed. Although, on the whole, affordability is not yet at stake, new home owners are these days more likely than before to be two-earner households. This is due to sharply rising housing prices, especially of plots of land and house purchase prices (De Decker, 2002). As a consequence a social polarisation between owners and tenants is taking place (De Decker & Geurts, 2000; De Decker & Pannecoucke, 2001).

In the early 1990s, the debt issue came on the political agenda after the publication of a general report on poverty (Koning Boudewijnstichting, 1994). However, the discussion concentrated on consumer debts and mortgage debt remained largely out of sight. The consequence is that so far no research on losing homes or mortgage debts has been undertaken, and little information is available. The information we could put together tells us that approximately 6% of the home owners have at least three months' arrears and between 0.5% (if we take the household head and partner as the indicator) and 1.2% (if we take all persons into account) lose their own house annually.

In policy terms, the first and very solid protection against the consequence of income loss, is, within social security, the still generous (at least at first) unemployment benefit. Recently added in as well in Flanders and Wallonia is a free insurance against income loss due to involuntary unemployment.

We want to end with two final remarks. The first is that home ownership in Belgium is still very much a matter of housing and far less a matter of investment. The information on the nature of the mortgage type is illustrative, since an overwhelming majority of the households chooses a rather inflexible system, implying that they want to know what they have to pay during the whole mortgage period. Speculation on short-term profit is nearly absent (which does not mean that the households are unaware of the long term investment potential of their property).

Second, it is a little odd, given one, the historically high levels of home ownership and the spread of the tenure through all social groups, and two, the

changing nature of the labour market introducing flexibility and short-term contracts, that the increasing risks (and pains) associated with home ownership do not enter the agenda. Nevertheless, the structural basis of home ownership, having a secure income, is less solid.

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## 3 Finland

*Hannu Ruonavaara*

### 3.1 Introduction

Finland is one of the countries in Europe where home ownership has been the dominant type of tenure for most of the post-World War II period. At the highest in 1990, as much as 72% of Finnish households were owner-occupiers; since then the proportion has declined (see section 3.3). Viewed through statistics on the tenure divisions of the housing stock, the dominance of home ownership may even seem to have been rather stable. However, the form of home ownership has changed in crucial respects during the post-war period. Up to the 1950s Finland was a rural and agricultural society with the majority of the population living in the countryside. At that time rural areas were heavily dominated by home ownership, whereas in towns and cities renting was the major tenure. In the post-World War II period, from the 1950s to the mid-1970s, Finland experienced a massive socio-structural change, that later has been called the Great Migration (because one of its central features was a large-scale migration from the rural areas to the urban ones). In a relatively short period of time Finland was transformed from a rural and agrarian society to one where the majority of the population lived in urban communities and worked in manufacturing and services. Many smaller changes accompanied this vast structural change, one being the growth of urban home ownership: the cities of tenants were transformed to cities of home owners and the difference between urban and rural tenure patterns diminished considerably. However, this means also a change in the form of home ownership. Substantial shares of urban owner-occupied dwellings are flats in blocks of flats and terraced houses.

In Finland home ownership is divided in two forms, ownership of detached and semi-detached houses and ownership of flats. The latter form is organised through a specific institution, the mutual housing company. It is a form of owner-occupation of multi-family housing where the resident's ownership of shares in the housing company entitles him/her to the use and transfer of the dwelling. The shareholders, who are mostly residents in the house, but can also be owners who rent out the dwelling, have the decision-making powers in the company. For day-to-day business they elect a board and hire a manager. In some housing research texts housing company home ownership is referred to with the North American concept of *condominium*, as there are apparent similarities between condominiums and housing companies (see e.g. definition of condominium in Beyer 1965, 272). I will also follow that practice, though, strictly speaking, this is not entirely accurate: there are certain differences in the legal status of condominiums and housing companies. The

existence and importance of the Finnish form of condominium ownership affects also another choice of words in this article: I shall refer to loans intended for purchasing housing with the word *housing loan* instead of the word *mortgage*. Shares in the housing company can usually be bought and sold just like real estate, but the legal owner of the *house*, however, is the housing company. Though everyday talk in Finland rarely acknowledges this, what people who sell and buy flats in housing company houses actually trade, are shares in the housing company. By buying a specifically numbered set of shares the buyer gets an entitlement to use a specific dwelling. So, loans for buying shares in a housing company are not actually mortgages, as shares, not the flat, act as their collateral.

Because, at the highest, as much as 70% of Finnish households have been home owners, Finland is apparently one of the countries of *mass home ownership*. Socio-economic differences in the access to home ownership have in Finland been relatively small (see e.g. Ruonavaara, 1989). Now a majority of households in all occupational classes are home owners. In recent decades social differences in housing tenure have, in fact, occurred more in renting than in home ownership. During the time when home ownership was expanding, and the rental sector shrinking in Finland, the socio-economic composition of tenant households was becoming more one-sided.

In Finland state intervention in housing has been of much smaller importance than in the other Nordic countries, especially Sweden. Before the Second World War the state intervened in housing only in acute crisis situations like the housing shortage experienced after the First World War when rent control was enacted. Typically the control was ended as soon as the housing market was considered to have returned to a 'normal' state. Before the Second World War public housing finance was very limited, the housing support system was restricted to large low-income families etc. It can be safely concluded that the dominant view was that housing provision was to be left to the private market and the role of the state was to act only in emergency situations, like when the society was experiencing some crisis or when some population groups were at risk of extreme housing poverty.

After the Second World War the role of the state in housing policy gradually changed. The immediate reason was the difficult housing situation after the war. Rent control, tax subsidies for housing production and state involvement in financing housing production were considered necessary measures to get the system of housing provision going. At that time many considered these measures as temporary adjustments that were needed only until the housing system would recover to its normal state. However, gradually some of the measures became, more or less, permanent features of the Finnish housing



system. This was the case with state housing finance that became an important factor in the Finnish housing system, and also state intervention in rent setting that continued in some form until the mid-1990s.

It can be said that state intervention in housing provision escalated until the late 1970s. The 1970s housing policy discourse saw the state as an increasingly central actor in housing provision. Its role in financing housing was to be made stronger, its planning powers and capacities concerning housing provision were to be strengthened, the production of social rental housing was to be increased etc. By the end of the 1970s the housing policy thinking had largely changed and a gradual withdrawal of the state from involvement in housing provision started. State subsidies were targeted to housing consumption instead of production and the state financed a diminishing part of new production. The general idea was to make more room for the market mechanism in housing production. This development has continued, especially in the 1990s.

## **3.2 Macro social change in the 1990s**

### **3.2.1 The 1990s economic depression**

When looking at the three issues that are of interest in this book: labour market, home ownership market and the welfare state, in the Finnish case there is one historical background factor that affects all three: the economic depression of the 1990s. The 1980s in Finland were a time of booming economy and the 'consumption feast' of a large part of the population. Unemployment was at a very low level. Problems began to emerge from autumn 1990 onwards when the international economy entered a recession. The growth in GDP in Finland stopped in 1990, and turned to a decline in the years 1991, 1992 and 1993. The main impact of the depression, unparalleled in any OECD country, was that Finland's GDP declined by 11% from 1991 to 1993 (Laakso 2000, 1). During the years 1991-94 the number of jobs lost was 450,000 according to Labour Force Study by Statistics Finland, and 435,000 according to the National Accounts. According to employment studies, 516,000 jobs were lost during the period from the end of 1989 to the end of 1993, in other words 21.7% (Tiainen 1999, 83).

At the turn of the decade the government also started to borrow heavily from the international financial markets. In the 1980s the state's debt fluctuated between about 4 and 8% of GDP. In 1990, this share was 10.3% and huge increases in state debt followed each year after that. In 1994 Finland's public sector debt was 60% of the GDP (Kasvio 1995, 21). Furthermore, there was also

a severe banking crisis, which necessitated expenditure in the region of FIM 50 billion on the part of the state, which had to subsidise the banks to keep them in business during the worst of the depression. The economic depression had its implications for households.

The depression roughly doubled the numbers of social assistance claimants. In 1990 only 8.4% of Finnish households received social assistance while in 1996 the figure was 15% and it was estimated that in 1999 the number was 12% of households ([www.vn.fi/stm/english/tao/publicat/poverty/present.htm](http://www.vn.fi/stm/english/tao/publicat/poverty/present.htm)). However, this did not affect the levels of poverty in any significant way. According to the statistics of the Ministry of Social Affairs and Health, in 1990 the number of poor households made up less than 3% of the total number of households, and only minor changes occurred during the depression; in 1995 the proportion was 2.4% and in 1997 the proportion was again 3% ([www.vn.fi/stm/english/tao/publicat/poverty/present.htm](http://www.vn.fi/stm/english/tao/publicat/poverty/present.htm)). Thus the actual consumption level of the lowest income groups was comparatively well protected by the social security system despite the overall cutbacks in social spending.

After the depression, export growth enabled Finland to retain the 1990 peak of level of domestic product by 1995, and GDP has continued to grow in the late 1990s annually by 4-6% (Statistical Yearbook of Finland 2000, table 300). The economic development by the end of the 1990s was thus very positive in Finland. Employment has improved, income levels have increased, and the economy was characterised by relative stability. However, unemployment remained at a relatively high level and the public sector has had to struggle with continuing financial austerity.

### 3.2.2 Liberalisation of financial markets

In Finland there are two main sources of housing finance, banks and the state. Of these two, banks play a leading role. Deposit banks finance production of housing as well as purchase of new and second-hand dwellings. None of the Nordic countries have banks that would specialise in housing finance (Karlberg & Lujanen 2002, 128). The banks are also a far more important source of housing finance than the state. First of all, banks have financed a far greater share of housing than state agencies. Secondly, private housing finance has always been the primary form of finance for producing or purchasing housing, and the direct state housing finance has been in the form of secondary loans. To be able to get a state housing loan the applicant has had to secure a loan from a bank. As the state involvement in housing finance has increasingly moved from direct financing to interest subsidies, the private banks' role has further strengthened.

In the 1980s significant changes in housing finance took place in Finland. These happened because of the restructuring of the Finnish financial markets (see Doling 1989, 275-277). During the post-World War II period until the mid-1980s financial markets in Finland were regulated by the state. From the early 1980s on Finland shifted gradually from a system of credit rationing to a credit market. In the old system the Bank of Finland had set a base interest rate to which nearly all loans were tied. This guaranteed a stable and a relatively low rate of interest. The deposit banks' average lending rate was about 10% from the 1950s to mid-1980s. As inflation was high, especially in the 1970s, this meant that the real rate of interest was often a negative one. This state of affairs was highly beneficial for home owners who were also able to benefit from the right to deduct housing loan interest payments from taxable income. When tax deductions are taken into account the real interest rate of housing loans was actually negative for most of the 1970s and 1980s (Laakso 2000, 44). At that time capital gains from home ownership were a very significant phenomenon, which undoubtedly contributed to the growth of home ownership.

The regulation of the interest rate was removed from new loans in 1986, which pushed the interest rate up immediately. The average interest rate climbed from 10 to over 14%, though in housing loans it was somewhat lower due to loans still linked to the base rate. The rate of interest was much higher in market rate loans, like those linked to the HELIBOR index where the average rate frequently exceeded 16% in the early 1990s. Another significant change associated with the deregulation of the financial markets was the change of terms for loans. In the regulated system the terms of the housing loan were more or less similar in all of the banks. The advance saving requirement was for new buyers often 30-40% of the purchasing price and in trading dwellings the required own capital of the borrower was often 50%. The repayment times for housing loans were relatively short: 10 years in most cases. Client relation with the bank was a usual condition for getting a loan. After deregulation the banks began to compete by offering housing loans with very low, even zero, advance savings and repayment times for 20 years or more (Ruonavaara 1994, 286; Laakso 2000, 66).

The 1980s deregulation of financial markets led to a spectacular growth in housing loans; the real value of the housing loan stock increased by half during the three years from 1986 to 1989 (Laakso 2000, 44). Much the same happened with business and consumption credit, and the 1980s credit expansion contributed importantly to the following economic depression. The necessary discipline in allocating loans for business, housing and consumption was suddenly lost in the 1980s competitive and speculative economic climate. The 1980s economic growth was at the time called the 'casino economy' where

windfall gains were available for investors ready to take risks. When the economic environment changed at the end of the 1980s the banks' policy led to a severe banking crisis. This led to a reorganisation of the whole banking sector where one of the large bank groups in Finland became completely swallowed up by its rivals.

The banking crisis and the economic depression meant, of course, that the demand for new loans cooled down for some time. As a matter of fact, the value of outstanding households' housing loans decreased from 107.613 millions in 1991 to 95.219 millions in 1995. However, since then the value of households' housing loans has again started to increase so that by 1998 it had climbed to 112.864 millions (Housing Indicators 1999, 48). As a consequence of the lower demand for loans, also the rates of interest observed during the credit expansion came down: the rate of interest for new housing loans for households declined from 13% in 1991-1992 to less than 6% in 1997-1998 (Housing Indicators 1999, 48). It seems that added demand for housing loans has not pushed the interest rate up. Also repayment times have remained longer than in the period before the deregulation. In 1999 the usual repayment time for private sector housing loans was 12 to 20 years with the maximum limit of 30 years (Karlberg & Lujanen 2002, 149). As can be expected, the share of borrower's own capital is now higher than in the years of credit expansion. In 1999 the usual percentage of other than loan capital for loans for purchasing an owner-occupied dwelling was between 15 and 30% (Karlberg & Lujanen 2002, 144).

Overall, the Finnish development resulted in the loan markets becoming more volatile and risky; certainly, immediately following deregulation "interest rates were most volatile and at a high level on average" (Laakso 2000, 70). The development since the mid-1990s has been more stable and beneficial to homebuyers. Interest rates started to fall in 1993, repayment times have stayed higher than before and also a wide variety of different kinds of loans are offered.

### 3.2.3 Restructuring of the labour market

One of the most important changes of the Finnish labour market during the last two decades is that the economic depression transformed Finland from a country with a relatively low rate of unemployment in European comparison to one with a relatively high rate. The depression pushed production 12% below the level of the previous peak years 1989-90 and it reduced the demand for labour strongly for four years. After the depression, employment figures took an upturn in 1994 and the strengthening of economic growth, particularly in the domestic market, hastened the fall in unemployment in 1997-98.

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Although the official number of the unemployed has clearly decreased after the depression, the participation to the labour market has not increased as rapidly as the unemployment rate has decreased.

In Finland, long-term unemployment was originally very low in but increased in the 1990s to a very high level. In 1991, the number of people unemployed for over 12 months was, according to the Ministry of Labour, 5,300 people. During the depression, the number of the long-term unemployed was in its worst – in 1995, 140.000 people, and since then it has stayed around 80,000 ([www.mol.fi/tiedotus/tauluk1.html](http://www.mol.fi/tiedotus/tauluk1.html)). The late 1990s growth of the economy reduced the level of mass unemployment, but did not have much impact on long-term unemployment. According to recent statistics, 30% of unemployed are long-term unemployed while ten years earlier their share was less than 10%. The reason for the marginal impact of growth to long-term unemployment is that there are additional factors such as the productivity of labour, working time and the supply of labour, which affect employment. The supply of labour is a particularly important factor in the case of the long-term unemployed, because some of them are very difficult to employ. Thus, it seems clear that with the economic depression and the structural changes of employment this fuelled long-term unemployment that has become a permanent problem in Finland.

Another change is that atypical forms of unemployment have become much more common in the Finnish labour market, which traditionally has been largely characterised by permanent full-time employment. This includes arrangements such as self-employment, home-working, part-time work for several employers and temporary work contracts. Also working time arrangements such as sabbatical leave, part-time pay supplement, part-time pension and partial care leave have become more common during the 1990s, which has increased the flexibility of work further. And, the working-time of the full-time employed is shorter than previously. The average working time (hours usually worked) was in 1996 among all employed 38.8 hours per week. In full-time work the weekly working time was 40.8 hours and in part-time work 20.4 hours (Keinänen 1998, 21).

Part-time work has increased its share only slightly in Finland. In 1976 only 6% of workforce was working part-time, less than 30 hours per week. In 1991, 7% of all employed were working part-time. However, five years later, in 1996, the share of part-time workers was 11%, according to the EU labour force survey. Part-time work is usually also temporary. Only one third of part-time work contracts were permanent. After the depression, part-time work has become more involuntary than before; in the 1996 Labour Force Survey, 43% of the female part-time workers said they worked part-time because they

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'couldn't get full time work'. In 1989 the respective percentage was only 11% (Doling & Ruonavaara 1996, 40; Sutela 1998, 40).

Part-time working has been traditionally more common among women than men: in 1996, as much as 71% of all part-time workers were women. Finnish men work part-time slightly more than men in EU countries on the average, but Finnish women work part-time much less than women in EU countries. And, part-time working is more usual among the young people; over a half of part-time employed were young (i.e. less than 35 years). Also, in ageing people (50-64) part-time working has become more common; in 1996 4% of men and 12% of men were in part-time jobs. By the types of industry, part-time working was most common in trade, in which 25% of all workers were in part-time employment, whereas in manufacturing, only 2% were part-time workers (Doling & Ruonavaara 1996, 40; Sutela 1998, 43).

In contrast to the EU countries, temporary employment seems to be characteristic for Finland. Only in Spain, the share of temporary employment relationships (34%) was bigger than that of Finland. In Finland, during the 1980s the share of workers in fixed term contracts was almost constantly slightly over 10% of all workers, but the depression changed the situation. After the depression, in 1996, the share of temporary employment was 17%; one sixth of all workers. And, the number of temporary employed women has increased from the 1980s to the 1990s three times more than men. In 1996, even 21% of women were temporarily employed, while the share of men was at the same time only 14%. Also, temporary employment varies by age; in 1996, a half of the people aged 15-24 was temporarily employed, whereas of people aged 45-54 the share was one tenth. On the other hand, being temporarily employed is rarely a voluntary choice; only one tenth of all temporary workers wanted to choose this kind of working arrangement (Doling & Ruonavaara 1996, 40-41; Sutela 1998, 37).

Finnish labour markets, then, have developed in a direction that weakens the conditions sustaining mass home ownership. Unemployment has become a permanent problem, even though since the mid-1990s the situation has been improving. There has emerged a group of long-term unemployed whose chances of becoming employed are poor. Many of them are older persons, and in their case the work situation may affect housing careers by making it more difficult to sustain the status of home owner. Youth unemployment affects directly the continued growth of home ownership, as young people are the group where there is most room for growth. Moreover, the kinds of jobs that are offered to young people are increasingly part-time and fixed term, that is, the kinds of jobs that do not offer the confidence concerning future income development that people would have to have to be able to enter home owner-

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ship. Of course, the same problem also concerns other groups in addition to young people.

### 3.2.4 Restructuring of the welfare state

Finland is considered as one of the countries following the Nordic or Scandinavian welfare model. Kvist mentions six main characteristics of the Nordic welfare state. They are comprehensiveness, employment policies committed to the goal of full employment and/or preventing unemployment, equality, universality, high-quality benefits and generous benefits. This, however, according to Kvist, represents an ideal-typical Nordic welfare model (Kvist 1999, 232). The various Nordic countries correspond to this ideal type more or less closely, and Finland has often been seen as being in certain respects far from the model's core. For example, the goal of full employment has been less central in Finland than, for example, in Sweden and the benefit levels have often been less generous than in the other Nordic countries.

In the past the Finnish welfare state has been very successful in reaching some of its policy goals. For example, in the 1980s Finland achieved extremely low poverty rates with relatively low social expenditure by international standards. Scandinavian countries in general, and Finland in particular, have also had a high degree of equality between women and men in labour market participation and educational attainment (Forma 1999, 46). In Finland, as in other Scandinavian countries, the 'social democratic' model faced problems in the crisis in public financing during the early 1990s economic crisis. The shock to the economy led to a reassessment of the affordability of the welfare state. There were two kinds of problem facing the social security systems. On one hand, the need and demand for income transfers and services increased due to rapidly growing unemployment. On the other hand, the funding basis of the system weakened as the state's 'taxation basis' was eroding due to economic depression.

In the case of state services the debate has focused upon the public monopoly in the production of services, the possible labour division between public and private services and the applicability of various welfare mix models. In respect to redistribution, the debate has tended to focus upon the question of basic security versus earnings-related security. In the beginning of the 1990s a new doctrine of economic policy making was developing which required strict adherence to low inflation, low national debt and interest rates that did not diverge markedly from the lowest rates in the EU. According to the supporters of this doctrine, one of the main targets of cutbacks was the too generous social service system in Finland.



On the level of politics, the debates in the early 1990s were constructed around two opposing arguments regarding the survival strategy of the Finnish economy. According to one view (Centre-Right government), expenditure levels needed to be frozen, borrowing cut down through fiscal discipline and the competitiveness of the Finnish economy improved through cost-cuts rather than periodic devaluations. The opposite view (Left-wing opposition) held that Keynesian demand management was necessary if the depression was to be successfully combated (Timonen 1999, 257). The attitude of the Left parties changed when they formed a Rainbow coalition government in 1995: for the first time, both Left parties in Finland were in government with the main conservative party, the National Coalition. Thus, finally, the Centre-Right and the Rainbow government adopted the same basic view of sound economic development and the 'necessary measures' such development requires.

Thus, the dominant policy makers' view has been in the 1990s that the depression 'necessitated' the restructuring of the Finnish welfare model. However, this restructuring is not universally perceived to mean the dismantling of the Nordic model of welfare in Finland, but regarded by some analysts as a renewal of welfare principles (Manning & Shaw 1998, 583-4). The primary goal of the renewal was to keep costs in check, or, where possible, reduce welfare expenditure, whilst attempting to maintain quality of care either in the family or in non-institutional care conditions. There have been cutbacks in services, widespread introduction of user charges and the introduction of market reforms. Cutbacks have mostly been targeted at those benefits that started to absorb rapidly increasing expenditure during the depression: unemployment benefits, social assistance and housing allowances.

There have also been institutional changes, for example, the scope of health and social care was altered in 1993 by a series of major reforms. The universal character of certain benefits has been eliminated (the national pension and basic sickness benefit), but the impact of this on benefit recipients has not been great. Earnings-related benefits continue to provide income replacement at a relatively high level and hence discourage private insurance (Timonen 1999, 253). Therefore, it can be argued that the Nordic welfare system is not altogether changed, because three elements remain: equal extent of security based on residence in the country, earnings-related security based on work and supplementary low income or otherwise means tested security (Heikkilä & Uusitalo 1997, 182-183). The benefit levels have been cut and the coverage of programmes have been narrowed but the main institutional principles of the welfare state have not changed during the decade. Not surprisingly, international statistics show that Finland is still one of the world leaders in welfare expenditure (Timonen 1999, 253).

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In conclusion, as Forma states, although economic and social changes have been enormous, poverty rates and income distribution were surprisingly stable during the depression years. In spite of mass unemployment and growth in the number of welfare state dependents, the poverty rate did not increase substantially and there were only marginal increases in income inequality until 1994. However, according to income distribution data income differences have widened in Finland since then (Forma 1999, 48). This has been because of two reasons, the growth of income from property and lesser redistributive impact of income transfers (Sosiaaliturvan suunta 2002, 164). The economic recovery of the country has actually meant a widening income inequality.

### 3.3 Home ownership in the 1990s

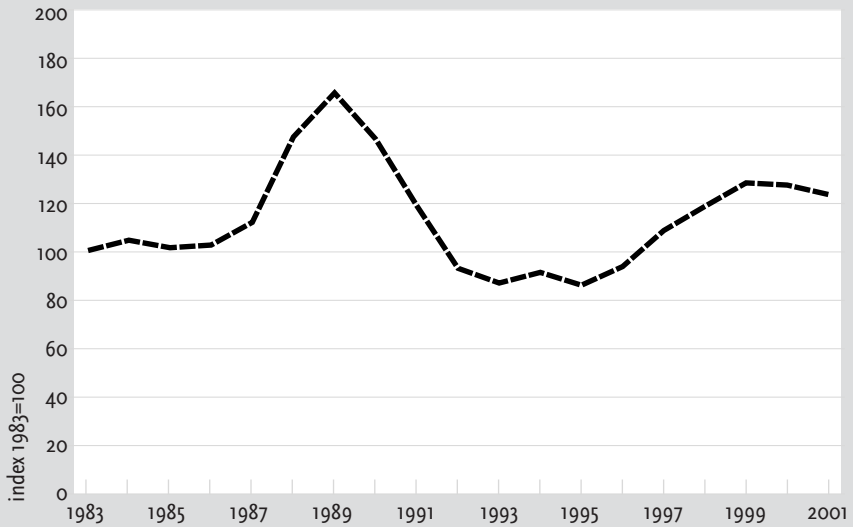
#### 3.3.1 The new home ownership market

One of the most striking developments in Finnish home ownership during the end of the 20<sup>th</sup> century is the boom and bust of the home ownership market in the late 1980s and early 1990s (see e.g. Doling & Ruonavaara, 1996 or Laakso, 2000). The 1980s economic boom resulted in increased migration to the largest urban centres, especially Helsinki Metropolitan Area. Employment opportunities were favourable, and consequently demand for housing increased. Laakso points out that also the relative lag in the level of housing consumption in Finland compared e.g. to the other Nordic countries also contributed to the rise in demand for housing (Laakso 2000, 67). In the Finnish case, this meant increasing demand for housing loans. The late 1980s were also a favourable time for borrowers, as deregulation of the financial markets fuelled competition between banks, and the banks started offering long-term housing loans with very favourable terms to home buyers. All this resulted in a spectacular increase of dwelling prices (see Figure 3.1).<sup>1</sup>

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<sup>1</sup> Figure 3.1 shows the development of real dwelling prices, that is, prices adjusted by the consumer price index in Finland during the period from 1983 to 2001. The data is about purchases of second hand condominium dwellings, which are mainly flats in blocks of flats, and the statistics are about sales in which real estate agents are involved in the transaction. Therefore, it does not include information about a) purchases where real estate agents are not used as middlemen, b) purchases of new dwellings and c) purchases of single-family and two-family houses, which usually are not organised as condominiums. However, the trends observed in these statistics do not differ considerably from the ones produced from the records of the National Board of Taxes covering all transactions concerning condominium flats. That statistic is not used here because it has become available only recently.

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**Figure 3.1 Development of real prices of dwellings in blocks of flats, 1983-2001**

Source: House prices 1995, 3rd quarter, table D; House prices 2002, 22nd quarter, table C

As can be seen in the chart, prices were rather stable in the early 1980s, but by the end of the decade they started to rise rapidly. The biggest increase was experienced in 1987 when dwelling prices increased by 37% in Finland. The price boom was followed by a price crash: in 1990 prices went down by 6%, in 1991 by 15%, in 1992 by 18% and in 1993 by 7% (Doling & Ruonavaara 1996, 32-33). The late 1980s housing market was clearly 'over-heated', a speculative bubble developed that had to burst some time, and it did that in 1989. The number of transactions fell from 75,000 in 1988 to little more than 50,000 in 1988 and to 40,000 in 1990 (Housing Indicators 1999, 25).

The statistics on price development and the number of purchases indicate that the depression of the home ownership market was over by the end of 1990s. With the economic recovery of Finland, dwelling prices started to rise again, and by the end of the 1990s they were clearly above the early 1980s level, approaching the price levels reached at the beginning of the dwelling price boom. Construction starts and volume of completed dwellings started to increase in 1997 (Laakso 2000, 76). Also numbers of transactions increased. However this price increase seemed to slow down by the end of the decade.

The kind of housing market development that was experienced in the late 1980s and early 1990s seems rather unbalanced. But is this an exceptional development? And does it constitute a more permanent feature of the new home ownership market? When looking at statistics on the more long-term price development we discover that considerable price fluctuations happened also in the past. During the early 1970s building boom in Finland dwelling prices rose and fell quite dramatically (see e.g. Housing 1988: 3). The difference between the two price booms is, however, in the scale. When during the

later price boom prices rose (in the whole country) from index number 110 in 1988 to nearly 170 in 1990 and went down again to about index number 80, the increase in the earlier price boom was more modest, from 100 in 1970 to 115 in 1973, and then down to about 80. The decline in the later boom was clearly much more violent. However, the different scale of the development does not necessarily mean a different kind of housing market.

It is possible to argue that the violent price changes and virtual collapse of the owner occupied market were more a conjectural development. The liberalisation of financial markets was handled in a problematic way at a time when economic conditions happened to change for the worse for Finland and virtually all actors in the housing market misjudged the situation and made wrong decisions. Producers and consumers did not realise the changing situation in the housing market, banks were blinded by the new freedom to compete, and the government saw no reason to cool down the frenzied economic activity in the 'Japan of the North'. Virtually no one foresaw the end of the high conjuncture and the following economic depression. If this is a case that can be defended, then the boom and bust of the Finnish home ownership market can be interpreted as problems in a transitional period, and not indicative of the new kind of housing market.

### 3.3.2 Over-indebtedness

In many of the chapters in this book the extent of mortgage default and foreclosures are used as indicators of financial risks caused by the changes in the home ownership market. In Finland information on forced sales of owner-occupied dwellings or housing loan default is not readily available. Similar problems have, however, been looked at using the concept of over-indebtedness. Over-indebtedness refers to a situation where the household's debt burden is such that it cannot manage it by the income it receives. Over-indebtedness has been researched both by asking people to evaluate their situation and by constructing objective measures much the same way as social policy researchers construct measures of poverty.

The boom and bust of the owner occupied market left a relatively large number of owner-occupiers in severe financial trouble. There are no exact figures on forced sales or housing loan default but some research information on households with debt problems and the extent of over-indebtedness is nevertheless available. In the early 1990s Finnish researchers estimated that about 20,000 to 30,000 households were in 'unmanageable housing debt problems' (see Doling & Ruonavaara 1996, 35). There is no exact information about households that suffer from 'negative equity', that is, a situation where the household's housing debt is larger than the amount of money the household

would get were it to sell its dwelling. According to Kosonen's estimate, this involved in the early 1990s a smaller percentage of owner-occupier households than in the other Nordic countries, but the problem in Finland was more severe for the ones that experienced it (Kosonen 1995, 73-74).

For the development of over-indebtedness, caused especially by housing debt, there is a very thorough study by Marie Reijo (2000). This study is based on interview material of Statistics Finland's Income Distribution Survey, and it concerns the development from 1996 to 1998. Over-indebtedness is measured with various statistical measures. Subjective over-indebtedness indicates the number of households who experience themselves as over-indebted. In relative terms the percentage of such households of all households with housing loans was relatively low, and the trend was decreasing: 8.4% in 1996, 7.7% in 1997 and 6.3% in 1998. In absolute numbers, the estimated number of over-indebted households with housing loans went down from 48,100 to 40,300. However, these numbers were considerably higher than in the early 1990s when the estimated number of subjectively over-indebted households with housing loans was around 20,000 (Reijo 2000, 10, 22). So, subjective over-indebtedness among households with housing loans has increased considerably up to the late 1990s and then started to decrease.

What is interesting here is that households having housing loans did not experience themselves as over-indebted as often as households with non-housing debt. Among the latter group as many as 12.4% of indebted households experienced themselves as over-indebted, which is about twice as much as among households with housing debt (Marie 2000, 22). Actually households having housing loans constituted 36-40% of all subjectively over-indebted in 1996-1998. So housing loans were not the main or major forms of debt due to which households in Finland have become subjectively over-indebted in the late 1990s. However, the situation was different in the early 1990s, judging from the chart showing the 1990s development: in the beginning of the decade more than half of all subjectively over-indebted households were those with housing loans (Reijo 2000, 11).

The objective measures of over-indebtedness include e.g. housing loan to value ratio and solvency. The limit for acceptable loan to value ratio was set at 70%. In 1996 the debt load of 20% of households exceeded 70% of the value, and a year later this percentage was 17. In the 1997 statistics only 4% of these households were experiencing negative equity. Insolvency is based on a facility that is determined by "the difference between the money income at household's disposal and the expenses of real housing expenses and imputed living costs" (Reijo 2000, 5). A household was considered insolvent if the facility was not enough for paying the maintenance expenses of housing loans. In 1996

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12.6% of households were insolvent in this sense but by 1998 their percentage had gone down to 8.6. The researcher assumed that these households either used less money for living expenses than the calculations assumed as the minimum, acquired more money by taking consumption loans or realising property, or acquired additional income from the unofficial economy. As a conclusion to her study, Reijo states that according to all but one of the objective measures, the number of objectively over-indebted households has decreased. The one exception is the rate of indebtedness, which is measured by comparing the amount of debt to the household's yearly disposable income. The average rate of indebtedness for households with housing debt decreases from 1996 to 1997 but increases again after 1998; as the likelihood of being over-indebted increases by the rate of indebtedness, this can be seen as a measure of (risk of) over-indebtedness (Reijo 2000, 23-26, 56).

According to the European Community Household Panel survey, the proportion of indebted home owner households in mortgage arrears was second highest in Finland among the EU countries included in the survey. 14% of Finnish home owners with housing loans were in arrears, although the proportion of home owners with housing loans was relatively low in Finland, about 42%. The fact that 60% of home owners were debt-free diminishes, but certainly does not eradicate, the extent of the arrears problem.

How does the material I have here looked at relate to the general point that the new home ownership market tends to increase the risk of debt problems? Though we have not got comparative statistical data for earlier periods, it is certain that widespread over-indebtedness became a problem only after the liberalisation of financial markets in the 1980s and the economic depression in the early 1990s, which both can be seen as connected to globalisation. When I say that over-indebtedness became a social problem at that time, I do not mean that it was only socially constructed at that period, but also that the social conditions thus defined did not exist to such extent before. When measured as a subjectively felt problem, over-indebtedness has also been increasing until the late 1990s. As a conclusion of Reijo's study and the other information I referred to it seems that the number of over-indebted households has been declining in the latter part of the 1990s. There are reasons for that: employment has improved, interest rates have remained low and households have become more cautious in taking housing loans.

In the Finnish case it seems that the new home ownership market created by liberalisation of finance markets has contributed to the debt problem but it seems also that it does not necessarily produce over-indebted households at a *cumulating* pace. But that is not what is argued when globalisation and the socio-structural changes in European societies are seen as increasing the

**Table 3.1 Households by housing tenure status in Finland, 1980-2000 (in %)**

	1980	1985	1990	1995	2000
Owner-occupier	63	69	72	67	63
Tenant	31	27	25	30	32
Other	4	2	2	2	4

Sources: Construction and Housing Yearbook 1999;  
[http://statfin.stat.fi/statweb/statfincatalog\\_Asuminen.asp](http://statfin.stat.fi/statweb/statfincatalog_Asuminen.asp)

risks associated with home ownership. It is argued that housing markets became increasingly risky and volatile, so that situations may change very abruptly. And these changes naturally have to do with the changing fortunes of the economy. In the case of late-1990s Finland, with very favourable economic development and improving employment, it is not likely that risks of over-indebtedness would increase. But again it can be questioned whether the series of events that created the Finnish debt problem were exceptional and painful birth pangs of the new home ownership market, or indicative of its characteristic features. People who advocate liberalisation can also point to lower rates of interest and more varied supply of housing loans, which can be seen as facilitating entry to home ownership in many ways.

### 3.3.3 The response of home owners

How did the developments described in the earlier parts of this chapter reflect people's behaviour in the housing market? Was home ownership actually affected by the new riskier environment? In the Finnish housing market there is not much evidence about the attitudes of people towards home ownership, or about the changes of their behaviour. However, there is one statistical fact that is forceful evidence about the impact the changes of society have had on home ownership: the declining share of home owners in Finland (Table 3.1).

In 1990 the percentage of home owners was at its highest in Finland, and the 1980s had been a period of steady growth. However, during the 1990s the long-term growth of home ownership was halted and reversed. The proportion and the absolute number of owner-occupier households started to decline. This means that there was movement from home ownership to renting but also that tenant households moved to owner-occupation at a much slower pace than before. This is evidence of behavioural changes of consumers, but there are also other possible reasons for this.

To think of these reasons we should first be clear about what it requires for the growth of home ownership to continue. Entering home ownership depends on at least three elements: households' preferences (tastes), their resources for acquiring housing and the available housing options. Let us start from preferences. Are there grounds for assuming that preference for home ownership would have changed in the 1990s? Unfortunately there is no

comprehensive and comparable survey data on changes in attitudes towards home ownership in Finland. It is known from various – but now outdated – studies that Finns do value owner-occupation highly (see e.g. Ruonavaara, 1988). However, one recent report that deals with this question is Ari Niska's research on young people's housing in the 1990s.

Niska had comparable survey data on young people's attitudes on different forms of tenure from 1991 and 1995. These were measured by attitude statements about the benefits of home ownership, the importance of acquiring an owner-occupied dwelling as a goal, etc. Niska starts from the assumption (presented in the media) that in the 1990s renting became more popular. The results do not reveal a straightforward trend. Among young people living in owner occupation, home ownership had become less popular, whereas among young tenants its popularity had stayed the same or even slightly increased. As it is the case that tenants had previously valued home ownership less than home owners, this meant that the attitudes of young tenants and home owners had become more similar. The results do not testify to the increasing popularity of renting, but of home owners' more cautious and doubtful attitude towards the merits of home ownership (Niska 1996, 93-96). Niska's results make sense: after well-published debt problems and apparent risks of home ownership, it is reasonable that people were more cautious about home ownership. But they also show that attitudes towards home ownership did not change dramatically in the early 1990s.

One source of assessing the behavioural impacts of the changes in the owner occupied market is the Consumer Barometer, a statistics based on regular surveys concerning Finnish people's economic expectations. These have been made every three months since 1988. The percentages of respondents answering, "Yes" or "Possibly" to the question "Do you intend to buy a dwelling in the next 12 months?" pretty much follow the trends of purchases (see Construction and Housing 1998, 1993). In 1989 about 8% of respondents were intending to buy, whereas in the 1990s the percentage fluctuated between 4 and 6% without any significant trend (Housing Indicators 1999, 26). These results may reflect a change of attitude, but just as well they can reflect respondents' assessment of their possibilities of entering home ownership. Households may very well prefer home ownership but they may not have the resources to enter it – or they may think they do not possess such resources.

The evidence shown in the previous parts of this chapter suggests that indeed the situation of especially young households who are the ones that are supposed to become home owners sooner or later had become such that home ownership was not the best possible solution. When working in a short-term job it is not wise to commit oneself to home ownership, which

binds one to the place where the dwelling is located, rather than rental housing. Also the possibilities of procuring a housing loan when working in one of the more precarious jobs are not very good. Young people without big initial capital are most vulnerable to the problems caused by high and volatile prices: low level of consumption and high indebtedness (Laakso 2000, 80).

There is also one feature affecting the tenure pattern that has to do with the supply of housing. In the period 1992-1995 rental markets were deregulated in Finland. This increased the supply of non-subsidised rental housing in the market. Another feature that contributed to this was the fact that because of the collapse of the owner-occupied market housing producers were left with a lot of unsold owner-occupied dwellings that were converted to rental dwellings. At the same time as the private rental market was recovering in Finland, state housing finance policies increasingly supported social rental housing. Despite the revival of private renting the social housing stock increased its share of total housing stock. All of this meant that there was more rental housing available for the consumers. This probably also has contributed to the increasing share of renting and the weakening position of the dominance of home ownership in Finland.

## 3.4 Housing policy and home ownership

### 3.4.1 Subsidies to home ownership

Taking into account the dominant position of home ownership in the Finnish housing system, one might think that home ownership has been heavily subsidised from the public purse. In a sense this is true, but the situation is a bit more complex. In the past home owners in Finland have been subsidised mainly by *indirect* tax subsidies. Taxpayers have been able to deduct a part of the housing loan interests paid from their taxable income, and the subsidy resides in the fact that they have paid less tax than they otherwise would have done. During the 1980s this indirect form of subsidy became the most important single form of housing subsidy. Another indirect subsidy has been the lower than market rate of interest on government housing loans. This form of subsidy has benefited both owner-occupiers and tenants, as state housing loans have been available both for owner-occupiers and tenants. According to some estimates, in the past the state housing loan subsidy has benefited more home owners than tenants (see Ruonavaara, 1988). However, in the 1990s the situation changed, largely because public housing finance has been targeted mainly for production of rental housing.

Home owners have benefited relatively little from direct housing subsidies.

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**Table 3.2 Housing subsidies 1990-1999, in millions FIM<sup>1)</sup>**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Housing allowances	1,804	2,261	3,089	3,303	4,030	4,300	4,015	3,805	4,396	4,809
Interest subsidy in state housing loans	1,933	2,722	3,460	3,029	2,079	2,036	1,901	2,061	1,976	1,790
– owner-occupation	638	843	992	767	443	371	296	292	254	211
– rental housing	1,295	1,879	2,468	2,262	1,636	1,665	1,605	1,769	1,722	1,579
Direct interest subsidies	552	665	792	782	543	767	771	673	680	700
– first time buyers	469	554	643	603	273	236	140	83	80	80
– over-indebted home owners	0	0	0	10	51	88	71	0	0	0
– other owner-occupation	0	0	0	0	0	3	18	25	30	40
– rental housing	83	111	149	169	219	440	542	565	570	580
Tax relief of housing loan interests	4,100	4,200	4,200	4,100	3,500	3,200	2,400	2,200	2,300	2,300
<b>Total subsidies</b>	<b>8,389</b>	<b>9,848</b>	<b>11,541</b>	<b>8,185</b>	<b>10,152</b>	<b>10,303</b>	<b>9,087</b>	<b>8,739</b>	<b>9,352</b>	<b>9,599</b>

1) Excluding repair and other grants.

Source: Tanninen & Hirvonen 1999, Appendix 2. The information concerning 1999 is an estimate. Official statistics for 1999 and 2000 are available at the time of writing (see Construction and Housing Yearbook 2001), but are not used here, as (a) the classifications used are different and less relevant for the concerns of this article and (b) also methods of calculation appear to be somewhat different. The general trends are the same in both statistics.

Home owners are eligible for housing allowances but these are mostly targeted to tenants. For example, in 1998 as many as 85% of recipients of housing allowances in Finland were tenants (Åhren 2002, table 6). A large number of home owners eligible for housing allowance have been pensioners; the share of home owners is clearly smaller among recipients of general housing allowance than those of pensioners' housing allowance (Housing Indicators 1999, 55). Since the 1980s there have been also direct interest subsidies for homebuyers. First there was the ASP-scheme that benefited young first-time buyers, later the housing loan policy of the government changed towards more widespread use of interest subsidies paid for bank loans instead of loans granted by the government. This reflects the shift towards market-based solutions in Finnish housing policy, evident from the 1980s onwards.

The latest trends in the subsidy policy can be seen in table 3.2. The main observation to be made here is, however, not specific to any tenure: the overall level of public subsidy to housing has decreased between 1992 and 1999 by about FIM 2 billion. The fall is mainly due to decreasing tax allowances, but also some direct subsidies have been cut, whereas housing allowances have increased due to persistent unemployment (Housing Indicators 1999, 51).

The decreasing trend of subsidy for home ownership is a distinctive feature of the latest development of housing subsidy policy. Most importantly, the tax relief enjoyed by home owners has declined in importance. There are a number of reasons. First, as the level of tax subsidy is dependent on the number and value of outstanding housing loans, the halted growth of owner-occupa-

tion has probably decreased its importance. Secondly, the amount of subsidy is dependent on the interest paid. As the level of interest has been rather low during the 1990s, the subsidy has not become so large either. Thirdly, government policy towards interest subsidies has limited their importance: the subsidy levels have been cut and the early 1990s tax reform that corrected the problem that subsidies tended to favour well-off people also decreased the overall level of subsidy.

In other forms of subsidy, the development is much the same. First, state housing loans have been targeted mainly to production of rental housing. And consequently, the interest subsidy benefiting home owners has decreased by two thirds between 1990 and 1999, whereas the subsidy for rental housing has developed on a clearly higher level (though the development is rather uneven year by year). Also in direct interest subsidies the development is similar, mainly due to the decreasing importance of interest subsidy to first-time buyers. The government policy for transforming State support from granting housing finance to interest subsidy of private housing finance is visible in the rising trend of 'Other owner-occupation' category – however, the subsidy thus granted does not amount to a particularly significant part of the total public support for housing production and consumption. Again, the steeply rising trend of interest support for rental housing indicates the state production support policy that favours the production of rental housing. Lastly, subsidies for over-indebted home owners have been granted only in the years 1993-1996. These ranged from FIM 51 to 88 Millions. As a conclusion for this section, it is fair to say that the recent development of public subsidies to housing have meant, first and foremost, a decreasing total level of subsidies and, secondly, sharply decreasing subsidies to home ownership and increasing ones to rental housing. Many commentators would say that this means a balancing of the earlier bias in subsidy policy.

### **3.4.2 Support for home owners in distress**

To relieve the debt problems caused by the collapse of the home ownership market and the economic depression, a new form of support was established in 1992: interest subsidies to over-indebted home owners. The interest subsidy scheme was a temporary one. The support was means-tested, and households accepted as recipients obtained it for three years. The subsidy amounted to 5% of the interest on the remaining loan capital. The last of the subsidies were paid out in 1997. Of about 15,000 applications for interest support, only 6,630 were accepted. According to an evaluation report, households that received the subsidy were mostly low- or medium income families with children. The amount of debt ranged from relatively low, less than FIM 200.000 (17% of recipients), to over FIM 700.000 (7% of households), which is

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rather high. Only 17% of recipients were unemployed at the time of the research (Autumn 1997). However, in 91% of households, at least one member of the household was employed, and as many as 52% of households were such that both adults were employed. Most households felt that the support had helped their budget, half of the recipients considered the help substantial. However, only 7% thought that they would manage their debts easily after the subsidy period, and about one fifth had had to move out of home ownership during the support period (Hassi 1998, 5, 12-14, 21, 23).

This short-term relief measure has been the only government support scheme targeted to over-indebted home owners. For any kinds of debt problems, not only those caused by housing loans, there is a debt adjustment system that has been operating since 1993. This is not actually a subsidy scheme but a legally enforced system through which the creditor and debtor can negotiate a payment plan by which the debt is paid. If the parties concerned cannot agree on the plan, the court can make a decision about it. Between 1993 and 1998 42,000 payment plans have been confirmed. However, in most cases the debt problems are due to business debts and guarantor obligations. Only 2% of the cases are due to problems caused by housing debts (Muttilainen & Tala 1998, 59-61).

So the Finnish policy has been characterised by a lack of specific measures to combat home owners' debt problems. However, the usual social support system provides some safety networks for home owners in trouble.<sup>2</sup> First of all, unemployed home owners may become eligible for means-tested housing allowance due to decreasing income. Housing allowance covers, at the highest, 80% of reasonable housing costs. When determining the amount of subsidy, characteristics of the dwelling such as housing costs (including loan interest), size, age, heating system and location as well as characteristics of the household such as number of persons, monthly income and wealth are taken into account.

During the economic depression the number of unemployed recipients of general housing allowance rocketed from less than 30,000 in 1991 to over 120,000 in 1994, and though it has somewhat decreased, it has nevertheless stayed over the 100,000 level (Housing Indicators 1999, 56). At the same time the numbers of employed recipients went down, so not all of this increase added to the total number of housing allowance recipients. Between 1985 and

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<sup>2</sup> The information about security provided for over-indebted home owners through the 'ordinary' social security system was mainly gathered by e-mail interviews directed to the social security offices of the largest urban municipalities in Finland.

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1992 the numbers of home owners receiving general housing allowance increased from 23,300 to about 40,500. The development was similar also among tenants, but the difference is in what happened after 1992. The number of owner-occupier households decreased considerably (to 12,500 in 1998) whereas the number of tenants receiving housing allowance was increasing (Statistical Yearbook of Social Insurance Institution, 1998). Due to the means-testing procedure with income limits and assessment of household wealth, it is unlikely that very many owner-occupiers would benefit from housing allowance.

Another system where home owners in trouble may get help is income support or social assistance. Anyone whose net income is below the existence level set in the law is eligible for social assistance. The situation of every recipient is assessed by a social security official in the local social security office. According to the law, 93% of housing loan interest can be taken as the home owner's housing costs that can be covered by social assistance (in some cases even 100% is possible). As well as for housing allowance, housing loan repayments are not considered as housing costs covered by social assistance. It is usual that clients are advised to negotiate with the bank for a period free from repayments (personal communication). During and after the depression the number of social assistance recipients increased dramatically from 181,600 households in 1990 to 349,600 households in 1996. By the end of the 1990s this number had declined to 280,000 households, which is still very high (translated to individuals this means that 9.3% of Finns receive social assistance). It is probable that many home owners with debt problems have got help from the social assistance system during the economic depression, though this may be more a phenomenon of the early 1990s than now.

As a conclusion it can be stated that the Finnish social security system there has been actually only one specific but short-lived measure that was designed to help home owners suffering from over-indebtedness caused by unemployment and other economic problems. It seems that the Finnish policy has been that the usual social security systems are enough for helping poor home owners.

### 3.5 Conclusions

What, then, have been the main developments of home ownership in Finland? First of all, it is clear that there have been significant changes in the conditions of mass home ownership. Financial markets were liberalised, labour markets became flexible, and the welfare state was restructured. In part, these changes were tied up with European integration, which in itself

may be seen as a vehicle of globalisation: integration, after all, requires opening up financial markets and budgetary discipline. However, the changes have also endogenous reasons deriving from structural problems of the economy and society. Especially the changes in the labour market have been seen as such. It is a common interpretation that the economic depression just made visible some of the structural problems of the Finnish economy, and very harshly exposed them. Perhaps also cuts and austerity policies in the welfare state are at least partly due to the problems of the Finnish welfare state model. These two are also connected, as the state is a large employer and one that has used flexibilisation as its employer policy. So not all can be blamed on 'globalisation', and here also the economic depression as a large-scale event is a factor that tends to interfere in any structural explanation of the socio-economic development in the 'long 1990s'.

If we turn now to the main topic of this book, home ownership, there is one very important piece of evidence that indicates that something fundamental may actually have happened to home ownership in the 1990s: the change in the tenure pattern. Home ownership has been increasing its share for a long time in Finland. Now for the first time, its growth not only stagnated but its share actually declined significantly. What is at stake is at least a reversal of a long-term trend. Whether it will be a more permanent feature of the Finnish housing system or just a temporary aberration from the major development trend is probably too early to say. The same can be said of certain other points discussed in this chapter.

To begin with, the development in the financial markets has been more stable since the depression, and the post-deregulation housing finance system seems to have worked reasonably well for the homebuyers. After the depression there was a quiet period in house price development, but at the end of the 1990s there was again an increase in house prices, though nothing like a price boom happened. It is clear that volatility characterises price development, but, according to Laakso, this is true of the whole period from 1960 onwards (Laakso 2000, 40-41). Though over-indebtedness problems remain serious, it seems that they are diminishing. So, in the new financial and housing market environment there does not seem to be any mechanism that would systematically generate more debt problems – at least not in a favourable economic development. Again it is too early to say. We need a more long-term perspective on the workings of the new home ownership market.

Finally, it is somewhat alarming that the Finnish government has been rather passive in developing measures to help home owners in trouble. This problem is not very visible in Finnish public opinion, but judging from the results of the ECHP study, it is by no means an insignificant one. There are lot of house-

holds in trouble with their housing loans in Finland, but they do not seem to come out protesting, and therefore the problem seems to receive less recognition than it merits. It is an old sociological truth that consumers are much more difficult to mobilise than producers, and this seems to be the case with Finnish home owners also.

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## 4 France

*Jean Bosvieux  
Bernard Vorms*

### 4.1 Structural changes in home ownership and labour markets

#### 4.1.1 Levelling off of owner occupiers

In 1996 France had 12.6 million owner occupiers, or a little over 54% of all households. As can be seen in Table 4.1, the proportion of owner occupiers, which had regularly increased since the 1960s, levelled off at the end of the 1980s. The number of owner occupiers continues to grow by about 200,000 a year, but the number of buyers has fallen: there were only 5.194 million in 1996 against 5.557 in 1984. This increase in owner occupation has generally replaced other forms of accommodation: households being lodged free of charge, tenants in furnished accommodation, sub-tenants and tenant farmers. Overall, the number of tenants has fallen by only 2%, but the structure has changed with a distinct fall in the private sector, compensated by an increase in the social sector. However, the fall in the private sector seems to have bottomed out as, having lost 900,000 dwellings between 1978 and 1988, it has since gained 450,000.

#### 4.1.2 Housing policies: encouragement to buy, support of other sectors

Encouragement to buy is a constant in French housing policy. However, buying is not especially favoured, because all other sectors receive support too: every year, the state fixes a programme of building rented council accommodation, which it supports financially (via subsidies, tax exemption and access to preferential funding). Furthermore, tax benefits intended to encourage investment in private rented accommodation were introduced during the 1980s, and have since been augmented.

But it should be noted that no policy statements or quantitative objectives have been made by the authorities regarding home buying. Nor has there been any drive to sell council housing. Thus the measures in place come across as being more an *assistance* to those households that wish to buy rather than an *encouragement* to become a home owner rather than a tenant. They are part of an overall aim to provide decent accommodation for one and all, which presupposes a sufficiently diversified choice in terms of occupation status.

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**Table 4.1 Distribution of households by occupation status (in %)**

	1970	1984	1988	1996
Owner occupiers	44.8	51.2	53.6	54.3
Private sector tenants	30.6	22.4	20.2	20.5
Social sector tenants	9.5	16.5	17.0	17.6
Lodged free of charge	11.1	7.9	7.3	5.8
Others	4.0	2.0	1.9	1.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The system of assisted home buying set up in 1978 has not changed much since, despite some reform in 1995. It is based on two main measures:

- bricks and mortar support, via assisted mortgages (PAP), subsidized by the state with fixed quotas: households buying or building new housing could benefit from PAP, if their income was lower than a given ceiling, and subject to availability within the yearly quota;
- housing benefit for households making monthly mortgage repayments, according to their income and the amount of the repayments.

The number of home buyers assisted by bricks and mortar subsidies reached a maximum of 150,000 in 1985 then fell rapidly because of decreasing quotas and a decline in conditions for such assistance. Between 1990 and 1995 there were only 30,000 to 50,000.

Since 1987 housing benefit has had less and less effect on households' solvency, because of successive changes to the scales. This drop in the amount of benefit available has not only affected new generations of buyers, but also, to a lesser degree, those households already in the process of buying.

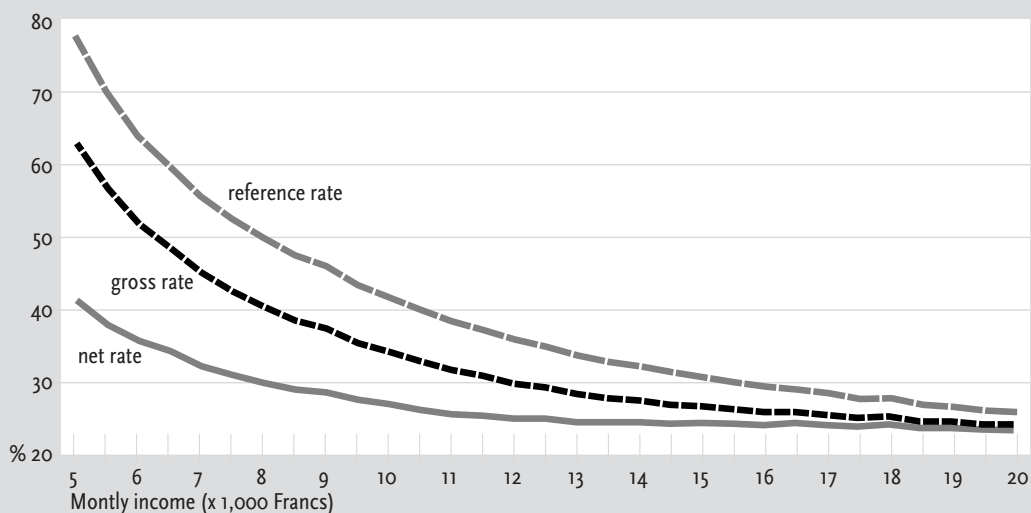
In 1995 a new form of 'bricks and mortar subsidy' was introduced: the 0% mortgage. As with the PAP, 0% mortgages are reserved for the acquisition of new housing, but they are different in three basic ways:

- assistance is progressive: a 0% mortgage provides an overall annual subsidy of 100,000 francs for households on the lowest incomes, and 20,000 francs for those on a higher scale;
- there is no longer a quota;
- the income ceiling for a 0% mortgage is far higher than the one for PAP (when it was introduced in 1995, over 80% of households were on incomes below the ceiling).

Since it was introduced, between 100,000 and 130,000 households per year have taken out a 0% mortgage.

Housing benefit can be added to a bricks and mortar (0% mortgage) subsidy: the main difference is that it changes over time according to the household's income, whereas the 0% mortgage is granted once and for all according to the level of income at the date of purchase. It thus allows buyers to be made solvent, and to a certain degree it acts as a safety net: if the household's income drops while they are making their repayments, an increase in housing benefit is a partial compensation. In cases of buying new housing, the buoyancy effect of housing benefit is an indispensable complement to 0% mortgages for

**Figure 4.1 Solvency via the 0% mortgage and housing benefits according to income, in francs, for a couple with two or more children**



modest households. Figure 4.1 illustrates this effect by comparing:

- the reference level of effort: the 0% mortgage is replaced by a complement to the main mortgage of an equivalent amount, and the repayment of this complement replaces the instalments of the 0% mortgage;
- the gross level of effort, which compares the declared gross instalments before any housing benefits are deducted with the declared monthly income;
- the net level of effort, which compares the monthly instalments minus any housing benefit with the declared net monthly income (data provided by banks allows the amount of these benefits to be calculated).

In 1999, 905,000 home buyers received housing benefit, with a total value of 11.2 billion francs.

### 4.1.3 The mortgage market

For purchasing housing, the traditional mortgage in France is a personal loan. The lender is interested in the ability of the borrower to repay, rather than in the value of the mortgaged property. As a rule, the price of the property being purchased is not estimated, and a mortgage is not necessarily demanded, it can be replaced by a mutual guarantee. This sort of guarantee is more advantageous than a mortgage for the lender, because the risk of loss is then covered by the guarantor. It is less costly for the borrower. But it depends on acceptance by one of the guarantors whose selection criteria are more stringent than those of the lenders.

The relationship between the borrower and the lender is generally a direct one. This can be explained by how the mortgage market is organised as well as by extremely strict consumer protection legislation.

In most cases, the credit institution makes a direct offer to the borrower. If it is a high-street bank, funded by savings accounts, then it is in reply to a borrower who is already a client, or who will become a client after exhausting the other available offers. In this respect, it should be noted that competition between lenders has considerably increased since the beginning of the 1990s. Most borrowers, and especially the better off among them, consult several institutions only to finish up with the bank where they are already clients, once it has adapted its offer to the most competitive one.

For specialised institutions, the relationship with potential clients is generally started via a broker. The increasingly consumerist attitude of borrowers means that, for these institutions, far more offers are now made than are accepted.

In some cases – and especially when the lender is a specialised institution – the borrower is introduced to the lender via brokerage or on the recommendation of a professional in the housing market such as a constructor, promoter, estate agent, developer or lawyer who guide their clients towards a bank or specialist institution. To benefit their business, they can obtain preferential conditions for their clients or see to it that their applications are dealt with more attentively and favourably than usual.

Default statistics have shown that too much influence through brokerage can have perverse effects: while lenders carry out risk evaluation on an individual basis, negotiations between bankers and constructors were carried out ‘in packets’, with good applications letting bad ones slip through. Brokerage has lost ground since the end of the 1980s. Furthermore, its role in setting up a mortgage is now strictly limited to guiding clients. The practice whereby lenders, who in certain strictly defined conditions, delegated real power to some professionals seems to have disappeared.

### **A market dominated by high-street banks**

The mortgage market is now overwhelmingly dominated by the high-street banks, funded by savings. With their large networks of branches, abundant resources and low costs, and in particular their special home savings accounts, they can offer borrowers rates that are far lower than those offered by specialised institutions, who are highly dependent on the fluctuations of financial markets. In the aggressively competitive context which has prevailed over the past decade, a mortgage is a sort of loss leader: in fact, a mortgage offer is generally associated with the obligation for borrowers to place all of their other accounts with the bank. It is obvious that, during negotiations, the better-off the borrowers are, the better the conditions they will receive.

Thus, those institutions that specialise in offering mortgages are now mostly focused on those more modest home-buyers, who are less attractive to high-street banks, and on more sophisticated loans designed for investments in private rented accommodation. This explains the smallness of their market share, which is less than a quarter of all loans.

Of all the specific products for home buying, the home savings account plays a prominent part. The principle of such an account is as follows: the fact of saving, over a certain period, in a special 'book' or 'account', opens up access to a mortgage whose amount is based on the interest accumulated during the savings phase, with a ceiling of 600,000 francs, and whose interest rate is fixed by the state. In the 'plan d'épargne logement', by far the most commonly used form of account, the household agrees to save at least three hundred francs per month, for a minimum of four years and a maximum of ten. The interest rate on the savings, and the rate of the mortgage the household will be able to take out when the account is closed are those in force when the account was opened. The remuneration is partly paid by a state subsidy. The importance of such home savings accounts in the financing of home purchases depends on the relative level of their interest rates: they fell sharply between 1997 and 1999 because of the fall in the rates of unregulated loans. Accordingly, the reserves of this sort of savings account are huge: the level of reserves in the third quarter of 2001 was €218 billion, and the liabilities of the mortgages just 15% of that amount.

While such schemes remain essentially savings accounts, they also have a primary role to play in the financing of home buying. They make mortgages easier to obtain for the savers because, not only do they have a reasonably large down-payment, they have also demonstrated their ability to save and are thus seen by lenders as being low-risk. Sure enough, very few home buyers default when their purchases have been financed by a home savings account.

Above all, given that its reserves must be used for financing mortgages, this form of saving constitutes the main source of funding for home buying due to the large amount of savings it attracts. The low cost and the frequent use of this scheme are good explanations for France's low interest rates (which are among the lowest in Europe), the dominant position of high-street banks and the fierceness of the competition.

### **Deregulation and competition in the mortgage market**

At the beginning of the 1980s, only a very small part of the financing of housing came from the market. It was only as a result of the ending of credit control, along with measures to open up the market and a process of disintermediation

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(the possibility for companies to borrow directly from the financial market), which encouraged banks to find new uses for their funds, that by the late 1980s led to an end to rationing mortgages.

Deregulation has thus allowed the state gradually to draw away from the financing of housing via PAP 1995 marked a decisive step in this process when the old assisted mortgages, which had been distributed by a single institution linked to the state, were replaced by 0% mortgages, distributed by all institutions.

Theoretically, the high level of resources made access to mortgages easier. However, the replacement of rather lax administrative criteria for assisted mortgages, by prudential ones, necessarily tightened up the conditions of access for more modest households. The distribution of different forms of mortgages is shown in Table 4.2. Over 75% of mortgages are now granted in the open market.

#### **Access to mortgages: The 'fonds de garantie de l'accession sociale' (Guarantee fund for social access) (FGAS)**

It was thus with a view to guaranteeing modest households' access to mortgages, by partially mutualising the cost of defaults for the lender, that the prêt pour l'accession sociale (PAS) or social access mortgage was set up in 1993. It is run by the Société de Gestion du fonds de garantie de l'accession sociale, and allows modest households to borrow at a reasonable interest rate due to a compensation system to cover the costs of defaulting.

This guarantee fund is paid for by the state and by the affiliated credit institutions. An incentive scheme for the control of risks encourages lenders to be careful about how many borrowers default. The state covers the risk of the fund running dry for each generation of mortgages.

If the borrower defaults, the fund covers the unpaid instalments, the interest and penalties, any legal or administrative fees and insurance policies (death, incapacity to work, job loss) which are owed to the credit institution.

In 1999, these guarantees were broadened: they now cover the involuntary loss of the borrower's or one of the co-borrower's job. All home-buyers financing their purchase with a PAS can, if they lose their jobs, freely defer a maximum of 50% of the PAS instalments or all of the PAS and 0% mortgage instalments over a period of at most twelve months.

**Table 4.2 Mortgages granted in 1998**

Type of mortgage	Amount (billion francs)	%
0% and other assisted mortgages	12.2	3.5
State regulated mortgages	36.3	10.3
Home savings account mortgages	30.0	8.5
"1% Compulsory contribution"	6.7	1.9
Unregulated mortgages	267.8	75.9
<b>Total</b>	<b>353.0</b>	<b>100.0</b>

Yet the PAS occupies a very small part of the market among home-buyers (see Table 4.2), as most financial institutions are reluctant to suggest it to borrowers because of its rigorous regulation.

### **French attitudes to credit**

In general terms, the household credit market in France is less well developed than in many other European countries. This under-development, which is most apparent when it comes to consumer credit, also affects mortgages. Households dislike committing themselves to a long term debt, even for buying a home, and the fact of owing the bank money is something they want to eliminate as rapidly as possible. Furthermore, contrary to what can be observed in, for example, the United States, households do not consider themselves to be the full owners of their homes until the mortgage has been completely paid off. In France, a repayment schedule is a programme which people intend to follow, whereas in the United States it is merely a document which describes a debt at a particular moment in time, and which will probably be revised on several occasions.<sup>1</sup> This no doubt explains the relatively short length of mortgages, the levels of effort put into paying them off and, as a consequence, the relatively low level of defaults. Furthermore, until recently lenders were, and many remain, reluctant about offering long-term mortgages: according to them, default rates rise considerably when the length of the mortgage exceeds fifteen years. Mortgages lasting over 20 years are still rare, even for buyers on low incomes. However, some institutions have now started offering 25 year mortgages, on a variable rate, which are increasingly successful.

Nevertheless, the 'classic' mortgage is still the one with a fixed rate and identical instalments. Variable-interest mortgages have been more and more successful over the past ten years, and their market share has levelled out at 20%; furthermore, the adjective 'variable' has a far more restrictive meaning in France than in the United Kingdom: in France, a variable-interest mortgage can generally vary only within a very tight margin (+ 2 or 3%) and only be altered at fixed times (for example once a year).

This loyalty to classic products is basically due to the French dislike of risk, which of course affects both borrowers and lenders. In high-street banks, the employees who deal with credit -and who are not mortgage specialists - are often wary about suggesting variable-interest mortgages, whose workings they do not really understand. Because they are worried that the borrower,

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<sup>1</sup> The average length of mortgages in France is 16 years and 30 years in the United States; but the effective lengths are 12 and 7 years respectively.

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who is also a client, will later be unhappy, they prefer to suggest fixed-rate mortgages which are judged to be more reassuring. Furthermore, as variable-interest mortgages are increasingly complicated to manage, they are generally offered only by specialist institutions.

This dislike of risk is also shown by the fact that many buyers are 'over-insured' against risks of death or invalidity. This insurance is, of course, demanded by the lender. But it often happens that, when the borrower is a couple, both of them are insured for 100% of the capital owed (or 200% in all), which is more than the lender requires. In this case, the insurance pays off all of the outstanding capital if one of the partners dies or becomes a permanent invalid.

The possibility for home-buyers to deduct a part of the interest they pay from their taxable income was withdrawn in 1998. In any case, there was an upper limit on the resulting gain, and such measures have never encouraged people to choose one form of mortgage rather than another. This explains why endowment loans, backed up by a life insurance policy, are only ever offered to buyers of property intended to be rented accommodation, for whom interest is tax deductible.

### **Controlled inflation and its consequences**

Home buying in France was deeply marked by the period when inflation slowed down (1985-87). The period from 1970 to 1985 was an extremely favourable era for home buying because of the high level of inflation and rapid increase in households' earnings. These conditions led to the setting-up, and then the generalisation, of so-called sliding-scale or low start mortgages: these are mortgages with fixed rates whose annual repayments are quite low at the beginning and which then increase every year following an agreed schedule (from 2% to 5% per annum according to the mortgage and the period). This sort of mortgage, which assumes that the buyers' incomes will increase by at least as much as the annuities, turned out to be extremely dangerous as soon as inflation fell to 3% or less (1987), and even more so when wages came off the price index and unemployment increased. The result was a considerable rise in defaults, despite subsequent state measures to reschedule these mortgages. This sort of mortgage has gradually disappeared since 1986.

Furthermore, the slow-down in the growth of salaries has led to a sharp increase in the cost of housing benefits, which has led the authorities to make economies. The scales have thus been revised so as to reduce the average amount of benefit, not only for new generations of buyers, but also for the existing buyers, which has thus increased their difficulties.

Apart from their immediate effects, these events have left lasting marks:

- on state supported home-buying policy, with a drop in quotas of assisted mortgages and an erosion of housing benefits which continued for several years;
- on the practices of credit institutions, whose criteria for granting mortgages have become more stringent;
- on households, who are less willing to take on possibly risky purchases.

Moreover, real estate had until then, rightly or wrongly, been considered to be a safe investment, and even though the collapse of property prices at the beginning of the 1990s was limited almost exclusively to the Paris region, it had an unfavourable psychological impact on all home-buyers.

#### 4.1.4 Changes in demographic behaviour

During the past twenty years, 'the frontiers of youth have moved'.<sup>2</sup> Between 1982 and 1995, the proportion of young people aged 20 to 24 living with their parents rose from 45.6% to 54.5%, and the percentage of them living as couples fell even more sharply (from 30.8 to 18.6%). The median age for leaving the parental home has risen by two years when the generations born in 1963 and 1970 are compared.

These changes are due to various factors: longer studies, difficulty of finding work, but also a change in behavior. These factors evidently have an important impact on housing, given that the classic profile of the home-buyer is a couple with children. If leaving the parental home, forming a couple and having children are delayed, then home-buying will clearly occur later too. This was in fact observed during the 1990s.

The 1980-2000 period also witnessed another important change, which could affect the choices made in terms of housing: far more married or cohabiting couples separated. A marriage made today has about a 30% chance of ending in divorce, and the probability of separation is even higher for unmarried couples. But in France, in the minds of both buyers and lenders, home-buying is synonymous with stability: residential stability (the property bought is generally seen as the buyer's permanent home, especially if it is a house) implies a stable family life. But it has not been shown that the increasing precariousness of couples has a dissuasive effect on home-buying. On the other hand, it is certain that relationship breakdown is one of the main causes for the interruption of operations, and, as a result, for defaults.

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<sup>2</sup> Olivier Galland and Monique Meron – in *Données Sociales 1999* – INSEE.

Figure 4.2 Property prices index 1970-1999, inflation adjusted

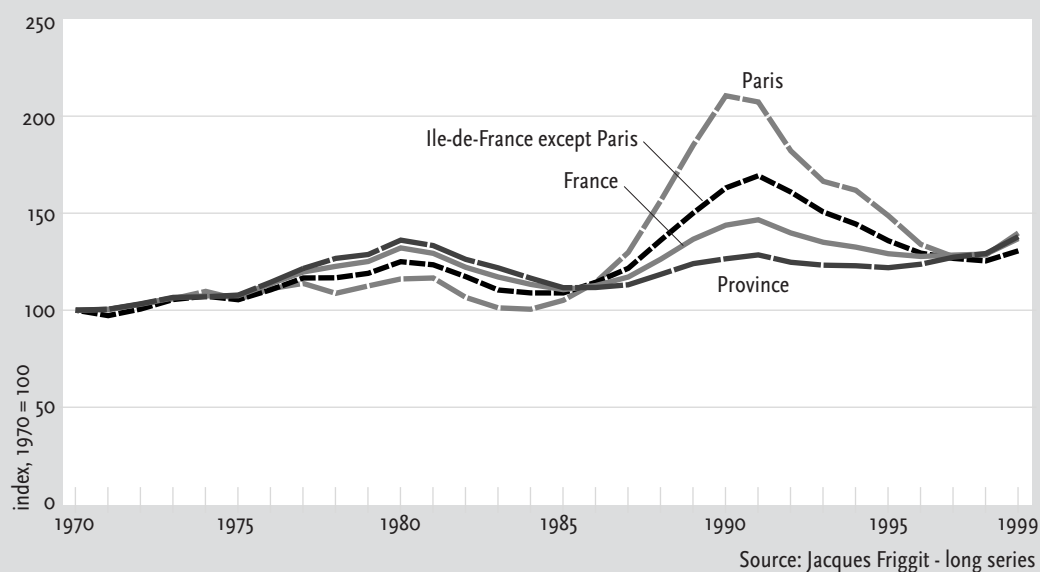
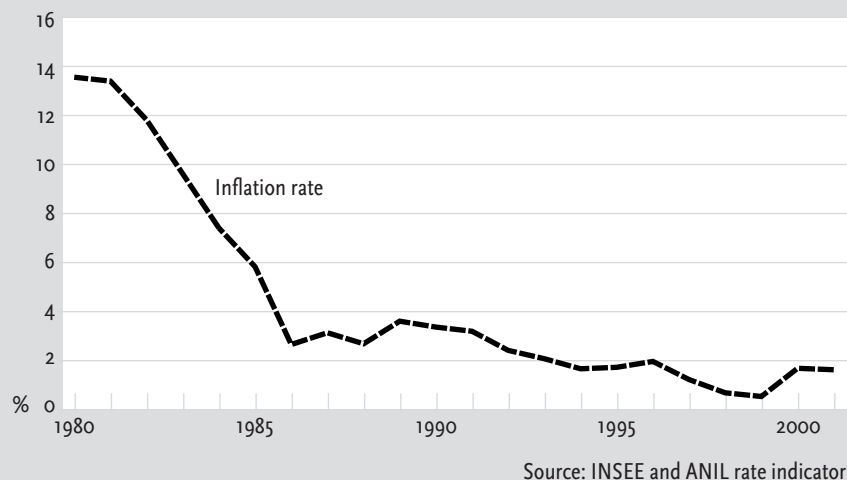


Figure 4.3 Inflation and mortgage rates 1980-2001 (in %)



#### 4.1.5 Relative price stability

The sources for the observation of the prices of second-hand property transactions throughout France are recent. Thus they do not allow any judgement to be made of long-term changes. However, long series of prices have recently been put together using deeds. Furthermore, there are statistical series cover-

**Table 4.3 Changes in unemployment rate<sup>1)</sup> since 1970 (%)**

	1970	1975	1980	1985	1990	1995	2000
15-24 years	4.9	9.1	15.5	23.2	16.5	23.2	20.7
25-49 years	1.5	2.9	4.3	7.7	7.8	10.6	9.5
50 years and more	2.5	2.7	4.6	7.0	6.6	8.1	7.5
Management and professions		1.7	2.3	2.9	2.6	5.0	3.7
Middle-management		2.1	3.3	4.5	4.1	6.7	5.5
White-collar workers		4.5	7.5	10.8	11.9	14.7	12.4
Blue-collar workers		4.1	6.7	13.7	12.2	14.2	12.4
<b>Total</b>	<b>2.5</b>	<b>4.1</b>	<b>6.4</b>	<b>10.2</b>	<b>8.9</b>	<b>11.6</b>	<b>10</b>

1) Unemployment as defined the International Labour Office as a yearly average; 2000: in March.

Source: INSEE, job market statistics and work survey 2000

ing local markets: this is particularly true for the Paris market, which is followed closely.<sup>3</sup>

Analysis of these various sources shows that price changes have generally been quite modest in the past twenty years. With the notable exception of the boom of Paris prices between 1989 and 1991, followed by a collapse from 1992 to 1996, France has not experienced wild fluctuations in prices comparable, for example, to the drop in value recorded in the United Kingdom at the beginning of the 1990s. It is true that huge state intervention, designed to increase the offer of housing both for purchase and for council tenants, has certainly played a stabilising role.

Since 1965 average prices over the entire country have risen by about the same amount as households' disposable incomes. Over this period, the price index ratio of housing / households' disposable income fluctuated within a bracket of 10%. Only prices in Paris emerged from this tunnel (as of 1987) before returning to it in 1995. Price changes are particularly moderate in the provinces.

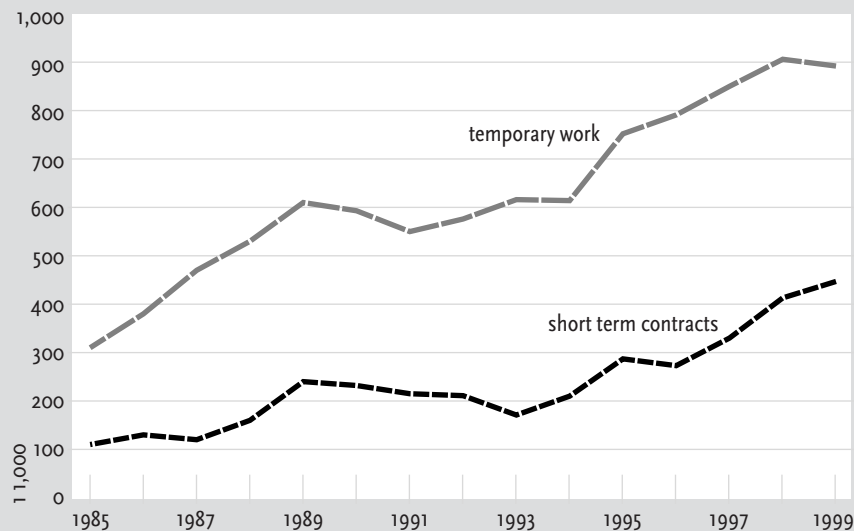
In a context of relative price stability, the level of interest rates has played a vital role in how households' solvency has changed.

### 4.1.6 The work market

#### A high level of unemployment since the 1980s

The end of the 1970s and the 1980s were marked by an increase in the rate of unemployment, which was over 10% of the working population in 1985. A temporary improvement occurred in the years 1987-1990, followed by a fur-

<sup>3</sup> The Chambre des Notaires of Paris set up an observatory at the beginning of the 1980s.

**Figure 4.4 Precarious jobs (x 1.000), 1985-1999**

Source: Données sociales 1996 - 1999

ther slump (12.3% in 1997). However, since the beginning of 1999 the situation has improved: in March 2000, the rate of unemployment, which had been falling steadily since early 1999, stood at 10%.

Unemployment has a very unequal effect on the population, depending on age and the social-professional category (see Table 4.3). Above all, it affects the young and the first job is often preceded by a long period of job-hunting. The unemployment rate of white-collar and blue-collar workers is two and a half times higher than it is for middle-management and three times higher than for top management and the professions.

Finally, the individual consequences of unemployment are more serious today than ten years ago: in 1990 two jobless people out of three drew unemployment benefit, the proportion has now fallen to one out of two.

### **Development of insecure employment**

Since the mid 1980s, temporary work and short-term contracts have proliferated in France: from 1985 to 1997, the number of such posts almost tripled, going from 420,000 to 1.18 million. Temporary work and short-term contracts today represent 6% of all posts (apprenticeships and reinsertion programmes excepted). However, if the increase in insecure employment has been an underlying trend, it has not been a continuous one. Periods of strong expansion, coinciding with phases of economic recovery, have alternated with periods of stagnation, or even of decreases in the case of temporary work, in the downward phases of the cycle. When recruiting, companies have turned to forms of employment which avoid any danger of future overmanning: thus, in 1994, 80% of recruitments (temporary work excepted) in firms with fifty or

more employees took the form of short-term contracts; this percentage was just 65% five years before.

Temporary employment mostly concerns men working as labourers, half of whom are unskilled. Their profile has not changed over the last few years. On the other hand, a significant increase in short-term contracts can be observed. This form of employment of course generally concerns the young (taking up almost 12% of jobs among the under 25s), unskilled workers and clerks, but in the last few years we have witnessed the recruitment of more and more qualified personnel on short-term contracts. What is more, when it comes to the least skilled posts, contracts drawn up under job creation programmes have tended to stop young people from being taken on permanent contracts. As a result, employees on permanent contracts have become more qualified and older.

Temporary work and short-term contracts can serve as an intermediary period before receiving a more stable job. However, according to the INSEE job survey, temporary workers or those on short-term contracts who received a permanent contract within one year are in the minority: 33% for those on short-term contracts and 23% for temporary workers (1994-95 figures). This percentage also seems to be going down: it was, respectively, 43% and 30% in 1989-90. The same numbers were also out of work, whether unemployed or inactive (27% and 22% respectively). The others (37% on short-term contracts and 47% of temporary workers) were still in insecure jobs, but not necessarily the same ones or even the same type. For example, 9% of temporary workers were on a short-term contract one year later.

To sum up, precarious employment is becoming increasingly common in companies. However, it still affects only a relatively small part of the work force, and mainly the young. It can be supposed that the people most affected by this lack of job security are generally to be found on the margin of the population of potential home buyers, either because of their age (they are young) or because of their earnings. It is thus probable that they do not consider themselves capable of becoming home owners and thus very few of them apply for mortgages. Furthermore, the vast majority of mortgage applications are made by couples, who are generally both at work. Where one of the spouses has an unstable job, this does not necessarily pose a problem for the mortgage lender so long as the other one has a stable and sufficient income. But the growth of insecure jobs is just one sign of a general instability in the labour market. The most common form still remains the permanent contract, which is supposed to give employees a certain security and better protection against losing their jobs. However, experience shows that it is no protection against unemployment. In certain cases, it is even a block against

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**Table 4.4 Levels of various household assets (in %)**

	Financial assets			Property assets		
	home-saving account	securities	life insurance pension	principal residence	rented property	second residence
1986	29	19	31	53.1	20.1	9.5
1998	41.4	22.6	45.9	53.7	18.5	8

Sources: assets survey 1998 and financial assets survey 1986

job creation, as employers hesitate to take on people who it may be difficult to dismiss later. It is also far less of a guarantee of job security, given that it is much easier to dismiss people now than it was a few years ago, after the removal of the 'administrative authorisation' of dismissal in 1995.

## 4.2 Consequences on behaviour and on the property market

### 4.2.1 Less interest in being an owner occupier?

#### A drop in the importance of housing in households' assets

The levelling out of the number of owner occupiers has hidden an important disparity between households, depending on their ages. While the percentage of owners has continued to rise among households over fifty, it has fallen among those under thirty. Fewer members of the younger generations thus become home owners than among their elders. It is too early to tell if this simply means that they will buy later, or if it is the beginning of a real fall in the number of owner occupiers.

There are some, admittedly rather weak, factors which seem to confirm the latter hypothesis. For example, the increasing enthusiasm in France for securities, and especially for life insurance, of which the number of policies has grown rapidly over the past fifteen years (Table 4.4) may alter the perceived investment potential of housing and hence contribute to the apparent fall in the attraction of home-buying. According to a housing survey, in 1996 only 43% of those households that wished to move were considering buying, against 51% in 1988. Housing is no longer anything like the largest part of households' assets.

### 4.2.2 Risk factors

#### Reasons for defaulting

The first risk any borrower must face is no longer being able to pay the monthly instalments. This can happen for several reasons:

- an incorrect initial assessment of the ability to pay;
- a drop in income, or a less favourable progression than expected, which can be caused by the total or partial loss of employment;

- a drop in the amount of benefits, which can be caused by a change in the make-up of the family;
- a rise in charges, which can result from the clauses of the mortgage contract or from unforecast additional costs;
- a divorce or family break-up.

In France, there are no publicly available statistics covering mortgage repayment difficulties or foreclosures in the market as a whole. It is thus difficult to evaluate the relative importance of the various factors that can create problems. However, figures from the FGAS concerning failed purchases and the observations of the lenders seem to show that most defaulters now are people who have lost their jobs or become separated. Cases of over-indebtedness or excessively optimistic evaluation of their ability to pay are relatively rare. In this respect, the situation changed greatly during the 1990s. The progressive-rate mortgages used in the 1980s have disappeared and, at the same time, the number of low-income home-buyers have decreased considerably.

An ongoing analysis of the reasons for defaulting in the département of Meurthe-et-Moselle<sup>4</sup> – a region that has been particularly hit by the economic crisis – shows that the households most at risk are those with self-employment, such as shopkeepers or self-employed craftsmen, or else subcontractors of large companies. If the contractor then goes bankrupt, not only does their income fall, but they may be forced to put their homes up for sale in order to pay off their professional debts.

### **Loss of value**

Loss of value, such as the deterioration of the property, directly affects the buyer, but here it is taken into account only when the property must be sold. Insolvency can force home-buyers to sell their property. But this can also happen for other reasons, such as a growing family, divorce or professional mobility. The risk is then that the buyer will be penalized by the resale, not only because of the high transaction and conveyancing costs, but also because of a fall in the price of the property – either from a shift in market prices or from the inevitable drop in price (a situation not atypical in France) when a house is sold on for the first time.

The disappearance of inflation has considerably increased the risks of negative equity: in most markets, the depreciation of the property's value is no longer compensated by monetary erosion and, if the purchase is interrupted, the value of the outstanding capital has not been eroded either.

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<sup>4</sup> Study carried out by the ANIL and the ADIL of Meurthe-et-Moselle (forthcoming).



'Assisted' purchases are the first in line when it comes to loss of value, because of the difference of treatment between new and old properties. The priority attribution of public aid to new construction has a perverse effect: first-time buyers on modest incomes being pushed towards new housing that is too expensive for them; a sharp drop in price when subsidised housing is sold on for the first time; and lack of market fluidity. This comes about because, when these properties are resold, they can no longer be bought under the special conditions that are attributed to their initial purchase. What is more, such properties are often found in undesirable areas, where land is cheap, and can be difficult to sell.

This analysis was confirmed in a thorough study that was carried out by the ADIL (Agence départementale d'Information sur le logement) of the Doubs<sup>5</sup> in 1991, using a sample of housing built between 1981 and 1988 in the area around Besançon and sold on less than five years after completion (between 1986 and 1989).

It remains true that the factors which were identified as early as 1982<sup>6</sup> in the report for the 'conseil national de l'habitat', known as the 'Rapport TREPPOZ', are still at work, even if they have become less pronounced: the relative advantage of new housing still holds, even if it has been rather lessened by the fall in interest rates and the attribution of housing benefit to everyone under a certain threshold. Meanwhile, the disappearance of inflation has made the price drop more visible.

The prevention of this drop leads us to the question of the initial evaluation of a property's value. Given the dominant tradition in France of personal loans for the acquisition of property – the lender is far more interested in the borrower's ability to pay back than in the value of the property – an estimate of the property's price is not generally carried out. What is more, the home-buyer is usually not interested in the resale price of the property. Very few buyers envisage a future sale. For most people, the home they are buying will be their permanent residence, to be occupied for the rest of their lives.

In this respect, their behaviour seems to be in complete contradiction with changes in French society, for example, increasingly unstable relationships (an estimated 30% of current marriages will end in divorce) and job insecurity which do not yet seem to have had any effect on how people envisage home-

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<sup>5</sup> ADIL du Doubs: 'Les facteurs d'évolution du prix des logements faisant l'objet d'une première mutation dans cinq ans qui suivent leur achèvement'+, April 1991.

<sup>6</sup> Alain Treppoz: Rapport sur la fluidité du marché du logement neuf et du logement existant+, ministÈre de l'Équipement, Conseil national de l'habitat+, 1984.

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buying. If we ignore households that plan to sell later for professional reasons, to be a home owner remains synonymous with residential stability.

### **More volatile prices?**

While the way the state intervenes has changed, it still remains strongly committed to the housing market. However, the fall in quantitative requirements could in the long term lead to a recentering of public policy on help for those most in need. Such a change, which some see as being inevitable<sup>7</sup>, would have the obvious effect of making the property market more sensitive to conjunctural fluctuations, thus making prices far more volatile.

## **4.2.3 Changing attitudes to home ownership**

This section draws on a series of studies undertaken by the national and local organisations ANIL and ADIL, who provide housing advice.

### **Lower attractiveness of home ownership**

Despite a certain reticence during the 1990s, home-buying remains a fundamental priority for most French people. This is clearly shown by the answers to questions in housing surveys as to the motivations of recent buyers and the hopes of tenants. When a household buys its home, the main reason for their decision is the simple fact of becoming owners. Other reasons, such as the desire to improve their living conditions, or the difficulty of finding good rented accommodation, come second. Consultations carried out by the ANIL and the ADILs in 1994<sup>8</sup> and 1999<sup>9</sup> confirmed that home ownership remains the preference of most households and that the stagnation in buying was more than anything due to passing constraints. For modest and middle-category buyers, it remains the crowning achievement of a residential career and a significant sign of social standing. As an expression of a refusal to pay rent, which is seen as money thrown away, it is almost a means of forced saving. What is more, in France, it is a way to obtain 'individual housing' and to reduce the chance of eviction. However, households today have a better understanding of their limitations and the risks involved in making a long-term financial effort – given the low level of inflation. The increased number of home-buyers in difficulty has also given people pause for thought.

Furthermore, interviews conducted by ADIL counselors seem to show that would-be home-buyers are now more interested in their own personal use of

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<sup>7</sup> Vorms.

<sup>8</sup> Cf. ANIL: Le projet logement des français: évolution des attentes et réalité des choix+, 1994.

<sup>9</sup> Cf. ANIL: Les tendances de l'accession à la propriété+, 1999.

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the property, rather than handing it down to their children, while earlier generations were more concerned about the worth of their property as a patrimony.

Increasing professional mobility and a lack of job security also weigh in the balance when it comes to deciding to buy. In particular, it seems that households in insecure employment decide for themselves that they are incapable of buying. For this reason, few of them consult an ADIL or ask for a mortgage. It is interesting to note that credit institutions have not thought it necessary to define a line of conduct when dealing with such clients. This shows how few they are.

An indirect indicator of this development is given by the number of council house tenants who decide to buy. They traditionally formed a large part of modest home-buyers, but their number has dropped significantly since the beginning of the 1990s.

The most tangible indicator of this change is the increase of the average down payment. Operations with either no down payment, or a very small one, which were common in the 1980s, have faded away. This shows the partial exclusion of people on low incomes.

### **Increasingly prudent home-buyers**

#### ***Keeping some room to manoeuvre***

The experience of organizations such as ADIL is that a large number of households personally fix an upper limit for their monthly instalments. This limit, which is often determined by the rent they are paying in their present accommodation and how much more they think they can pay, is more and more frequently put at a very reasonable rate, corresponding to a level of effort of 25% to 27% of income. Such prudence can also be seen in the evaluation of income. Evidence suggests that many home buyers disregard any temporary or occasional earnings, such as family allowance or housing benefit. They no longer gamble on an automatic increase in their nominal income, as was the case in the 1980s. In other words, far from simply evaluating their ability to pay the initial instalments, as was often the case in the past, they now project themselves into the future and try to anticipate any possible drop in their earnings. Finally, it is quite common that they avoid committing all of the possible down payment to the operation – this practice is also encouraged by certain high-street banks. The unanimous opinion of the ADILs is that this sort of behavior is spreading, mainly among relatively well-off households. This is an indicator of growing prudence, when it comes to committing oneself to a long-term product, but it also shows that households do not want to sacrifice everything to becoming home owners. This confirms a tendency, the first signs of which were detected during our previous consul-

tation in 1994. Today, there can be no doubt that the risks inherent in buying are being taken into account more and more by possible home-buyers.

### ***Limiting commitments and reducing the length***

In fact, most interviewees aim to minimise their level of effort and/or the length of the mortgage; it is impossible to say which of the two predominates. For some ADILs, households want above all to reduce the length of their mortgage, for others the average length of 15 years is generally accepted, and the aim is then to reduce the monthly instalments. This has been confirmed by the housing survey, which shows that from 1993 to 1996 there was a sharp drop in levels of effort and a shortening of the lengths of mortgages. However, the length of mortgages has certainly diminished since then, given the 'normative' effect of 0% mortgages. The length of the principal mortgage tends to correspond to the deferment period, and this has grown shorter: for the four lowest income brackets, it was initially 17 years, now it is 15 years and 6 months. It should be remembered that the PAP mortgages were generally paid back over 18 or 20 years. However, if the instalments are decreased, this fall in interest rates makes a lengthening of the mortgage more effective. But it must be stated that, despite offers made by certain credit institutions, few borrowers use this possibility.

The success of mortgages with adjustable instalments confirms this trend: for the borrowers who take out this sort of mortgage, the main point is to be able to shorten its length if their means allow them so to do. It thus unites initial security, in terms of the level of effort, with the possibility to minimise the length of indebtedness.

### **Development of preliminary counselling**

The (large) number of defaulting borrowers has encouraged the authorities to provide assistance for home-buyers facing the most critical problems, to reinforce their system of borrower protection and to expand a scheme of preliminary counseling for would-be buyers. This is one reason which explains the expansion of the network of Departmental Housing Information Agencies or agences départementales d'information sur le logement (ADIL). This organisation now covers over two thirds of French territory, one of whose main missions is to help would-be home-buyers to put their operation together – above all by making them understand the importance of such a commitment and by dissuading those for whom home-buying would seem to be too risky. About 40,000 households per year benefit from this sort of counselling.

### **Increasingly cautious lenders**

The high level of defaults from 1985 to 1995 has also made credit institutions more rigorous in the definition and application of their criteria for accepting

mortgage applications. The recent revival of state sponsored home-buying, after a reform of bricks and mortar subsidy in 1995 and a drop in interest rates, has not so far been accompanied by a relaxing of conditions. It is as if the 'trauma' of the 1985-1990 period has left lasting scars and, even though disinflation is long gone, has made both the borrowers and the lenders more cautious.

### *Housing benefit – a smaller role?*

Perhaps the most revealing indicator in this respect is the attitude to housing benefit. Today, households quite spontaneously calculate their capacity to pay according to the gross instalment (or gross level of effort), i.e. without deducting housing benefit. In general, the risk of a drop in benefit, because of a possible downward shift of the scales, or fewer children at home, is better understood by households. This is also true to a degree for the financial institutions, though some of them still do offer arrangements considered dangerous by the ADILs, including housing benefit, without anticipating possible changes and also temporary earnings.

Thus, housing benefit is increasingly seen as a 'plus', a supplement added to the household's disposable income, thus allowing them to cope more easily with their expenditure. It must be said that, given the change in scales, it has a decisive effect on the solvency of only a small minority of households: large families for the APL, and people on very low incomes acquiring second-hand properties for the AL.

Nor does it act as a safety net, even if it can lessen the difficulties of certain families if their income falls. But with the scales as they are, this effect exists only in very specific conditions: if it increases after a drop in income, this means that the amount received at the beginning of the mortgage was small or zero, which excludes the more modest households. To sum up, the role played by housing benefit in home buying lacks transparency and can even be dangerous.

### *Increased solvency through a drop in interest rates*

The drop in interest rates over the last three years has given home-buyers further room for manoeuvre:

- it increases their borrowing capacity (larger mortgage for the same instalments) thus allowing them to finance a more expensive operation, or one with a lower down payment;
- if the amount of the mortgage and the structure are the same, it allows them to reduce the instalments or the length.

How do home-buyers use these possibilities? Firstly, increased borrowing capacity has allowed some households (particularly modest ones) to buy,

whereas in 1995-96 they almost certainly would not have been able to, or else have been forced to put off the operation. But in the ADILs' opinion, this has not had very much effect. Some well-off buyers use this possibility to purchase a property which corresponds more to their desires, and is thus more expensive. But it is difficult for the ADILs to gauge this effect, since this sort of household does not often apply for their advice.

### **Limiting commitments and reducing the duration**

Most of those seeking advice in fact try to minimise their level of effort and/or the length of the operation, and it is impossible to say which of these two objectives predominates. In some ADILs, households above all try to limit the length of their mortgages, in others the average duration of 15 years is generally accepted and instead they concentrate on the amount of the instalments. These observations have been confirmed by a housing survey, which shows that during the period 1993-1996 there was a sharp drop in the level of effort and a decrease in the length of mortgages.

However, this shortening of the length of mortgages has undoubtedly been accentuated by the 'normative' effect of 0% mortgages. The length of the main mortgage generally coincides with the redemption period of the 0% loan, which has shortened: for the four lowest wage brackets, it was initially 17 years, but today it is 15 years and 6 months. It should be remembered that the PAPs were generally paid back over 18 or 20 years.

And yet, the fall in interest rates makes a lengthening of the period of repayment more effective in terms of having lower instalments. Despite offers made by certain credit institutions, it would seem that very few home-buyers take advantage of this possibility.

This trend has been confirmed by the success of flexible instalment mortgages: in the minds of those borrowers who take out this sort of mortgage, the main advantage is that they will be able to shorten its length if their income rises sufficiently. Such a scheme thus allows initial security in terms of level of effort to be reconciled with the chance of paying over the shortest possible time.

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# 5 Germany

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## 5.1 Introduction

Among the countries in the EU, Germany has the lowest level of home ownership: with an overall rate of 40%, this varying between the area of the old West Germany at 43% and the old East at 31%. Those in home ownership as well as those entering tend to be relatively advanced through the life cycle, with first time buyers typically being in their 30s or 40s. They also tend to have higher than average incomes.

In some ways, recent policy developments in Germany have been aimed at expanding the sector. The 1996 home ownership allowance act (*Eigenheimzulagegesetz*), for example, has improved financial support for purchasers with lower incomes, while up to the time of writing, there has probably been less retrenchment of social security support systems than in many other EU countries. Nevertheless, expansion of the sector has been limited and many of those with outstanding housing loans continue to face financial difficulties. Increasing living expenses, high rates of unemployment and more insecure jobs have all impacted on those in, as well as those on the margins, of the sector.

## 5.2 The development of housing policies

In a paper written in 1990, Horst Tomann identified four major phases in the post war development of the West German housing system (Tomann, 1990). In the first phase in the immediate post war period and through the 1950s, the emphasis of housing policy was on reconstruction, using supply side policies to promote rental housing provision, combined with rent control. The first residential housing act (*I. Wohnungsbaugesetz*) was passed in 1950 and subsidies were focused on public rented properties (*Sozialer Wohnungsbau*) to give all Germans, including refugees, a home with low rents. What developed during subsequent phases was a housing stock in which shortages were largely eradicated so that the subsequent shift to demand side subsidies and the relaxation of rent control did not result in widespread hardship. Although throughout the four phases, up until the end of the 1980s, there were a number of policy initiatives that promoted the purchase of home ownership, the balance of advantages favoured renting so that the home ownership sector did not flourish. As Tomann explained: “there is a disincentive to buy a home if the supply of cheap rental housing is sufficient” (1990: 56). Insofar as home ownership was taken up, it was largely the preserve of middle and high income, and middle and old age households.

Over this same period the housing situation in East Germany was in some ways significantly different, but with some areas of similarity. The system also came to be dominated by rental housing, but in the case of the East this was rental housing built by the state (Staemmler, 1984). State factories produced the slabs and other prefabricated sections that were to form the basis of much new construction. Although much of the pre-existing rental accommodation was also taken by the State, much of the home ownership sector remained in private ownership.

At the point of re-unification, whereas home ownership sectors were small, in other respects the housing systems in the two parts of the new Germany had some very different characteristics: "West German households enjoy high-quality housing, with only minor differences by income or region. There are virtually no slums or abandoned residences. Vacancy rates are low.....the East German housing stock still bears the mark of state socialism. Approximately half the multi-storey buildings in inner cities are severely damaged, many are no longer usable. There are large derelict areas....Vacancy rates in the pre-war housing stock are extremely high....." (Tomann, 1996: 62)

In the decade following re-unification, the most significant challenge facing policy makers has been that of improving the housing situation in the East. The overall aim has been to achieve some parity with the West which has involved introducing more market mechanisms and encouraging renewal and construction (Tomann 1996). The policy means included changes to subsidy rates such that in some cities in the East up to 80% of construction costs have been provided by the State compared to a maximum of 30% in the 1960s.<sup>1</sup> However, despite being labelled 'the gift of the century', the consequences of the wider historical legacy are still visible in vacancy rates of up to 40%.<sup>2</sup>

There have also been some moves toward providing greater support for home owners, in part reflecting a recognition that the sector should expand. Nevertheless, rented housing offered by public and private investors is still the focal point of support in residential real estate, while monthly rent for residential space is still moderate and affordable. On average, tenants spend 20-25% of net earnings to finance their rental commitment contrary to home owners who pay up to 40% during the first years after purchasing. However, it is expected that governmental economy measures in the residential housing area will cut deficit spending in Germany. Since 1999 the first steps in subsidy reductions are visible in both the rental and owner occupied housing sectors.

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<sup>1</sup> Jütte (Sozialer Wohnungsbau, 1995), p. B7.

<sup>2</sup> Hübl, Plesse (Wohnungleerstand Ostdeutschland, 2001), p. 720.

## 5.3 Main features of the contemporary home ownership market

### House prices

In Germany house price levels are often cited as the main reason for the low home ownership ratio. Both high prices for land and for construction result in purchase prices that are beyond the means of large sections of the population. During the 1992 to 1996 period, this situation was exacerbated with average prices for land increasing from 25.09 per square metre to 41.41 per square metre, an increase of 65% in four years.<sup>3</sup> Although prices for residential real estate then decreased during 1996/1997, any reductions in building prices have been compensated in part by increasing land prices, fees and real estate taxes.<sup>4</sup> Since 1998, prices have increased again.<sup>5</sup> Consequently, home ownership continues to be largely the preserve of those who, at the point of entry at least, have middle or high incomes.

### Finance for house purchase

A number of types of financial institution are active in the loan market in residential real estate (Table 5.1). Over the course of the last 30 years the savings banks have continued to provide about a third of the total loans, with general banks and union banks increasing their share. Mortgage banks, having lost ground since 1970, nevertheless continue to play a significant role.

In making decisions about the size of individual loans, the institutions analyse owner-occupied residential properties in different ways from rented properties, even though in both cases it is a requirement that the value of the real estate should be at a level sufficient to cover outstanding debts. Because owner-occupied residences do not generate income and are not designed for that purpose, lenders first look to the borrower's ability and willingness to repay the loan. Having done that, however, the value of the property is also considered. The procedure for estimating value is based on the real value of property (Sachwert)<sup>6</sup>, whereby building and ground values are fixed separately. During the process of valuation a view is taken of both past and present value, but knowledge of possible future value is not considered a relevant factor.

After calculating the real value, a maximum loan to value ratio is set. On the basis of the mortgage banks act (Hypothekendarstellungsgesetz) different limits

<sup>3</sup> Petrauschke/Pesch (Kaufwerte, 1997), pp. 758-761.

<sup>4</sup> Bundesverband Freier Wohnungsunternehmen (Versorgungslücke, 1997), p. 6.

<sup>5</sup> Statistisches Bundesamt (Statistische Monatszahlen, 1997), p. 444.

<sup>6</sup> Rüchard (Babylon, 1996), p. 6.

**Table 5.1 Share of loans held in the residential real estate market by type of financial institution (in %)**

	1970	1980	1985	1990	1995	1998
Banks	4.66	9.68	10.31	13.78	17.43	19.27
Savings Banks	31.49	29.52	29.68	29.83	32.78	32.33
Building Societies	16.66	19.67	16.91	12.94	11.07	9.99
Union Banks	4.89	9.54	11.12	11.09	13.12	12.96
Mortgage Banks	33.02	23.78	22.66	21.88	16.03	15.40
Special Government Banks	0.98	0.54	1.87	2.22	2.12	3.56
Insurance Companies	8.30	7.27	7.45	8.26	7.45	6.49
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Deutsche Bundesbank (Monthly reports of Deutsche Bundesbank and statistical appendix, period 1970-1998)

are presented. Loan amounts from 0 to 60% of the hypothecation value are fixed as secured credit, (Realkredit) while loan shares above the 60% limit are called a personal loan (Personalkredit).<sup>7</sup> In most cases loans for owner-occupied residences exceed neither 80% of the hypothecation value nor 80% of purchase price.

A second step in the checking process is the analysis of the level of the stable net income of the borrower including verification of the deposit as well as their employment. In determining the liquidity of households all expenses are considered including payments for car insurance and tax, life insurance and expected renovation costs for real estate. Furthermore, all loan costs regarding closing costs as well as regular monthly payments are taken into account. On the basis of all these calculations, lenders determine the maximum acceptable level of monthly repayment. For their part, in most cases borrowers prefer long term loans where the interest rate is fixed and the payments can be calculated and known.<sup>8</sup> Flexible payments depending on the current financial ability of the borrower are not known in the real estate area.

In principle, mortgage loans have to be secured by liens (legal claims) such as land charges (Grundschulden) and mortgages (Hypotheken). Nowadays, senior land charges are common in the real estate area where real rights are abstract and not an accessory in connection with credit commitments. Liens have to be placed on public register by borrower, notary and judicial officer. In some cases, savings or bonds can replace liens, with guarantees of third parties providing additional securities.

In cases where the loan to value ratios exceed the limit of 80% hypothecation value, life insurance is often negotiated to cover the higher risk. However,

<sup>7</sup> Mortgage banks act (Hypothekenbankgesetz), § 12 and 13.

<sup>8</sup> Empirica (Potentiale, 1997), p. 32.

some lenders also try to sell insurance contracts for lower loan credit amounts as a part of their cross-selling business. Insurance against depreciation in property or unexpected housing costs is not known.

### **Subsidies for home owners**

Since 1996 the home ownership allowance act (*Eigenheimzulagegesetz*) has been applied to first-time buyers in an effort to boost the size of the sector. It provides support for 8 years. During the first 4 years, 6% of the production price or purchase price (to a maximum of 168,730) contributes each year to a reduction in income tax liability. During the last 4 years the reduction rate decreases to 5% annually. Families with children are eligible for a greater tax reduction, although, overall, buyers with higher incomes get more support than buyers with lower incomes. In that way, the subsidy is arguably targeted at those groups that actually require least assistance in order to become home owners.

### **Savings agreement**

A second form of support is provided through the building society savings agreement. In the process of purchasing real estate a distinction is made between the steps of saving and finance. During the period when the household is saving, equity is accumulated (through potential purchasers accumulating a deposit on a property). When the finance stage begins, in order to acquire home ownership, loans are needed in addition to equity (deposit). The government subsidises both the saving and finance stages. During the period 1991 to 1993 higher premiums were paid to home owners in East Germany. Until 1995 investors in building society savings agreements could decide whether to get a premium or tax deduction.<sup>9</sup> In 1996 house-building premiums (*Wohnungsbauprämien*) were paid to investors in building shares. Under the act of that year they are entitled to support for 7 years. Eligibility is determined according to income and marital status. There is also a cap on the level of the subsidy.

A further type of saving is supported in connection with investment in building society savings agreements. Employees with lower incomes can claim a bonus on employee savings schemes (*Arbeitnehmersparzulage*), with the rate of the bonus depending on the purpose of saving, so that, in cases of accumulating deposits for building society savings agreements, the bonus rate is 10% of a maximum amount of €479 per annum.

### **Publicly assisted housing for home owners (Sozialer Wohnungsbau)**

Ten German states support home ownership within the scope of publicly

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<sup>9</sup> Verbraucher-Zentrale Hamburg e.V. (*Die neue Bausparförderung, 1996*), p. 9.

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assisted housing (Eigenheimförderung im Rahmen des Sozialen Wohnungsbaus). In contrast to the allowance for home ownership and building society funding as described above, there is no right to this kind of subsidy. Individual decisions by state authorities prevail in cases where applications meet all requirements. Depending on the policy and cash balance of each state, several programmes basing upon the second housing act (II. Wohnungsbaugesetz) are offered.<sup>10</sup>

In principle, long-term loans with interest rates below the market level are given as well as short-term loans for first time buyers. Both have the effect of decreasing monthly mortgage repayments. Eligibility is dependent upon household size and income.

### **Other public support**

In addition to the subsidies described above further smaller public programmes are available, though in all cases they are not available as of right. Firstly, the reconstruction loan corporation (Kreditanstalt für Wiederaufbau), a government loan bank, offers loans with reduced interest rates for young families. In principle, an equity ratio of at least 20% of the purchase price is required, although, in some cases, where the income is sufficient, lower equity rates will be accepted.<sup>11</sup> Secondly, in the area of the old East Germany renovation and modernisation of home ownership is supported by the reconstruction loan corporation. Increasing vacancies in manufactured houses built before reunification (Plattenbauten) result in less and less support in this building area.<sup>12</sup> Thirdly, with the goal of reducing pollution, two government loan banks, the reconstruction loan corporation and the German bank for compensation (Deutsche Ausgleichsbank), offer programmes where loans for environmentally friendly homes are subsidised.<sup>13</sup> Finally, several states offer individual programmes to increase the ratio of home owners in their areas. The volume and kind of support is determined by the states themselves.

### **Labour market trends**

The nature of the labour market in general and the jobs held by individual households in particular have important impacts on both entry into and viability within the home ownership sector. In these respects recent developments in industrial and occupational structure along with job protection mea-

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<sup>10</sup> Behring/Kirchner/Ulbrich (Förderpraxis, 1997), p. XVI.

<sup>11</sup> Kreditanstalt für Wiederaufbau (KfW-Programm zur Förderung des Wohneigentums für junge Familien, 1996).

<sup>12</sup> Kreditanstalt für Wiederaufbau (KfW-Wohnraum-Modernisierungsprogramm Nr. 21, 1998).

<sup>13</sup> Deutsche Ausgleichsbank (DtA-Umweltprogramm, 1997); Kreditanstalt für Wiederaufbau (KfW-Programm zur Co<sub>2</sub>-Minderung, 1998).

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asures have significance for housing opportunities. In fact, in Germany, as elsewhere in Europe, there have been some large-scale changes and trends. Thus, over time the occupational structure in Germany has changed. As Table 5.2 shows, between 1980 and 1991 the percentage of blue-collar workers decreased while the percentage of white-collar workers increased. Since 1991, the percentage of blue-collar worker has dropped further.

Also following re-unification, unemployment levels, which at the time were higher in the East, have increased (Table 5.3). By 1998, the unemployment rate for the whole of Germany was 11.7%, it being only 9.9% in the Western part and 19.0% in the Eastern. However, by June 2000 the unemployment rate for the country as a whole dropped slightly to 9.7%<sup>14</sup>, although by 2002 it was again increasing. In general, the numbers of unemployed men and women have been approximately equal.

The impact of unemployment has been apparent across the age range with roughly equal proportions of young (20-40 years) and older (40-60 years) workers being unemployed (Table 5.4). However, those formerly in full-time jobs have been disproportionately affected, while higher education, leading to degrees of universities/professional schools, seems to act as a protection against unemployment. There is, however, no evidence in Germany of a relationship between housing tenure and unemployment.

**Table 5.2 Occupational structure of West Germany**

	Total employees (x 1,000)	Officials %	White collars %	Blue collars %
1970	21,395	6.7	36.0	57.3
1975	22,264	9.6	40.3	50.1
1980	23,635	9.6	42.3	48.1
1985	23,490	10.1	44.8	45.1
1990	26,175	9.5	48.6	41.9
1991	26,480	9.2	49.1	41.7

Source: Bundesministerium für Arbeit und Sozialordnung  
(Statistisches Taschenbuch 1999, 2000), part 2.6

**Table 5.3 Unemployed persons, time workers**

	Total	Men	Women	Unemployment rate (%)
1970	149,000	93,000	56,000	0.7
1975	1,074,000	623,000	452,000	4.7
1980	889,000	426,000	462,000	3.8
1985	2,304,000	1,289,000	1,015,000	9.3
1991	1,689,000	898,000	792,000	6.3
1991 <sup>1)</sup>	2,602,000	1,281,000	1,322,000	7.3
1995 <sup>1)</sup>	3,612,000	1,851,000	1,761,000	10.4
1998 <sup>1)</sup>	4,279,000	2,273,000	2,007,000	11.7

1) East and West Germany together.

Source: Bundesministerium für Arbeit und Sozialordnung  
(Statistisches Taschenbuch 1999, 2000), part 2.6

**Table 5.4 Characteristics of the unemployed in 1999**

Characteristics	%
Male	51.6
Female	48.4
Full-time	91.5
Part-time	8.5
Education	
Without professional training	38.6
Finished professional training	61.4
including:	
– employees with industrial/in-service training (Betriebliche Ausbildung)	50.8
– graduated employees with education from commercial/technical college (Berufsfach-/Fachhochschule)	5.6
– graduated employees from university/professional schools (Fachhochschule, Universität, Hochschule)	5.0
Age	
<20	3.1
20 to 40	42.4
40 to 60	51.1
>60	3.4

**Table 5.5 Part-time employees as percentage of all workers**

1970	1975	1980	1985	1991	1991 <sup>1)</sup>	1995 <sup>1)</sup>	1998 <sup>1)</sup>
9.3	12.1	11.9	13.2	17.0	15.4	17.5	19.6

1) East and West Germany together.

Source: Bundesministerium für Arbeit und Sozialordnung  
(Statistisches Taschenbuch 1999, 2000), part 2.5 A

While Germany continues to have a high percentage of full-time employment there are signs that more flexible forms of employment are becoming important. Table 5.5 shows the growth over the last 30 years in the proportion of jobs that are part-time. As in many other countries, these jobs are predominately held by women. Further, the

percentage of women in part-time work has been rising, for example, in 1990, 30% of the labour force were women in part-time employment whereas in 2001 it was 34%.

In the mid 1990s, self-employment accounted for 9% of non-agricultural employment while 11% of employees were temporary employees (OECD, 1997). There is also some connection between part-time and temporary employment which might be regarded as particularly insecure. Of all men in part-time employment a quarter were also in temporary jobs (compared to only 11% in full time employment). The position for women was different with only 7% of those in part-time work also having temporary jobs (compared to 15% of women in full time employment who had temporary employment).

Overall, however, the key difference between Germany and many other northern European countries is the significantly lower proportion of part-time



employment. With respect to the use of other forms of flexible employment, the differences are much less marked. Overall, the recent history of a tightly regulated labour market providing 'good' employment terms and conditions remains important, albeit under pressure to change from the State and employers and forms of flexible employment are likely to grow further as employers seek to minimise the costs of regulation.

### **Social security**

Unemployment benefit payments to former employees are proportional to their former levels of income with a relatively high replacement rate. During the first 180-360 days of unemployment, 60% of net salaries are paid (households with at least one child can claim 67%). For the next 12 months, the rate drops to 53% (households with at least one child get 57%). It is only after this initial two year period that social security (Sozialhilfe) at a fixed level is offered, but this is then provided for an unlimited period. Social security provision also includes benefits for clothing, tenancy (both renters and home buyers) and medical care, and is nearly the same for everybody. One consequence is that recipients of social security may refuse new jobs in low income areas because the wage offered may not result in them being better off. However, for some, the social security arrangements are less beneficial because payment will be made only after checking the financial status of the applicant. Home owners may first have to sell their homes to finance themselves or may be obliged to take out a mortgage (or further loan). In other cases, wealthier family members have to support applicants.<sup>15</sup>

Households with a mortgage can take private insurance against disablement. In late 2002, there was a proposal presented by the Union of German Real Estate Traders to offer insurance against both unemployment and disability.

## **5.4 Housing market outcomes**

The average German household has never been wealthier. The average household has savings of €92,032, and they also have real estate the total market value of which is approximately €3.6 trillion. Nevertheless, the performance of home ownership as an investment has been uneven (Table 5.6). Based on a real estate index, related to single family residence and condominiums, the value of houses showed steady gains from the end of the 1980s through to the mid 1990s. In the second half of the 1990s, however, average prices have been fairly static in the West with some evidence of small falls in the East.

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<sup>15</sup> Sozialgesetzbuch – Drittes Buch – (SGB III) on 03/24/97, § 116 ff.

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**Table 5.6 House price developments**

	West Germany	East Germany
1989	74	
1990	75	
1991	82	
1992	86	
1993	92	
1994	102	
1995	100	
1996	100	97
1997	100	90
1998	103	92

Source: N.N. (DEIX, drei Prozent erhöht, 1999), p. 524.

In connection with equity withdrawal, rules in the real estate financing area allow loan to value ratios up to approximately 80% of the hypothecation value.<sup>16</sup> However, in some cases, where several loans from one or more lenders were taken or other personal loans refinanced in order to meet the costs of home ownership, real expenditures are not all known. Consequently, total loans that together exceed the 80% limit are possible.

Notwithstanding the general picture of home owners in Germany as having higher and stable incomes – as well as housing and non housing sources of wealth – allied to lending practices that are fairly cautious in terms of loan to value and loan to income ratios, there is evidence of periods of high levels of foreclosures. Thus, research published at the end of the 1980s identified widespread incidence of loan repayment difficulties in West Germany that could be attributed in part to employment changes (Potter and Drevermann 1988). Statistics currently available indicate that whereas the period from the late 1980s to the mid 1990s saw a reduction in the number of foreclosures, subsequently the numbers have increased (Table 5.7). In 1997 there were nearly 40,000 foreclosure sales (approximately 24% more than in 1996). The main causes were insolvency and inability to pay.<sup>17</sup> There are no publicly available statistics on mortgage arrears from mortgage lenders, but the European Household Panel reported that the proportion of households reporting arrears was 1.3% (see Chapter 1, Table 1.5).

The period of time between the first default on payments and the day of foreclosure depends on the lender, the borrower and loan amount as well as the courthouse that has jurisdiction over a particular case. However, a duration of up to two several years is common, indicating two important further features of the statistics. Firstly, there is a considerable time lag between cause and effect in that the statistics record the outcome of events and processes that occurred some time previously. Consequently, current developments, for example in unemployment, will not feed thorough to the foreclosure figures for at least two years. Secondly, given that many incidents precipitating loan repayment difficulties will be rectified within a two year time span – the borrower who became unemployed obtains re-employment, for example – the foreclosure figures are themselves the tip of the iceberg of repayment difficulties.

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<sup>16</sup> See chapter 2.2.3.1 – Property analysis.  
<sup>17</sup> GdW Bundesverband deutscher Wohnungsunternehmen (Zahlungsunfähigkeit, 1998), p. 8.

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**Table 5.7 Foreclosures**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sum of market values in billion DM	13,500	12,800	10,000	7,600	7,100	7,000	7,800	10,600	13,400	16,100
Number of foreclosure sales	49,100	45,600	36,900	28,100	22,500	20,800	21,400	21,900	26,200	32,300

Source: Argetra (Zwangsversteigerung, 1998), p. 5.

Foreclosure sales reached a new high in 1999 when the official fixed total market value of all foreclosures was about €13.9 billion, a rise of 20% compared with the previous year. 37% of all foreclosure sales in 1999 applied to condominiums, 33% to single family houses with one or two households, 23% to multi family homes or other commercial real estate, and 5.4% of sales concerned building plots.

Notwithstanding the absolute numbers of foreclosures, the direct impact on the financial institutions, measured as capital losses with mortgage banks based on total outstanding loan amounts of year, are limited.

## 5.5 The future

During the last four years the ratio of home owners increased about 2% in the western and 5% in the eastern part of Germany. The 1996 home ownership allowance act and interest rates of less than 5% (10 years' term) underlie these increases. In addition, there is a huge potential demand for home ownership, with more than 80% of all existing residents in Germany stating it as their first choice as an investment.<sup>18</sup>

There are some important developments on the demand side of the market. It is predicted that, during the next 50 years, the population of Germany will decrease from its current 83 million residents to approximately 70 million. However, the number of single households is still rising so that there may not be a reduction in the demand for separate housing units. Furthermore, by 2050 those aged between 58 and 63 years will constitute the largest cohort.<sup>19</sup> The current trend is for older households to express a desire for comfortable condominiums with accommodation on one level rather than for houses with several floors. Moreover, assisted living gets more importance.<sup>20</sup> In the west this is part of a general desire for more living space with families preferring

**Table 5.8 Capital losses as percentage of total outstanding loans**

	%
1989	0.1090
1990	0.0719
1991	0.0318
1992	0.0172
1993	0.0260
1994	0.0269

Source: Verband deutscher Hypothekenbanken e.V. (Der Deutsche Pfandbrief, 1997), S. 22

<sup>18</sup> Wiedmann/Walsh (Informationsverhalten, 2000), p.79.

<sup>19</sup> Statistisches Bundesamt (Bevölkerungsentwicklung, 2000), p. 2.

<sup>20</sup> Vornholz (Wohnungswirtschaft Ostdeutschland, 2001), p. 718.

bigger rooms. In the eastern part, in contrast, the vacancy rate in rented housing remains high and the demand for owner occupied housing is buoyant.

There are also indications, however, that in some ways the environment will not necessarily be conducive to the growth of the sector. The unemployment rate in Germany is rising, again. The boom with dot.coms is over, so that less educated IT-specialists are also looking for new jobs. In both parts of Germany, men and women are searching for jobs with approximately four million residents being unemployed. In addition, there is an anticipation that the German government will increasingly respond to economic pressures, and particularly to the trends in unemployment, by reducing taxation and public expenditure. This has already begun to happen. The future is thus likely to be one in which there are fewer subsidies to the housing sector, including subsidies that currently encourage people to enter home ownership, as well as to the unemployed. Such reforms in the latter will mean that there will be less protection for unemployed home owners with loans.

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# 6 The Netherlands

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## 6.1 Historical context of housing systems and particularly of home ownership

### 6.1.1 Introduction

In the Netherlands, home ownership has undergone a tempestuous development in the last few years. If the policy aims of the government are attained, the share of owner-occupied housing in the Netherlands will rise in 2010 to about 65%, broadly speaking the current European average. That level is far from being reached as yet; in 2000 the share of owner-occupied housing amounted to about 52%, a rise of 7 percentage points in the preceding 11 years. The most important contributory factor to this development has been the strong economic growth and the associated sharp fall in unemployment and mortgage interest rates. Together with government policy promoting owner-occupied housing, these factors have led to an unprecedented demand for houses to purchase. In addition to new construction, in the next few years the required supply will have to come primarily from a substantial sale of (social) rental dwellings. Changing attitudes towards mortgage debt, both from the lender and the borrower, led to a huge increase in the amount of outstanding mortgage debt. Favourable tax policies have stimulated this to some extent.

### 6.1.2 History

In the past, the Netherlands government has been much less consciously directional in the owner-occupied housing market than in the rental sector and has left development in the purchase sector more or less to market forces. Nevertheless, through fiscal tax regulations, rental policy and spatial planning policy the government has given indirect substantial direction to the owner-occupied housing market. In this section, we concern ourselves with the direct objectives formulated by the government in the last few decades for the owner-occupied sector. In general terms, government policy with respect to the purchase sector has followed rather than directed; the main lines of government policy have gone along with social developments.

#### **Freedom of choice**

In the *Rental and Subsidy Policy Memorandum* of 1974, the policy for the promotion of owner-occupied housing was presented as one of the policy cornerstones, with the underlying assumption of a free choice between rental and



purchase for all income groups. Subsidising was simplified and intensified. In the period 1973-1978, partly as a result of the favourable economic conditions, demand for owner-occupied housing increased markedly. The collapse of the owner-occupied housing market at the beginning of the 1980s, the consequence of among other things the severely deteriorating economy (oil crisis), falling inflation and high (in real terms) interest rates, led to a long period of stagnation in the growth of the home ownership.

### **Market recovery**

With the *Home ownership Memorandum* of 1983, promoting owner-occupation was continued as an objective of government policy. In addition to the previously cited arguments, the importance of owner-occupied housing for the distribution of living space was pointed out. The memorandum was directed to the recovery of the owner-occupied housing market. To this end, increasing the stock of cheap housing for purchase and reducing the financial risks of home ownership were featured. This policy was put into place through a subsidized purchase system according to the netto contante present value method with annual payments remaining at a constant level.

### **1989: Becoming independent**

The *Housing in the 1990s Memorandum* of 1989 featured the independence of the social rental sector and the decentralization of housing policy. Bearing in mind the established preference of housing consumers for home ownership, owner-occupation was stated to be one of the priorities of policy in the 1990s. The expectation was expressed that by the year 2000 50% to 55% of the housing stock would consist of owner-occupied housing. Partly as a result of very favourable market conditions, the share had already reached 50% by 1997.

Until the 1990s, there was a marked difference in State involvement in the rental and housing-for-purchase markets. In the 1990s, the important distinction was no longer drawn between rental and purchase, but rather between subsidized and unsubsidized housing and the extent to which the government should provide financial support. From the middle of the 1990s, the municipalities could stimulate with subsidies the construction and/or improvement of social housing (rental or owner-occupied). The object subsidies in both the social rental and housing-for-purchase sectors were practically abolished in the second half of the 1990s.

### **1993: Home ownership as a housing instrument**

In October 1993, the development of government policy with respect to the owner-occupied housing sector was set out anew via a letter from the Secretary of State for Housing to parliament. Once more, stress was laid on the personal responsibility and freedom of choice of the housing consumer.

According to the Secretary of State, depending on (local) conditions, it was possible to support owner-occupied housing aims of various kinds. The policy with respect to owner-occupied housing could serve as an instrument to encourage high-income tenants in the social rental sector to move to the purchase sector. Moreover, promoting home ownership could give an important impulse to the improvement of the quality of housing and the residential climate through 'owner-related housing behaviour'. It is also important to note that the State made it clear that the housing supply should be aligned to demand through the market and not through centrally-prescribed government policy.

### 6.1.3 Policy objectives: Housing 2000 Memorandum

In *Housing in the 21st Century Memorandum*, the draft version the *Memorandum: What people want; where people live* [Nota Mensen Wensen, Wonen] of that appeared in NovemberMay 2000, the State further confirmed the policy line adopted which promoted the individual citizen's freedom of choice. The incorporation of more control by citizens in the design, layout and management of their housing and residential environment is perceived as a important task of housing policy (Ministry of VROM, Remkes & Pronk, 2000a). On the basis of the statedthe preferences of housing consumers indicate, in the next few years the share of owner-occupied housing ought to increase substantially in the next few years (Ministry of VROM, 2000b). In this respect the government is endeavouring to ensure that about 65% of the housing stock will consist of owner-occupied dwellings by 2010, naturally only insofar and for as long as consumers' preferences support this shift. To achieve this share, about 700,000 rental dwellings will have to be sold in the next ten years. According to recent market research this policy line is in accordance with current consumer preferences; about a quarter of sitting tenants would like to buy their rented homes.

Now, in 2002, it is evident that this quantitative objective will not be met by 2010. The most important reason for this shortfall is that the purchase of the rental dwelling for potential owner-occupiers usually implies a sharp rise in housing costs. The rise in the value of the dwelling (property prices increased more than 200% in the period 1990 – 2000) in combination with the relatively low rent in the social rental sector is the determining factor here. In practical terms the enthusiasm for purchasing a rental dwelling has also been disappointing (AEDES, 2001). The government tried to stimulate sales further through persuading the housing associations to sell their rental dwelling below the current market price (Ministry of VROM, 2002). At the present time, this pressure is being met by stiff resistance from the housing associations.

Although, according to recent market research, this policy line is in accordance with current consumer preferences, question marks have to be set against the manner in which residents' preferences materialized and the manner of the government's responding stimulation of demand. The current demand for houses to purchase is in any event strongly influenced by government policy, albeit indirectly. Government policy can be said to be paradoxical. The unlimited deduction from taxable income of interest paid on mortgages against the highest marginal tariff has greatly reduced housing costs, in particular for middle and high-income groups. Furthermore, no capital gains tax is levied on the increase in value of a house, so that a strong stimulus is given to enter the home ownership sector. In a certain sense it is also the case that government policy has become a prisoner of its own success: the effects on income of an alteration in the tax regime would be so great that even discussion over the value and necessity of a change is avoided as far as possible (Boelhouwer et al, 2001). Were these stimuli to be removed and housing expenditures to rise, the demand for houses to buy would undoubtedly be influenced negatively, which would in turn have consequences for the stimulation of owner-occupied housing. In this respect one can speak of a circular argument.

## **6.2 Contemporary changes in the social, economic and policy context of home ownership markets**

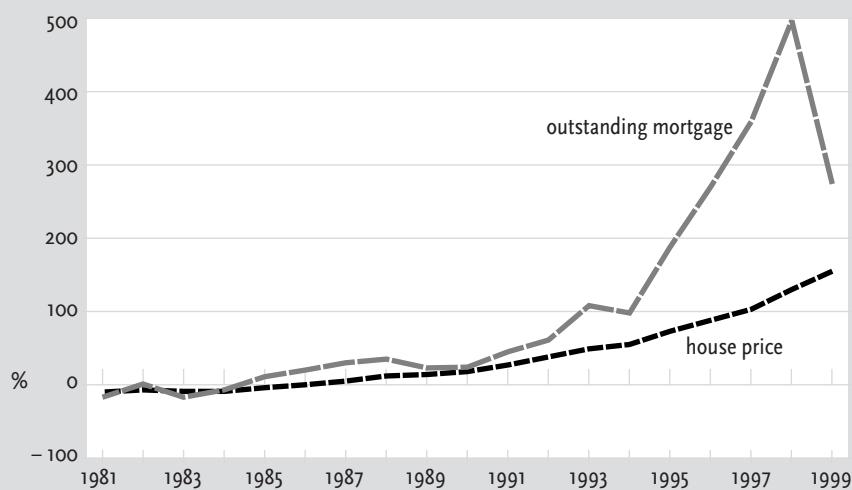
### **6.2.1 Structure of housing finance systems for home ownership**

#### **Developments in the granting of credit**

Considered in a European perspective, Dutch owner-occupiers have carried out an overtaking manoeuvre with respect to the mortgage financing of home ownership. In most respects the Netherlands was in the modest middle bracket in Europe in the mid 1980s (Van Rooij & Stokman, 2000). Since that time, however, Dutch owner-occupiers have become the front-runners. The outstanding mortgage debt in the Netherlands now exceeds €300 billion (2001); this is higher than the national debt and, expressed as a percentage of the gross national product, has reached an all-time peak (70% versus less than 40% in 1990).

Figure 6.1 shows the cumulative rate of growth of mortgage-linked credit and the price rises of existing owner-occupied housing in the period 1965-1998. As can be seen, up to 1992 the development of the granting of mortgage credit ran reasonably parallel with the development in selling prices. The growth in the granting of credit in the period 1980-1991 also remained fairly constant;

**Figure 6.1 Cumulative growth of mortgage-linked credit loans<sup>1)</sup> and the house price developments of existing owner-occupied housing, 1980-2000**



1) Residential and working-at-home dwellings.

Source: CBS, NVM

between €11.4 and €18.2 billion were provided annually in new mortgages. The relationship with the development of house prices then disappeared and a new dynamic developed.

From 1992, the mortgage-linked credit loans grew substantially, reaching an unprecedented high point of €78 billion in 1998. The growth of the mortgage debt was brought about by an increase in both the number of registered mortgages and the average mortgage amount. The market for newly registered mortgages can be divided into a buying market and a transfer market. The strong growth in the number of new mortgages in the Netherlands came to a large extent from the transfer market.

From 1999, the debt for newly-contracted mortgages fell sharply (- 37%); the number of transfers and second mortgages fell particularly far. Among other things a decline in growth of the economy and fiscal alterations were the determinants here.

### **Mortgage financing of home ownership**

In the Netherlands, the development of mortgage systems was closely linked to a fiscal system that allows unlimited mortgage interest payments to be deducted from taxable income. As a consequence, in the 1990s an extensive system of mortgage types was developed that offered maximum advantage of the fiscal tax opportunities.<sup>1</sup> In the period 1970-1990 mortgages were mostly financed on the basis of an annuity. The total sum of repayment and mort-

<sup>1</sup> On average, home owners can deduct their interest payments at 35% (maximum 52%).

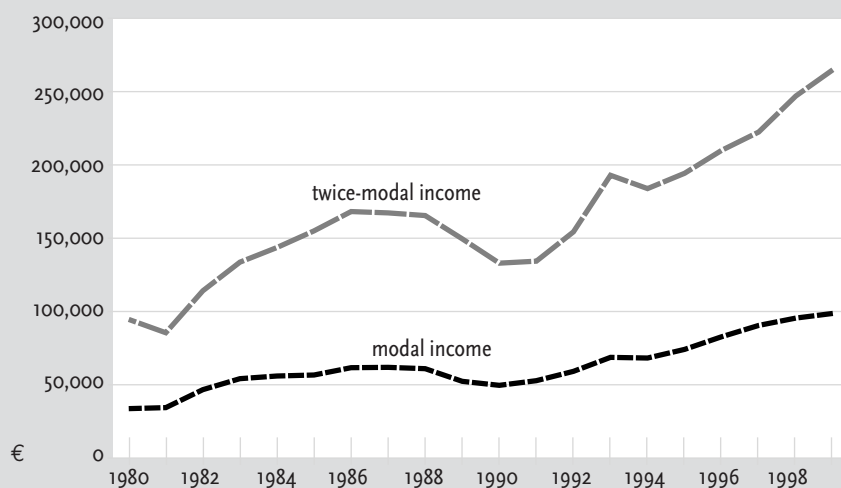
gage interest remained constant for a fixed period. Because the fiscal tax advantage fell each year, the nominal net housing costs rose slightly. As a response to this, at the end of the 1980s the savings mortgage (*spaarhypotheek*) was introduced. An amount is deposited in a savings account that can be used to repay the mortgage after thirty years with one payment. The advantage of this method is that complete advantage can be taken of the deduction of mortgage interest throughout the duration of the mortgage. In the end the total net housing costs come out several tens of thousands of guilders lower than would be the case for a traditional annuity-linked mortgage. However, this mortgage form was overtaken in the middle of the 1990s by the investment mortgage, based on shares. The reason for its popularity was that the stock exchange index rose sharply during this period and private investors sought to profit from that. In an investment mortgage based on shares the repayment is not deposited in a savings account, but in an investment trust fund (shares). In the last few years, annual yields of more than 15% in these funds have not been exceptional. The Netherlands Central Bank (2000, p.13) notes that the development of new mortgages could also be inspired by considerations of competitiveness. Banks are continually putting forward new products to stay a step ahead of their competitors. They struggle to retain their customers by providing a broad mix of financial products to suit their needs in every phase of life. At the end of the 1990s there was a further change towards redemption free mortgages.

The developments noted above were accelerated, because the sale of mortgages took place increasingly through intermediaries, while in the past this occurred directly through banks and insurance companies. In a short time large, independent (franchise) chains of mortgage intermediaries sprang up in the Netherlands. Research by the Netherlands Bank (2000, p.11) revealed that banks, directed by their policy objectives to increase their market share, consciously chose and facilitated this channel. For separate credit institutions, the production volume via this channel in 1999 amounted to between 20% and 70% of the total, while some small banks operated exclusively in the intermediary channel. Through this development, the advice function in the area of mortgage lending fell to an important extent outside the direct sphere of influence of the banks. In the last few years, these intermediaries have taken maximum advantage of the ample fiscal tax opportunities the Netherlands legislature allows through all sorts of forms of investment mortgage.

### **Maximal borrowing capacity**

In addition to the unique supply of housing mortgages in the Netherlands that take optimum advantage of the fiscal opportunities made available by the government, the calculation of the maximum financing limits in international respects is also particularly broad (Neuteboom, 2002).

**Figure 6.2** The maximum available mortgage for modal and twice-modal incomes and the prices of existing owner-occupied housing, 1980-1999, in euro



Source: National mortgage guarantee, NVM, processed by OTB

Thus, when accepting mortgage credits, mortgage banks evaluate the repayment capacity and morality of their clients, together with the collateral and security for the interest and repayment obligations. An important factor in the assessment of the repayment capacity is that the maximum mortgage loan is primarily based on the net housing quote, that is to say the relationship between the expenses (interest, premiums, repayments) of the mortgage loan and the (household) income. On average, that comes down to a loan-to-income ratio of about 4. It should be noted here that in the Netherlands second incomes and part-time jobs are included as a matter of course in the determination of the borrowing capacity. Also, the self-employed and employees with flexible employment contracts are not automatically excluded from the mortgage market. In determining the maximum mortgage, the banks usually use a minimum test interest (6% in 2000), if the current market interest falls below this level. To calculate the maximum mortgage, the test interest is then coupled to a 30-year annuity loan. Because the estimation of customer risks and the valuation of security can vary per institution for identical circumstances, the size of the mortgage can differ.

On balance, the maximal borrowing capacity of an average household has risen sharply. In Figure 6.2, the development is shown of the maximum available mortgage for modal (€23,600) and twice-modal incomes. The calculations assume a financing burden of 35% (of the gross income), which is in reasonable agreement with the norms actually used by the major mortgage lenders. It must also be noted that for higher income groups the growth has been substantially higher (mainly because of higher income growth).

Until the beginning of the 1990s, a modal household could still finance the purchase of an average house. Through the recent explosive rise in house

prices, a modal household in 1999 already has a shortfall of €80,000 for the financing of the purchase of an average house, in spite of the greatly reduced interest rates and the liberalization of the test criteria by the mortgage lenders. Since then, as house prices have increased even further and interest rates have risen slightly, the shortfall has also increased. For households with higher incomes the situation is somewhat better.

### 6.2.2 Socio-economic policy

#### Introduction

The promotion and the growth of home ownership are taking place at a time when (potential) owner-occupiers are increasingly confronted with uncertainty about their future household income. The economic situation at the beginning of the 21st century has been rather confusing, while the time-honoured certainty about stable relationships and a permanent job (for life) have gone for good.

Demographic transformations (that is to say, higher rates of household dissolution and instability and a substantial migration of labour) have led to a substantial growth in the number of households. There has been a growth of more than 34% in the last two decades; that figure, places the Netherlands as the front-runner in Europe.

The globalization of the economy has also led to radical changes in the Netherlands' economy. A shift of employment from industry towards the provision of services on the one hand and globalization on the other have between them led gradually to further deregulation of the labour market in terms of more part-time and temporary work, and to self-employment. This change has in its turn increased the uncertainty with respect to income for many people.

#### Labour market

The Dutch labour market eliminated the unemployment problem of the 1980s at the beginning of the 1990s at a rapid rate. Moreover, unemployment is no longer the greatest labour market problem; that has become the lack of sufficient (qualified) employees for the still increasing number of vacancies.

The positive developments on the Netherlands employment market, in particular in the last few years, do not alter the fact that the struggle against substantial and long-term unemployment has dominated the social agenda for a long time. Unemployment was substantial during the whole of the 1980s and peaked in 1983 with an unemployment percentage of 11.7. It must be borne in mind that these figures have been distorted (certainly in an international perspective) by the huge number of work-incapacitated employees.

These amounted in 1984/85 on average to 786,000, or 13.7% of the professional population; in the Netherlands context they would not usually be included in the category of unemployed. Since incapacity for work benefits were substantially higher than unemployment benefits, employers and employees alike have misused this regulation on a large scale.

The basis for the restoration of the employment market was laid almost two decades ago in the Wassenaar Accord (1982). In this accord between the trade unions, employers, and the government, long-term agreements were drawn up with respect to wage restraint, the redistribution of employment, and the enhanced flexibility of the employment market. At the beginning of the 1990s the first positive effects of this policy became visible. Partly (according to some, completely) as a result of this development there was indeed also an improvement of the international economy. In the last few years there has been an important impulse for growth in employment through an increase in private consumption, which has in turn been supported by the strong rise in the stock market and the explosive rise in the value of houses.

At the end of the 1990s the agreements made in 1982 still remained intact, albeit that wage restraint in particular came increasingly under pressure. The vigorous improvements of profitability in the business community and the manpower shortage have contributed to this pressure to an important extent. In 2001, wages have risen on average by 6.75%, more than 3% above inflation (mainly due to a reduction of taxes).

The largest increase in employment occurred in the (commercial) service sector (39% in the period 1990-1998). Almost three-quarters of all employees in the Netherlands are now working in this sector. On the other hand, in the same period employment fell by some tens of thousands of man-years in industry and agriculture to less than 1,5 million and 230,000 respectively. Government employment in the last few years has remained stable (more than 700,000 man-years); in percentage terms the government's share of total employment has fallen to 11%, a relatively modest figure considered from an international perspective.

An important share of the growth in employment was accounted for in the form of part-time jobs (at present 40% of all employees work part-time) and flexible employment contracts (10.4% of all employees); both of these reflect the far-reaching liberalization of the employment market.

In labour market politics in the Netherlands two variables play a crucial part: the relationship between the number of inactive and active people (I/A ratio), and the net replacement rate, that is to say the relationship between mini-

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**Table 6.1 Core data for the Netherlands employment market**

	1982	1985	1990	1995	2000
Population (in mln)	14.3	14.5	14.9	15.4	15.9
Professional population (in mln)	5.4	5.7	6.0	6.8	7.3
Unemployment (x 1,000)	437	482	419	533	292
Unemployment (in %)	8.0	9.7	7.0	7.8	3.3
I/A ratio	76.0	82.9	82.1	<sup>1)</sup> 78.1	66.0
Net replacement rate	100.5	98.5	99.5	98.6	97.7
Real wage increase (in %)	-2.2	1.5	2.4	0.8	1.0

1) Without a change of definition the percentage would have amounted to 82.4.

Source: Central Plan Bureau, Central Economic Picture, various years

mun benefits and the minimum wage. The fall in the I/A ratio has long formed the main aim of social economic policy. For a long time the ratio was more than 80%; that is to say, for every 5 active people there were 4 who were inactive (the unemployed, incapacitated, sick employees, and the elderly). Through the steep rise in employment in the second half of the 1990s, the ratio fell to about 66% in 2000.

The high level of benefits in the Netherlands (after Denmark, the highest of all the OECD countries), provided little stimulus, certainly not for the unskilled unemployed, to undertake an active search for a job. It could even be the case that the loss of income from all kinds of incidental benefits, including rent subsidy, would mean that the acceptance of a job would have a negative effect on income ('poverty trap'). In spite of the fact that the net replacement rate was very high (more than 98%) subsequent governments in the Netherlands have not implemented any radical changes in the social security system.

The current favourable position of the economic cycle offers new opportunities. In 2001 a radical revision of the tax system was implemented. In addition to a simplification of the system, an important aim is to increase the differential between benefits and employment income, not through a fall in the average level of benefits, but through a reduction in the fiscal burden for employees. The positive tax effect for the modal employee has been calculated to be 31/4% and the net replacement rate will fall to about 93.

As indicated above, the Netherlands economy and the employment market are enjoying a boom situation. The time when there was a surplus seeking employment seems increasingly distant; unemployment is now at its lowest level in 30 years (23/4% in 2001). Currently, the employment market is actually being confronted with serious shortages. This scarcity is not restricted to particular segments, such as the ICT sector, care, or education, but is spread over the whole employment market. At this moment there are more than 260,000 vacancies; this figure is a record.

Until recently, the substantial increase in employment opportunities has been taken up to a considerable extent by the increased participation of women and immigrants in the labour market. In the last 15 years the participation level of women has risen particularly strongly, from 38% to more than 60%. In comparison, in the same period the participation of men in the labour market has remained more or less unchanged at just over 80%.

In 2002, just as in many other European countries, the growth of the Dutch economy slowed down to some extent. Although for many people it has become harder to find a (new) job, in contrast with many other European countries, the Netherlands is still at some distance from serious unemployment problems, as was the case in the 1980s. Relatively high inflation, threatening budget deficits, and a generally deteriorating investment climate urge caution. Employers, employees and the government are calling for a resumption of a policy of wage restraint.

### **6.2.3 Public and private support for the housing costs for home owners**

In the Netherlands, the financial support of owner-occupiers is provided primarily via the tax system. There is some form of deduction of mortgage interest in most European countries, although the Dutch position is in a number of respects exceptional (Boelhouwer et al, 2001). In most European countries (Italy, Ireland, the Scandinavian countries and Spain) there is some sort of proportional scale of deductions varying from 19% in Italy to 31% in Denmark. In a number of countries (including Spain), the tax-deductible amount is maximized; in Belgium, the deduction of mortgage interest is limited in duration. In the Netherlands (and Belgium), the deduction of mortgage interest is on the other hand dependent on the marginal income scales. Only in the Netherlands can the complete interest rate payments still be deducted from taxable income without limit (against marginal scales, which rise to 52%); recently, a modest restriction in duration (maximum 30 years) has been imposed. On the other hand a imputed rent of 0,8% of the value of the dwelling is levied.

Direct subsidies to owner-occupiers have always been relatively limited. In the 1970s and 1980s there was the *premiekoop* A regulation (annual contributions regulation), a system of government-subsidized house purchase incorporated at the beginning of the 1990s in a general subsidy regulation (Housing-linked Subsidies Decree). On the basis of this regulation it was possible to support owner-occupiers individually, although in practice few people made any use of the opportunity.

The decision not to provide any specific financial measures particularly for low-income households came increasingly under discussion in the Netherlands parliament. Partly as a result, the government (in close consultation with parliament) developed the Promotion of Owner-occupied Housing Act (BEW regulation), which came into force on 1-1-2001. The act aims in particular to reduce substantially for low-income households the higher housing costs, which arise in the first years following purchase. Specifically, the following measures will be introduced:

- provision of an income-dependent subsidy covering the complete financing period of 30 years;
- enhancement of the opportunities for housing associations to sell rental dwellings at a reduced price (minimally about 80% of the market value).

To date the regulation can hardly be called a success. The criteria for application in the current owner-occupied housing market are far too limited: compared with an average house price of more than €200,000 the maximal permitted mortgage of €96,000 is so low that only a very limited share of the owner-occupied housing stock is accessible to potential owner-occupiers within the target group of the BEW regulation.

The National Mortgage Guarantee (NHG) also fulfils a specific role. This national guarantee provision stems from the municipal guarantee introduced in 1973. Whenever mortgages are sold under the NHG norms, the NHG stands as guarantor should the borrower be unable to meet the interest and repayment obligations. The borrower can moreover receive a limited discount on the current interest rate (0.2% to 0.5%), because the security covers the credit risk, and for banks the solvency tax on loans under NHG conditions is practically nil. Possibly of more importance than the interest discount is the fact that the mortgage supplier can provide a top-mortgage, which includes the transaction costs (about 10% of the house price). From 2002, only mortgages up to a maximum of €200,000 will be eligible for the National Mortgage Guarantee.

## 6.3 Individual and housing market outcomes

### 6.3.1 Households

#### Home owners

Owner-occupiers in the Netherlands consist for the most part of households of multi-person families (83%), have a job (75%), and are aged between 30 and 55 years (61%). The elderly, the young, the single, and those not working are usually housed in the rental sector. In Table 6.2 some characteristics of owner-occupiers are presented, specifically their income (the capacity to pay), the value of their homes, and the mortgage debt which owner-occupiers have

Table 6.2 Owner-occupiers in perspective, 1998, in euro

	Share	Average income	Value of dwelling	Mortgage loan	Loan-to-income	Loan-to-value
Income class						
less than €13,600	9.0%	11,065	113,001	22,590	2.04	0.20
€13,600 - €22,700	30.3%	18,641	130,237	40,020	2.15	0.31
more than €22,700	60.7%	37,569	168,142	61,100	1.63	0.36
Age						
younger than 30 years	10.1%	28,695	121,370	71,850	2.50	0.59
30 - 40 years	25.7%	30,718	143,137	66,253	2.16	0.46
40 - 55 years	35.0%	31,977	161,812	56,290	1.76	0.35
older than 55 years	29.1%	25,549	157,625	24,774	0.97	0.16
Household						
single	17.4%	19,156	127,645	33,666	1.76	0.26
multi person family household	82.6%	31,622	156,772	54,963	1.74	0.35
Moving house						
second-time buyer	23.4%	31,871	153,489	80,137	2.51	0.52
starter	5.2%	27,192	124,366	70,991	2.61	0.57
other	71.4%	28,818	153,096	40,341	1.40	0.26

Source: WBO 1998, processed by OTB

incurred. The value of the dwelling and of the contracted mortgage debt increases with increasing income, an obvious conclusion. That is not to say that owner-occupiers with higher incomes also take on more risks: while the loan-to-value rises, the loan-to-income ratio falls from 2.04 to 1.63. The young can only afford an inexpensive dwelling (€121,000) and have to finance its purchase with a relatively large mortgage (€72,000; the loan-to-income ratio is then also large at 2.51). The elderly on the other hand only have small mortgage debt (€25,000); their loan-to-income and their loan-to-value ratios are thus also low.

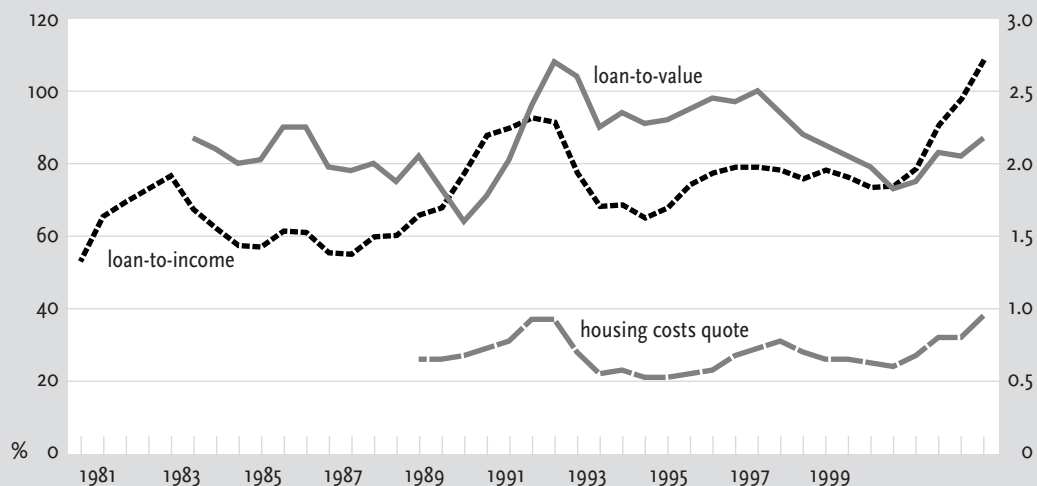
Finally, it is worthy of note that second-time buyers may well have the highest incomes, but against that – with the support of the yield from the sale of the previous house<sup>2</sup> – they likewise take on a much higher mortgage. Compared with the category of those who do not move, the mortgage debt doubles to more than €80,000. On balance, their position is not very different from that of starters on the housing market.

### Changing attitudes towards mortgage debt

The above concentrated on the owner-occupier group. In many respects, the category of recent purchasers on the housing market gives a more adequate and, importantly, a more up-to-date picture of the risk behaviour of Dutch

<sup>2</sup> Usually it is the anticipated yield that is concerned. At the end of the 1990s owner-occupiers bought new houses before they had found buyers for their current homes.

**Figure 6.3** The housing costs quote (in %, left axis) and the loan-to-value (in %, left axis) and loan-to-income ratios (right axis) in the Netherlands (recent purchasers), 1960-2000



Source: CBS, processed by OTB

owner-occupiers. In Figure 6.3, the developments are shown of the housing costs quote, the loan-to-value and loan-to-income ratios for recent purchasers.

The two boom periods on the owner-occupied housing market can be clearly seen: the end of the 1970s, and the end of the 1990s (see below). In both periods purchasers were more prepared to borrow heavily to finance home ownership. Remarkable differences occurred, however. At the end of the 1970s households speculated much more on a continuing rise in house prices (as witnessed by a loan-to-value of more than 100%). At the end of the 1990s, recent purchasers speculated even more on a continuing growth in their household income; the loan-to-income ratio rose to almost 4, while the loan-to-value level remained stable at about 80%.

### Capital position

The developments on the housing and employment markets have led to households in the Netherlands being better off than they have ever been before. In the last few years the total capital of households has undergone a spectacular increase; a large share of this is accounted for by the rise in housing values. Owner-occupiers have cashed in an important share of the surplus value of their houses in the last few years by taking out a second mortgage (increasing the existing mortgage) or via a mortgage transfer. In 1990, two thirds of all new mortgages were taken out to finance the purchase of a dwelling; one third involved second mortgages and transfers. In 1998, the share of transfers already amounted to almost 60% of all new mortgages, that is to say 297,000 out of a total volume of 577,000. In the years since then, the share of transfers have fallen markedly, and with it also the total of newly contracted mortgage loans. Rising interest rates, a decline in growth, and

**Table 6.3 Risk profile of people with a mortgage according to age, in 1999**

	To 30 years	30-39 years	40-49 years	50-65 years	Total
Interest rate burden <sup>1)</sup>	26	20,5	15,5	14	17,5
Debt quote <sup>2)</sup>	3.7	2.9	2.2	2.0	2.5
Capital (x €1,000)	25,4	74,5	113,2	118,2	100

1) Interest rate burden as a percentage of gross income.

2) Outstanding mortgage debt/gross annual income.

Source: Netherlands Central Bank (2000)

alterations to the fiscal system have induced caution by owner-occupiers.

Research undertaken by the Netherlands Bank reveals that a substantial share of the cashing in of surplus house values is devoted to house improvements and other consumption. The Netherlands Central Bank came to the cautious conclusion that in the period 1996-2001 an extra spending impulse of about €28 billion took place (DNB, 2002). According to the Netherlands Central Bank, cashing in the surplus value of their homes led the net capital position of households to deteriorate.

At present (2001), households have in total more than €300 billion in outstanding mortgage loans; that is to say, the average debt per mortgaged dwelling amounts to about €106,000, or on average 53% of the value of the dwelling. On one dwelling in six there is no outstanding mortgage (outright owners).

As a result, the net capital position of households is unevenly distributed: in 1997, 18% of all households had a (net) capital of more than a quarter of a million guilders and that amount represented more than three quarters of their total capital. The net capital owned by half of all households amounts to less than €19,500, while 28% of all households have negative or zero net capital. Much of the capital is owned by households in the age class of 55 years and older, while the debts, in particular mortgage loans, are borne by households in the categories up to 40 years of age (see Table 6.3).

For the average Netherlander, there is no evidence of an unbalanced capital position, but the differences between the various household categories are large. Households in the categories up to 40 years of age, and in particular those in their twenties, have a high debt quote (3.7) and limited capital (€25,400 versus an average of €100,000). Moreover, the people expressing the strongest preference for the higher risk mortgage forms (the investment mortgage, for example) belong to these categories. They are therefore taking out a substantial advance on the assumption that the current economic growth will continue; it is they who could experience problems if, for example, house prices were to fall, or basic interest rates rise. The Netherlands Central Bank and OECD have recently issued a warning about the financial vulnerabil-

ity of households in the Netherlands (DNB, 2002). Despite those remarks, one should note that to date negative equity (outstanding mortgage greater than the value of the house) is an unknown phenomenon in the Dutch context.

### **Arrears and forced sales<sup>3</sup>**

In spite of the fact that, as has been indicated, a large share of owner-occupied houses are mortgaged, and financing of more than 100% is not exceptional, to date no problems of any magnitude have arisen. Continuing increases in house prices and low interest and unemployment rates have contributed to this situation to a large extent. At the height of the economic crisis (in the middle of the 1980s) the number of forced sales of dwellings was 2,500 on an annual basis with an estimated loss of €56.8 million. In the 1990s, the number of forced sales of dwellings with a municipal guarantee fell back to the order of tens of houses on an annual basis (in 1998: 39, NHG). The average outstanding debt for those involved rose to €12,900.

A repossession is usually preceded by a long period of repayment problems. In 2000, the NHG received more than 600 reports of repayment arrears (banks are required to report repayment arrears of more than four months). However, taken as a whole, this number is relatively small. The number of owner-occupiers who admit that they have had to contend with repayment arrears is much greater (30,000 of all purchasers report having to contend with repayment arrears of one to three months, ECHP'98). The limited number of official reports suggests that owner-occupiers are usually able to resolve their repayment problems in good time. They do so sometimes through renegotiation with the financier (another mortgage form, longer duration), sometimes through selling the dwelling 'voluntarily'. The fact that as a result of the rise in house prices there is usually no question of negative equity is of course a contributory factor here.

## **6.3.2 The housing market**

Owner occupation has increased markedly in the Netherlands in the last few decades. In 1920, the market share of owner-occupied housing only amounted to about 17% of the existing housing stock. By 1942, this share had risen to 28%. After 1967, the growth in the owner-occupied sector was substantial, in particular during the years 1974-1978. The strong growth of the owner-occupied sector, both new construction and conversions, continued until about 1979. In the period 1979-1985 hardly any further growth was to be seen. This

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<sup>3</sup> At this moment, dwellings for which a mortgage guarantee has been granted make up about 35% of the total number of sales; the risks for this category are relatively great.

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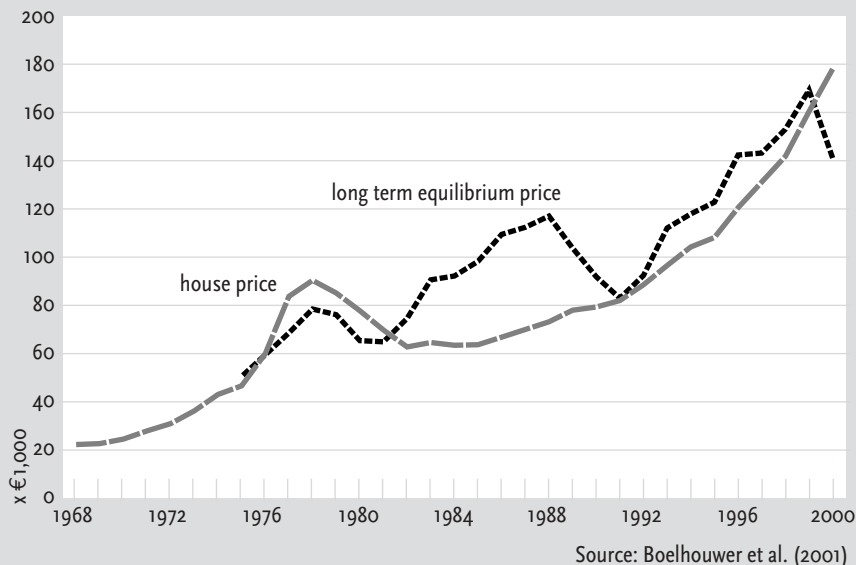
stagnation coincided with the heavy falls in house prices in this period. From 1986, the share of owner-occupied housing in the housing stock increased again, so that in the 1990s a particularly strong growth took place. This growth resulted in 52% of the Netherlands housing stock consisting of owner-occupied housing in the year 2000.

### **Development of house prices**

To clarify house price developments in the Netherlands, we focus our attention here on price developments in the period 1966-2002. Five discrete phases in the development of house prices can be distinguished in this period (see Figure 6.4). In drawing this distinction, we have to bear in mind that these phases are based on national averages. Of course, specific areas (urban centres, or peripherally located rural areas) may exhibit patterns that diverge from these four averages. However, the development of house prices in the twelve provinces of the Netherlands has been fairly comparable over the past three decades (Boelhouwer & De Vries, 2000).

In the first phase, which covers the years 1970-1975 and actually started in the middle of the 1960s, prices rose slightly. The second phase covers the years 1976-1982 and is characterized by very steep price rises to 1979, followed by equally steep price decreases. The influence of government measures and other institutes is clearly observable in this period. The abolition of credit controls by The Netherlands Bank in 1972 gave the commercial banks in particular the opportunity to extend their mortgage portfolios (Boelhouwer & De Vries, 2000). On top of that came the extension of municipal mortgage guarantees and the liberalisation of the criteria for mortgage loans, so that an expansion in demand for owner-occupied housing was facilitated. In addition, economic circumstances were favourable in the mid 1970s. The dynamic of market forces led finally to speculative price rises and overheating of the market. After the second oil crisis at the end of the 1970s this optimistic picture changed drastically. Income growth stagnated; mortgage interest rates and inflation rose sharply. The policy of the government and the banks aggravated this situation further by tightening up the conditions for granting credit. The space on the market was translated into spectacular falls in price, stabilizing again in about 1983. In the third phase, the period 1983-1985, prices stabilised. The fourth period commenced in the first half of 1986, when prices again developed positively. Prices fell in the first half of 1990, forming the only exception to this positive price development. In this short period, the Gulf War took place and there was some economic instability. From 1991, the price rises took off again. The favourable economic situation in the Netherlands brought about a combination of rising incomes and falling interest rates, so that house prices had every opportunity to rise without problems being generated for the monthly housing expenditures. Innovative types of



**Figure 6.4 Development of house price and long-term equilibrium price, 1965-2000**

mortgage developed by the banks, and the political attention paid to the better working of market forces on the housing market, stimulated the demand for owner-occupied housing. The housing shortage had been disposed of and the generally good quality of the housing stock made this policy change possible. A fifth phase in house price development can be discerned commencing in the middle of 2001. Prices rose slightly in the second half of 2001, but the vigorous price development of the previous years had clearly been halted. Now, in 2002, real prices seem to be stabilizing, or even falling slightly.

It is also evident that the purchase price development has in many respects been extreme in the last period. This can also be illustrated if we look at the mutations around the long-term house price equilibrium. This equilibrium was demonstrated in a study by Boelhouwer et al. (2001) and was based on the relationship between interest rate, house prices and income. After a long period in which the house price lay under the long-term equilibrium, this situation was reversed at the end of the 1990s: the house price now lies substantially higher than the in the above mentioned equilibrium (by more than €37,000). A period in which the house price development follows inflation is a possible prospect, although some researchers do not rule out a fall in house prices in real terms.

The sharp rise in house prices has had two consequences: first, a steep rise in owner-occupiers' own capital (see section 3.1). But, second, the reverse side of the strong increase in house prices is that accessibility to the owner-occupied sector is becoming increasingly restricted (see Figure 6.2). Households with a minimum or modal income (about €23,600 per year) can scarcely enter the housing market; this limitation applies particularly strongly to first-time buyers. The average house price far exceeds their borrowing capacity (the maxi-

mum available mortgage) since, unlike second-time buyers, they cannot draw on the surplus value from their present house. As previously indicated, a home owner with a modal income can no longer finance an average owner-occupied dwelling. When it is recalled that the growth in the owner-occupied sector desired by the government is supposed to come from the inflow of households with middle and low incomes, it can be seen that there is a serious problem with this expectation.

### **Housing construction**

The increased popularity in the Netherlands of home ownership can also be seen in the strong growth in the share of owner-occupied houses within total new construction production. In the middle of the 1980s more than 110,000 dwellings per year were being constructed, mostly in the (subsidized) rental sector. By the end of the 1990s annual construction had fallen to less than 80,000 dwellings, while in contrast the share of houses for sale had risen substantially to almost 80%, and in absolute terms the number of new houses constructed for owner occupation remained constant. From 1998 the number of new houses constructed for owner occupation continued to fall to about 58,000 in 2001, in spite of the high demand. The reasons for this decline are various, ranging from a lack of materials and increasing shortages of skilled labour to long-drawn-out spatial planning procedures (Van de Heijden & Hoekstra, 2001). Of course, it cannot be ruled out that the price/quality ratio for many households has become too negative.

The Netherlands government will in future intervene less directly in the housing construction market in terms of the prescription of numbers and quality, and will become more active as a sort of process supervisor. Together with the reduced share of rental dwellings and the anticipated increase of the private commissioning of new housing construction, this shift will bring about fundamental changes in the house construction market.

## **6.4 The future of home ownership**

The Dutch government is aiming to continue the extension of home ownership to 65% (currently about 53%). An important share of the rise must be achieved through selling social rental dwellings on a large scale. Buyers should in the first place be the sitting tenants. In that way the traditional liberal ideas about home ownership are combined with the social-democratic desire to give also households with low incomes the opportunity to build up their own capital.

### **Starters**

For first-time buyers, certainly those in the low and middle-income groups, it

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is not a favourable time to enter the owner-occupied housing market. Several reasons for this can be put forward. First, the sharp price rises of the last decade (+225%) have led to extremely high current house prices. The average owner-occupied dwelling is at the present time impossibly expensive for a starter on the owner-occupied housing market. It cannot be expected that the price rises of the last few years will continue to the same extent.

Second, as indicated above, the Dutch policy of the stimulation of home ownership is primarily based on the tax deductibility of mortgage interest paid. As a result, the nett effect falls as income falls. For owner-occupiers with an income of more than twice modal the nett effect amounts to 52%; for households with a modal income, the effect drops to less than 20%. In other words, future starters on the owner-occupied housing market will receive relatively little subsidy, while they will be expected to borrow heavily to be able to finance their home ownership.

The government has brought into force a number of regulations with a view to promoting home ownership among low-income groups. These are the BEW regulation and the NHG guarantee regulation referred to above. Both regulations are intended to promote access to the home ownership sector and – at least to some extent – to limit the risks of home ownership.

As indicated above, to date the impact of the BEW regulation has been limited. Relatively few tenants have made use of it, not least because although buying the dwelling they currently rent may well lead to a capital growth in the future, in the short term it will bring much higher housing costs. Through the long-term subsidizing of the rental sector and the explosive rise in house prices, renting does not in every respect conform with the market. An important means of increasing supply and relieving demand which is being reviewed at the present time is a variant of the familiar British 'Right to Buy'. The proposed regulation facilitates the sale of social rental dwellings with discounts rising to 30%. On the supply side, this provision can hardly be said to be thriving; many housing associations (private parties according to Dutch law) have little sympathy with the proposal, certainly not if it implies that they will have to sell the best part of their housing stock with large discounts. Currently there are some experiments on a small scale with intermediate forms of rent and purchase (Mge). In general terms, however, the practicability of the objective to sell 700,000 rental dwellings is under heavy pressure to achieve its goal.

The NHG regulation threatens to become the victim of its own success. In the current constellation the NHG is a public-private partnership (the State and the local authority have a safety net function). With a market share of almost

50% and a more than adequate guarantee capacity the question is frequently asked whether such a guarantee regulation should remain a responsibility of the government. A complete privatization of the system is therefore under discussion at the present time.

### **Second-time buyers**

The risks have also increased for second-time buyers. Many of them have fairly recently taken on a large mortgage, either to help finance the purchase of a new house, or to cash in on the excess value of the home. In addition, a mortgage increasingly forms the basis of personal financial planning, taking care of current and future financial needs for family expenditure, early retirement, pensions, capital transfer, and so forth.

The Netherlands Central Bank (2000, p.10) has also come to the conclusion that credit limits in the Netherlands have been considerably extended in the last few years. In the first place, banks have taken advantage of a second income earned within a household by including it in the determination of the maximum mortgage amount to be lent. Since about 1992 this has happened on a general scale. Furthermore, interest rates have fallen and household incomes risen, so that borrowing capacity has also risen. In addition, the maximum net housing quote has been raised by some banks, which has had an additional upward effect on borrowing capacity.

In spite of that, there are no specific proposals to impose restraints on mortgage lending. Furthermore, the new Cabinet will reconsider the recent measures not to allow any deduction of mortgage interest where the surplus value of the home is used for purposes of non-housing expenditure. The new cabinet is also intending to abolish the Real Estate tax.

Although the capital risks for most second-time buyers are low (recent purchasers finance their dwelling for 72% with a mortgage), repayment risks are not completely ruled out. One of the reasons for that are the high outstanding debts in relation to household income. In many cases, as indicated, a mortgage loan is based on two incomes, one of which is usually a part-time and/or flexible job. These jobs are the first casualties when there is a downturn of the economy, with all the subsequent consequences for the owner-occupier. Not for nothing is there talk of 'mortgage sickness', which refers to employees feigning an illness to enable them to make use of their work-incapacity insurance (which guarantees a higher income than the social minimum). To an increasing extent, the solution is seen to lie in supplementary housing costs insurance. Its popularity is increasing, although little is known of the cost or quality of such an insurance (Eicholz, 2000).

In short, the government's endeavour to extend home ownership is not in principle a matter of discussion in the Netherlands. And extension of home ownership will still continue for the time being, albeit at a slower rate than the government would like. The government puts its trust here mainly on the market. Instruments to control risks of home ownership for the (potential) owner-occupier) and the creation of sufficient supply are essential.

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# 7 Portugal

*Pedro Guedes de Carvalho*

## 7.1 Introduction

Historically, home ownership has been the dominant tenure in Portugal and this remains the case, accounting for over 90% of all new housing in the late 1990s. The pattern of provision has however traditionally been informal with a history of self construction and often poor quality property. Housing policy has aimed to improve housing standards and to foster more market based provision. The first part of this chapter provides some general background to housing issues in Portugal, highlighting the long-standing urban pull and describes some of the policies developed to address housing issues. Changing patterns of employment and unemployment are then discussed and the trend towards more precarious employment (an attempt to manage demand), as well as higher rates of unemployment is identified. State support for home owners who experience problematic situations is limited and the chapter reports both a growing concern with mortgage default and an absence of any robust analysis.

### **The historical housing context**

Historically, housing has been a very 'speculative' activity in a great part of Portugal by which is meant that it has been largely individualised, informal and unregulated. Due to the implicit policy of limited regulation and inspection of construction, and an underdeveloped planning system, households and constructors were able to follow self-promotion practices, using their social links and exploiting tax evasion benefits. The 'social costs' of these procedures can be measured by a general low quality in housing supply, an increase in environmental costs and a pattern of spatial segregation and social exclusion expressed through the absence of maintenance and repair works. In addition, informal market practices also lowered demand and created a considerable economic loss expressed in lower city competitiveness and sustainability, which in turn affected Portugal's ability to respond to global challenges.

Historically, Portugal has also been a highly centralised state with no regional or intermediate administrative levels. This has resulted in a diversified and asymmetric housing provision at the local level. Moreover, Portuguese emigration flows, originating during the 1960s and early 1970s from the rural areas, ensured capital inflows that were the basis for diverse kinship and family networks to be tied with housing self-provision. People always counted on themselves to build or find their shelter, largely supported by emigrant capital inflows. But one consequence of these processes, taken together, was

that there was within urban areas both over-agglomeration and peripheral struggles and impoverishment, with urban centres remaining very dependent on their closest rural areas. Emigration to the cities remains a feature of Portuguese society today with the interior areas continuing to lose population to the coastal areas (if at a slower rate) so that, by 1990, 67% of the total population lived in Lisbon or Oporto. There is also evidence of some mid-size interior towns drawing in adjacent rural populations. This settlement pattern has strongly conditioned the state's housing policy interventions. Further, the growth of the coastal towns, Portugal's outward looking political perspective and emigration pressures (the 1940s to America and the 1960s to Europe) together reinforced the emphasis on the coastal towns creating a two-fold disequilibria on urban development: (i) fast urbanisation with overcrowding problems on the main cities and (ii) desertification with scattered settlement in the most part of the inland territory. The Portuguese population stabilised at 9,862,559 inhabitants in the last decade encompassed in an asymmetric settlement pattern of (i) the metropolitan areas with about 3,650,000 people; (ii) three 100,000 inhabitants cities – Funchal, Braga and Coimbra and (iii) only two 45,000 inhabitants cities – Faro and Évora. If we exclude about nine other 40,000 inhabitants coastal towns, the most part of the urban centres have less than 20,000 people usually equipped to supply the minimum localised functions.

At the same time, Portugal is one of the less urbanised<sup>1</sup> and one of the most centralised<sup>2</sup> countries in the EU. These two characteristics explain why central government still has the lead role in housing policy (as well as other policy areas), although nowadays we have an increasing state-local authority co-operation on housing improvement programmes.

### **Housing provision and housing policy**

In the first half of the 20<sup>th</sup> century the state played a regulatory role in order to guarantee the accomplishment of the broad capital accumulation strategy. Two main characteristics of this period in relation to housing were the special programmes to build *casas económicas* (economic houses – 1933) and rent freezing in the cities (1940). Although rent freeze was also relevant during the

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<sup>1</sup> The Ministry of Equipment, Planning and Territory Administration estimated about 49% urbanised population in metropolitan and places with more than 2000 residents or, at most, 55% urban residents if we also consider the most intensive scattering urbanised councils MEPAT (1999). Plano Nacional de Desenvolvimento Económico-Social 2000-2006. Lisboa, Governo.

<sup>2</sup> Regionalisation process submitted to a national referendum 8 November 1996 was denied by the people's wish. In fact, more than 60% of the population answered "No" to the model presented by socialist and communist parties, proposing eight new administrative regions.

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dictatorship phase, the first law conditioning rent updating was introduced in the 1<sup>st</sup> Republic (1910-28).<sup>3</sup> This rent freeze was a stop and go process in Portugal and, together with the concentration of land ownership in a small social group, could be argued to be responsible for the huge home ownership rate in the country. The rental market could not be profitable while the income per capita was low and as a result few people were interested in investing their savings in cheap house building.

The history of the Portuguese housing economy shows that the main public interventions were carried out as a consequence of health reasons and as an instrument for social control, minimising the socio-economic effects of the low salary policy implemented during the dictatorship in order to benefit the industrial sector. In the late 1960s, urbanisation and industrialisation intensified and the state was pushed to create the first public institution in 1969 – FFH<sup>4</sup> (Fundo de Fomento de Habitação) – to inspect co-participated housing construction.

We can date from 1970 the first legislation that paid important attention to housing problems<sup>5</sup> and we name it because these laws still regulate local authority practice focusing on three important features in housing provision: the need for planning, land acquisition and technical expertise.

After the beginning of the democratisation process (April 1974), 1976 can be considered as the crucial year for housing legislation. The informal housing market in the surroundings of Lisbon had already reached its peak and the Government needed to address the infrastructure shortfall in house building. Some administrative power was transferred to local authorities in order to enable them to expropriate land and to provide technical advice to private owners. Land becomes an important resource for housing markets, nevertheless neither the central nor local powers were successful in organising a coherent housing policy. Popular pressure was always stronger, focused around two important political movements: the uncontrolled occupation of vacant houses and stronger housing rent freezing. In the period between

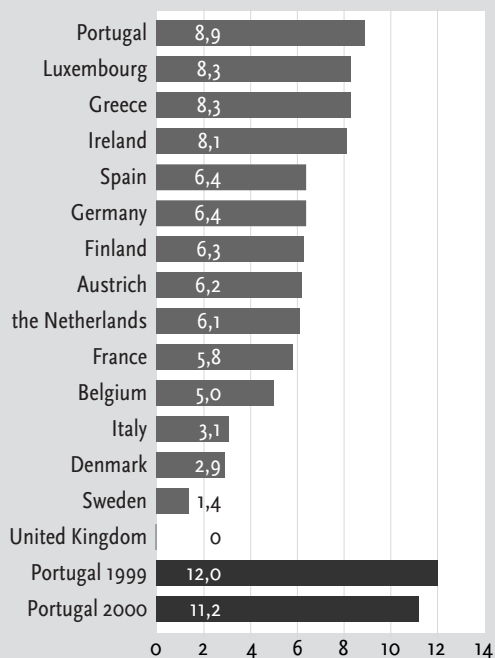
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<sup>3</sup> The rent updating could be done from ten to ten years within a 10% limit; it was repealed on March, 30, 1928 (Decreto 15289) and recovered in 1940. For more details Carvalho, P.G. (1995). *O Mercado de Habitação em Portugal: uma análise cross-section para os 305 concelhos*. Economics. Coimbra, Coimbra: cap 7.

<sup>4</sup> People could ask for public help to pay a mortgage rent, and kitchen and bathroom were under state responsibility; the remaining construction area suffered strong control creating a very strong informal provision. We had a dualist market with about 30% luxury formal sector and 70% informal.

<sup>5</sup> Such as: the need for land expropriation, the redefinition of hierarchical competences and the creation of special services for local authorities (DL 576/70 and DL560/71).

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**Figure 7.1 Average permits per 1.000 inhabitants**

Source: Burostat; IVE

1974-76 direct public provision was increased annually (from 1,104 to 9,000 to 14,795 dwellings), immediately followed by a financial reduction imposed on local authorities and the weaker importance given to public housing institutions.

In addition, by 1982, the FFH was no longer in existence. Thus central government withdrew from direct intervention in housing, preferring that market forces answer the problem. At the same time, the long standing political promises of decentralisation and regionalisation did not come about, resulting in local authorities being less able than before to promote social housing programmes thus reinforcing the already well developed trend to rely on the market for home ownership.

The deep economic crisis which Portugal experienced at the very beginning of the 1980s (brought about by global economic pressures) resulted in higher interest rates and budget deficits. These resulted, in turn, in the Government switching its intervention away from housing provision to reliance on credit and fiscal policies. From 1982 to 1985, the Portuguese Government created two public institutions, the FAIH (Fundo de Apoio oa Investimento na Habitação) and the INH (Instituto Nacional de Habitação), to co-ordinate credit supply operations and to control the construction process of state casas económicas.<sup>6</sup> Later, in 1986, Portuguese integration into the ECC took place but only in 1990 did the National Bank drop credit rationing and not until 1991 was credit supply through the commercial banking system possible.

Today, mortgage finance is provided by commercial banks and the state bank (the CGD). There are no specialist mortgage finance organisations (other than INH support for special programmes). There is a strong belief (but no research evidence) that informal financial support to housing remains substantial and very important. Other changes in mortgage financing relate to a lengthening of the mortgage term which can now be extended legally to 40 years although the average is 15 to 20 years. The banking system does not allow a borrower

<sup>6</sup> The main goal of both institutions was to guarantee interest bonus and the control of house dimensions built with special credit conditions ("casas de custos controlados"= controlled cost houses).

**Table 7.1 Social housing<sup>1)</sup> in total housing stock (in %)**

Census year	Lisbon	Oporto	Others	% in total stock
1950	3.6	1.6	0.2	0.8
1960	5.0	2.5	0.3	1.5
1970	7.0	5.1	0.7	2.7
1981	8.2	5.9	1.4	3.9
1991	5.9	3.8	3.2	4.4
2001	n.a	n.a	n.a	6.6

<sup>1)</sup> Considering social housing as defined by INE, i.e., dwellings built by public institutions and administration. (INE 1991)

Source: adapted ENRfu (INE 2001)

to borrow more than 45-50% of income. Figure 7.1 indicates the extent to which housing credit has grown over the 1990s only turning down at the end of the 1990s. The likely contribution of falling interest rates is also clear.

Some of the consequences of these policy shifts, and their interaction with the contextual trends described earlier, can be seen in the tables below. Table 7.1 shows that, over a long period of time, social housing provided by the national government has been spatially confined to the two main metropolitan areas and has represented a very small percentage of the whole housing stock. It is also the case that the very high levels of home ownership in Portugal have also resulted in the poorest populations being housed in public housing.

Although the percentage of social housing provision is not large it has undergone some growth and is 8.25 times higher today than it was half a century ago. Despite this, it is now the case that at the local level, most of the communities are shifting towards a policy of selling their social housing stocks. There is also a special programme (PER) started in 1995, whose goal is to reallocate the remaining households still living in metropolitan shanties. The housing start is being accomplished within a short, two years, delay.

Table 7.2 shows that the private sector covers, on average, 90% of total housing provision, while the public sector only surpassed 10% in 1966, 1970, 1972-73 and from 1977 up to 1984. This last indicator reveals an important fact: Portugal has a housing deficit, which has resulted in pressure from the people on the government during periods of crisis or democratisation. Following the crises of the early 1980s, there was a return to market solutions after the mid-1980s liberalisation process. The small increase in the co-operative sector can be explained by the 1990s legislation designed to develop this sector and to promote a central-local government co-operation although in a very segmented social grouping (upper-middle class).

Overall, the rental housing market in Portugal is not dynamic as shown in Table 7.3, which provides a snapshot of the range of housing provision and changes in the balance of provision between 1984 and 1992.

Home ownership accounted for over 80% of the total number of houses built

Table 7.2 Total housing provision, 1960-1999

Year	Total	Private sector	%	Public sector	%	Co-operative sector	%
1960	26,660	24,290	91.1	1,995	7.5	375	1.4
1961	29,803	27,688	92.9	1,759	5.9	356	1.2
1962	29,666	27,908	91.1	1,501	5.1	257	0.9
1963	29,710	28,070	94.5	1,319	4.4	321	1.1
1964	34,944	32,327	92.5	2,386	6.8	231	0.7
1965	34,940	31,575	90.4	3,077	8.8	288	0.8
1966	35,891	31,532	87.9	4,143	11.5	216	0.6
1967	41,328	38,721	93.7	2,368	5.7	239	0.6
1968	39,231	36,180	92.2	2,882	7.3	168	0.4
1969	38,593	n.a.		n.a.		135	0.3
1970	27,875	24,570	88.1	3,221	11.6	84	0.3
1971	36,007	32,409	90.0	3,453	9.6	145	0.4
1972	40,611	35,421	87.2	4,895	12.1	295	0.7
1973	41,933	37,141	88.6	4,559	10.9	233	0.6
1974	43,402	40,810	94.0	2,339	5.4	253	0.6
1975	31,967	29,563	92.5	2,180	6.8	224	0.7
1976	30,028	28,569	95.1	1,296	4.3	163	0.5
1977	34,893	28,896	82.8	5,848	16.8	149	0.4
1978	34,379	30,043	87.4	4,235	12.3	101	0.3
1979	36,430	31,136	85.5	5,154	14.1	140	0.4
1980	38,231	32,084	88.9	5,665	14.8	482	1.3
1981	38,632	32,226	88.4	5,490	14.2	916	2.4
1982	39,857	33,207	83.3	6,060	15.2	590	1.5
1983	38,191	31,917	83.6	5,525	14.5	749	2.0
1984	41,250	32,739	79.4	7,278	17.6	1,233	3.0
1985	35,475	31,738	89.5	2,127	6.0	1,610	4.5
1986	37,274	34,455	92.4	1,416	3.8	1,403	3.8
1987	38,833	34,777	89.0	1,391	3.6	2,665	6.9
1988	45,974	42,414	92.3	1,186	2.0	2,374	5.2
1989	58,152	50,703	87.2	4,029	6.9	3,420	5.9
1990	62,081	55,207	88.9	3,460	5.6	3,414	5.5
1991	63,229	57,808	91.4	1,599	2.5	3,822	6.0
1992	52,185	46,191	88.5	2,434	4.7	3,560	6.8
1993	63,199	57,310	90.7	1,602	2.5	4,287	6.8
1994	59,353	n.a.		n.a.		n.a.	
1995	65,304	n.a.		n.a.		n.a.	
1996	65,607	n.a.		n.a.		n.a.	
1997	70,515	n.a.		n.a.		n.a.	
1998	88,962	n.a.		n.a.		n.a.	
1999	105,962	n.a.	1)	n.a.		n.a.	
2000	107,900	n.a.		n.a.		n.a.	

1) Another source (INE 2000) indicates 99%.

Source: built upon INE - Estatísticas da Construção e da Habitação (INE 1960-1999)

**Table 7.3 Forms of housing (legally built)**

Housing destination	1984	1992	Average %	
			1984	1992
Free rent houses	188	302	0.96	1.49
Houses for sale	2,215	3,911	11.38	19.34
Owner occupied houses	15,312	15,314	78.67	75.74
Owner occupied and others houses	412	486	2.11	2.4
Housing buildings supported by SAAL	8	0	0.04	0
Casas Económicas	5	10	0.02	0.04
Casas Económicas in rent system	83	12	0.42	0.05
Casas Económicas in the mortgage system	21	1	0.10	0
Houses with limited rent	11	0	0.05	0
Houses for poor families	0	1	0.00	0
Houses with development agreements	26	4	0.13	0.01
Other	1,182	178	6.07	0.88
<b>Total</b>	<b>19,463</b>	<b>20,219</b>		
<b>Dwellings</b>	<b>41,250</b>	<b>52,185</b>		

Source: adapted from (INE 1993-1999)

in 1984 and a little less (78%) in 1992. This trend is becoming stronger as a result of the progressive rental market liberalisation and the trend to lower interest rates. Housing represents the most important asset in family patrimony, absorbing almost all the household savings.<sup>7</sup> Housing also represents 70% of total household wealth. The poorest fringe of the Portuguese society remains therefore the focus for special housing programmes once people are not able to rent even the supplied houses in controlled cost systems.

Summing up, the direct role of the state was to regulate social relations, to validate the informal processes and to intervene only in extreme cases of poverty, funding local authorities in partnership programmes.<sup>8</sup> Indirect housing policy was the main trend, acting to encourage owner occupation through easing credit procedures (which equate with higher household effort rates), introducing several interest rate bonuses (interest and instalments are tax deductible) and allowing different income (saving accounts for housing purposes) and property tax (ten years exemption).<sup>9</sup>

<sup>7</sup> In Portugal, B. d. (1996). '*Riqueza e Rendimento em Portugal: primeira abordagem do IPEF.*' Boletim Económico (Junho): 55-71.

<sup>8</sup> Since 1995 there has been a special programme (PER) to rehouse a great number of families still living in shanties in the suburbs of the main towns (near 10,000 new dwellings).

<sup>9</sup> Recent government measures (September 2002) have indicate that the interest rate bonus for younger buyers will end, and that the mortgage period can extend beyond thirty years.

### **Recent shifts in housing policy and household practices**

In order to fulfil the Maastricht convergence criteria, since 1993 the Portuguese government has pushed public expenditure reduction, privatising national monopolies (cement, electricity, telephone, mail), enforcing measures against tax evasion, and shifting school maintenance and child transport from the central to the local level. Moreover, local authorities need funds to support the 25% of national participation in EU funding for infrastructure and development programmes. Due to weak regional administration in Portugal, only the top personality-based local authorities were able to absorb the great amount of EU subsidies.<sup>10</sup> This meant that regional disparities increased as the coastal cities keep pulling people towards them, running after new job opportunities.

The main outcome of such national policy was an increase in housing needs, the rise of more shanties in the main metropolitan areas and a substantial increase of family credit indebtedness, which shrunk national savings. According to the report of the National Bank (Portugal 1996) household indebtedness is now higher than the total amount of the Portuguese enterprises deficit.<sup>11</sup> Banks have become the real managers of household savings while increasingly owning is seen as a safe decision against future uncertainty, expecting that real estate will never depreciate.

The report also states that the increase in household disposable income is greater in the higher socio-economic groups. According to this, the Minister of Labour and Solidarity published recent measures (MEPAT 1999) indicating a shift in housing and household policies as a consequence of the rise in indebtedness. These measures can be summarised as follows:

- to reinforce bank inspection, asking for accountability on how much are they really lending through special housing credit;
- to improve the distribution of the minimum safety individual salary;
- to create a family protection institution in order to re-evaluate family indebtedness;
- to improve home owners' protection on mortgage contracts, both for married and cohabiting couples;
- to stimulate and legalise atypical work, increasing single work opportunities;
- to change the average week work time, stimulating part-time jobs.

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<sup>10</sup> Those were the main conclusions of the research I carried out on "spatial pattern in FEDER".

<sup>11</sup> As over 76% is due to mortgage responsibilities, it raises the question of what is the real meaning of home ownership: is it owned by the bank or the households.

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Interestingly, the amount of money available for the minimum safety individual salary was not fully distributed in 1998 due to insufficient demand (but it may be just an asymmetric information problem?). With the increase in the divorce rate, houses usually are 'given' in Court to the wife and children, who are then protected with respect to their ownership, which probably increases the maintenance financing problems.

### **Housing and households**

According to the 2001 Portuguese Census, the housing stock exceeds 5.36 million units for 3.7 million households, which represents a ratio of 1.34 houses per household. This is a huge number considering that in the early 1990s there was a considerable deficit. In the last decade, an average of 84,000 dwellings per year were built, reaching over the 100,000 in 1999 and 2000, which means an annual average of 8.4 dwellings concluded per each 1,000 inhabitant.

At the end of the 1970s, the housing stock was close to 3.4 million dwellings and new construction was far from matching household growth, increasing the incentive for the informal market to grow (inter census data revealed that the lag between housing stock and permits was over the 87%). During the 1980s, the average of constructed dwellings per 1000 inhabitants was 7.5, when the household growth reached the 226,000, though the dis-equilibrium yet remained. Informal sector housing represented 43% of new houses and from the whole construction just 37% was occupied for permanent shelter, while 31% was reserved for temporary occupation or left vacant. This was the period where credit was rationed and the rental market was frozen leaving over one third of the houses without use. Only in the 1990s, as a consequence of the intersection of four important economic factors (credit liberalisation, rent liberation; inflation stabilisation and employment growth), did households absorb 70% of the built houses.

There is a range of reasons that contribute to an increased rate of change in traditional patterns of housing. Housing demand is influenced by changing household structure which in turn is mostly dependent on each member's life course choices. Among many factors, employment expectations, divorce/marriage rates, number of children, family extension, and housing attributes influence the changing patterns of household structures. The main changes occur in the bigger cities, but there is a general trend to diminish the extended nuclear family as a consequence of the increasing expenses related to job training needs, new consumption preferences and job/social mobility.

A mortgage can potentially constrain some of changes outlined above, because sometimes people need to move quickly, even if they only manage to sell the house later on. This could be another explanation for social exclu-

sion, once only the members of the upper class households could afford to move and pay for training or to buy/rent a second home in the city where they had found the new job.

The diversity in the income sources traditionally seen supporting housing will tend to diminish as long as the economic integration process goes on. During the 1960s, the family neighbourhood was decisive in establishing kinship relations; nowadays, individual labour solutions gives rise to different location choices that, adding to the increased rupture in family structure, will make many household situations more difficult. For all these reasons we think that kinship networks will only be useful and constitute a comparative advantage if social policy shifts from housing to labour/education/health and training issues, trying to offset the natural real income decrease for lower class households (though it shows a smooth average increasing). It will be also useful to 'fix' population in the rural areas surrounding the cities, stimulating them to guarantee their self subsistence and to resist to the urban temptation of selling the land for a new house they will not be able to maintain, and avoiding moving away to places where they have neither identity values nor qualified skills to work.

### **Employment structure and labour market trends**

During 1999, employment conditions in Portugal were buoyant. In spite of the decreasing rate in GDP growth, total employment has grown 2 percentage points in the last year and unemployment stabilised at 4.5% of total active population. At the same time the size of the working population also increased by around one percentage point, which reveals a strong sensibility to the expansionist economic cycle. According to recently published data by the National Statistics Institute (INE 1999) the increase in dependent jobs (employees with provision made for health and pension requirements) is higher than average (3.4% against 1.9%), but the increase is concentrated on non-permanent jobs (12.3%) rather than on permanent contracts (1.4%) (see Tables 7.4a, b). The National Bank (BP) explains this effect as an outcome of the expected labour re-structuring as a result of the higher rigidity in national labour legislation. Workers are also progressively tied to internationally agreed working hours with a decrease in the proportion of those who worked more than forty hours a week (28.3% in 1998 to 24.2% in 1999).

There is also a structural shift in the pattern of employment opportunities. Those in Construction, Electricity, Gas and Water increased at a rate of 7% and employment in Public Administration also increased as did Education and Health (6.9%) and Other Services (4.7%). Meanwhile, there is a decrease in employment in Manufacturing Industry (- 2.4%), Agriculture and Fishermen (- 4.4%) and Mining Industry (- 16.6%).

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**Table 7.4a Working contract<sup>1)</sup>**

		1993	%	1994	%	1995	%	1996	%	1997	%	1998	%
Employment contract	Total	4,240.6		4,275.4		4,218.4		4,264.3		4,358.2		4,735.9	
	Male	2,355.0	55.5	2,370.7	55.4	2,323.3	55.1	2,354.4	55.2	2,393.2	54.9	2,633.9	55.6
	Female	1,885.5	44.5	1,904.5	44.5	1,895.0	44.9	1,909.8	44.8	1,965.0	45.1	2,102.0	44.4
Working for other	Total	3,112.2	73	3,062.3	72	3,041.6	72	3,036.1	71	3,082.4	70	3,386.0	71.5
	Male	1,709.2	54.9	1,673.4	55	1,635.8	53.8	1,648.9	54.3	1,672.2	54.2	1,865.3	55.1
	Female	1,403.0	45.1	1,388.9	45	1,405.7	46.2	1,387.2	45.7	1,410.3	45.8	1,520.7	44.9
Single self-work	Total	763.8	18	823.3	19.2	825.4	19.5	890	20.8	941.6	21.6	930.7	19.6
	Male	403.0	52.8	440.4	53	450.5	54.6	472	53.0	502.8	53.4	505.0	54.3
	Female	360.8	47.2	382.9	47	374.9	45.4	418	47.0	438.8	46.6	425.7	45.7
Self-work & employer	Total	281.7	6.6	286.7	6.7	268.7	6.3	262.7	6.1	261.1	5.9	278.1	5.8
	Male	209.4	74.3	213.3	74	200.9	74.8	197.5	75.2	186.9	71.6	204.9	73.7
	Female	72.3	25.7	73.3	26	67.8	25.2	65.1	24.8	74.2	28.4	73.2	26.3
Family non-paid worker	Total	82.9	1.9	103.1	2.4	82.7	1.9	75.5	1.7	73.1	1.6	141.1	2.9
	Male	33.4	40.3	43.6	42	36.1	43.7	36.0	47.7	31.3	42.8	58.7	41.6
	Female	49.4	59.6	59.4	58	46.6	56.3	39.5	52.3	41.7	57.0	82.4	58.4
Other	Total	250.2	5.9	310.8	7.2	310.8	7.3	324.5	7.6	310.8	7.1	231.8	4.8
	Male	117.1	46.8	155.7	50	157.0	50.5	156.8	48.3	149.4	48.1	98.2	42.4
	Female	133.2	53.2	155.4	50	153.9	49.5	167.8	51.7	161.4	51.9	133.6	57.6

1) Almost 3 quarters of the total contracts concern people working for other; around 1/5 is the number of self-workers; the share of people working at home without salary is lower and unstable, offsetting the periods of work-off.

The sexual structure of employment reveals the expected tendency for male predominance in self-work & employer, while female dominance emerges in non-paid work at home.

**Table 7.4 b Employment type of contract**

Employment contract 1999		%	Term		%	No Term		%
Male	1,898.7	54.1	218.4	45.2	1,557.8	55.3		
Female	1,609.6	45.9	265	54.8	1,261.6	44.7		
<b>Total</b>	<b>3,508.2</b>		<b>483.3</b>		<b>2,819.4</b>			

According to a control sample built by INE, employment rotation by trimester is lowering; just 0.7% are moving from employment to unemployment and 1.5% from employment to inactivity. We can also conclude that 22.4% of the unemployment stock moved to inactivity and the conversion from temporary to permanent contracts reached 6.8%, while the reverse rotation reached only 0.5%. Another interesting finding is that in spite of the decreasing unemployment rate, it is not that clear that the number of those receiving a subsidy are also decreasing, even considering that the universe of unemployed people

**Table 7.5 Weekly work time<sup>1)</sup>**

Classes	1995	%	1996	%	1997	%	1998	%	1999	%
1 to 15	106.5	2.5	125.6	3.0	159.8	3.8	153.9	3.6	149.4	3.5
16 to 25	230.0	5.5	246.1	5.8	273.2	6.5	262.0	6.2	276.5	6.6
26 to 35	551.9	13.1	566.9	13.4	572.0	13.6	591.9	14.0	616.4	14.6
36 to 40	1,216.3	28.8	1,267.2	30.0	1,594.3	37.8	2,386.1	56.6	2,621.2	62.1
41 to 45	1,197.5	28.4	1,155.3	27.4	894.2	21.2	516.0	12.2	431.3	10.2
>45	916.0	21.7	903.3	21.4	864.7	20.5	816.0	19.3	734.6	17.4
<b>Total employed</b>	<b>4,218.3</b>		<b>4,264.3</b>		<b>4,358.2</b>		<b>4,735.9</b>		<b>4,840.1</b>	

1) Total employed x 1,000

Source: (INE 1999)

and the subsidised unemployed are not the same.<sup>12</sup> The rise in subsidised unemployment highlights the important role of subsidies in determining the unemployment average and long-term unemployment duration. Furthermore the same INE survey showed that the unemployed population received a subsidy representing 62.6% of the net average salary in 1998 of contracted work, against 60.2% in 1999. This amount can be seen as a great incentive to diminish demand in the labour market and for this reason acts as an instrument to reduce the intensity of unemployment-employment rotation.

The real wage consequence is a total increase of 3% (similar to 1998), which is a little bit higher in Public Administration than in private firms. It is the fourth year in a row of real wage increase at a higher rate than per capita productivity increase.

Finally there is a strong (negative) correlation between self-employment and unemployment rates, which partially explains the power to reallocate the work force even within rigid labour market conditions. The full explanation could be asserted as the "...inter-relationship of the high employment rule protection with the tax and social insurance contribution incentives given to self-employment unlike other alternative employment opportunities" (Portugal 1999: 136).

Summing up, there is plain evidence that self-employment is playing an important role in labour market dynamics, mainly within labour segments, which show higher unemployment rates – under-qualified workforce – thus contributing to a low global unemployment rate in Portugal (last number November 2001 – 4%). But using a more qualitative approach to this low unemployment rate we can state a link between this rate level and the slow

<sup>12</sup> From all the registered unemployed people, those who receive the subsidies represent 27% because the other 73% either were not eligible or had exceeded the maximum eligible unemployment period.

level in industrial restructuring and salary level, which means that there will be no way out of long-term employment. The unemployment rate is being sustained through a stronger subsidy<sup>13</sup> and low salaries policies, which pushes public expenditure to dangerous levels.<sup>14</sup>

### **Social security system**

There is no special housing protection. The social security system provides an income subsidy to all the unemployed, which is roughly 65% of his (her) salary on the basis of the last two-months wages, which cannot be either higher than 3 times the national minimum wage or lower than the minimum wage. This subsidy holds during 12 months for unemployed people under 30 years old; 18 months to unemployed people aged over 30 and under 40; 24 months to unemployed people aged over 40 but under 45 and 30 months to those unemployed people aged more than 45. After 45 years old there is a 2-month wage added for each 5 years of worker social security contribution. If aged 55 or over, the unemployed gets the right to anticipate his/her retirement. All the unemployed household credit duties to financial institutions and rent duties to owners will be re-scheduled and renegotiated on a personal customer basis. After 6 months it is common to apply to the court always counting on public support.

## **7.2 Home ownership risk in the 1990s**

We have seen the growth in credit indebtedness following liberalisation and the growth in less secure labour market opportunities. There are recent studies and newspaper interviews published in Portugal (Marques 1999; Mateus 1999), highlighting some dangerous consequences for the Portuguese economy as a result of the rise in household indebtedness levels. The first quoted study considers that Portugal is expanding towards a 'European open credit society' in a path they call the 'Northern American matrix'.

Private credit grew sharply in the 1990s as a result of two convergent effects: on the supply side as a result of financial liberalisation and financial innovation, housing credit support and declining interest rates; and on the demand

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**13** In a recent Economics undergraduate research I have been supervising, there is strong evidence that Training Programmes funded by European Funds achieve more Social goals than new employment places. Following the life track of those workers we cannot find an important market absorption rate. Training Programmes are not territorial-based and not submitted to a competitive strategy planning.

**14** September 2002, the new government presented legislation in order to facilitate the development of a more flexible labour market, easing the firing and stimulating horizontal and spatial mobility.

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side for credit there were changes in consumption behaviour, a cultural shift in attitudes to credit and an increase in disposable income.

Housing credit for home ownership is the main source of indebtedness accounting for 76%<sup>15</sup> of all credit taken in 1998. In 1997 the indebtedness imbalance due to housing credit was 37% of the disposable income against 15% in 1990; consumer credit also increased 10 percentage points in the same period (13 against 3%). The total amount of the household indebtedness represented 50% (of household income) in 1997 against 18% in the beginning of the 1990s.

Nevertheless, Portuguese household indebtedness is still low when compared to the European average and we cannot firmly assert that the consequences in Portugal will be as high as in some Northern European countries (e.g., UK, Sweden). However there is some evidence that habits and attitudes towards credit are changing, and that young people are the most indebted group.

Data from the National Bank (Portugal 1999), suggests that only 2.5% of the bank private indebtedness imbalance is 'risky or doubtful' (1.2% in housing credit and 4.5% in consumption). The other available information gathered from the two main Portuguese financial institutions, reveals that only 4.1% of the total contracted credit had more than 3 months repayment delay. Marques (1999) refers to the UK as an important advisor example, because from roughly the same level (3.9%) the percentage with more than two months missed payments in 1989, reached 9.3% two years later.

Mateus (1999) enhances our understanding of this phenomenon when he considers the difference between increases in two measures – a 30% increase in the household credit against a 5-6% increase in disposable income. Furthermore this has been a quick change, which does not allow short run comparisons and suggests more cautious analysis because per capita Portuguese income is 50% of the American citizens, which means a completely different share for households with housing credit affordability.

A personal survey of a number of Portuguese housing credit institutions, which represent a 65% share of the housing credit market, shows that household indebtedness is mainly due to extra commodity consumption, rather

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<sup>15</sup> There is no coincidence in the number. Marques, M. M. e. N., Vítor (1999). *Endividamento in Dossier Investimento. Economia Pura*: 46-49. refer to 76%; a national newspaper *Diário de Notícias* June, 1<sup>st</sup>, 1999, refers to 71% and Mateus, A. (1999). *Dossier Essencial*; entrevista com consultor do BP. *Semanário Económico*: 4-8. refer to 80%. The 76.7% is our own result based in financial tables for 1997.

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than from housing repayments. With the interest rate reduction in the last decade, people suddenly expected they could afford to improve their life standards and were tempted to ask for credit beyond their saving capacities.<sup>16</sup> All of the surveyed institutions confirmed that this has not been a problematic issue till now, but they are studying security measures to those risks mostly based on the management of personal and local credit situations.

In spite of the global structural changes, the Portuguese population do not appear to have a diminished demand for new homes as owners. We do not have deep sociological studies providing us a satisfactory explanation, nevertheless there is a belief that being a home owner is, sooner or later, an important goal for everyone and three economic factors can underpin this behaviour: first, rent levels for new homes are very high attending to the interest rate performance; buying a house is still a rational choice, once equity levels offset credit cost, due to housing market volatility; secondly, the late urbanisation processes and the road infrastructure investment is still going on, raising the likelihood that house prices will rise across the country and allow people to expect returns wherever they buy. Third facing job uncertainty and national growth lag, people look at their home as the main wealth asset and decide to deliver their savings management to the banking system because, as an excellent internationalised sector, it is more likely to be more efficient and safe.

Another interesting issue about these markets is the heterogeneity of the housing/labour processes nationally. Recently published data on overall housing prices is a remarkable confirmation of this situation. For a national average index of 100, it is 134 in the Lisbon metropolitan area, 107.5 in the Algarve, 104 in Oporto metropolitan area, while in the interior country the index is just 67.5.<sup>17</sup>

Further research based on more appropriate surveys are needed, in order to have a deeper understanding of behavioural answers to these issues, mainly because we do not have any information that relates labour and housing tenure to household responses.

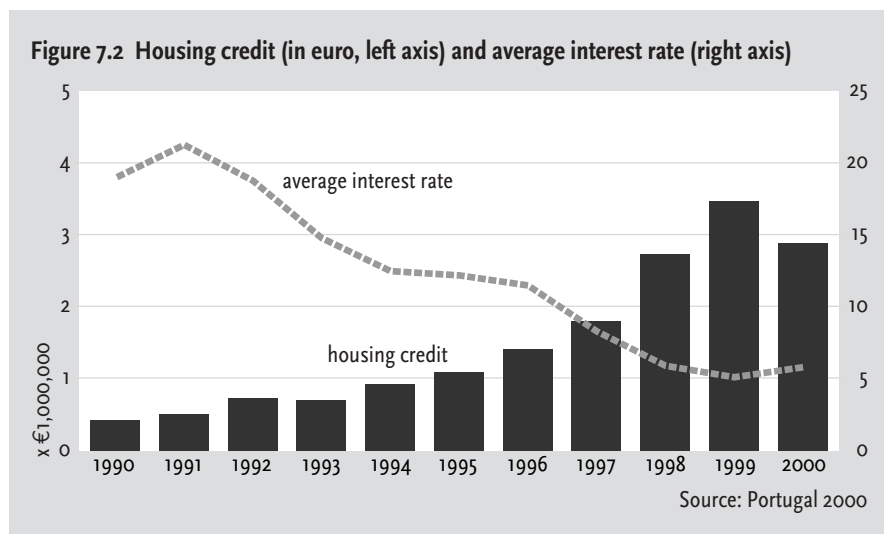
Summing up, in the last decade of the 20<sup>th</sup> century, Portugal revealed a sus-

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<sup>16</sup> A research centre in real estate evaluation in U. Politecnica de Valencia, Spain, concludes, after a long-term study, that household behaviour related with home buying is very stable over time and constant in the percentage they could save after basic needs provision. When people save more than before, they spend it on housing improvement or higher quality houses purchases.

<sup>17</sup> INE (2001). *Sistemas de Indicadores de Preços na Construção e Habitação*, Instituto Nacional de Estatística.

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tained economic growth, where the housing sector was one of the most dynamic sectors within the whole economy. Up to the end of 2000, Portugal built an average of 11 dwelling per 1,000 inhabitants/year, which represents over double the EU norm (5.5) from 1990-1998 (Figure 7.2).

Housing credit still holds at a very high level, rising inversely compared to the interest rate trend (Figure 7.1). The housing construction represents something like 14 months of future construction business and over 80% of the whole construction sector. From this amount, housing rehabilitation, transformation and improvement holds a stable share of 17%, although we can predict some increase in the next decade. In fact, we expect a number of urban renewal projects in the inner cities of the main towns, as a consequence of new legislation on rental markets and new initiatives on inner city renewal.

We think that the main reason for this incredibly high level of new housing is correlated with four main factors: (i) the historic lack of housing (quantity and quality); (ii) the interest rate decrease; (iii) the stable level of low unemployment and (iv) urban policies at the local level.

The first reason concerns the traditional lack of housing provision during several decades in the recent past of the country; the second and third are macroeconomic reasons concerning the EU convergence and inflation policies and still low salary specialisation; finally, all those factors acted as main incentives to promoters' and developers' expectations in the absence of industrial diversification, while, at the same time, local authorities looked at housing as an important asset to raise the level of their budget revenues, now that all the housing taxes revert to the local administration level.

### **New risks to housing and home ownership**

There are several risks that Portugal faces in the next decades, mostly related to the increase in migration inflows from eastern and African countries. Shanty neighbourhoods are a politically assumed risk for the future. Not all

the municipalities are well equipped in terms of human resources and there is a serious risk that a number of new illegal neighbourhoods will start to rise while immigration can be exploited by less scrupulous administrative public officers at the local level, stimulating people to start building, expecting that the government will pay the costs of future re-building and qualification (based on the late 1960s experience).

The delay in fiscal policy reform and the asymmetric income redistribution are major concerns for housing policies. Nevertheless there is a slow increase in the rental market share. The 2001 Census refers to a number of 5,000 households reallocated from shanties to decent and legal housing; the shanties demolished an average of about 25%, depending on local policies. Since 1995 we passed from 100,000 unsheltered families to a lack of 30,000 decent houses supplied by a partnership between state and local governments. Paradoxically there are still 560,000 vacant dwellings and the municipalities are being stimulated to re-build and reallocate people in those new buildings (REHABITA programme). Building owners are receiving incentives to make renewal construction, risking losing their full property rights if they do not comply. At the same time, rented housing before 1990 decreased over 50% (800,000 to 400,000) and new rental housing raised up to 300,000 dwellings. House prices are not that expensive (around 450/square metre) but a great volatility in prices has been introduced through speculative land prices, which are not favoured by fiscal policy measures upon speculators.

### 7.3 Policy implications and conclusions

According to the evidence available, housing and labour markets as well as social welfare issues reveal a high correlation with greater volatility in each area. They imply a cautious cross analysis between micro and macro levels as well as to international conceptualisation. Globalisation is a very quick phenomenon with important lag reactions in each country, depending on its particular ranking at the international competition game.

Belonging to the EU increases national confidence in the ability to reach the main development goals; but being a small and open economy brings higher risks to deal with in relation to the economic cycle; looking at housing and labour market functioning as a strict social and short run issue is dangerous and leads to unsustainable policies. It is therefore important to underline that socio-economic policies shifted a lot with the globalisation process within the EU. It changed from the national to the global level and at the same time, within each country, from the national to the local level; the focus shifted from the short to the long run effects and, consequently, from the state to

the citizen level. The more each country is able to define its long term policies, the more it can prepare a citizen answer to this global challenge. Of course we consider that educational, health and training policies are, nowadays, territorial issues asking for network approaches.

The main conclusions drawn with respect to the UK apply also to the Portuguese case, namely that housing policies promoted home ownership and recent financial pressure over government expenditure tended to diminish subsidies and risk insurance of the indebted. However, unlike the UK we have no available data to confirm the exact link between the labour situation of the indebted and the extent of housing mortgage arrears. In Portugal, the main financial institutions and the Consumer Observatory say that indebtedness is not a dangerous problem yet, although it has been increasing over the last two years at the same time as housing transactions have increased in number and value. These facts enable us to predict that heterogeneity (both social and geographical) is an important phenomenon in a country where unemployment is rather stable and low considering the EU context.

Behavioural responses in the face of these trends also need further research and data provided by the financial institutions just allow us to say that people tend to incur longer term mortgages and banks force them to pay considerable mortgage insurance costs. As soon as repayment difficulties develop, negotiations about extending the mortgage duration are instituted. Housing is a very important cyclical business, which makes it difficult to disentangle changes due to structural causes and suggest the need for very cautious research methodologies considering that average indicators give rise to considerable misinterpretations.

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# 8 Spain

*Jesus Leal Maldonado*

## 8.1 Introduction

Residential risk can be defined as a social situation, which endangers the satisfaction of the housing needs of individuals or families. This residential risk must be understood as a social process in which different mechanisms coincide to result in the dissatisfaction of a elemental need-access to a home.

Housing risk cannot be understood in a static way. During the residential cycle of any person there could be situations in which it is impossible to meet the requirements needed to obtain or to keep a dwelling which is an important component of a person's identity and life. Home is a space of life as it is defined by Cortés (1995) in which a whole set of social activities configure and satisfy the basic levels of need. Risk and insecurity in having a home does not only come from situations that result in a process of eviction, it happens often during the process of lodging or finding a place of residence.

The causes and reasons that give rise to residential risk are many and vary according to the different levels and forms of housing; we deal here with three main reasons that help explain the increase of residential risk in Spanish society. A first reason is the increasing proportion of home ownership which is a consequence of a persistent policy of support for home ownership. A second reason is the change in housing markets which have resulted in the increase of housing value in relation to wages and incomes and the consequent extension in the duration of mortgage loans in order to make affordable the newly built houses. A third reason is the change in the labour market with an increase in precarious labour contracts.

Spain is a privileged country in which to study the development of residential risk, first because the proportion of the home ownership is the highest in Europe, second because of the high proportion of unemployment and temporary jobs and third because it is the country with the highest increase of housing prices in the period 1985-2001 in Europe.

## 8.2 Historical context of housing systems: from rent to ownership

There are two pillars upon which the policy of promoting home ownership in Spain is based. There is support for home ownership by the public authorities as the principal type of housing access through them privatising the existing

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public housing stock, financing home ownership through direct transfers and mortgage interest and by tax relief. The second pillar is the policy of discouraging private investment in housing for rent through the Rent Law.

The political expressions of support for home ownership can be traced back to the special conditions that contributed to the 'drive' towards such ownership which characterised the period in the 1960s, during the last years of the Franco regime. At that time, home ownership was promoted as an element contributing to social integration and to reducing local political conflicts based on the existence of a highly deteriorated stock of dwellings. This was especially evident in the case of public housing whose low quality, along with the lack of services in its vicinity, induced strong social movements. These conflicts contributed to the change in public housing policy from the previous support for rented housing to a generalised preference of housing access through ownership of the newly built public housing estates (Leal 1993). At the same time, little by little, the existing public stock was being sold to the households renting them.

Spain was one of the first European countries to take the approach of selling the public stock of dwellings and to concentrate production on new public housing for private ownership. The reason for these changes in housing policy is to be found mainly in the social movements that were rising in neighbourhoods of council housing. It should be remembered that at the end of the fifties and the early 1960s the building of council housing had been intensified, with the purpose of clearing the settlements of shantytowns in the cities. This massive building enterprise was undertaken with a low budget, and together with the attempt to build as many dwellings as possible, resulted in buildings of a rather poor quality in their structure and materials. The shortcomings in terms of services, transport and the quality of the housing itself was a hotbed for these social movements that posed a serious problem for the authoritarian government. The State's response was to privatise the public housing stock, and transfer the property to the dwellers, so transferring the responsibility for the management and maintenance of these buildings. This policy resulted in a society of home owners, which now required stable employment in order that mortgages could be paid regularly, and as a result political confrontation was mitigated.

Another reason for the preference for home ownership was the difficulty in managing the public stock. The collection of rents from the residents was often associated with the phenomenon of non-payment, but the response could not be eviction because of the social reaction of the neighbourhood. The selling of the property was perceived as a solution to this problem, so that together with the privatisation of the council housing the management

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organisation was almost completely dismantled, making it difficult to turn back to a higher proportion of rented public housing.

The transfer of competence in housing to the Autonomous Communities (Regional Administration) throughout the first half of the eighties reinforced this position because the management of council housing generated losses. It was argued that by building publicly promoted housing for home ownership, more units could be built for the same amount of money. However, the potential buyers of these units would obviously have a different profile from those who accessed the property through renting.

This change had consequences for the social composition of the new publicly promoted neighbourhoods, because although the price paid for the properties in such areas was low, the families who could not afford them were excluded. Some of them used the old and poor quality council houses that were left vacant, and others were unable to access a decent home. This implied the continuity of a series of neighbourhoods of very poor conditions, in which the less fortunate part of the population concentrated, for instance, the gypsy community. As a result, there was an increase in the process of segregation that was already under way in the larger cities. Within one area or neighbourhood clear distinctions were established between the tenants of the older rented council houses, with very poor conditions, and the owners of new properties, with more resources within the lower income group.

This policy is the reason for the segregation process of gypsy minorities in some Spanish cities and the formation of ghettos, some of which subsequently became areas with illegal drug markets. Correcting these processes throughout the eighties and nineties implied the investment of substantial funds, since it meant the relocation of those living in shantytowns and deteriorating housings into new buildings, and support for access to home ownership with very special conditions.

The second element strongly influencing the tendency towards home ownership was the Urban Rental Laws, which were enforced in the end of the fifties. The development of these laws have been a long process, and in order to understand this process consideration should be given to the conditions existing after the Spanish Civil War (1936-39), when attempts were made to favour the middle classes that had supported the winning side but had suffered increasing rent levels due to the destruction of housing units during the war. The first such laws established a freeze on rents and provided for indefinite contracts (Cotorruelo, 1960). Subsequently, the updating of rental rates was made somewhat easier, but there continued to be many restrictions and the indefinite nature of rental contracts was maintained. Liberalisation of the

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rental market did not take place until 1985, with the 'Boyer Law', and was not reaffirmed until the Urban Rentals Act of 1995. To the above we should add the slowness of the legal processes relating to non-payment of rent, which meant that it could take many years to evict somebody who did not pay rent, and recovering these unpaid amounts could be very difficult, and sometimes even impossible.

The protection afforded to tenants produced a decrease of the number of landowners, such that a high proportion of rented accommodation during the sixties and seventies reflected a situation of complete obligation on the part of the state. These were houses that had been rented many years before at a very low price, almost a ridiculous one, which did not even cover the cost of maintaining the buildings, and which with indefinite contracts could even be passed on to the descendants of the tenants.

For many years, renting out housing was considered a non-productive activity. The only interest might have been the increasing value of the property or of the land on which it was located. Frequently, the owners of rented buildings actually encouraged their deterioration, in order to have them declared as ruins, enabling them to evict the tenants, demolish the building and sell the land. This was a relatively commonplace practice until, at the end of the seventies, the state began developing urban renewal plans and strict standards were established for these properties, with a view to maintaining a unity of design. It should be borne in mind that many of these urban renewal plans of the city centres not only protected those buildings which were considered to have some aesthetic or historical value from demolition, but also attempted to fix the use of certain buildings, as a way of preventing their being abandoned.

These measures constituted yet another encouragement for private capital to flee from investment in housing for rent. Only the demand for rented accommodation by the middle class, associated with displacements for professional reasons or changes in the family situation led the real estate companies to build certain buildings for rented accommodation in central locations. The profitability of such investments was based on the availability of enforcement measures that the private investor could not maintain, such as the cost of efficient legal representation or direct control over the contracts for electricity and water for the property.

At present, the new Urban Rentals Act of 1994 establishes a framework of greater equilibrium between the interests of the tenants and those of the owners, with a limited period of five years for contracts, after which the complete contract may be renegotiated, including updating of the rent. However, this law was applied in economically adverse conditions for improving pri-

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Table 8.1 Historical change in tenure in Spain (1950-1996)

	Owning	Renting	Others	Total
1950	45.9	51.2	2.9	100
1960	51.9	41.3	6.8	100
1970	57.1	24.6	18.3	100
1981	74.9	18.7	6.4	100
1991	78.4	15	6.6	100
1996	79.9	13.6	6.5	100

Source: INE, Censos de Población y Vivienda.  
Encuesta continua de presupuestos familiares 1996

vate rental housing, because of the low interest rates for mortgage loans at the end of the nineties. The efforts required to buy a property have been reduced, and as a result, home ownership has been strongly reactivated. The total proportion of rented

properties continues its steady decline, and the limit has not yet been reached at 13,6% of the total used stock at the end of the nineties (Table 8.1).

Other complementary measures relating to housing policy have also contributed to this decrease in rented properties. We should mention specifically the tax relief on investments in housing, which has led many households to invest in property, since the benefits obtained are much greater than any other type of investment (Lopez Garcia, 2000). It is undoubtedly true that high-income households benefit more from these measures, and are furthermore strong candidates for ownership of the homes in which they live. This incentive is not available to tenants and in this respect, the political measures may also be said to promote ownership over renting.

### 8.3 Contemporary changes in housing tenure

One real difference in Spain, in comparison with other countries, lies in the behaviour of public housing policy with the disappearance of the production of new public housing for rent, along with the sale of public housing stock. This policy has led to the paradox that current tenants belong to different income groups. Being a tenant in Spain depends more on the age of the household's breadwinners than on their income levels (Table 8.2). For those aged 40 and over, being in a rented home depends more on the family and professional situation than on the income of the tenant. Rented property is occupied mainly by people displaced for professional reasons and by people with unclear family conditions. The more stabilised the work history and the family, the higher is the proportion of home ownership.

The small council housing stock for rent still remaining is located in the major cities, and most of it is in such poor condition that the tenants have no interest in acquiring it, knowing that in any case renting is a highly advantageous state and that they may remain in the property for the rest of their lives, since the public authorities are responsible for maintaining it and the tenants would have to be relocated if the property deteriorated excessively.

**Table 8.2 Distribution of home ownership by groups of age, 1991**

Age	Owning			Cesion	Renting	Others	Total
	Outright owners	Buying with a mortgage	Total				
<29	22,15	30,62	56,10	7,02	33,64	3,24	100
30-39	38,64	34,67	75,55	4,22	18,57	1,65	100
40-49	61,06	21,35	84,23	2,63	12,13	1,01	100
50-64	66,34	13,44	81,87	4,04	12,61	1,48	100
>65	64,74	8,97	75,75	4,26	18,10	1,88	100
<b>Total</b>	<b>55,98</b>	<b>19,63</b>	<b>77,76</b>	<b>4,05</b>	<b>16,55</b>	<b>1,64</b>	<b>100</b>

The low supply of housing for rent goes hand in hand with a recession in demand. The appreciation of house prices in the cities led to the promotion of home ownership strategies. The high rates of inflation in the nineties meant a major financial effort during the first few years, but in relatively little time the mortgage payments were not much higher than that of a new rental. Home ownership became generalised. Parents saved in order to help their offspring with this acquisition when the time came for them to become independent.

Regarding housing production, the requirements of the land laws and the habit of constructing buildings of various storeys led to the concentration of private construction as the most frequent form of housing production. Against this stood public promotion, with very little impact after the 1960s – standing around only 5% of the total housing built. The third way of promotion is the housing co-operatives, which experienced a series of vicissitudes depending on their capacity to purchase suitable land and to receive state aid through privileged financing arrangements for housing. The system of self-promotion (self-build) that had taken place in the fifties, with the building of large neighbourhoods of shantytowns by the lowest income households had disappeared by the mid sixties, and in the major cities this type of self-promotion is now concentrated amongst a very small group of high income households who are able to acquire a plot of land in the urban peripheries to build a home. In the smaller cities and towns, this system was more frequent due to the greater ease of acquiring a plot and greater facilities to build.

This strategy of accessing home ownership became generalised, such that many people began to consider that paying rent was a waste of money. Little by little, renting became a formula almost exclusively used for transitory situations, typical of recently independent young people, of situations of family restructuring or of changes in residence for professional reasons.

Buying a home became the most important incentive to saving among Spanish families. Although this meant considerable sacrifice during the early years of setting up one's home, there was a general awareness in the working

neighbourhoods that the initial period of home ownership implied an additional effort which changed the behaviour patterns of the people: there was a lengthening of the working day, with overtime, restrictions on eating habits, few excursions outside the home, the suppression of vacations, etc. As time went by, a change in behaviour became evident. Not only were there economic reasons for this, the fact of owning a home meant greater security and in the event of problems there was the property itself, as a basis for requesting a bank loan or simply to be able to face problems without the need to pay rent.

The main issues involved in the distribution of home ownership may be summarised in three points: firstly, consideration should be given to the impact of housing policies, which have led from a majority of rentals to the almost exclusive dominance of the system of ownership. The second issue relates to the social significance of different tenure options where non-ownership of the home is considered a characteristic of uncertain or unstable families. The third issue relates to the consequences of this distribution of housing options.

## 8.4 Housing tenure and the family cycle

Generalised home ownership led to rental housing being used only in situations in which the way of life, the condition of the family or the professional conditions, remained as yet undefined. People in transitory situations preferred not to take any risk by acquiring a home because of the problems that might arise in selling it later, when the family model became clarified or finally a stable working location achieved. This meant that the proportion of rentals was higher among recently independent young people who had not yet clearly defined their family model or profession, and among the separated and divorced, which had to restructure their family life (Table 8.3).

This relationship between home ownership and types of households means that the distribution of renting tenants is related to the family cycle (Taltavull, 2000; Leal, 2000). Indeed, a certain proportion of young people start off in rental housing, and later become home owners, as their household becomes consolidated. In case of separation or divorce, at least one member of the couple may go back to renting, with the property situation subsequently changing again, especially if they form another family, although if they continue to live alone, the proportion renting remains higher than average. Finally, when the age for retirement is reached, we find a higher proportion of households in rented homes, although this should be attributed more to the freezing of previous situations than to a change in property ownership habits at this age. Furthermore, it is especially difficult to pay a mortgage with a

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**Table 8.3 Housing tenure in relation with family condition, 1991**

Family condition	Owners	Renters	Others
Single	66.9	24.8	8.3
Married	65.5	25.2	9.5
Widow	76.8	17.0	6.2
Separated	58.2	32.9	9.0
Divorced	59.6	33.8	6.6

Source: Censo de Población 1991, INE

**Table 8.4 Proportion of young living with their parents at 25-29 years old**

Country	Male	Female
Spain	64.8	47.6
Greece	62.6	32.1
Italy	66.0	44.1
France	22.5	10.3
Germany	28.8	12.7
U.K.	20.8	10.8

Source: Eurostat

pension. As a result, there is a continuation of this accommodation method, which would explain why the proportion renting increases with the age of the breadwinner in the home.

In the case of young people, the delay in becoming independent from the parents' home has an important impact on home ownership rates (Serrano, 1997). Like many of their peers in Southern Europe, young people in Spain skip a stage in life that is common among young people in Central and Northern European countries, who leave the nest a few years earlier (Garrido and Requena, 1996; Verges, 1997). Most of the young people in Southern European countries leave the parents' home to get married, whereas in Northern Europe young people become independent and live alone or share a flat in a rented home before getting married.

The average age of leaving the family home has increased significantly in recent years (by three years between 1981 and 1996), and is now 29. This delay has an effect on home ownership, since half of the young people leaving the parent's home will then directly access to their own homes. The higher frequency of renting among young people (compared to other age groups) explains why their homes are older, smaller and in worse conditions than those of the age group immediately above them.

## 8.5 Residential behaviour in a country of home owners

For most households the wish to become a home owner is the principal reason for saving money. Households of persons aged under 40 spend more than half of their income on paying their mortgage loans. But with the strong effort needed to become home owners, in terms of a year's income, entry to the housing market becomes a serious problem for new households.

As already noted, the difficulties in entering the housing market influence the delay in leaving the parents' home for the young generations (Table 8.4).

Table 8.5 Recent change of way of access to housing in Madrid

Way of access	1981 in %	1991 in %
- outright owners	41.39	57.83
- owners with a mortgage	31.01	19.56
- free	3.25	4.10
- rent furnished	2.66	2.82
- rent not furnished	18.80	13.15
- other	2.89	2.54
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Censos de Población y Viviendas 1981, INE-MINECO; Censos de Población y Viviendas 1991. Consejería de Economía. Comunidad de Madrid

The importance of the family in a Welfare System with a weak state intervention, called rudimentary by Esping-Andersen (1990) or familialist by Abrahansom (1995), goes some-way to explain the role of the family in getting a home for their children. American middle class families save money in order to send their children to the University, whereas Spanish families save money to purchase a home for their children, or at least to have enough economic resources to afford the first payments required to buy the home. A large proportion of young people become home

owners after leaving their parents' household, more than half of new households in Madrid are home owners and only 20% of the household with a person of reference under 30 are renting. This is also connected to a rural, behavioural heritage, which has multiple meanings and that fits in with the peasant belief that owning the land one works is a guarantee of security. Once acquired, the home becomes a guarantee for other loans from credit institutions, which means that in order to access a loan, the availability of a home is an almost essential prerequisite. It is in fact a kind of insurance for whatever purpose.

Furthermore, inherent to the home ownership strategy is a forced savings process, which would otherwise be quite difficult to achieve. The monthly mortgage payment, which is a greater effort than a rental payment, constitutes a gradual increase in one's estate, which might be of great use subsequently. The phrase "for a little more you could own your own home" is a very frequent part of the approach to home ownership. The security of real-estate investments and the frequent appreciation of housing due to the growth of the cities and to the increase in real-estate costs above the cost of living justify such decisions. Discourse regarding the difference between the value of buying and the updated value of the apartments in which people live is frequent, and this leads to the investment being considered a good one and to attempts to repay the loan as quickly as possible. The consequence is that more than the half of households live in home that is fully paid for (Table 8.5).

In Spain the proportion of one family houses in the whole country is 32%, including rural housing, but this proportion decreases in the big cities, and in the Madrid Metropolitan Area, for example, is 7.6%. The high proportion of condominiums, compared to other European Countries, implies the organisation of a highly regulated system of decision-making regarding the common

assets. Decisions ranging from the time that the heating should be turned on, and the level at which it should be set, to the cleaning of the stairways or care for the elevator, must be taken into account by the group of owners living in a building. In this respect, collective property becomes a powerful element of socialisation. Communities of owners are organised based on legislation that regulates the way in which decisions are taken and how their common asset should be managed. It may be stated, however, that social standards themselves are the best regulator; deviant attitudes such as non-payment of the community contributions or the performance of works altering the aesthetics of the building generally are strongly rejected by neighbours, isolating households with this attitude. This generally leads to a strengthening of neighbourhood links, although ultimately it depends on the dimensions of the community and the ways in which its management is organised.

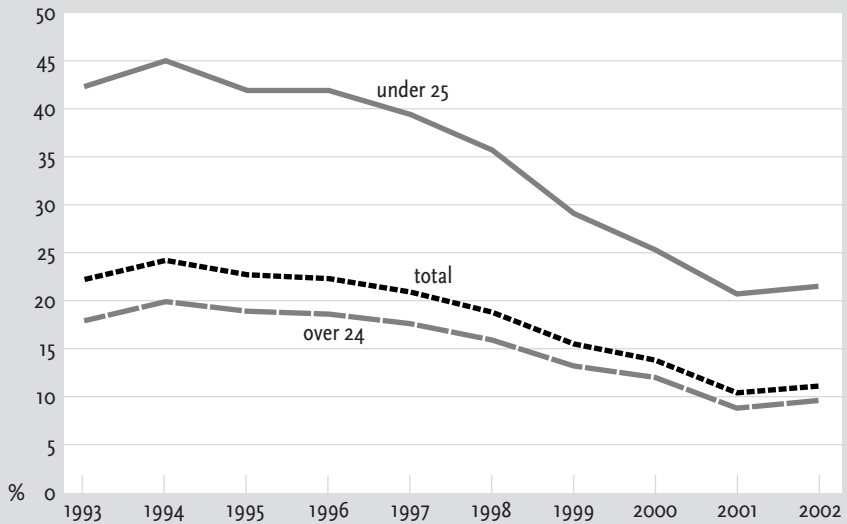
Another important consequence of generalised home ownership is a low degree of residential mobility (Zamora and Serrano, 2000). Those who live in rented accommodation move more often than home owners. Changing one's owned home is penalised by a high level of taxation, with a cost that usually exceeds 10% of the price of the new home, with the most important part being local and regional taxes. Furthermore, the choice of a home for acquisition is a more complex affair than choosing a home to rent, since it implies a high cost and some level of risk. This might explain why in countries like Spain, with a low proportion of rentals, residential mobility is also low (around 5% of total families moves per year in Madrid and slightly higher in Barcelona (Modenes, 1998).

In fact, there is a close relationship between the form of tenure and residential mobility. Young households with a lower proportion of home owners than average show a much higher degree of mobility than the other age groups. It may be stated that one of the reasons for maintaining rented accommodation is the existence of uncertainty as regards to location, this in turn being closely linked to the location of the workplace and the type of family project anticipated. Low mobility rates suppose strong problems in economic systems where moving of the productive activities becomes more frequent. The difference in housing prices and the cost of moving explain the strong difference in unemployment rates between regions in Spain.

## 8.6 Labour market and home access

There are strong relations between changes seen in the labour market in recent years, the characteristics of the housing market and the likely risk of losing the home. The increasing proportion of precarious labour contracts, the

**Figure 8.1 Evolution of unemployment rates in Spain, 1993-2002 (in %)**



Source: Encuesta de Población Activa (Employment survey), I.N.E.

permanence of high rates of unemployment and the cycles in the level of employment all potentially affect the continuity of home owners' incomes. However, these tendencies in the labour market contrast with the increasing duration of mortgage loans (which in part are a response to rising house prices) with their requirement for stability of income over a longer period of time.

Spain has experienced a great change in labour market over the thirty years to the end of the 20<sup>th</sup> century, passing from low activity and low unemployment rates in the 1970s to a higher rate of activity but also high rates of unemployment at the end of the 1990s. There has also been cyclical change in the levels of activity and unemployment over this period of time (Argandona. 1997). As noted above, the terms and conditions of employment have also changed.

Understanding these changes in the Spanish labour market requires us to consider a number of particular features: first the participation rate amongst women in Spain was historically low and in 1981 Spain had the lowest activity rate of women of any country in the European Union. This rate has increased consistently since then and amongst young women is now is currently similar to the European average. As is discussed later there is some evidence that rising house prices have played a part in increasing female participation rates. A second consideration is the high volume of young people reaching the age of entering the labour market and forming a new household. The age pyramid of Spanish population shows the effects of a strong baby boom at the end of the sixties and the first half of seventies. This has resulted in a sizeable cohort of those aged between 25 and 35 years old, seeking both employment and a home at the end of the 20<sup>th</sup> century, and exceeding in number those leaving the labour market. A third feature of the Spanish labour market is the growth of unemployment which reached 24% in the eco-

**Table 8.6 Evolution of economic sectors by proportion of workers in Spain , 1960-2000**

	1960	1975	1980	1991	2000
Agriculture	41.7	23.4	18.9	10.9	6.9
Industry	23.2	27.2	27.2	22.9	19.9
Building	6.8	9.6	8.8	10.1	11.0
Services	28.3	39.8	45.2	56.1	62.3

Source: Banco Bilbao y Bilbao Vizcaya, Distribución de la renta en España, 1960-1991  
and Encuesta de Población Activa

conomic crisis of the mid 1990s. This high unemployment rate has now fallen (Figure 8.1) – in part due to a slow down in the number of young people and women entering the labour market – but the persistence of relatively high rates of unemployment continues to characterise the labour market.

Other variables such as the composition of sectors of activity are changing in the same way as in other southern European countries, with the greater weight of employment in services and a continuous decrease in agriculture and industrial activities (Table 8.6). This change brings a decline in traditional working class employment with stable work contracts and unionised and an increase of professionals and workers in services with insecure jobs.

Legislative changes with respect to labour market regulation have also resulted in the growth of more precarious employment. Traditionally, the permanent employment contract has been tightly safeguarded in Spain, but major legislation, particularly that introduced in 1994 has encouraged the growth of temporary work contracts and freed the use of part-time employment to some extent. Overall, part-time work (as a percentage of all employment) in Spain is still lower than the EU average (8% compared with 14%), and it remains overwhelmingly female employment. The percentage of women amongst all part-time workers grew from 11.5% to 17% between 1990 and 2000 while for men the growth was from 1 to 3%. By the mid 1990s, the percentage of workers with temporary contracts was 36% while a further 19% were self-employed. One of the impacts of these changes (particularly the growth in temporary work) has been to increase annual worker turnover from about a quarter of all jobs in the mid 1980s to over half of all jobs in the mid 1990s. Legislative changes introduced in 1994 also widened the grounds on which those in permanent employment could face severance again increasing labour market risk.

The shift in the balance between precarious contracts and permanent contracts also partially reflects the industrial structure with its considerable employment weight in tourism and in agriculture which have a seasonal element leading to substantial differences in employment between summer time and the winter. The economic structure in Spain has also exhibited pronounced cyclical effects whereby economic activity grows more than average

in the expansionist periods but also experiences periods of sharp decline. The result is a less stabilised labour market.

It is clear that the structure of the labour market has changed towards one in which employment is less secure. This structure has a strong effect on the capacity of households to maintain their mortgage payments on a long-term basis. In the recent past, difficulties could be overcome by the increasing activity of women, and the consequent growth of breadwinners per household, increasing the real income of households (and particularly so amongst young households who are most involved in paying mortgage loans). These changes were able to accommodate an increase in house prices and increased the capacity to afford a higher mortgage. Nevertheless this growth of the capacity to meet monthly payments is reaching its end because of the slowdown in the rate of increase in the activity of young women and the serious difficulties in further decreasing the mortgage interest rate.

We can affirm that the high increase of women's activity in Spain<sup>1</sup> is not only the effect of a higher degree of education and a consequence of searching a greater independence and freedom in relation with men, but also an exigency of the pattern of housing provision available to households. Young households (couples under forty years old) spend more than the half of their income in housing costs.

It is clear that in these circumstances there is a strong link between access to housing and access to the labour market. Given the growth of precarious employment and instability in the labour market, the risk of losing the home could be higher than in some other European countries because of the higher proportion of households who access home ownership in the context of very limited state intervention in social housing for rent.

## 8.7 From the labour market to the housing market

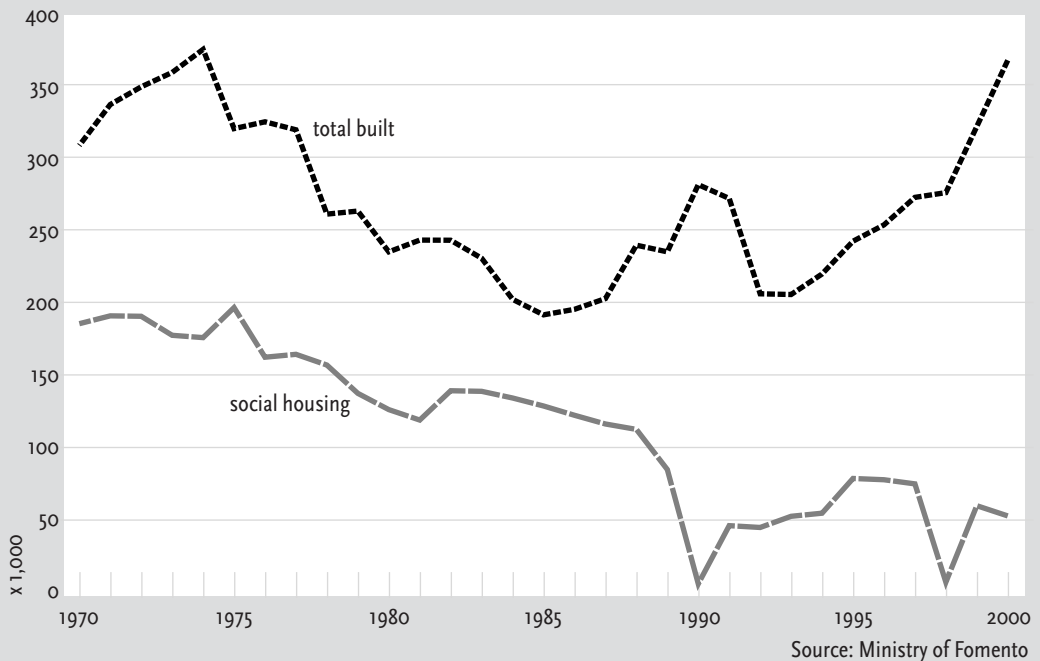
In the late nineties in Spain, the relationship between economic growth and the labour market changed considerably when comparing it with the situation of the late 80s. Economic growth was not as strong as it had been in the late eighties, although the total number of workers occupied grew by two mil-

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<sup>1</sup> Women's activity in Spain rate grew 20% in nine years, passing from 3,6% in 1991 to 39,8% in 2000, but it had been the age group between 25-54 which grew the most with an increase of 35% in these years (Encuesta de Población Activa).

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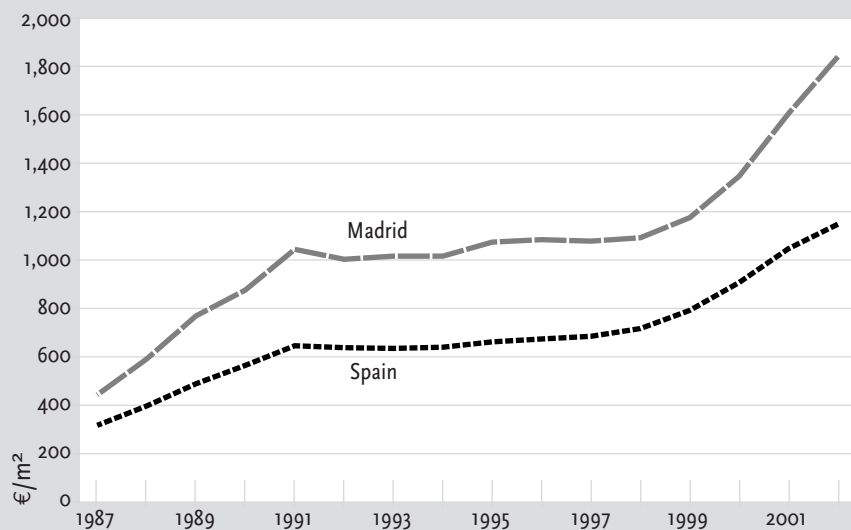
**Figure 8.2 Evolution of the total housing built in Spain and the social housing (housing with some financing of the State), 1970-2000**



lion in ten years and the unemployment decreased in more than one million in a five years period, from 1995 to 2000.

Housing markets are very active, but are strongly segmented. There is a second hand housing market, with many difficulties because of the dispersion of the individual owners, and a new build housing market which is more concentrated and typical. The pattern of change in these two different markets is not always the same, and it depends on the place where new housing is developed in the cities and on the trends with respect to the developing of the urban spaces. Offers of new housing in the city centre are scarce and most of those seeking a central location must look in the second hand market, and it is sometimes difficult to find properties because of the dispersion of the housing offered.

But in general, new build housing is highly concentrated in large construction companies in the major Spanish cities, which serves to explain the repeated forms in the urban landscape characterising the housing built in these cities. This concentration of promoters is reinforced by the characteristics of the Land Law, and because of the difficulties in urbanising land and in getting building permissions. However, it is also due to the financing needs and to the skills required to build multi-storey buildings, which is the normal way of residence for most citizens. The peripheries of the greatest Spanish cities are the few urban peripheries in Europe characterised by a landscape of multi-storey buildings and a small proportion of one-family houses. Most of these

**Figure 8.3** Evolution of the housing prices in Spain and Madrid, 1987-2002, (euro/m<sup>2</sup>)

Source: Ministry of Fomento: tasaciones

houses are sold during the process of building, in order to lower the financial costs to the promoters, who try to circulate their capital as quickly as possible in a business where investment requires large amounts of money, and which can take a long period to collect the profits.

The Spanish housing market in relation to the rest of Europe is characterised at the end of the 20<sup>th</sup> century by significant activity, with a high volume of new housing construction, a great increase in house prices, a high proportion of secondary housing, and a limited public intervention (Figure 8.2). Some of these variables seem to be contradictory, but they are the result of a set of combined variables such as the high need to expand the existing stock, and significant change in the financial market with decreasing rates of interest and increasingly lengthy mortgage durations.

The recent change to the euro also has had an impact in this housing market. On one hand the monetary union has brought some stability in terms of the financial future, providing a basis for longer mortgage loans. On the other hand, the change to the euro has resulted in the 'floating' of black money, with real estate being a good way to do this, because of the ease with which prices lower than the market value prices can be declared. These two consequences of the Euro improve the demand and increase the production of new houses, but also increase the prices because the resources to pay for new houses are available.

This market is also characterised by a high proportion of the demand being for new built houses rather than second hand houses. It is difficult to establish the proportion between these two groups but a recent survey in Madrid (October 2002) shows that the market for new housing could be wider than



**Table 8.7** Recent trends in the effort to buy a house at an average price in Madrid, 1990-2002

	Housing price in €	Annual gross salary in €	Year/salary	Average mort- gage interest	Rending delay	Yearly effort <sup>1)</sup>
1990	878	7,290	10,8	16.7	10	184,2
1991	1,051	7,819	12,1	15.2	11	186,5
1992	1,008	8,486	10,7	15.4	12	160,6
1993	1,025	8,907	10,4	11.7	13	127,3
1994	1,027	8,907	10,4	10.3	14	114,3
1995	1,086	9,538	10,2	11.0	15	114,3
1996	1,097	9,893	10	8.2	17	88,5
1997	1,090	10,319	9,5	6.3	19	69,5
1998	1,106	10,674	9,3	5.6	20	63,1
1999	1,191	10,963	9,8	6.7	20	61,3
2000	1,365	11,311	10,9	5.8	20	74,3
2001	1,628	11,315	13	5.8	20	88,6
2002	1,868	11,321	14,8	5.3	20	97,8

1) The effort is evaluated by the proportion of the salary needed to pay the mortgage every year. The total amount of the mortgage is the 80% of the average price of housing in Madrid for each year. Price is for a 90 m<sup>2</sup> house. Salary is the average gross salary for one person in the industry and services in Madrid each year.

Sources: Price: Ministry of Fomento. Salary: National Statistics Institute. Interest and Delay in payment: BBVA Situación Inmobiliaria July 2002

that for second hand housing. This is important because the Spanish land laws improve the concentration of capitals and promoters, reducing the real competence between them. In these periods of high activity, prices grow not only because of a greater demand, but also because there is a high value placed on the new housing market with lower competition and higher prices (Figure 8.3).

The other important characteristic is the low public intervention. The proportion of Spanish public investment in housing is 0,8% of GDP and at least two tiers of this investment is in tax relief, with a negative impact on housing prices and a regressive influence in its distribution in relation with household incomes, encouraging high rent households to buy a new home. It means that public housing policy has a low capacity to influence the private housing market, or to control prices and production.

The rented housing market was also affected by the increase in immigrants at the end of the nineties, producing an increase in rent values in some of the major cities (Madrid, Barcelona and Valencia) and in the Mediterranean coastal areas where there is a high concentration. Immigrants are reluctant to become home owners until they have circumstances which enable them to remain in the country, and until they have a more stable working condition. So the big immigrant flux resulted in a greater demand for rented housing

and in consequence an increase of prices, influencing also the alternative prices of home ownership.

But overall the change in the financial market has produced a considerable increase in the demand of houses for sale. The real interest rates are, at the beginning of the new century, slightly above the increase in the cost of living (an inflation rate of 3,9% in 2002 and an interest rate around 5%, only one point over inflation), and mortgage durations have increased from the average ten years in 1991 to twenty years or more in 2001. The result is that the monthly payment has been reduced in contradistinction to the strong increase in real estate prices as is shown in Table 8.7.

The consequence of this change is clear; people are now much more dependent on the mortgage payment which can change as interest rates change. Most buyers who take mortgage loans at a low interest and with a low effort (Table 8.8) do not evaluate the consequence of a future increase in interest rates, they only consider whether they can afford their current monthly payment given their income. It implies a high risk. If economic conditions change in Europe and oblige the authorities to increase the interest rate, many of the buyers will become insolvent. This change is not considered in the short run and longer term potential rate increases are difficult to forecast.

## **8.8 When ownership is the only way to get a home**

Buying a home becomes a necessary practice when rented housing is scarce or inappropriate in terms of price or condition. But buying a home means taking a greater risk given a labour market characterised by temporary and precarious working contracts. When the economic cycle changes or a contract ends, a not infrequent outcome is the loss of the home, where the family savings are located. Every month many households are evicted from their homes because of unpaid mortgage loans or because the guarantees were implemented. The process is often similar: a new household buys a home and pays some proportion as a deposit (usually at least 20%), one of the couple has a regular, stable employment, whereas the other has temporary work. But in the case where the stable salary is lost due to unemployment, the household is forced to make do with the irregular earnings of the other person until they are lost as well, and at this moment the only income is the subsidy for unemployment for one of the couple, which is not enough to meet the payments. In addition, there is an increasing burden of interest due to mounting debt, all of which can end in the loss of the home. Often the enlarged family help the household and the evicted household is lodged in their parental home

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**Table 8.8 Proportion of young people with temporary contracts in relation to independent living in 1995**

Age	Living independently	Living in parent's home	Total
16-19	59.9	86.3	86
20-24	68.6	74.5	74
25-29	46.5	54.9	51.8
30-34	31.5	39.8	34
35-39	23.2	30.5	24.3
<b>Total</b>	<b>32.2</b>	<b>61.3</b>	<b>47.1</b>

Source: Explotación propia de la Encuesta de Población Activa, INE

until they get a new job, which can allow them to begin again the process of become home owners.

The banks require the purchaser to sign an insurance policy before signing the contracts for mortgage loans, but the cost of the insurance increases the cost of mortgage and access to a privately owned home becomes more expensive. This insurance prevents the loss of the home only when there are cases of severe health problems or when one of the couple dies, but does not cover cases of unemployment.

Among the conditions for the new social housing established by the Spanish government (Housing Plan 2002-2005) was the possibility of allowing the delay of the mortgage payments for one year in cases where people lost their employment. This measure has been contested by the financial system because it is an added constraint. However, the existence of this measure gives us an idea of the potential problem of becoming a home owner in a society where this is almost the only option available to people.

While the normal process for young people is to get a job and soon after to get a home and live independently, we should consider the high proportion of young people working and living at the parental home. In 1995 among young people (16-29 years old), 41.8% of the men and 30.4% of the women working were living at their parents' home. Therefore, in Spain it is not enough to have a job in order to have a home. Among the 30-34 years old people living with their parents, 59.3% have a job; nevertheless, the proportion of workers of this age living independently is a little higher and stands on 62.5%. However, the gap between these figures is not enough to establish a direct relation between getting a job and having a home, and other reasons also contribute. Indeed having a job may be necessary but is not a sufficient condition to acquire a home.

The reason of this disparity between the position in the work market and getting a home is to be found in the types of job contracts. In the first half of the nineties the proportion of temporary contracts jumped to 74% for the 20-24 years old group, 51% for 25-29 and 34% for 30-34%. The distribution of this type of contract between the emancipated young people and those living with their parents is significant.

Table 8.8 shows the difference between people working on temporary contracts and living independently or in the parental home. There we can see the

effects of the type of contracts over the process of becoming independent. Having a job is not enough for living independently; some continuity is required in monthly earnings to pay the mortgage loan or the rent, and most young people working with a temporary contract do not have this continuity.

## 8.9 Judicial security of home tenure

Spain is one of few countries whose Constitution recognises the right to housing. According to Article 47: "All Spanish citizens have the right to enjoy a decent and adequate home. The public powers will foster the needed conditions and will establish the required norms to make this right come true, regulating land use according to the public interest with the goal of hampering speculation."

In spite of what is established in the Constitution, there is no law that requires public powers to relocate those persons who are dispossessed from their homes due to the action of the justice system. However, when this dispossession occurs and it is not due to the actions of the inhabitants of the dwelling, they are usually reimbursed or relocated.

The fact that, through a judicial order, a person can be expelled from his or her habitual home can have many causes. Depending on those causes, judicial proceedings can also be very different from one another. Thus, we cannot provide an exhaustive explanation of each of the causes that are the origin of a judicial proceeding that might end in eviction. If we wanted to do so, we would need to at least quote textually the Civil Code, the Urban Rental Agreements Law, and the Mortgage Law, since we should not forget that a conviction can be tied to an indemnization for damages and grievances.

The issue of security relies mostly on the Mortgage Law, since the majority of the evictions are a result of unpaid mortgages. The worse part of these evictions is that many times they result in the loss of the money that was already invested in the home. The Mortgage Act dates from February 8 of 1946, and the foreclosure proceedings are mainly laid down in Articles 128 to 132, and especially in Article 131. This Law has been revised several times, and most recently in 1992. This Decree alters the mortgage regulations with regard to extrajudicial or notarial mortgage foreclosures (as opposed to judicial proceedings).

In Spain, the majority of evictions are due to unpaid mortgages. The mortgage is a right of the housing unit, that does not become the property of the debtor until fully paid and, as with any other guarantee right, assures that

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the obligation (loan) is met. When this does not happens, the mortgagee may require that the due mortgage payments are made by selling the mortgaged property. The right of credits also gives the creditor the right to demand the debtor the fulfilment of his or her obligation, and, in cases where this does not happen, to ask him or her to cover the financial losses.

The notarial foreclosure proceedings changed as a consequence of Royal Decree of 1992, which altered the mortgage regulations with regard to extra-judicial or notarial mortgage foreclosures. Regulations now take a variety of forms. The new notarial mortgage foreclosure proceedings contain improvements in the regulations which make them more attractive. However, the notarial foreclosure proceedings, as well as some variants of them, have practical disadvantages and are of no interest since they are not used in practice.

The judicial summary proceedings are the ones which are usually used for non-payment of a mortgage, through a written application presented to the court. The exact amount claimed from the debtor (capital, interest, interests on arrears and court costs agreed when the mortgage is created) is specified as a lump sum. The claim for this payment is demanded through the courts must be due, liquid and payable. There is no deadline for enforcing the mortgage (other than that it should be within the agreed duration of the mortgage).

The written application is accompanied by the executor deed, signed by the creditor, the debtor and the notary and then recorded at the Land Registry where mortgages are also registered. The notary indicates that the payment has been demanded from the debtor, providing a justification of the payment demanded. But in practice the demand for payment to the debtor is always judicial. When the judge considers the documents as valid, he/she starts the proceedings of the demand for payment.

Thirty days after having given notification of proceedings, the judge may be required to draw up the program for the three public auctions of the property and to publish it in an official gazette, and often in a private newspaper. The debtor is also notified. If the first public sale is unsuccessful, the second one starts at a lower price, and the third one starts without a price limit. Then the judge approves the public sale in favour of the person who becomes the buyer. The prosecuting creditor can also participate in the auction.

After the approval of the sale by auction, the buyer must pay the rest of the price after deducing the compulsory 20% paid as a deposit before the auction (only the prosecuting creditor does not have to make any deposit). The price obtained from the sale is used to pay the mortgagee who has applied to the

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court for the enforcement of the mortgage and the remaining balance is divided between the holders of charges subsequent to the mortgage (second charges), according to their ranking in the books of the Land Registry. Any remaining money is handed over to the previous owner. However, the price of the sold property is often below the normal market price, because there are groups organised to buy these houses cheaply (subasteros), and because people who buy these houses cannot visit them and they only know of the characteristics as described by the bank.

After the sentence, when the new proprietor of the house has paid the whole price, the judge will proceed to give the possession of the property to the new owner, and he will dispose of all the procedures needed to do that, calling the police if necessary. The expenses of this action are a charge on the person that refuses the execution of the sentence established by the court.

The Law does not take into account the fact that as a result of this judicial proceeding a family can become homeless. Nevertheless, there are social workers in some courts who try to solve the housing problem before the eviction of a family is executed.

In real life, the greatest guarantee of the property owner is the long delay the proceedings because they take on average two years from the submission of the petition by the mortgagee until they obtain the title deed needed for the allocation and eviction of the owner. Up to the auction, the owner can pay the amounts required and the expenses incurred by the lack of payment, and stop the possession process. Thereafter he cannot stop the process and will lose his house.

In Madrid, in 2001, 1,300 families lost their homes because they could not pay the mortgage or the rent. In most of the cases the Judge ordered the eviction because of the action of a bank or the owner of the rented home. People working in the offices of the judges indicate that often the conditions of the people who are evicted are extreme and include people who are handicapped or mentally ill and who become homeless because they have no shelter. Sometimes the social workers ask judges to delay the sentence in order to find a place for lodging the evicted people. Sometimes a family has the problem of not knowing an eviction process is under way. Recently, in Barcelona, an elderly family lost their home after leaving unpaid the last payment on a TV set. They were illiterate and did not pay attention to the communications sent by the Court. This is one of the most extreme situations ever faced.

The number of evictions can change from one year to other depending on a range of factors. In Madrid the number of evictions decreased at the end of

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the 1990s. One reason could be the reduction in interest rates applied to mortgage loans during the 1990s. But it could be also due to a change in the law. After the new law was introduced in 2001 (Ley de Enjuiciamiento), if the owner of the rented house pays the due money, the judge can stop the procedures. Before it was not like that and after the complaint the process could not stop, and the house was sold. The extent of evictions is also likely to be influenced by the support provided to unemployed people by the State and this is discussed briefly below.

## 8.10 Support for the unemployed

Historically, the extensive reliance on permanent contracts (and high severance payments) was the major protection against unemployment. More recently, as labour market flexibility became more widespread, the Spanish state has provided generous social security support to unemployed people, a position underlined by the 1984 Unemployment Protection Act. That Act provided for benefits to be paid for 24 months and replacement rates that only fell to 60% in the second year of unemployment. Further reforms introduced during the 1990s have tightened eligibility, including taxing benefits, but compared to some other European countries, the system of support for unemployed workers remains generous. Two further factors act to mitigate any financial problems that home owners face; the role of the family in welfare provision and the developed black economy that exists.

## 8.11 Conclusions

We can conclude that the increasing residential risk in Spain is the result of the confluence of three trends, which are important aspects of the Spanish residential model. For more than half a century this model has encouraged home ownership as a way of increasing governability in a period where there was weak political legitimacy. The consequence is a residential model with a large proportion of home owners and where it is especially difficult to rent. The high proportion of home ownership makes both residential mobility and the immigration process difficult.

A second difficulty is the demand by employers for more flexibility in the labour market which has an increasing proportion of insecure, badly paid jobs. These risks are in part off set by lengthening the duration of the mortgage (which reduces the monthly payment) and the possible changes (reductions) in rates of interest over the long run. Nevertheless, above average unemployment in Spain and the high proportion of precarious jobs constitute

a real (and demonstrated) risk to home owners in the form of their inability to meet mortgage payments on a continuous basis.

A third difficulty considered here is the contradiction between the condition of the housing market itself, with rising property prices and improving financial conditions and the growth of uncertainty with respect to the availability and cost of other forms of housing.

The effects of the current housing system relate not only to home owners and the risk of unsustainable ownership and eviction but also affect other groups in other ways. For example, amongst immigrants who constitute a major demand group for rented housing, one consequence of the lack of rental accommodation is significant overcrowding of the homes they occupy. The other group strongly affected by this reliance on home ownership model is young people searching for a job and an independent home from their parents. Entering the housing market become more difficult because of the high prices in relation to income.

The high proportion of home ownership also affects considerably the mobility of the working force. Unemployment rates can change significantly from one region to the next, but the difficulties (costs) of moving and the differences in prices (both to rent and own) between the regions can be so high that people are discouraged to search for a job outside their current place of residence.

The effects of the new housing policy are still difficult to forecast, the tendency in the last years cannot easily be changed to increase the amount of rented homes. But the variation between regions and cities is still big. Nevertheless, the real effectiveness of the new measures employed by public policies to increase the offer of rented housing is still not evaluated, and some strong factors still have a great impact on the potential landowners. One of these is the delay in the legal process to evict people who do not pay the rents or the mortgage.

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# 9 United Kingdom

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## 9.1 Introduction

Over the course of the post-war period in the United Kingdom, the home ownership sector grew in both absolute and relative terms. In 1959 home ownership accounted for 29% of the stock, and by 1999 for 68%. Many factors contributed to this growth including a strong and positive ideology whereby home ownership conferred independence, security, achievement, status and a sound investment. Further, owner occupation was subsidised through tax relief (MTR); credit while controlled was available at negative rates of interest; and periods of high inflation led to real gains in terms of housing wealth. While the housing market had a cyclical nature, this was about 'lags' and 'leads' and rarely about loss. A key contributor to the growth of owner occupation was the early post-war growth of full and secure employment and over the whole of the period, real average incomes have grown. A final key contributor was the introduction in 1948 of a state safety-net for mortgagors who lost all income whereby mortgage interest was paid to home owning claimants in receipt of subsistence benefits.

Against this background, there have been some key changes in the 1980s and 1990s. Indeed, every element in this structure (whereby housing, social security and the labour market reinforced each other to sustain home ownership) has been fundamentally modified. The purpose of this paper is to identify what these major changes are. A subsequent task is to explore and understand the key influences on them.

Major driving forces behind this restructuring are global and other macro pressures, 'a new phase in world history in which cross border flows in goods and service, investment, finance and technology [create] a seamless world market where the law of one price will prevail' (Weiss, 1998, p.167). Global processes, which touch all aspects of society, are more longstanding than the 1980s but it is only since then that their impact has been so apparent. Some of the key dimensions of these changes were discussed in Chapter 1, at a general level (the restructuring of mortgage markets, rising and unpredictable unemployment etc.) and this chapter explores their impact with respect to home ownership within the UK.

Roughly one hundred years ago, the major form of housing provision was private rented housing. Home ownership grew steadily, but not evenly, and indeed there have been periods of rapid growth, to a position of now being

the majority housing provision. Politically, housing policy has increasingly promoted home ownership. However, financial pressures on the state to curtail public spending (often presented as a shift to the advantages of the market) has resulted in the introduction of policies to curtail state support to mortgagors. This has occurred in the context of a labour market that is characterised by both re-structuring and pronounced cyclical swings. These have changed the nature and distribution of employment opportunities, the terms and conditions on which employment is held, and the level and incidence of unemployment and under-employment. The resulting implications for the housing market range from changes in attitudes to home ownership through to the forced exit of a substantial number of households from the sector. These changes have also focussed attention on how ‘sustainable’ home ownership can be achieved.

This chapter focusses on the UK, but it is important to note that many aspects of government are, since 2000, devolved. Housing is a devolved responsibility, although to a greater extent in Scotland and Northern Ireland than in Wales. There are also historically distinct patterns of housing provision in the different UK countries, not least the lower level of owner occupation in Scotland. Another key difference is the separate legal system in Scotland which has implications for aspects of housing such as eviction and homelessness rights. Policy towards state support with housing costs and other aspects of social security are not however devolved responsibilities.

This chapter starts by considering structural and policy change with respect to owner occupation since the early 1980s and the changing policies towards support for home ownership, through the tax system and the social security system. The nature of labour market change is then explored. The second section looks at some of the market outcomes that have resulted for individuals and households. The third section examines a number of behavioural changes that are now visible in response to rising risk.

## 9.2 Structural changes

### Recent growth in home ownership

Table 9.1 below shows that currently 67.3% of all households own their own home (roughly 16 million households). Of this 16 million, almost 11 million are in the process of buying their home using a mortgage loan as shown in Table 9.2. The majority of these households are working households. By contrast, ‘outright’ owners tend to be older, typically retired from the labour market and often pensioners. The rapid growth in mortgaged households is also clear from Table 9.2 with mortgagors increasing by approximately 75% in

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between 1980 and 1998. One key influence on the growth in mortgagor households is demographic change, particularly household growth, but other factors are also significant.

### Public policy towards home ownership

Public policy has assisted the expansion of home ownership. In particular, there has been Government support for the expansion of owner occupation through policies designed to assist the entry of lower income households into the sector, principally through the implementation of Right-to Buy, which was introduced in 1979. This policy provided for discounted sales to tenants of local authority housing (public sector/state housing) when they purchased their current home. Since 1979, more than 1.8 million former tenant households have become home owners through the Right-to-Buy. Entrants via this route were highest in 1989 when 196,000 households entered under the scheme (23% of all mortgages granted in that year). More recently the numbers able or willing to purchase in this way have fallen and in 1998, there were 87,000 entrants, 8% of all mortgages granted in that year.

There are also other schemes to encourage low-income home ownership. Recent years have seen the implementations of:

- do-it-yourself shared ownership;
- tenants incentive scheme;
- elderly shared ownership;
- shared ownership;
- homebuy (Introduced in 1998 in Wales and 1999 in England, purchasers are provided with an interest free equity loan up to 25% value of the property. It is repaid on the sale of the property, including a proportion of any increased value).

Research indicates that the impact of these policies is to facilitate entry to home ownership for those who would find open market entry more difficult. One consequence for the structure of home ownership has been the growth in low-income home owners. Half of those defined as poor are now home owners (Burrows and Wilcox, 2000).

A series of actual and potential disadvantages associated with these policies have also been noted. Right-to-Buy has removed a substantial amount of the better quality property from the public rental sector. Due to the restrictions on re-investing the proceeds of such sales in new property for rent, the stock of public housing has also fallen. The schemes which involve aiding tenants

**Table 9.1 Households by tenure in the UK (in %)**

	1981	1997
Owner occupation	56.4	67.3
Private renting	11.1	10.4
Housing associations	2.2	4.8
Local authority	30.3	17.4

100.0 100.0

Source: Survey of English Housing

**Table 9.2 Number of households buying with a mortgage**

1980	1999
6,210,000	10,981,000

Source: CML 1999

into home ownership by them moving out of a rented property and buying in the open market has freed up property for those in need, but has also taken out of the social rental sectors a substantial proportion of households in employment. There are fears that this has contributed to an increase in the concentration of unemployed households within the social housing sector and so to social polarisation by tenure.

The additional impetus given to home ownership in the 1980s by many of the developments outlined above increased demand against a relatively inelastic supply. House price inflation ensued, further fuelled by potential buyers' belief that they needed to access the property ladder before they were squeezed out. The amount borrowed in relation to income and the value of the property increased. While these figures have moderated since, the costs of housing relative to income and price were higher than they had been two decades earlier.

Policies to expand home ownership have their roots in both electoral politics and ideological commitments to reducing the role of the local state and the elevation of market mechanisms and individual responsibility. In practice, these concerns were translated into a set of initiatives that were solely 'entry oriented', designed to deal with issues of affordability, so converting the known potential demand for home ownership to an actual demand by ensuring the necessary access to credit and/or discounts. But the same ideological rationale can also be seen in a rise in the costs of home ownership as a result of the successive reductions and final abolition of the historically subsidy to owner occupation in the form of tax relief on mortgage interest (MITR). This subsidy was reduced, first by capping the amount of interest eligible for tax relief and second by a progressive reduction in the percentage rate at which tax relief was given until its complete withdrawal in April 2000.

In contrast to these developments issues relating to 'sustainable' owner occupation have been absent for the housing agenda until relatively recently, yet the unsustainability of a growing proportion of owner occupation has become increasingly clear (see below). Other, historical differences in the treatment of the housing costs of owner occupiers and renters, however, remain in so far as there is no means-tested housing allowance for in-work owners comparable to that available to tenants. All tenures receive out of work housing support as discussed further below.

### **Re-structuring of the mortgage market**

The growth of home ownership was encouraged by the easier availability of, and access to, credit. In the early 1980s, mortgage credit was relatively limited, and often rationed, structured by the operation of a cartel. The de-regula-

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tion of credit in 1986 with the passing of the Financial Services Act resulted in the expansion of the market and the entry of a greater number of providers. Market conditions became more competitive allowing pent-up demand to be realised, and this, along with the more vigorous marketing of credit led to a relaxation in the terms and conditions of lending.

There has also been structural change in the provision of mortgage finance. Traditionally in the UK mortgage credit was provided through the building societies, specialised mutual institutions, of which there were over two hundred in the early 1980s. The late 1980s and 1990s in particular have been characterised by take-overs and mergers, the conversion of mutual organisations to PLC status, and the emergence of bank-assurance organisations offering a wide range of financial products. Currently there are just over one hundred mortgage lending institutions, the majority of the larger ones are public companies and in addition, foreign companies have a stake in the UK mortgage market.

There is also a trend to the re-structuring of mortgage products. Traditionally, mortgages were structured as capital and interest products whereby the debt reduced during the life of the mortgage. The 1980s saw the growth of products with alternative structures, principally investment-based products whereby the investment vehicle (an insurance or equities) was used to provide the capital repayment at the end of the loan period. In the interim, only interest on the capital borrowed was charged. Some concern has been raised about a number of these investment-based products (particularly endowment products) and there are claims that they were mis-sold. A number of lenders have withdrawn them from the market. However, the retreat from these products is not as significant as it should be (given the evidence concerning their performance) and reflects the financial advantages to those who sell them. More significantly, there is a trend to loosen the terms and conditions of all mortgages removing tie-in penalties, calculating mortgage interest at frequent intervals, allowing over payments etc. This has culminated in the concept of a 'flexible' mortgage, which at the most innovative end combines all personal financial services together in a current account mortgage, (current account, overdraft, unsecured loan, mortgage) which once established fails to distinguish between monies/debts for different purposes.

There have also been changes in the mortgage distribution channels. Currently, approximately half of all mortgages are sold through intermediaries rather than through direct access channels, and this is a growing trend, which allows lending organisations to expand without requiring additional investment in infrastructure. Fourteen thousand intermediary firms are registered to sell mortgages (see Section 4), amounting to a substantially larger

**Table 9.3 Composition of employment in Britain in 1981, 1991, 1996, 2001 and 2006 (in %)**

	1981	1991	1996	2001	2006
Full-time employees	71.8	64.2	62.7	60.9	59.1
Part-time employees	19.0	22.7	24.5	26.5	28.6
Self-employed	9.2	13.1	12.8	12.6	12.3
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

number of individuals. Intermediaries selling mortgages are either fully independent, able to offer a customer the choice of any mortgage in the market; panel based whereby they offer choice but across a panel of mortgage providers but not the whole market; or tied, and so able to offer the products from only one lender. The trend to panel based intermediaries is also a growing one. The implication of this is that consumer choice is likely to become more rather than less restricted. Intermediaries either charge a fee to the consumer, or more typically receive commission from the mortgage/insurance provider for each sale. These can be substantial with the suggestion that the commission per endowment mortgage arranged is in the order of £1,000.

### **Labour market restructuring and the impact on home ownership**

The owner occupier market, requiring at least two thirds of all households to have access to secure, long term, employment and 'adequate' remuneration, has matured during a period of labour market re-structuring that involves a reduction in the number of secure, full time jobs, an increase in part-time employment and other forms of 'flexible' employment, developing income polarisation, higher rates of labour turnover, and routinely higher levels of unemployment. Estimates suggest that over the period 1981-2001 the labour market will in all probability have lost 2.1 million full-time jobs and gained an additional 2.8 million part-time jobs. Self-employment is likely to reach 3.7 million by 2001 an increase of 1.6 million on the number in 1981 (Wilson and Webb, 1995). Part-time self employment has grown particularly rapidly. Table 9.3 summarises the main trends.

Temporary jobs were relatively static in number in the early 1990s at around 1.1 million, or 5% of employees. Such jobs are now growing and currently there are around 1.5 million temporary workers comprising about 7% of the workforce (LFS, 1995). New forms of employment contract are also developing such as zero hours contracts or annualised hours contracts and estimates indicate that one in 20 employed men and one in 18 employed women now have such contracts. In addition to this on-going restructuring process, the UK has experienced two recessionary periods since 1980. Unemployment reached 11.1% in 1986 (3.1 million), before falling to 5.8% in 1990. It rose again to 10.3 in 1993, before turning down, and in May 1999, unemployment had fallen to around 1 million. Key changes in the definition of officially recorded unemployment have also contributed to these reductions. Estimates of the 'real' level of unemployment are double that of Government and in excess of



that available from the alternative LFS measure (Green and Owen, 1998; Beatty and Fothergill, 1998).

In general, job duration is falling, although slowly, and labour turnover rising. Gregg and Wadsworth (1995), for example, using data from the Labour Force Survey indicate a 14% reduction in median job tenure for employees between 1975 and 1992. Disaggregated data indicate that the decline in tenure is associated with male rather than female employment. While job durations amongst women are currently shorter than amongst men, they are rising. Not unexpectedly, job duration varies by type of employment. In 1992, permanent part-time employment and full time self employment had average durations just over half of that relating to full time permanent employment (6.2 years). Temporary employment and part-time self employment each had durations of around a tenth of full-time permanent jobs. All part time job durations have fallen since the start of the 1980s, but it is amongst the part-time self employed that the fall is most pronounced. However, there is a wide dispersion around the average job durations and this is particularly the case with respect to full time permanent employment.

Linking the above with the earlier evidence on the proportionate changes in different kinds of labour market opportunities indicates that employment growth is concentrated amongst the shorter duration opportunities. As a result, the trend is towards a higher proportion of less secure labour market opportunities than was previously the case, and hence, a growing proportion of households face less secure employment. This trend is particularly clear when based on an examination of 'new' jobs in the labour market rather than the stock of jobs. Here, between 1992/3 and 1995/6, while 59% of vacancies were permanent, fewer than 10% were for full time jobs (TUC, 1996). This compares with the stock of jobs in 1992/3 where 60% of the jobs were full-time and permanent. Forty-one percent of 'new' jobs were temporary (compared to under 10% of the stock of jobs) although more than half was full-time. Compared to the current stock of jobs where around a third are part-time, between 1992/3 and 1995/6, 65% of new jobs were part-time (Gregg and Wadsworth, 1995; LFS, 1992-6).

In contrast to the general picture above, a key question then concerns the allocation of labour market opportunities by tenure and the extent to which home owners are, or are likely to be, vulnerable to less secure employment. In one sense, to the extent that the trends continue, mortgagors will be increasingly drawn in, partly because they form a majority of all households, and partly because they have higher labour force participation rates than tenants (Hogarth et al., 1995) and lower exposure to unemployment. Table 9.4 presents data from the Labour Force Survey for Winter 1997/Spring 1998 which

**Table 9.4 Employment status of heads of households in, or seeking employment by tenure (winter 1997/1998) (in %)**

	<b>Mortgagor heads of households</b>	<b>Renter heads of households</b>	<b>All<sup>1)</sup> heads of households</b>
Full-time permanent employee	76	51	67
Part-time permanent employee	3	12	6
Full-time self-employed	14	11	14
Part-time self-employed	1	5	2
Full-time temporary employee	3	2	3
Part-time temporary employee	1	1	1
Trainee or unpaid family worker	-	-	1
Unemployed	2	18	6
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1) In addition to mortgagors and renters this figure includes outright owners, shared owners, those living rent free and squatting.

Source: Labour Force Survey Winter (Dec1997-Feb 1998)

indicates that more than one in five of mortgagor households has a flexible form of employment with a further 2% unemployed. Just under a quarter of home owners have some exposure to labour market risks, equating to about 2.5 million home owners.

Table 9.4 shows that the risk of self-employment is already particularly clear. As noted above, its average duration is relatively low. Further, mortgagor, self employed heads of household are also over represented in the lower income deciles. By 1992/3, amongst households with below half of average income (before housing costs) there were 690,000 mortgagor households headed by a self employed person, approaching a quarter of all self employed households. The absolute numbers have increased by 510,000 since 1979 as a result of threshold, size and risk effects (DSS, 1995).

A key change in home ownership over the last two decades has been the increasing number of mortgaged households that require two earners in order to meet the payments. This though increases the risk to home ownership from the labour market as there is evidence that second earners in mortgaged households are at even greater risk than heads of households. Table 9.5 indicates the extent to which any household earner experienced employment stability or employment change over two periods (1991-1994 and 1995-1998). Using this measure, there are more owner occupiers 'at risk'. Table 9.5 also makes it clear that exit from the tenure is more likely where there has been employment disruption than where there is employment stability.

#### **Home owners and unemployment**

Mortgagors have historically had very low levels of unemployment and this

**Table 9.5 Employment continuity and change for all heads of mortgagor households and their partners (if any) (1991-1994 and 1995-1998) and tenure at end date (1994, 1998)**

	1991-1994 All heads of household and their partners (if any) with a mortgage in 1991		1995-1998 All heads of household and their partners (if any) with a mortgage in 1995	
	1991	% not in owner occupation in 1994	1995	% not in owner occupation in 1998
Employed in all 4 years	55.1	2.3	59.2	1.6
Employed in 3 of 4 years	10.1	8.0	9.7	4.9
Self-employed in all 4 years	6.5	1.8	6.8	2.7
Self-employed in 3 of 4 years	2.1	5.5	2.0	10.4
Unemployed in all 4 years	0.3	33.3	0.1	0.0
Unemployed in 3 of 4 years	0.6	14.3	0.4	25.0
Other in all 4 years <sup>1</sup>	10.2	9.4	10.9	3.5
Other in 3 of 4 years <sup>1</sup>	4.9	14.1	3.3	8.1
More complex sequences	10.3	8.4	7.7	8.6
<b>Totals</b>	<b>100.0</b>	<b>5.0</b>	<b>100.0</b>	<b>3.2</b>

1) Includes: retired, keeping home, sick, otherwise unable to work

Source: BHPS: authors' analysis

remained the case at the end of the 1990s. Unemployment amongst mortgagors did grow during the 1980s, reaching 4% in 1993. It peaked in 1994 at 5%, and fell back to 3.9% in 1994/5 (SEH, 1994/5). The rise in unemployment was partly a result of a rising rate of unemployment amongst professional and other white collar workers, particularly in the early 1990s, but also due to much higher rates of unemployment amongst manual and routine white collar workers (see below), many of whom took mortgages and entered owner occupation during the 1980s.

In 1994/5, unemployment amongst mortgagors ranged from 2.6% amongst professional and managerial workers to 8.2% for unskilled workers (SEH 1994/5). These figures can be used in conjunction with the socio-economic distribution of mortgagors to indicate the numbers experiencing unemployment in each group.

Table 9.6 indicates that approaching 400,000 mortgagors in England experienced unemployment in 1994/5, potentially facing financial difficulties that would make it difficult for them to sustain their mortgage payments. Equally, given the evidence earlier, namely that increasingly unemployment is followed by re-employment in less secure jobs, which themselves carry the higher risks of unemployment, and in any case form a growing proportion of all jobs, these figures are likely to increase rather than decrease. The figures are also cross-sectional, and so over a period of time, even allowing for repeat

**Table 9.6 Risk to mortgagor heads of household of unemployment (1994/1995)<sup>1)</sup>**

Socio-economic group	Distribution of mortgagors	Unemployed (%)	Estimated number of mortgagors unemployed
Professional/managerial	37	2.6	102
Intermediate/junior non-manual	22	3.5	80
Skilled manual	21	4.6	99,6
Semi-skilled manual	8	5.9	50,2
Unskilled manual	2	8.2	17,2
Other	10	4.7	49

1) Figures are rounded to the nearest 100. In 1995, mortgagors totalled 10.5 million

Source: Survey of English Housing, 1994/1995

**Table 9.7 Full-time employees with gross weekly earnings below the Council of Europe's decency threshold (£239.16 per week in 1996) (millions)**

	1982	1988	1991	1992	1993	1994	1996
Women	2.75	2.91	2.92	2.80	2.72	2.71	2.73
Men	1.83	2.77	2.81	2.97	2.73	2.76	2.88
<b>All</b>	<b>4.58</b>	<b>5.68</b>	<b>5.72</b>	<b>5.77</b>	<b>5.45</b>	<b>5.47</b>	<b>5.61</b>

Source: Derived from the New Earnings Survey by the Low Pay Unit

unemployment, the number of mortgagors at risk will be considerably higher. Further, these figures make no allowance for unemployment amongst partners in dual earner households. Since 1995, unemployment has fallen in the UK. However, the risk of unemployment still remains significant and subject to a social class gradient.

### ***The growth of low paid employment***

Since 1980, the overall trend in real average incomes has been upwards. Despite this, there is growing evidence of income polarisation (Hills, 1995). The divisions are not only between those in work and those solely reliant on social assistance benefits (Income Support), but also amongst those in work. An increasing number of employees are in low paid employment. The extent of full-time low pay is shown in Table 9.7.

By 1995, over a third of full time employees received less than the gross £6.03 per hour threshold, and in total (full time and pro-rata part time) there were almost ten million low paid workers. In April 1996, approaching one in five of all full time workers earned no more than £3.99 an hour as did three quarters

of part-time workers (New Earnings Survey 1994). Low pay was proportionally more prevalent in the private sector and in part-time jobs (and therefore amongst women), that is, in those sectors of the labour market projected to increase in coming years (Wilcox, 1997).

In principle, the growth of low and lower paid workers has a number of implications for the housing market, both in relation to entry affordability but also then in relation to the sustainability of monthly mortgage payments, either as a result of upwards variability in post entry housing costs or downward pressures on earnings.

While the threat to mortgagors from low paid employment is, in principle clear, some estimate of the number of mortgagors in this position is required. Figures from the 1995 Family Expenditure Survey show 1.12 million home buyers with gross annual incomes of no more than £234 per week. This encompasses the four lower income deciles. Of these, 499,000 mortgagors were in receipt of Income Support and so not in employment. This indicates around 600,000 mortgagor households with incomes from employment well below the Council of Europe low pay threshold.

While these figures are only indicative, low pay is clearly a potential difficulty for a sizeable sector in the housing market. While the extent of individual home owner vulnerability to rising costs will vary, depending on the proportion of income devoted to mortgage costs, lower income borrowers in general already have a higher percentage of income committed to housing than do those with higher incomes, with those in the lowest and second lowest quintiles expending 38 and 20% of income respectively on their mortgages compared to 10% of borrowers in the highest quintile (FES, 1994).

The low pay characteristics of the UK labour market impact on the housing market in a number of different ways. First, it constrains the public policy objectives of wider entry. Second, prior to the mid 1990s and the advent of low inflation low pay (and the associated lack of disposable income) made it more difficult for home owners to manage the variable costs of mortgage finance. Third, there is evidence that re-employment following unemployment is sometimes at lower pay (Buck et al., 1994; Ford et al., 1995; White and Forth, 1999) thus previously better paid mortgagors become low paid mortgagors whilst their housing commitments may remain unchanged. Burrows and Wilcox (2000), for example, suggest that more home owners become poor during the course of home ownership than start poor.

### **The re-structuring of social protection provision**

The broadening of the socio-economic characteristics of home owners and

the growth of more flexible employment opportunities were also accompanied by the re-structuring of social protection for owner occupiers.

***Public and private support for mortgage costs***

Prior to 1987, mortgagors in receipt of subsistence benefits were able to have their full mortgage interest payments met, subject to a number of eligibility criteria. This payment was called Income Support Mortgage Interest (ISMI). In 1987, legislation first restricted ISMI. There were further restrictions introduced in 1995, which are still in force. Those on subsistence benefits (either Income Support or Job Seekers Allowance) and who took their mortgage prior to October 1995 now receive:

- no support for eight weeks;
- up to 50% of eligible interest for the following 18 weeks;
- full eligible interest thereafter.

For borrowers taking mortgages after October 1995 (including re-mortgages) there is:

- no support for the first 39 weeks of a claim;
- full eligible interest thereafter.

Both of these conditions were modified with respect to those over 60 years of age.

Other changes introduced in 1995 included: a £100,000 ceiling on eligible interest; interest payments subjected to a 'standard' rate of interest and; claims treated as 'linked' and so not requiring a nine month re-qualification period, provided the second ISMI claim occurred within weeks of the termination of the first claim.

The number of borrowers in receipt of ISMI has fallen since a peak of 555,000 in 1993 and to 329,000 in September 1998. The overall costs of ISMI also peaked in 1993. The amount of the weekly benefit to claimants is affected by the level of interest rates and the eligibility criteria applied, most notably the 50% payment introduced in 1987 for the first 16 weeks of a claim. The restrictions to eligible interest have resulted in a situation where by a substantial proportion of those waiting for the benefit develop mortgage default. The failure to meet full payments once the benefit is paid results in half of all those receiving state help experiencing mortgage default.

***Private safety-net provision for mortgagors (Mortgage Payments Protection Insurance)***

These changes to ISMI introduced in October 1995, were accompanied by a clear shift in policy towards safety-net provision whereby mortgagors were expected to provide cover against unemployment, sickness and accident in the private insurance market (Mortgage Payment Protection Insurance-MPPI),

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at least in the first instance. This policy was confirmed again with the publication of both *A New Contract for Welfare* (DSS, 1997) and the Housing Green Paper *Quality and Choice for All* (DETR, 2000). Key influences were the policy to reduce public sector expenditure on housing benefits, the policy to re-structure welfare provision and the belief that the continuation of ISMI was impeding the development of MPPI.

The market for private mortgage payments protection insurance dates back to the 1970s, although take-up was limited until the 1990s. There is no statutory requirement to take out private insurance. Policies typically offer cover for mortgage and related costs (endowment premia, MPPI premiums etc.), and can cover both the main breadwinner and a second earner for one or more of accident, sickness and unemployment. Borrowers insure for a particular sum of money (usually the monthly mortgage costs at the point of taking the policy). Policies typically pay out for up to twelve months following a two month deferral period. MPPI premiums have to be paid during the period of a claim. Following a claim there is usually a re-qualifying period of 12 months. The majority of MPPI policies are 'block' policies whereby all mortgagors with a particular lender are offered the same terms and conditions at the same price per £100 insured. Indeed, the lender or mortgage broker typically sells MPPI on behalf of the insurer. The direct market for MPPI is currently very small, but is predicted to grow. One implication of block policies is that the underwriting takes place at the point of a claim not at the point of sale.

As will be discussed later, the behavioural response of home owners to the re-structuring of the mortgage safety-net has been muted. Take-up of MPPI is only increasing slowly. Research shows that many borrowers think the insurance is costly, and they do not trust the private companies to meet any claim put to them. Further, the design of the 'partnership' is not such that private safety-net (MPPI) mirrors the provision previously offered by ISMI, increasing the vulnerability of some borrowers. Some clear advantages of MPPI (for example that it is available to anyone and not restricted to those on subsistence benefits) do not yet appear to outweigh the disadvantages.

### 9.3 Housing market outcomes

Following the re-structuring of the labour market and the system of social protection for mortgagors, the housing market has become more vulnerable to risk. The extension of home ownership to more marginal borrowers has magnified these risks, but it would be inappropriate to see the risk as confined to the margins. However, in considering the period 1980-2000, a distinction, in principle, has to be made between the difficulties that stemmed from

the coincidence of particular policies and economic circumstances in the late 1980s, and those that are more on-going and structural in nature. These latter processes were evident in the mid and late 1980s but cyclical processes (and policy responses) were superimposed to provide an extreme downturn in the housing market. One form of evidence that structural change has occurred (and is continuing) comes from the current levels of arrears, possessions and payment difficulties which while lower than at the height of the recessionary periods of the early and mid 1990s still exceed the levels seen in the early 1980s. This section explores a number of housing market outcomes that appear to be associated with changes in the labour market and social security provision. In many cases, these outcomes for the market are closely tied to the behavioural responses of individuals and households and to some extent the division between this and the next section is, for some of the issues considered, arbitrary.

### **Mortgage default and over-indebtedness**

In Britain, the availability of information on mortgage default and over indebtedness has been improving throughout the 1990s. There are three main sources/types of data:

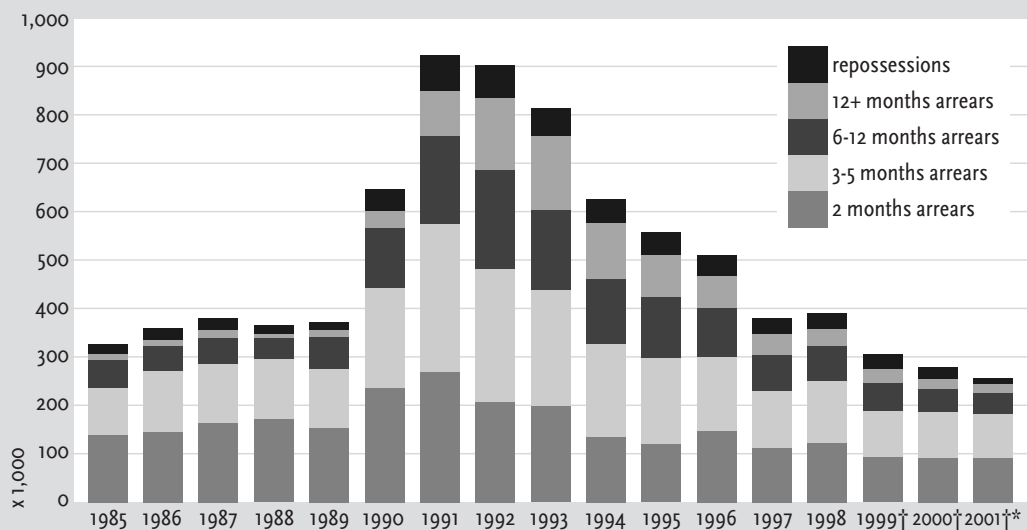
- routine household survey data such as that from the Survey of English Housing (since 1993) or the British Household Panel Survey (since 1991);
- administrative statistics from mortgage lenders via the Council of Mortgage Lenders (CML);
- data from ad hoc research studies, usually of mortgage borrowers.

The measurement of mortgage default (arrears) is dependent on both the definition of arrears and the source of the data. One major source of data, twice yearly administrative data from the CML, measures those borrowers owing three or more months arrears. The data are cross sectional. The figures are grossed up to provide a national estimate at a point in time. The number of lenders contributing to the CML survey has grown since the early 1990s, but lenders are not systematically sampled and the survey excludes smaller, often local lenders. There is no discussion of the possible impact of this, although with time the issue is of diminishing importance as many smaller lenders are merged with or taken over by larger lenders. Other limitations of the data are the inability to dis-aggregate by, for example, lender type or region.

The Survey of English Housing (SEH) measures arrears as any outstanding missed payments and the data come from borrowers. There is a series of recognised limitations associated with this approach. For example, borrowers may be unwilling to admit to arrears, may not know about any arrears, underestimate them, or believe that payments from DSS mean they are no

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**Figure 9.1 Mortgage arrears and repossessions in Britain, 1985-2001<sup>1)</sup>**

1) Data are also available on the causes of mortgage arrears, and confirm the importance of labour market factors in accounting for the emergence of mortgage default. Table 9.8 indicates that, for example, in 1998/9 61 per cent of those in arrears were so as a result of some change to their employment circumstances ranging from a complete loss of employment to a reduction in wages or the availability of overtime payments.

longer in arrears or that an arrangement to re-pay their lender means they are not in arrears. As a result, the proportion of borrowers in arrears (however defined) is lower than that reported by lenders. In an attempt to overcome these problems, the SEH asks people if, for example, they are receiving help from the state with their mortgage payments (see below); whether they can make up a shortfall on interest or meet capital payments due and whether they are making reduced payments to their lender.

Longitudinal data on the incidence and patterns of arrears are not routinely available but data from 1994 and 1995 indicated that over a period of time, the incidence of arrears is greater than at any one point in time. A proportion of borrowers move in and out of arrears repeatedly. Current data on the amounts owed in arrears are limited and where available should be treated cautiously as it is often based on borrowers' recall and estimation. Figure 9.1 indicates the number of households in mortgage default with varying months missed payments, or having their property taken into possession as reported by the Council of Mortgage Lenders.

Data are also available on the causes of mortgage arrears, and confirm the importance of labour market factors in accounting for the emergence of mortgage default. Table 9.8 indicates that, for example, in 1998/9 61% of those in arrears were so as a result of some change to their employment circumstances ranging from a complete loss of employment to a reduction in wages or the availability of overtime payments.

**Table 9.8 Reasons given for mortgage arrears in England in 1995/1996, 1996/1997, 1997/1998 and 1998/1999 (in %)<sup>1)</sup>**

Reason	1995/1996	1996/1997	1997/1998	1998/1999
Lost earnings through sickness/injury	12	10	16	19
Self-employed income reduced	22	28	20	16
Made redundant/unemployed	38	36	33	32
Lost overtime or reduced hours	11	7	9	8
Worked same hours for less pay	7	2	3	2
All loss of income	71	68	68	61
Spouse/partner left/died	14	15	17	23
Other contributor to mortgage left	6	6	2	4
Contributor became pregnant/new baby	8	8	6	5
All household changes	26	27	25	30
Increase in mortgage payments	14	11	15	24
Increase in other payments	17	14	15	18
All increase in expenditure	24	23	26	30
Other	18	14	17	16
<b>Total number of household</b>	<b>326,000</b>	<b>268,000</b>	<b>252,000</b>	<b>235,000</b>

<sup>1)</sup> Percentages add to more than 100 because some people gave more than one reason.

Source: Survey of English Housing 1995/1996, 1996/1997, 1997/1998 and 1998/1999

### Equity release and negative equity

House price inflation in the 1980s resulted in the rapid erosion of the value of housing debt and a market characterised by increasing equity. This led to the rapid withdrawal of such equity by many mortgagors, either as the basis for upward housing mobility or to fund other consumer expenditure. As withdrawal of equity then left many households vulnerable to a fall in prices which occurred during the housing market recession to a considerable degree and with some key geographical concentrations such as in London and the South-East of Britain. The consequence was a further slow down in transactions as borrowers could only move at a loss and by increasing their debt. The ability of the housing market to amplify the economic cycle was therefore clear.

By the late 1990s, the constraint of negative equity has practically disappeared from the housing market and most households are once again building equity in their properties. Evidence of a return to mortgagors seeking to withdraw equity from their properties has been slow to develop but in 2000, equity withdrawal is starting to grow again. Nevertheless, in the late 1990s equity withdrawal was below £1 billion in value compared to figures in excess of £10 billion in the late 1980s and early 1990s.

## 9.4 Behavioural responses

To the extent that structural changes characterise the labour market, housing market and the provision of social security, we might expect there to be some impact on housing market behaviour. As the incidence of risk increases (of unemployment, low wage work, volatile price changes etc.), borrowers and lenders will, potentially, re-assess the terms and conditions on which they borrow and lend. Mortgagors may re-assess the ways in which they manage their mortgages and there may be some re-assessment of the desirability of owner occupation, always recognising that these evaluations occur within a particular context of provision that will ease or constrain the opportunity to re-think home ownership.

Here we examine the evidence for a number of possible responses. First, the extent to which attitudes to home ownership have become more cautious since 1980 and second the evidence as to whether mortgagors have developed risk reduction strategies.

### Attitudes to home ownership

The British Social Attitudes Survey (BSAS) provides time series data on attitudes to tenure. The BSAS addresses this issue by asking people how they would advise a young couple with steady jobs about buying. Should they 'buy a home as soon as possible, wait a little or not buy at all'. This question might be thought rather crude, potentially reflecting a response solely to price. However, answers to this question have been found to correlate well with a composite score derived from attitudes to a number of attitudinal dimensions and so provides a good gauge of respondents' own attitudes to home ownership with those recommending purchases as soon as possible indicating the most positive attitudes to owner occupation (Ford and Burrows, 1999).

Table 9.9 indicates that positive attitudes towards owner occupation began to fall during the late 1980s, reaching a low point in 1996, although the proportion of respondents with positive attitudes has subsequently risen (Ford and Burrows, 1999). However, despite these increases, the level of commitment to owner occupation remained some 9 percentage points lower in 1999 than it was in 1989 (a comparable point in the economic cycle), despite a more favourable housing market.

Attitudes to owner occupation vary along a number of social-economic axes, including tenure, age, employment status, income, socio-economic class and region (Ford and Borrows, 1999). Not surprisingly, there is consistently less support for home ownership amongst tenants than amongst current home owners and analysis has shown that it is financial constraints that are a key

**Table 9.9 Attitudes to home ownership**

	1986	1989	1990	1991	1996	1997	1998	1999
Percentage saying young couple should buy "as soon as possible"	74	78	70	60	54	62	61	65

**Table 9.10 Age and attitudes to home ownership**

Percentage saying young couple should buy "as soon as possible"	1986	1989	1991	1996	1998	% change '86-'98
18-24 years	58	63	53	38	43	-15
25-34 years	76	79	59	51	55	-21
35-44 years	82	86	71	59	64	-18
45-54 years	83	83	64	64	73	-10
55 and over	70	74	56	53	61	-9

Source: British Social Attitudes Survey data, 1986-1998; Ford and Burrows, 1999

**Table 9.11 Attitudes to home ownership by region**

Percentage saying young couple should buy "as soon as possible"	1989	1991	1996	1998	% change 1986-1998
Yorkshire and Humberside	82	89	66	60	-22
East Midlands	77	81	63	57	-20
Greater London	78	66	57	59	-19
South West	80	75	65	62	-18
East Anglia	71	63	48	56	-15
South East	77	82	63	64	-13
North	70	68	57	59	-11
West Midlands	71	88	64	60	-11
North West	68	79	53	58	-10
Wales	74	77	60	67	-7
Scotland	66	73	54	67	1

factor shaping the attitudes of those in the rental sectors and particularly in the residualised social rented sector (Ford and Seavers, 2000).

Attitudes to home ownership also vary by age. Those aged 18-24 record the lowest support for owner occupation throughout the period considered, although the largest percentage decline in support for the tenure has occurred amongst those aged 25-34 (Table 9.10). Both these groups have experienced considerable changes over the last decade that is likely to have affected their

support for the tenure. For example, a protracted entry into the labour market, an increase in the proportion entering higher education, changes to the funding of higher education etc whilst any direct experience with the housing market will have been during the uncertainty and turmoil of the late 1980s and early 1990s. As a result, home ownership may be less appealing than it was for previous generations of young adults. However, what makes this a particularly significant finding is that it is these age groups which increasingly have formed the largest group of potential new home owners.

Ford and Burrows (1999) have also shown that support for home ownership varies by employment status and income, by household structure, by social class and by region. Those in work are more likely to have positive attitudes to home ownership than unemployed or retired people with the gap between the views of the unemployed and those employed or retired growing over the 1990s. Potentially, this increasing divergence of views reflects the changing provision for mortgage support during unemployment and the individual's perceptions about their likely labour market career following unemployment (Ford, 1998). All social class groupings have shown a reduction in the support for home ownership since 1989, but the fall has been least marked amongst professionals (9 percentage points compared to 17 for skilled and partly skilled manual groups). Throughout the period there is also a social class gradient in the support for owner occupation, with 76% of professionals indicating that the young couple should buy as soon as possible compared to 43% of unskilled manual workers in 1998.

Table 9.11 shows the variation on the support for home ownership by geographical region. Differences in regional support for home ownership might be expected given the distinct nature of local housing markets and clear geographical differences in the timing and nature of first the housing market depression and then the recovery. The continuing fall in support for owner occupation in Yorkshire and Humberside potentially reflects the slow speed of recovery in the housing market in that region whereas in other areas such as Greater London, East Anglia or Wales the level of support noted in 1998 was an increase on that seen in 1996. In these areas, housing market recovery occurred sooner and was gathering pace by 1998. But attitude change is not simply a reflection of price change. In every region bar Scotland, however, levels of support for home ownership in 1998 still remain below those noted in 1991.

Above, the variation in attitudes to home ownership has been explored on a bi-variate basis. In practice it is likely that some of these apparent relationships are spurious, reflecting the impact of a third variable. Thus it is necessary to consider the influence of these variables after controlling for the effect of all others. Focusing on those who do not advocate the young couple

to buy as soon as possible, Ford and Borrows (1999) used logistic regression to establish that those in manual classes, or who are unemployed, or who rent their housing are less enthusiastic about home ownership than their counterparts. Younger people have the least faith in home ownership and older people the most; single people are significantly less keen than others even after allowing for age. Retired people are also unenthusiastic despite the fact that older people tend to be more committed to owner occupation than others. There are also some small regional effects, and the model broadly suggests that those regions most deeply affected by the housing market recession of the early 1990s now have the most negative attitudes to home ownership.

Overall, the data from the British Social Attitudes Survey indicate that following a period when the proportion of individuals valuing home ownership fell, attitudes are once again becoming more positive. However, the level of support for home ownership has not yet returned to the levels seen previously. There is also some variation in the attitudes to owner occupation. Considerably under half of those who are unemployed, manual workers, tenants or aged under 25 the young currently value owner occupation compared to much higher levels of support amongst the employed, professional and skilled workers, existing owners and those aged over 25. In a number of key instances, the variation in support for home ownership is widening.

#### ***Attitudes into action***

There are currently approaching a million households headed by someone under the age of 26. This makes young people an extremely important group of potential buyers and borrowers. In 1987, 37% of this group had a mortgage. By 1993, only 29% of all households headed by someone under the age of 26 had a mortgage, and by 1996/7, the figure had fallen to 25%. However, this still accounted for approximately 214,000 households or 40% of first-time buyers. Although many groups have become more cautious about borrowing the percentage reduction in young borrowers has been more marked than in some other cases. Further, whenever there has been some recovery in the number of first-time buyers, the recovery amongst the youngest borrowers has lagged other groups.

Debates around the causes and consequences of this reduction in young mortgagors have drawn attention to: the higher levels of unemployment amongst young people; increasing participation rates in higher education and the shift from student grants to student loans; the temporary nature of initial jobs in the labour markets and some tightening of lending criteria by lenders for those borrowers deemed to be at some risk. In part, the reduction in young buyers shows up as a reduction in first time buyers that too have been relatively scarce in the housing market recently. Whether these changes are

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**Table 9.12 Mortgage borrowing by first-time buyers**

	1986	1989	1995	1996	1997	1998	1999
Average advance as % of dwelling price	86.1	82.9	89.0	90.1	88.0	83.0	80.0
Ratio average advance/average income	2.03	2.16	2.26	2.22	2.23	2.34	2.27
Average repayment as % average income	19.6	24.8	18.9	17.4	18.2	19.8	18.1

Source: Wilcox, 1999

likely to persist depends on whether young people are rethinking their tenure choices or simply delaying entry.

Until 1995, first-time buyers predominated in the housing market reaching a peak of 54% of all buyers in 1995. Since then, the proportion has fallen and in 1999 stood at 47%.

### **Risk reduction strategies**

Faced with greater uncertainty in the housing market, the labour market, and with respect to social protection, it might be expected that home owners would adopt patterns of behaviour that were more risk averse. There is some evidence for this in the delayed entry amongst younger people, but there is also some evidence that home owners are looking to borrow more carefully, to increase their certainty about the pattern of payment by seeking products that facilitate this and by repaying their mortgages at a faster rate.

### **Mortgage borrowing**

For those who buy, what is the current evidence about the level and nature of their borrowing? The key issues here are both the overall level of mortgage borrowing but also the amount borrowed in relation the value of the property, or in relation to gross income, or as a percentage of disposable income. The evidence is that people are both providing larger deposits and where possible, seeking to repay more quickly. At the same time, from choice or necessity, they are borrowing more in absolute terms.

The average mortgage loan to first time buyers has risen since the mid 1990s and particularly since 1998. In June 1999 it stood at £58, 227 (CML, 1998), 11% higher than at the same point in 1998. Clearly, rising house prices affect this figure but equally, it signals a greater willingness to borrow. Table 9.12 indicates some key borrowing measures for first time buyers. Repeat buyers are considered later.

For first time buyers, the average advance as a percentage of the dwelling price peaked in 1996 and then fell sharply between 1996 and 1998, indicating that borrowers found larger deposits. As a result, the average amount of equity in a property at the point of purchase increased. Whether this was a result of borrower or lender behaviour cannot be determined, but it is a more cautious approach than in the recent past. However, both the ratio of average

**Table 9.13 Mortgage borrowing by former owner-occupiers**

	1986	1989	1995	1996	1997	1998	1999
Average advance as % of dwelling price	60.1	57.5	64.2	64.2	64.3	64.1	64.4
Ratio average advance/average income	1.92	2.12	1.99	1.99	2.04	2.05	2.11
Average repayment as % average income	18.6	26.9	17.4	15.8	16.8	18.3	16.9

Source: Wilcox, 1999

advance to average income and average repayment to average income have increased since 1996. This suggests that borrowers and lenders are more confident in the available income streams and in the market's trajectory, informed perhaps by income trends, house price trends (which have shown a sharp upward movement in the late 1990s), the available equity noted above as well as the use of more sophisticated credit scoring techniques.

In contrast to the average figures considered above, it is also possible to look at the distribution of the percentage advance taken by first-time buyers. In 1989/90, 36% of first-time buyers were granted loans equal to 100% of the valuation of the property. By 1997, only 9% of first-time buyers took such loans and the figure fell further to 7% in 1998. However, a substantial proportion of these 100% loans relate to purchases by local authority tenants, and the current figures reflect the reduction in Right-to Buy sales noted above. However, there has also been a significant reduction in the proportion of first-time buyers seeking to borrow between 95-99% of the valuation price and this supports the suggestion made earlier that while by 1997/8 individuals and households were more willing to borrow, and to increase borrowing in relation to income, the overall terms and conditions of their borrowing set a more cautious note than seen in the late 1980s. Table 9.13 shows how patterns of borrowing developed amongst former owner occupiers.

For existing owners there has been little change in the average advance to purchase price since 1995. However, the ratio of average advance to average income has increased quite significantly since 1995 (when it stood at 1.99) to 2.05 in 1998. In June 1999 the ratio had increased again to 2.25. Average repayments as a percentage of average income have also risen. They were lowest in 1996, and now stand at 18.3%. So while the willingness to borrow appears to be more relaxed than two or three years ago, the percentage commitment of income remains well under the 26.9% seen in 1989. Looking at the distribution of percentage loans (as opposed to the average position), not unexpectedly, few existing owners take 100% mortgages, and the figure has been constant at 2% since 1997.

Mortgagors who do not move house may nevertheless be willing to borrow in order to effect improvements, or fund other large, one-off purchases. In the early 1990s, approaching one in three existing borrowers took out an additional loan with studies also indicating a growth in people doing so in order



to consolidate their debts following difficulties in the housing market. Since then, the proportion of borrowers taking out additional loans has fallen, to 20% in 1997 but increased in 1999 (24% in the first quarter of 1999).

### ***Stability of payments***

It has been argued that the rapid rise in mortgage interest rates in the late 1980s led more borrowers to seek to predict and stabilize their monthly mortgage payments. The widespread introduction of capped and fixed rate mortgages was one response to this situation. By 1998, 40% of all loans in force were either fixed rate or capped loans, an increase of six percentage points on 1997 (CML, 1998). Fixed and capped loans have remained at this level through 1999. Looking at this another way, and considering the pattern of loans taken out by those mortgaging in any particular year, shows a clear swing to fixed rate loans in 1997 and the first half of 1998, but a falling away again in the second half of 1998 as the economic climate changed. However, in a recent survey of the pattern of fixed and variable rate products the CML has concluded that 'take-up of any product by borrowers is significantly influenced by which looks cheapest at the time', throwing some doubt on the suggestion that borrowers make choices on a longer-term basis using a range of considerations. Nevertheless, the percentage fixing their rate for more than five years has, increased recently and is again suggestive of households seeking to have some knowledge and certainty about their financial commitments.

### ***Protecting mortgage payments***

It might be expected that borrowers currently entering the market for the first time would be concerned to put in place safety-net provision, probably influenced by the retreat of state provision, perceptions of growing labour market insecurity etc. In practice, take-up of private insurance has been low and currently only 19% of mortgagors have such a policy. Several factors contribute to the still low level of private safety-net provision. They include: cost constraints; mis-trust of private insurance; eligibility criteria; and poor subjective risk perception (Ford and Kempson, 1997; Maclellan et al., 1997; Cebulla, 1999; Munro, 2000).

### ***Re-paying mortgage loans***

The advent of a low inflation economy has drawn attention to the financial benefits of re-paying a mortgage as quickly as possible. Concerns about labour market and other risks to sustainable home ownership have also focussed attention on new mortgage products that offer greater flexibility in the pattern of repayments, allowing both under and over payments, without penalty as appropriate. In this context, the consumer detriment associated with some existing mortgage products that lock people in to particular pat-

terms of payment and limit flexibility (particularly constraining early repayment) has also raised concerns.

The percentage of home owners making higher than required payments in the late 1990s has been around 12% per annum (CML, 1998). About 4% made lump sum payments. In total, roughly one in six mortgagors used an overpayment facility to reduce the outstanding debt. Thus, there is evidence of borrowers being more willing to borrow than was the case a few years ago, but equally evidence that borrowers are concerned to be able to repay quickly.

However, borrowers are looking to have access to mortgages that give payment flexibility, even if a lower percentage uses the facilities. By 1999, 42% of mortgagors had the flexibility to increase payments without penalty, eight percent could increase their borrowing routinely within limits while 7% had the flexibility to make reduced or no payment for a specified period of time. This change in attitudes to debt and the desire to repay is a marked, and recent, change in housing market behaviour.

## 9.5 Conclusions

Over the course of the last two decades there has been a growth in Britain of published data about housing and labour markets. This has been primarily due to decisions made by central government to collect and publish additional data, but the private sector, principally the Council for Mortgage Lenders, has also played its part. It is clear that in Britain there have been many substantial changes in all the sectors considered in this paper, reflecting the impact of global processes as mediated by local responses. Nevertheless, the changes have taken place over a relatively limited time span, and given the nature of the available data, it is not always easy to disentangle the changes in the home ownership market that emanate from structural shifts as opposed to cyclical processes. However, by the end of the 1990s, the balance of evidence clearly supported the suggestion that structural change was significant and that home ownership was, as a result, riskier and home owners more vulnerable than had previously been the case. Such structural change is also periodically amplified by cyclical change, while the widening socio-economic composition of the tenure, and the growth of more marginal borrowers increases the risks.

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# 10 Managing globalisation

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## 10.1 Introduction

In this book we have addressed the question of the impact of globalisation (and other macro, supra-national changes) on home ownership. The broad thesis is that global forces, primarily as signified in the re-structuring of finance markets and labour markets, influence the nature of home ownership markets and the experience and consequences of home ownership, such that the sector is characterised by greater volatility and increasing risk.

These ideas have been explored both theoretically and methodologically. Theoretically, we explored the hypothesised relationship through the perspective of first, a 'strong' thesis and second, a 'weak' thesis. The latter conceptualisation argues that global forces re-structure home ownership, but do so in less rather than more deterministic ways. Key actors, both states and individuals, retain the capacity to make constrained, but nevertheless significant choices. Thus, for example, in contrast to the view that globalisation renders actors and institutions 'powerless', the weak thesis recognises the force of globalisation but holds open the possibility that states and individuals can shape the impact (either reinforcing or moderating the effects) through their responses. History, culture and political ideologies are likely key mediating influences. If this thesis has merit therefore, we should expect to see variety in the experiences and outcomes associated with owner occupation in different countries and be able to start to develop an understanding of how such global forces are mediated.

Methodologically, we have pursued this exploration through both statistical analysis and by presenting case studies of a range of European countries. Chapter 1 set out the thesis as well as presented statistical analysis which supported the basic contention that global influences (signified by a range of variables such as precarious employment and aggregate social spending) were positively correlated with levels of disrupted home ownership, as indicated by the extent of mortgage repayment difficulties. The second methodological approach, the development of country case studies, has made available a more disaggregated, narrative account which has indicated some patterns of convergence with respect to key trends but also highlighted some clear differences in the ways in which globalisation impacts on home ownership. Understanding the nature of these differences, and, to a lesser extent, how they can be accounted for, has been a focus of the country case studies. The chapters have suggested the significance of: national housing histories;

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cultural norms; political ideologies; as well as traditions of welfare provision in mediating a wide range of global process such as the re-structuring of production and service sector employment opportunities and the de-regulated, ‘footloose’ financial processes associated with world markets. In conjunction, the two methodologies indicate both that the overall thesis has substance, but that the observed variation in home ownership markets points to support for its weaker version. The country case studies have been based on existing data, however. This has posed some difficulties as the extent of data varies country by country and there are issues of consistent definition and measurement. They have also been mainly focused on establishing the existence of similarities and differences, convergence and divergence, than on identifying detailed explanations for these outcomes. The chapters and this concluding chapter therefore represent the start not the end of an analysis.

This final chapter addresses a number of issues. First it draws together, briefly, some of the findings from the country case studies to illustrate the ways in which globalisation is impacting. This is not presented as a systematic analysis of all aspects of the issues raised in this book but it does identify some key, common trends and some differential outcomes with respect to mortgage markets, labour markets and social security provision. Second, we offer some discussion – suggestions rather than conclusions – about the ways in which the pattern of similarities and differences identified can be understood. Particular emphasis is placed on the housing histories in each country, their ideologies and cultural norms. Third, in a more policy oriented section we consider a number of policy issues prompted by the growing risks to home ownership. We consider both ‘in principle’ policy responses that address the question of why the State should respond as well as a set of more pragmatic factors that encourage States to consider mediating the risks to home owners. The chapter finishes with a brief discussion of a range of issues that suggests there are ‘gaps’ in managing risk and ‘gaps’ in the research base (with the focus on data collection) that currently limit the level of knowledge.

## 10.2 Common trends, different outcomes

### **Mortgage markets**

In all the countries considered, home ownership is underpinned by the mortgage market. Even in countries with a long standing tradition of outright ownership (and familial finance) such as Spain and Portugal, the mortgage credit market has become significant. Further, all the countries examined have been caught up in the liberalisation of financial markets and the potential widening of access that more competitive markets facilitate. However,

**Table 10.1 Support with housing costs to unemployed home buyers**

Country	Which housing costs are covered?	How long after unemployment before assistance is provided?	Is there a maximum time limit before assistance stops?	Is there a maximum amount of assistance?
Belgium	Monthly mortgage payments	6 months	3 years	Yes
Finland	Monthly mortgage costs			Yes, up to 80% of reasonable housing costs on a means tested basis.
France	Aides Personnelles contributes toward housing costs	Immediately	No	No
Germany	Wohngeld available to support mortgage costs based on income/family size/housing costs etc.	Immediately	No	Yes, determined by formula
Netherlands	Monthly mortgage costs		Yes, typically after a year required to move to cheaper, rented house	
Portugal	No support available to owner occupiers	n.a.	n.a.	n.a.
Spain	No support available to owner occupiers	n.a.	n.a.	n.a.
UK	Income Support Mortgage Interest (ISMI) covers interest payments	Where mortgage taken after 1995, no payment for first 39 weeks of a claim	No	£100,000 cap on eligible interest, estimated at a standard rate of interest

within this general trend, the form of financial markets, the speed of de-regulation, the regulatory framework imposed and the consequences for home-buyers varies.

In some countries, financial liberalisation came sooner and was embraced more enthusiastically, for example, in the 1980s in Britain and Finland where reform was often supported by neo-liberal ideologies which accorded pre-eminence to the market. By contrast, liberalisation was undertaken in France at the end of the 1980s, as was the case in Portugal. But, as noted in Chapter 1, lending patterns remain parochial with little evidence of common structures or practices across the countries studied. The different prominence accorded the market contributes to the different balance between market and state funded mortgage finance that can be observed. The majority of the country chapters indicate a continuing (but varied) role for state provided mortgage finance, sometimes for particular market segments such as lower income borrowers as in the Netherlands or for certain types of purchase as in France (where subsidies are provided by the State on the construction of purchase of new homes by low income households), and some times more generally (as in Finland or Germany).



**Table 10.2 Support with housing costs and tenure neutrality**

Country	Available only to unemployed?	Are buyers or tenants treated more favourably in respect of housing allowances?	Other comments
Belgium	Yes		In June 1998 Flemish government introduced free insurance against unemployment for new mortgages for those with incomes below specified thresholds.
Finland	No. Available to anyone with financial difficulties.	Tenure neutral.	
France	No. Available on basis of means testing with reference to housing costs, income, size of household and various other allowances.	Aides personnelles available to tenants and buyers alike.	Borrowers with a social access mortgage (PAS) can defer some or all payments for a period of up to 12 months if unemployed.
Germany	No. Available on basis of means testing with reference to size of household, expenditure and income.	Wohngeld available to tenants (Mietzuschuss) and buyers (Latzzuschuss) alike.	Low income home owners have state subsidised guarantee against mortgage default.
Netherlands	Yes	Tenants eligible to means-tested housing allowance, payable to all on low income and covering rent from start of claim.	
Portugal	n.a.		Income replacement benefits are relatively general.
Spain	n.a.	Tenants may receive help with housing costs.	Income replacement benefits are relatively general.
UK	No Also paid to lone parents and carers.	Tenants eligible to means-tested housing allowance, payable to all on low income and covering rent from start of claim. Housing allowance may cover 100% of rent.	

One consequence of the differential insertion into global financial systems is that across Europe mortgages are granted on very different terms, in terms of interest rates, length of the loan and the loan value ratio and so on, and are differentially constrained by the nature of regulatory systems. As a result, borrower-lender relationships and behaviour also differ. Highly developed market competition places a premium on price, product differentiation and marketing and acts against stable borrower-lender relationships. Thus countries differ in the extent to which they have developed an active re-mortgage market (borrowers seeking better terms and conditions either on a move or while remaining in their property). In those countries characterised by the strongest competition, and an absence of, or at best, limited regulation, relaxed entry thresholds have tended to result in access both by age and socio-economic status being driven downwards to a greater extent than else-

where. Consequently, and other things being equal, (which they are not) the size of the home ownership sectors and the socio-economic profiles of home owners show considerable variation not least with respect to potentially vulnerable borrowers.

### **Labour market trends**

Where home ownership requires longer term mortgage finance there is a requirement for long term servicing of loans and hence for stability of employment and income. These requirements can sit uncomfortably alongside the global trend towards footloose production and service provision that have affected all the countries considered here. The need to remain internationally competitive creates its own pressure to address the de-regulation of national labour markets in a bid to increase the market's capacity to respond. In all the countries considered here part-time employment has grown, as has the not unrelated employment for women. In many cases self-employment has increased, and so too have temporary and casual jobs, but to different degrees – for example, rates of temporary work are higher in Finland and Spain than in Germany or France. Unemployment, while clearly cyclical, is nevertheless a more widespread, routine feature of modern economies than was the case in the 1960s and 1970s.

However, the extent and the implications of these changes for home owners vary, affected by the historical pattern of employment opportunities, and the nature of the state's response. Within the UK for example, successive governments have looked to maintain and strengthen their competitive position by decreasing regulatory constraints on employers (and in the process have periodically challenged aspects of European regulation such as the Social Chapter). One consequence of this approach is the creation of a low wage sector of the economy. Different responses can be seen in countries such as France or Germany (and Sweden) where historically labour market regulation has been tighter and the maintenance of 'good' jobs has been a tri-partite policy objective of employers, unions and the state. As with the re-structuring of mortgage markets, those countries adopting strong neo-liberal perspectives have sought to maximise labour market de-regulation and, at the broadest level, have as a consequence provided the greatest challenge to the employment stability aspects of home ownership.

### **Social security policies**

The impact of labour market change in the context of widening home ownership is likely to increase the extent to which home owners experience periodic disruptions to their mortgage payments. The country chapters have shown that in most instances there is some state support directly focussed on housing costs to home owners who lose their income. (In addition, support with

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housing costs may be *indirect* through the income maintenance system but this support is not considered here. It is worth noting however, that the level of income replacement available varies markedly between countries, for example, in the Netherlands the level initially exceeds 90%, in Portugal it is 65%, but in the UK it can be below 30%). Tables 10.1 and 10.2 summarise the general pattern of state support with housing costs across the countries considered.

It is clear from the information provided that not only the amount of support with housing costs that varies across countries, but also the form of the support. Several different approaches can be identified.

#### *Direct provision of housing costs*

Most of the countries considered provide some direct support to home owners to meet their mortgage costs. Only in Portugal is there no such assistance. The particular costs covered can vary: for example, in Germany, 'Wohngeld' contributes up to 75% of housing costs while in the UK, only mortgage interest can be considered for support and only for those eligible for subsistence benefits. In France and Germany, for example, assistance with housing costs is paid immediately while in the UK, earliest (and part) payment is after two months and can be delayed up to nine months.

#### *In-direct assistance through funding guarantee systems*

Relatively few countries offer such provision, but for example, in the Netherlands, there is a state guarantee fund, run by an arms length company, that meets the mortgage payments of those within the scheme (low income borrowers) should they become unemployed. In Belgium, assistance with mortgage costs has been introduced for mortgages taken out after January 1998, where borrowers become unemployed. This applies in Flanders and Wallonia only and is also run on an insurance basis, independently administered.

#### *Compulsory requirement by the state to take market insurance to cover mortgage payments*

Relatively few countries have adopted this approach but, for example, there is a requirement to take insurance against sickness and disability in France and Spain. In part, such a stance by the state may be minimised by the requirement of lenders in many countries that borrowers have life insurance to ensure repayment on early death, not least due to the growth of interest-only mortgages where long term capital repayment is funded by equity based products. A rather different form of state intervention can also be seen in those countries where the state legally enforces a requirement for (all) debt negotiation between creditor and borrower, as in Finland, or acts to constrain the courts from evicting, as in France or Germany.

*Explicit expectation that home owners will seek market insurance*

This is one aspect of support for home owners that characterises the state's response in the UK. There is an explicit housing policy objective that borrowers are responsible for covering against key eventualities, at least in their early stages and direct state support has been tailored to this expectation by a lengthening of the period before state assistance can be accessed. In many other countries there is the widespread use of private insurance to manage health care requirements in general which might well provide an income out of which the mortgage can be paid, rather than insurance for housing costs being an explicit aspect of housing policy.

*Indirect assistance through provision of replacement income*

All the countries consider provided replacement income (often means tested) for unemployed households. However, the level of replacement income varies.

### 10.3 Understanding the outcomes

The evidence presented above of differences in developments across the range of countries considered in the case study chapters, begs a question about the origins of those differences: why have outcomes in each of the constituent elements of national housing systems – labour markets, financial markets and social security systems – differed? In chapter one we presented, and argued against, an explanation – a strong globalisation thesis – that emphasised the determining influence of structural changes on the ability of agents (employers, policy makers, households) to exercise any significant freedom of action. The analysis presented in chapter one of macro statistical data as well as the case studies together provide convincing evidence that a weak globalisation thesis more closely fits the experience in European countries. However, whereas it may contribute to our understanding, it does not fully explain the outcomes. If the weak globalisation thesis affords structural forces with some affect on agents, influencing and constraining their actions, and at the same time affords agents with some autonomy, the explanatory challenge has been shifted rather than entirely met. One way of expressing this is: given that structural forces have been identical (or at least similar) why have agents in different countries resisted them differently?

One response is to focus less on the processes of globalisation, the forces that may be impinging on national governments, and more on the political processes through which those forces are mediated and transformed. Elsewhere in the housing literature, path dependency theory has been utilised as providing an understanding of such differences, the essence of which, in

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Kleinman's words, is that: "The past constrains the present, not by determining outcomes, but by setting limits to what is possible, or perhaps a better way of putting it, by making it easier for the streams of policy to flow one way rather than another." (Kleinman 1996: 19)

On this view, then, the key to understanding why policy makers in different European countries, when faced with similar structural forces, have enacted different policies, why their financial institutions have behaved differently and so on, is to be found in history, in the pathways established that have locked agents into nationally specific pathways. The point is that policymakers are rarely starting with a blank sheet of paper and there may be social, political and economic costs of deviating from what exists (see Pierson 2000). Yet, the paths are not pre-determined and fixed; it may be easier to stay on the beaten-track, but from time to time some agents will step off. There is a sense here also, therefore, that path dependency may aid understanding of, whilst not fully explaining, outcomes: the explanatory challenge has both narrowed and shifted.

The case study chapters and the research on which they were based have concentrated on mapping changes, trying to collect and collate existing sources of data to establish the major developments in aspects of home ownership markets. They have been more about exploration than explanation. They have not, for example, looked in detail at specific policy changes, identifying all the precise contingencies that have shaped actions. Whereas there was not a systematic search for organising principles, however, the identification of the substance of changes has also thrown a light, however partial, on a range of factors that may mediate the impact of global and supra national change. They have therefore provided one basis for extending the present study beyond exploration to explanation, to understanding the interplay between structure and agency. A number of such mediating (often inter-connected) factors are considered here: housing history; housing policy; ideology and cultural norms.

### **Contextual and intervening influences**

On the path dependency view, the historically shaped pattern of housing provision in any country 'frame' contemporary housing experiences and opportunities. The case study chapters have shown that there have been (and still are) clear differences in the tenure structures of different countries (levels of owner occupation, the forms of ownership, private rented provision and state provision) which reflect these more historical trajectories. Countries such as Portugal have historically small social and private rental sectors, whereas Germany, for example, has historically exhibited a large private rental market. While Spain, Portugal, Finland and Belgium have historically high levels

of home ownership (albeit for different reasons), the extent to which they have required market based finance varies. Housing histories inform both the likely reliance on home ownership and the terms of access and in particular, the requirement for credit arrangements and engagement with the mortgage market. To the extent that housing histories vary (other things being equal), the risks to home ownership will be differentially distributed. Housing histories will also contribute to shaping attitudes to tenure.

These differences are themselves the consequence of different housing policies. With respect to home ownership there are differences in the degree to which its growth has been an explicit objective of housing policy and one where Governments have instigated mechanisms to facilitate entry. Thus with respect to Portugal it was noted that there was no explicit policy objective or mechanism directed towards expanding the sector while in the UK, and currently in the Netherlands, housing policy has been (and is) actively directed at expanding home ownership. One obvious instance is the implementation of the policy of Right to Buy in the UK, which since 1979 has drawn in an additional two million home owners and which was stimulated both by a belief in the superiority of the market and the need to control public finances. Similar support for home ownership can be seen currently in the Netherlands with the target of an increase in home owners by 2010 in part to be met by discounted sales. Such policies necessitate an adequate flow of housing finance typically facilitated by the de-regulation of the financial sector. Thus, in principle, 'active' policies towards the expansion of home ownership which typically drive it down the socio-economic scale, will, in a global context, increase the risks to the home ownership sector.

The country chapters show other forms of support for home ownership, typically through the tax system. The range of policies towards the provision of tax relief to home owners is considerable and sees 100% tax relief in the Netherlands as well as the recent withdrawal and now absence of tax relief in the UK and France. The chapters on the Netherlands and Spain make clear the extent to which tax advantages have both underpinned home ownership but systematically advantaged better off households. Policy initiatives to support home ownership may also be reflexive with globalisation in the sense that they offer states a means to reduce the overall financial pressures they face by reducing their responsibility for the provision and maintenance of a housing stock.

But states have choices, and the country chapters also indicate how more collective forms of finance are made available either to support affordability at entry or to guarantee financial arrangements to manage the risk associated with the expansion of home ownership. Thus in France there are income sub-

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sidies while in the Netherlands (and in parts of Belgium) low income home owners have available a state underwritten guarantee that supports the payment of housing costs if they are unemployed.

The degree of support for home ownership is also clearly an ideological issue and is particularly pronounced where countries exhibit neo-liberal perspectives either historically or as a more recent development. As has already been noted, these countries are those most likely to exhibit early and extensive financial liberalisation and the privatisation of housing provision. Even so, the evidence concerning support for housing costs to home owners is varied; relatively generous in Finland and the Netherlands and increasingly restricted in the UK and warns against too literal a reading off of policy responses from political and ideological characterisations. By contrast, in France and Germany there has been more support for housing systems that are more mixed, and while there is support for its growth, there is less emphasis on incentivising entry to the tenure. Mortgage markets have remained more regulated (with different expectations about entry criteria) and later entry made possible by the availability (to different degrees) of good quality rental accommodation. Support with housing costs have tended to be tenure neutral, as might be expected.

The country chapters also indicate a range of cultural norms related to home ownership not least with respect to the meaning, expectations and import of tenure. In Germany for example, renting is less stigmatised and does not denote low status to the extent that is the case in the UK. Social housing in the Netherlands has historically not been residualised as has been the case to an increasing extent in the UK and Belgium. In Belgium, policy is the implementation of the Catholic view of housing as a protection of the family through home ownership and of the view that full citizenship is only possible with ownership.

There are also differences between countries in home ownership mobility (high in the UK but much lower in France and Germany) which reflect the patterns of entry but also the extent to which home ownership is about 'nesting' or 'investing'. The French chapter speculates about a current change in attitudes towards housing as other financial opportunities have emerged, while in the Netherlands, home ownership is currently viewed as an 'opportunity' for accumulation with respect to pension provision and therefore sought and viewed positively. Similar attitudes and practices, directed towards accumulation have been evident in the UK. In part this is linked to the development of mortgage markets and the shift to reliance on equity investment (endowment mortgages). The current downturn in global markets illustrates clearly the risk to home owners of an 'investment' culture as the

realisation of dis-investment becomes apparent. The extent to which risks of this kind affect attitudes and behaviour is difficult to establish, but may be influenced by the availability of alternative opportunities for housing. Nevertheless, there is evidence from, for example, the UK, of a positive relationship between the perceived investment potential and support for home ownership. Cultural norms towards mortgage debt also vary, leading to greater or lesser concerns in different countries to shorten the period of repayment and become an outright owner.

In general, then, the country chapters show the way culture, history, changing policy objectives and ideology appear to have intervened to structure the nature of the response to global forces with respect to home ownership. While the broad nature of the response is likely to be relatively enduring, it is also dynamic. Ideological change, through changes of government, can result in radical shifts in housing policy as the country chapters have shown. At times of extreme market disruption (brought about by a significant re-structuring of finance and labour markets), the nature of the state's interventions with respect to housing support may also alter, if only temporarily. This was the case in the UK in the early 1990s, where a Government pre-disposed to leave things to the market nevertheless intervened in the market, agreeing to pay housing support costs directly to mortgage providers (rather than to borrowers) if they would cease repossessing homes. A similar pattern of intervention was reported for Finland where, between 1992 and 1997, the crisis in the financial markets, which resulted in borrowers becoming over-indebted and at risk of unemployment, led to the state ensuring that owners received a means-tested (lower) interest rate with assistance being available for three years.

### **The impact of risk**

The argument advanced in this book is that globalisation, through its (mediated) impact on finance, labour markets and the state, brings about an increase in the risks to home owners. Chapter one and the country case studies have provided evidence that the risks to home owners are real. Countries have, to varying degrees and at particular times, experienced 'shocks' to the home ownership market giving rise to falling prices, negative equity, surges in mortgage arrears and possessions. The broad picture indicates that one or more of these events have been experienced in many of the countries considered here: France (1980s), Finland (late 1980s/early 1990s), The Netherlands (mid 1980s), and the UK (both mid 1980s and late 1980s/early 1990s).

In addition, there is some evidence that a higher level of risk is more routinely embedded in home ownership, allied to the changing pattern of risk and risk responses that characterises modern societies. Because of the limited

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time series data available for many countries support for this suggestion remains largely indicative. However, mortgage arrears are reported for several countries where on other measures the economies appear buoyant (for example, Belgium, Portugal, The Netherlands) while for the UK there is robust evidence that although mortgage arrears are cyclical, the structural changes in finance and labour markets and in the provision of social security has resulted in routinely higher levels of arrears (and possessions) than was the case in the 1970s and early 1980s. Where the causes of arrears have been investigated more systematically, as in the UK and Belgium there is agreement that unemployment, relationship breakdown and changes in financial markets (particularly interest rate increases) are key influences on arrears. In some countries, complex financial arrangements with respect to construction costs can give rise to arrears (for example in France). Risks to home ownership are increasingly structural as well as cyclical and in some countries being ratcheted upwards.

## 10.4 Policy responses

Given the growing risk to home ownership and home owners in EU countries, this final section addresses what the likely policy response might be. In theory, policy intended to reduce risk or its consequences might be introduced in any or all the sites of risk identified, for example in introducing tighter controls on financial institutions, or ensuring stronger protection against unemployment. However, here we focus on social security measures where, on the one hand, given the likely strain on social security safety nets, the ways in which home owners and home ownership can be safeguarded (to avoid large scale homelessness) becomes a key question. On the other hand we have presented evidence from the country chapters that social security systems do currently meet at least some of the housing costs of unemployed home owners. Indeed, this happens even where neo-liberal ideologies (which might indicate a significant withdrawal of state support) are pronounced.

Below we start to explore these issues further by examining the ‘in principle’ arguments that might lead states to believe that there are sound reasons for developing policies to sustain home ownership and home owners. The form such interventions might take, in principle, are then explored.

### **Why protect unemployed homebuyers?**

In general, financial institutions in EU countries lend money to people to buy their homes subject to assurances against the risk of default. As a last resort, this generally means that lenders are able to seek possession of the house through the legal system. Whether house buyers act before that stage, or wait

for the legal process to play its course, it will frequently mean the necessity for searching for an alternative housing solution. What is so special about housing that governments should seek to maintain the housing position of the homebuyer? This maintenance of resources does not characterise other areas of social security policy, for example, even with contribution-based systems, there is an expectation that people who become unemployed will not be supported to a level that entirely protects the life style formerly enjoyed. With a means-tested system, the principle is generally that of the maintenance of only the minimal socially acceptable standard of living. In the case of housing, the level of consumption actually enjoyed may be higher than the socially acceptable minimum and, given the wide variations in prices and rents, it might be expected that a large proportion of households would be able to obtain less expensive accommodation of some type – maybe smaller or lower quality – somewhere – maybe in a different region. Why should the unemployed house buyer not be required also to make such an economy?

There are at least four arguments that add weight to such questions. Firstly, the retention of the home provides the unemployed person, and their family, with the continuation of that aspect of their former standard of living, but also maintains an investment. In other words, this is not an issue only of consumption: given house price inflation common in EU countries (see EMF 2000) the total wealth of a house buyer may increase significantly over the course of even one year. Even if it is accepted that governments should support consumption, should they also support investment?

The second argument – one that would resonate particularly in countries in which neo-liberal ideology was significant – is that home ownership is equated with self reliance and independence from the state. In the UK and Belgium, for example, in comparison with the social housing tenant, the home owner is often seen as someone who, through their own endeavours, drawing on their own resources rather than those of the state, has bettered themselves; home ownership is a form of individualised achievement (Saunders, 1990). Moreover, in the neo-liberal version of markets, the least fit do not survive: some failures are both inevitable and indeed desirable; if the state intervenes it should be to maintain only the very lowest level.

Thirdly, there is the moral hazard issue. There is at least the possibility that, knowing that their housing situation is underwritten by the state, buyers may take bigger risks of dismissal, and, having been dismissed, look more slowly for alternative employment and be choosier about job acceptance. In these circumstances, not only is the period during which the individual unemployed person not contributing to the economy more extended, but so too is the period of benefit payments. There is a further dimension to the moral

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hazard, in that both the financial institution and the individual buyer may have agreed a loan larger than one or both deemed prudent, knowing that it would be underwritten by the state.

Finally, there is the burden on public expenditure. In contexts where European governments are facing the social and economic consequences of historically high levels of unemployment, combined with pressures to reduce taxation and public spending, the situation of the unemployed home owner may not receive the greatest priority.

Notwithstanding these arguments, there are other considerations that suggest that states should take a supportive role. One is that the very *raison d'être* of social security is to protect individuals from the adverse consequences of the vagaries of modern living. In the words of the ILO: "The fundamental aim of social security is to give individuals and families the confidence that their level of living and quality of life will not, in so far as possible, be greatly eroded by any social or economic eventuality" (cited in McKay and Rowlington 1999: 5). Given its centrality in people's lives, if anything is to be protected from erosion it would be housing.

In addition, Clasen (1999) has argued that unemployment benefits should not be considered necessarily to be a passive policy, simply compensation for having lost paid work and maintaining aspects of a former life style. With respect to the unemployed home buyer, assistance with housing costs that enable the continued retention of the home may be seen as a direct contribution to job search. Removing immediate threats to the family home allows the unemployed person to focus all their energies, not on establishing a roof over the family's head, but on finding another job. A further dimension is that, if the amount of equity released is small, it may be sufficient to allow the individual to purchase a cheap house only in a region where there are few jobs. Finally, insofar as finding another job is facilitated by existing social networks and knowledge of local labour markets, being able to stay put residentially may be considered an active contribution.

Situated alongside these issues of principle are pragmatic considerations. These range from the adverse impact of the forced sale of housing on individual buyers and their families as well as the costs incurred by other actors and society as a whole. Table 10.3, adapted from a UK-specific analysis, summarises some, probably not all, of the more general costs. Thus there is evidence that adverse health consequences for individuals arising from unemployment and manifested in stress, mental and physical illness are exacerbated for those also facing the loss of their home (Ford et al 2001). The consequences extend beyond the individual and the wider family, however, for

**Table 10.3 The potential costs of the forced sale of housing**

	<b>Borrowers</b>	<b>Lenders</b>	<b>Governments</b>
Social	Social exclusion Insecurity Reduced standard of living	Lack of trust amongst consumers Damage to business reputation	Increased incidence of poverty
Health	Reduced mental health and well-being		
Administrative	–	Collection costs Legal activities	Increased activity of legal system, health services and homelessness provision
Financial	Reduction in wealth: increased debt	Reduced revenue/lending	Costs of legal system, health services and homelessness provision
Political	–	Threats of regulation	Electoral consequences

Note: adapted from Ford et al. (2001)

example to public health care provision and thereby to taxation and performance of national economies. The range of these adverse consequences suggest that it may be too limited to consider whether government action in this area should be thought of as part of housing policy or social security policy, since the list of possible policy areas extend at least to health, employment and the economy.

In addition, the forced sale of houses could result in housing-related costs falling in the state anyway. This would happen where the buyer and their family is able to exercise a right to housing under legislation that treats them as homeless and provides housing, or where moving into rental housing would attract state-provided housing allowances. In some countries these are more generous than those available to home owners while in others they are only payable to tenants. There are costs imposed on financial institutions, also, in the administrative and legal activities incurred in recovering debts. The assets of the borrower will not always cover these, for example where collateral was provided by a house whose value has fallen or which is lower than the size of the loan anyway. Higher interest rates on new loans may be one consequence. The publicity of bad debts and families becoming homeless may have negative impacts on their business activities, and may lead them to be more cautious about lending anyway. The failure to protect the house buyer who becomes unemployed may have repercussions for other house buyers and for the housing system of a country as a whole.

Even in the absence of such costs, selling a house and buying (or renting) another one, is not necessarily unproblematic in its consequences for the individual. Evidence from an international survey (McNaughton & Harvey 1998) indicates that the average time from the acceptance of an offer on a house to the completion of the legal proceedings varies from 4-6 weeks in Sweden, to 6-13 weeks in France and to 12 weeks in England and Wales. Add

to this the time required to attract an offer in the first place, as well as the co-ordination of selling with buying another, and the total time span is likely to be a number of months and certainly longer, in many instances, than that required to find an alternative job. The same source shows that the non-time, transaction costs (solicitor's and estate agency fees, taxes and so on) are also considerable, equivalent to 4 to 8% of the purchase price. This includes neither the money cost of searching nor the cost of transporting furniture from one home to another. In the case of an unemployed buyer, especially one with little equity in their home, how is this expenditure to be met? One answer is the social security system, but this would somewhat defeat the object – the financial one anyway.

### **'Ideal type' policy interventions**

It is clear that the failure to provide protection for homebuyers who become unemployed against the loss of their home may have adverse consequences not only for the unemployed house buyer but also for house buyers in general, the state and the financial institutions. If these are to be avoided, whose responsibility it is to do so. To what extent should the burden be spread across the stakeholders? For example: should buyers, where they are able, be expected to make some contribution to housing costs, from savings or equity or even their wider families; should financial institutions be expected to incur some losses; and, should the state meet some or even all the costs? Tied closely to these questions are others about how the protection is to be organised, or what form it takes.

Some leverage on these questions may be provided through the construction of ideal type models of state responses to forced sales. Thanks particularly to Esping Andersen, the construction of welfare regimes is now familiar territory within the study of social policy. One of the points about his formulation is that regime types reflect different balances of political power mobilised around de-commodification, the ability to consume in the absence of paid employment. For present purposes, it is possible to identify the characteristic responses of different regime types to welfare challenges and to translate these to the specific situation of the unemployed homebuyer. This is summarised in Table 10.4, in which Esping Andersen's three regimes (Esping Andersen 1990) are supplemented by Leibfried's Latin rim type (Leibfried 1993).

### ***Neo-liberal model***

In the pure neo-liberal model it might be expected that governments are likely to interpret the unemployment and forced sale scenario as a feature of the market, in part inevitable but controllable and to be resolved, perhaps with a minimum of state guidance or other intervention, by market actors. On this

**Table 10.4 State responses to the unemployed home buyer by welfare regime type**

<b>Welfare regime type</b>	<b>Response</b>
Neo-liberal	Market actors encouraged to protect themselves. State intervenes as last resort. Legal proceedings quick.
Social democratic	State takes primary responsibility through tenure neutral support, tied to re-employment.
Conservative-corporatist	State seeks to protect differentials generated through work. Tenure neutral support.
Latin rim	State has little involvement. Legal proceedings slow.

view, lenders would be expected to perceive the possible costs arising from high levels of foreclosure and would develop flexible mortgage products that allowed under- or overpayments. For their part, borrowers would similarly factor in risk and be advised to take private insurance against unemployment. Where it was still required, the legal framework would enable speedy resolution. The state itself would provide support as a last resort.

#### *Social democratic model*

In contrast, in the pure social democratic model, the focus shifts from the private to the public sector. Here, the issue is not seen as one in which private interests and responsibilities dominate in the sense of being able to provide solutions for the unemployed borrower or the lender, but in which it is the public responsibility to ensure socially acceptable outcomes. Given the strong orientation in the social democratic model to universality and the achievement of equality of a high standard, it might be expected that the state would emphasise support for the unemployed that was tenure neutral. Moreover, insofar as the state is not seen as a safety net of last resort, it would itself ensure adequate income for unemployed people from which their housing costs could be met. However, there is also a strong emphasis on welfare being met through paid work, so that benefits for unemployed homebuyers would take a form encouraging re-employment. Here, Clasen's argument, outlined earlier, that unemployment benefits should not necessarily be seen as passive policy are relevant.

#### *Conservative-corporatist model*

The conservative-corporatist approach, has similarities with the social democratic, at least in the weight placed on the appropriateness of state-provided solutions. With the guiding principle of the protection of status differentials and rewards from the labour market, it would be expected to establish systems that maintained the position of the homebuyer. Here, too, the homebuyer would receive at least as generous state support as the home renter. In contrast, there would be less emphasis placed on linking any such support to getting another job.

#### *Latin rim welfare model*

Finally, in the Latin rim welfare model, where welfare state policies have often not been greatly developed and with the emphasis in welfare provision on the family and the Church, the state itself would not provide generous

financial assistance for the unemployed homebuyer. However, typically the legal process would be drawn out so that unemployed homebuyers in practice enjoy considerable delay before being required to give up their homes. In practice this places some onus on financial institutions to organise their affairs, including their lending rules, so as to provide them with protection against extended periods of default.

Against these ideal types, the country chapters indicate both that the pattern of state intervention differs from them and that, at a high level of generality, they are suggestive and useful. Given that the state typically does provide some form of support for home owners, a further issue is the robustness of the policy responses that are in place. Should we, for example, assume that those countries where the state provides strong, direct support to home owners will manage the risk more effectively than those countries where there is greater reliance on the market? These issues are largely outside the scope of this book but the final section explores some challenges for future investigation.

## 10.5 Research challenges: unanswered questions, further investigations

### **How robust are current policy arrangements?**

In one sense, the effectiveness of the range of policy responses that states have selected to adopt will only become visible as the support systems are tested in some substantial way. As already noted, major shocks to home ownership have not been experienced since the early 1990s. However, what is clear is that the pattern of support available then has in some countries been scaled back (the UK for example) while in others (The Netherlands, Portugal, France for example), a wider range of people are being encouraged into home ownership, many of whom will be more marginal buyers. Any future finance or labour market disruption is likely to impinge more widely than was previously would have been the case in the 1980s.

However, even during periods of more routine risk management such as the one that has characterised European housing markets for the last five years, there are some clues as to potential weaknesses in current systems of support. Where the balance of responsibility for protection passes from the state to the individual and the market, there are questions about the capacity and willingness of both parties to fulfil what is expected of them. Theories of insurance highlight the concept of an uninsurable event (Burchardt & Hills, 1997) which indicates that not all eventualities that challenge sustainable home ownership are able to be insured in the market (for example, relation-

ship breakdown, financial over-commitment, or a reduction in earnings). The extent to which the state will fill these 'gaps' may vary. In the UK, which has a developing public-private partnership, only some of the non-insurable events are met by the state (relationship breakdown, where people also have eligibility for income support). Elsewhere, the market insures mortgage costs against health related loss of income, but not against unemployment where the responsibility is retained by the state, even if via an arms length administration organisation (as in Belgium and the Netherlands).

Private market based support may also be challenged by the fact that the insurance industry itself is under competitive strain and experiencing a fundamental restructuring in the face of world-wide problems with equity markets and poor international economic growth. The capacity, focus and costs of insurance are all shifting, and the profits squeeze may well increase the stringency with which claims are assessed, potentially to the detriment of individual home owner households. Thus the robustness, predictability and ultimately the viability of a private sector policy response approach may be questionable.

This book is the result of researchers in a number of countries working with currently available data and only occasionally having the resources for new data collection. In that respect, research to map the nature of the risks to home owners is only at an early stage in many countries. Research is also needed to evaluate the effectiveness of both state and private support for sustainable home ownership across countries. Table 10.1 indicated that in a number of countries either only a proportion of housing costs were paid and/or costs were only paid for a limited period of time when risk materialised. Thus, the extent to which the risk of arrears, foreclosure and potentially homelessness are prevented by these policy interventions needs further scrutiny. The limited number of arrears and foreclosures in the Netherlands is indicative of the robustness of the guarantees provided to low income home owners who lose all income. However, evidence from the UK indicates that a fifth of all home owners in receipt of an insurance claim, and almost half of those receiving state support with housing costs, develop arrears (Kempson et al., 1999).

### **The requirements for data**

Given current trends in financial markets and labour markets and the pressures being exerted on social security systems, risks to home ownership cannot be avoided, only modified or managed. A considerable research effort is needed to assemble appropriate data to monitor and understand these developments. To take forward the European sustainable home ownership research agenda, and to develop an understanding that has comparative strength

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there needs to be consistent data collected across countries in relation to several areas of interest. These include: the current and emerging range of risks to home owners, the levels of arrears, the characteristics of those experiencing risk, the nature and effectiveness of state and private support with housing costs, the management of risk by administrative and judicial means, and the extent to which risk results in possession and homelessness. This agenda, which has started to develop in this project, has added urgency at the time of writing due to the evidence on global economic slowdown which is beginning to manifest itself, albeit differentially in a wide range of European countries.

### **Research agenda**

Discussion on the first and last chapter of the present book has focussed, in part, on issues concerned with how it is possible to understand and explain relationships between globalisation and home ownership markets as they are emerging in Europe. Whereas we have rejected a structural determinism view of globalisation in favour of one in which agents have some autonomy, the research on which the book has been based has been primarily focused on mapping some of the main developments in labour and financial markets, social security systems and housing markets. It has not set out to disentangle the precise relationship between structure and agency, to specify, for example, the contingent position of policy makers to demonstrate how and why their decisions deviated from those signposted by the processes of global change. Whereas it has identified some influences that may bear upon outcomes – ideology, culture and the legacy of history – it has not established their precise significance, doing little more than indicate promising avenues for exploration. This remains a task for theoretical development and detailed empirical investigation of individual case study countries.

There is a case, therefore, for a filling in of some of the gaps in the HOMES research. The availability of more systematic and consistent data, as indicated above, would enable the development of case studies that were more comparable one with another. The improved statistical base would facilitate also the search for deeper explanations of the similarities and differences, as well as the monitoring of developments over time. Moreover, the case study countries while representative of the current EU member states are not complete. The relevance of the findings and the explanations is less than fully comprehensive, therefore, a limitation that can only be exacerbated with the enlargement of the EU to incorporate a number of countries which under communism had very different housing systems.

But there is also a wider research agenda that extends beyond the remit of the present study. First of all, it merits recognition that the changes apparent

in home ownership sectors, discussed in part in the context of risk, have centred on dimensions or outcomes that have been negative or disadvantageous for individual households. Risk, whether objective or perceived, however, may also lead to positive and advantageous outcomes. Whereas globalisation can be seen as impacting on the life chances of individual households in a variety of ways, some of the outcomes have been favourable. With more households owning their homes and with the general tendency for property assets to increase in value, the opportunities based on housing equity are being recognised by individual owners as well as states. These opportunities include both the purchasing of social goods such as health care and education as well as the making of economic investments, for example in small businesses. They thus have consequences for both individual well being as well as national competitiveness. They are now more easily realisable as a consequence of another globalisation feature, namely the liberalisation of financial institutions that have opened up housing markets. Insofar as the individually-owned equity, embedded in home ownership, is substituting for social rights and opportunities, it is also contributing to a divide between owners and renters of housing. Affecting the ability of non-owners to contribute and be socially included, it suggests a two-track citizenship based on tenure. Having great significance at a number of levels, at the present time, these issues are also under-researched.

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Across Europe there is evidence, albeit unsystematic and patchy, of home ownership markets in which the experiences of some households has become problematic. The incidence of loan repayment difficulties, loan default and even forced sales combined with examples of falling prices and negative equity indicates a side to home ownership that is characterised by problems with social, economic and political dimensions.

This book reports on research carried out in eight countries: Belgium, Finland, France, Germany, The Netherlands, Portugal, Spain and the UK. Examining the interplay of the housing markets in each country with their labour and financial markets and their systems of social security, it takes as its theoretical context the nature of globalisation. It explores some of the ways in which there have been both similarities and differences in developments, supporting a view of globalisation that provides some space for autonomous action by agents, including policy makers and households.

The book was written as part of the Home Ownership – Social and Economic Problems project (HOSE) that has been funded by the institutions of the researchers involved and the European Union under its Framework 5 Programme.

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